

REVOLUTION AND COUNTERREVOLUTION
CHINA'S CONTINUING CLASS STRUGGLE SINCE LIBERATION

SECOND REVISED EDITION

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Cover: On the left, workers at the Anshan Steel Factory put the Angang Constitution into practice by participating in technical and management decisions. On the right, migrant workers assemble electronics for export under the draconian management of Taiwan multi-national, Foxconn.



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2021

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2011

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Introduction to the Second Edition of
Revolution and Counterrevolution

OCTOBER 2021

The original edition of *Revolution and Counterrevolution* was published in 2012 by the Institute of Political Economy in the Philippines. It is a collection of essays that I wrote between 1991 and 2010, recording China's struggle for Liberation and for the construction of a new socialist economy and society. In building the new society there were intense struggles between the socialist line and the capitalist line within the Chinese Communist Party. Workers, peasants, and intellectuals all actively participated in these struggles. Under Mao Zedong's leadership the socialist line won and China was able to build socialism for twenty years. After Mao died in 1976 the party leaders who had actively pushed for the capitalist line of development seized political power. This book explains how the counterrevolutionaries took apart the socialist economy and society and step-by-step and built a capitalist one in its place. The capitalist "Reform and Opening Up" was basically completed even before China joined the World Trade Organization in 2001. Thus, if we count from when the Chinese Communist Party started the Reform, capitalism in China has been in place for more than four decades.

During the socialist period China pursued a self-reliant socialist economic development, which provided food, medical care (especially preventive), education, and better living conditions for all Chinese people both in the cities and in the countryside. In the countryside, peasants under the commune system and made significant qualitative improvements to China's scarce arable land applied their enormous labor power to build agricultural infrastructure and to improve the quality of soil. In the cities, workers in major industries were able to accomplish the initial industrialization. In the short period of twenty years China was able to achieve partial mechanization in agricultural production, achieve self-sufficiency in food, and produce enough raw materials for the needs of industrial production for the early stage of industrialization. It's population lived with economic and political independence without any interference from foreign capital or powers.

By the end of the 1970s China had laid a solid foundation for further economic development and Chinese people were looking forward to a future with more development, security, and prosperity. These accomplishments made by the Chinese people during socialism have been well documented in this book. Moreover, socialism is not just about better

material wellbeing. With the change in the relations of production and the elimination of exploitation and oppression, people experienced equal treatment and mutual respect. As China entered the initial stages of a new socialist society, special appreciation was paid to workers and peasants who contributed their physical labor to build a new China.

China's revolution and socialist development provided an inspiring example for workers and peasants in the other less developed countries in the world who suffered from relentless exploitation and oppression from within by their own governments and from imperialism from without. China's rise as an independent socialist country provided hope for other peoples and nations. At the same time, its success in building socialism presented a constant threat to imperialist powers and their client states. Accordingly, imperialist powers were eager for opportunities to work with China's new capitalist regime.

China's Forty Years of Capitalism – An Evaluation

China's forty years of capitalism have provided us a myriad of concrete experiences for evaluation. This evaluation includes the impact of four decades of capitalism on China as a nation and on its people—especially the workers and peasants. It also includes how China's forty years of capitalism has impacted global monopoly capital, imperialist states, and workers in those countries. It is also important to examine how China's forty years of capitalism has affected the perspectives of Marxists, Leninists, and Maoist revolutionaries as well as on the future of socialist revolution. How we understand, evaluate, and analyze China's forty years of capitalism will enable us to better understand Chinese society, its socialist revolution and construction in the past, and its future development.

First: the impact of China's forty years of capitalism on China as a nation and on the people.

When Deng Xiaoping carried out his plan for China's capitalist reform he famously said: "It doesn't matter if it's a black cat or a white cat. If it catches mice, it's a good cat." His message was that it didn't matter if a system is socialist or capitalist, as long as it developed China's productive forces. During China's years of socialism Deng and his predecessor, Liu Shaoqi were very impatient about the speed at which China was develop-

ing its productive forces. They pinpointed the reason for China's "slow" development as the "low" level of capital accumulation. From their capitalist perspective, capital accumulation was the key to developing productive forces. They believed that during the socialist years the accumulation of capital in the state-owned enterprises was too low, because wages of workers in these enterprises were "too high" and their benefits "too generous." Deng believed that the accumulation of capital could be speeded up if wages of workers in state enterprises were lowered and their benefits reduced. According to Deng this could be accomplished by releasing the large "reserve" of labor in the countryside, which was a key reason behind Deng's move to dissolve the communes. Without the communes large number of peasants would have to migrate to cities to compete with workers, leading to lower wages and reduced benefits.

Undoubtedly, Deng's capitalist reform in the past forty years has developed China's productive forces. Since the end of the 1970s and until the last several years, real GDP growth has averaged about 10% a year. However, from the very beginning Deng never explained who was going to be to enjoy the fruits of fast GDP growth—nor did he explain what kind of productive forces were to be developed. He only made the proclamation: "Let a few get rich first." Forty years later most people in China know who benefited from the capitalist reform and who were left behind. The following will examine the impact of forty years capitalism on China as a country in terms of China's resources—its land, mineral and energy resources and its environment. Then I will summarize how the capitalist reform has affected the people and society in general.

The rapid production of large quantities of commodities has intensified the over-capacity problem in the world. When this book was first published in 2012, it was four years after the onset of the most serious global financial crisis. In the "Postscript" I wrote:

The global economic crisis that began in 2007 had a negative impact on the growth of China's exports in the two years that followed. However, its export growth has continued even though the rate of growth has declined... These figures indicate that the government stimulus package of 4 trillion RMB and 7.3 trillion RMB increase in bank credits in the

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first half of 2009 have worked well to stabilize the economy in the short run. But the long-term problems of the economy remain unchanged.

Since then, in 2013, China unveiled the Belt and Road Initiative (B&RI), which includes a plan to invest one trillion US dollars in the construction of new roads, ports, railways, and power plants in over 68 countries across Asia, Europe, and Africa. While marketed as a humanitarian initiative to help less developed countries develop necessary infrastructure, its actual intention was for China to acquire resources from these countries. It is also intended to enhance China's influence abroad by spending China's large foreign exchange reserves accumulated from export surpluses over the years.

In addition to the B&RI, also called the “new Silk Road,” and before the pandemic, China was gradually working off its over-capacity in various sectors, including coal, steel, cement, glass and others. Between 2014 and 2016 China closed down plants and laid-off workers. However, China's over-capacity problem was not just in productive facilities but also in transportation, other infrastructure and both commercial and residential housing. Then the COVID-19 pandemic hit and resulted in a significant decrease in both exports and consumer spending. Many businesses were forced to shut down.¹ By the end of 2020, foreign demand further slowed due to the worldwide pandemic. However, at the very end of 2020 China's exports picked up a little, mostly due to the impact of the pandemic on production in other countries. In spite of the pandemic, China's GDP still (reportedly) managed to grow 2.1% in 2020. However, as the pandemic passed its peak, there are signs indicating that China may be heading toward an economic and financial crisis resulting from forty years of relentless expansion.

China's success in GDP growth through export expansion is coming to an end. As commodities pile up and the world's over-capacity problem has become more serious, trade disputes as have already occurred between the US and China in the past three years will intensify. After Deng de-col-

¹ Premier Li Keqiang responded by encouraging the expansion of street vendors as a way to create employment and encourage consumption. For a while it seemed the whole country was involved in what was called “street vendor economy”—but it did not last long.

lectivized agriculture more than 200 million peasants migrated to cities to work in export industries that produced clothing, shoes, electronics, auto-parts, toys, and other labor-intensive products. During the early decades these industries (most of them located in the Zhu-Jiang delta area near Guangzhou, Shenzhen, Dongguan, and Yangzi delta area near Shanghai and Suzhou) had paid low wages and essentially no benefits. However, most are able to earn a living wage only by working overtime up to and over 12 hours a day. Currently there are about the 90 million “left-behind children,” in the countryside, whose parents work in the cities. Unlike in China’s history when wars separated families, today it is economic migration that keeps family members apart.

During the past few decades, these migrants who suffered abuse and earned low wages in dangerous workplaces, struggled to raise their wages and have some minimal benefits, and to change the unreasonable rules and regulations in factories and job sites. Their struggles have mostly been through short wildcat strikes and negotiations. And long as jobs were available, there were no shortage of migrants who would travel far distances to subsist and support their families.

Many of the original “left behind” children have grown up to become the next generation of migrant workers. This younger generation has a different attitude toward work; most refuse to work as hard as their parents. Some think constantly working overtime at the factory is too difficult. Most of them are not married, and many chose to remain single, so they don’t have the burden of supporting a family—a completely new phenomenon in China. Some of them prefer working as day laborers, so they can choose to work a few days, then take some time off. They understand no matter how hard they work they can never save enough money to buy luxury items like cars. For a migrant worker, owning a housing unit in the cities where they work is virtually impossible. Thus, some of them have adopted the currently trending philosophy of “lying flat,” meaning working the least amount possible to earn just enough to eat and for a place to sleep. This kind of “low-desire” lifestyle had first emerged among young people in Japan during the post-boom years of the 1990s. Now it is gradually spreading in China—not just among migrants but among the more regularized workers in the city. This kind of work slowdown can be con-

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sidered as a form of resistance, and the government has come out strongly against it, criticizing this attitude as laziness and lacking work ethic.

In an imperialist world Deng's capitalist Reform found a way for China's capitalists to cooperate with global monopoly capital and share the profits. The strategy was for China to export labor-intensive products to advanced capitalist countries and the rest of the world. For a period of three plus decades this strategy provided China a large export market. Rapid export expansion was the driving force for China's GDP growth. However, the consequences of China exporting large quantities of labor-intensive products have had severe effects on China's natural resources and it devastated China's environment.

Before the capitalist reform China had abundant resources, such as coal, fossil fuels and iron ore, but much of it was still buried underground, held as reserves for future use, while some of it was exported. Even in the beginning of the Reform, China still exported some of these resources. Now, forty years later these resources have been depleted and China has to rely on imports. In the meantime, China, like other imperialist countries, is finding ways to rob resources from other countries, such as the aforementioned "new Silk Road."

In the last forty years of capitalism the construction of housing (both commercial and residential, much of it in speculation) and infrastructure were carried out at such frantic pace that has resulted in a further decline in already scant arable land for agriculture. In addition, residents in two hundred some cities no longer have enough fresh drinking water. In terms of pollution, countries, including China, that pursue economic growth through exporting labor-intensive products, have been competing with one another to lower their environmental requirements in order to attract foreign investment. Later chapters give more details about the impact of GDP growth via export expansion on China's natural resources and its environment. This data provides evidence that using exports to spur economic growth is not sustainable beyond a few short decades.

China is losing its competitiveness in exporting labor-intensive products, because wages and other manufacturing costs (raw materials, rental, and transportation) have gone up. The profit margin of various labor-intensive products has decreased and production began moving elsewhere as early as 2005. Several well-known foreign businesses, such as

Yu-yuan shoes (from Taiwan), Foxconn (processor for Apple products also from Taiwan), and Samsung (an electronic firm from South Korea) have already moved part or all of their production to Vietnam. Other potential countries where wages are lower than China are Bangladesh, Indonesia, and/or India. In addition, China's population is aging quickly; the birthrate has stagnated and is even declining. This has happened despite the government ending its one-child policy in 2016, and more recently its encouragement for families to have three children. Young Chinese are reluctant to get married, or once they are married, to have children, mostly due to the large costs involved in raising children.

When factories closed in cities, such as Shenzhen, Dongguan, Guangzhou and others, and especially during the pandemic that began in 2020, the number of residents drastically declined. Many workers who went home for the Chinese (Lunar) New Year in early 2021 have not returned. As a result, many businesses especially, once-crowded small restaurants have also closed down, and many landlords, big and small have lost renters. Moreover, once booming shopping malls are now nearly empty and some transit stations in these cities have even shut down.

The income gap between the rich and the poor in China is tremendous. After decades of privatization, China's private capital has grown to be very large and powerful, like Jack Ma of Alibaba, one of the richest men (among many multi-billionaires) in China. Wealthy government officials share the wealth with the private capitalists, leading extravagant lives and shipping much of their money abroad to buy choice real estate in US, Canadian, and European cities. According to the Hurun Global Rich List China has the largest number of billionaires in the world—1058 vs. 696 in the US in 2021. Private capitalists are now part of the ruling elite. In 2018, among the elected members of the 13th National People's Congress there were 104 billionaires. The capitalists on the top, heads of large private corporations have the economic power, and their partners, high-level government officials control the political power. The sons and daughter of the superrich who live abroad are known to drive expensive cars, consume expensive wines, and wear the latest fashions, matching the luxurious lifestyles of the very rich in their host countries.

The overwhelming majority of Chinese, of course, have to work for a living, and among them are big differences in their incomes—from tens

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of thousands of RMB a month to a few hundred RMB a month. China's Premier Li Keqiang recently disclosed that as many as 600 million people—almost half of the population—receive less than one thousand RMB a month. Most of the higher earning groups have college degrees and many work in the high-tech industries. In particular, computer engineers work extremely long-hours. Two years ago they started a movement resisting the 996 working routine—996 meaning working from 9am to 9pm six days a week—but their resistance has had little impact. As the job market has tightened, working hours have been further extended, so it is not unusual for these workers to work twelve hours a day without any day off. They are included in about 5% of all wage earners who earn as much as 10,000-20,000 RMB and more a month, can afford to buy a car and own an apartment unit and send their children to private schools but also carry substantial debt in the form of mortgages, car loans, and credit cards. While they have a lot of material wealth, they work practically all waking hours, and they have little time to spend with their families or time to take care of their health. Moreover, high-tech workers have to worry about losing their jobs as they age. In these industries 35-40 is considered too old, and if one loses his or her job at about this age, finding another job with comparable pay is extremely difficult.

In recent years jobs for college graduates in general have become harder to find. There are currently too many colleges and universities graduates for the industries, government and service sectors to absorb. In the past studying hard and passing the college entrance examinations to study in well-known schools were only dreams for young people that would enable them to become part of the petit-bourgeoisie. Now this dream remains a dream, even if they do graduate from college. Reports are that as many as 70,000 food delivery persons hold master's degrees, and many work as cabdrivers, while some college-educated young women work as nannies. This was completely unheard of in the past.

Until very recently jobs that did not require a college degree paid from 2000 to 6000 RMB or more a month, while the majority earned about 4000 to 5000 RMB. The day laborer earned as much as 20-25 RMB an hour, or about 200 RMB a day. However, in the last few years the employment situation has worsened. The estimated rate of unemployment is as high as 20%. Li Keqiang reported there are about 100 million people

that belong in the category of “flexible employment.” This new category is for workers who move in and out of employment.

During the better years in export processing cities, it was possible for some to save a little money, or to borrow from their families/relatives to start a small business selling food and other consumer items. Some could even open a small restaurant. These small business owners worked long hours and those who succeeded could afford to buy an apartment unit for themselves to live in or even additional units to rent out. However, as workers are now leaving these manufacturing cities, small businesses no longer have enough customers to survive. A substantial number of small business owners and small landlords have gone bankrupt.

For the peasants who remained in the countryside and who until more recently depended on the money their children sent home, their lives are also more difficult. Each farm household might receive a few hundred RMB a year from selling the produce from their small plots. Some of them are too old to work the land so many fields lie fallow. As more and more younger people return to the countryside, the unemployment, both hidden and open, will drastically increase. People who worked in cities and towns do not have any experience in farming, and even so, the reason why they left in the first place was that their small plots of land could never produce enough for them to live on. This is the reality for Chinese peasants after Deng’s capitalist reform broke up the communes.

Second: The impact of China’s forty years of capitalism on the world’s monopoly capital and imperialism and on the working class in advanced capitalist countries.

China’s capitalist “Reform and Opening Up” has greatly benefited global monopoly capital and imperialism. In the late 1970s the problem of overcapacity was widespread in all major industries in imperialist countries, from automobiles to steel, as well as telecommunication and more. Global monopoly capital desperately needed a place to which to expand. The solution was neo-liberalism as advocated for and pursued by the president of the United States Ronald Reagan and the British Prime Minister Margaret Thatcher when they took power in the early 1980s. Together they launched an ideological campaign that aggressively pushed forward the neoliberal agenda, proclaiming the end of history, where socialism

failed and capitalism won. The neoliberal agenda was to compel countries to open their borders for investment from imperialist countries.

This new neoliberal strategy of monopoly capital was to institute a new international division of labor. Under the old division of labor, monopoly capital produced and exported industrial goods from advanced capitalist countries to less developed countries. An illustrative example is the British Empire forcing India to import British machine-made textiles. The less developed countries exported agricultural products, mined resources, energy, and other primary products in exchange. This was a critical imperialist strategy, because it prevented less developed countries from launching their own industrialization processes. However, this strategy prevented the population of less developed countries from consuming the enormous quantities of commodities being produced in imperialist countries.

In this new division of labor advanced capitalist countries invested in industrial production, especially labor-intensive and pollution creation industrial production, in less developed countries in order to take advantage of low-wage labor and shift the pollution created by production to these new production sites. These low-wage workers also bought many of the consumer goods produced in their countries and sold by corporations controlled by the monopoly—from shoes, clothing, other consumer durables to even automobiles. Now most of the cars sold in China are made by Japanese, American, and European automobile companies. In the late 1970s the international automobile market (in the United States, European countries and Japan) were all hopelessly saturated with excess capacities. Today the car market has been widely expanded. For example, the new car registration for the current year in China is 19.79 million, exceeding that of the United States' 14.46 million, or the 11.96 million new car sales in Europe. Japanese new car sales are a mere 3.81 million.

It is not an overstatement to say China's capitalist development in the past several decades helped extend the life of global capitalism (imperialism). China has provided additional space for global surplus capital. Moreover, as production moved to China the power of monopoly capital was strengthened against workers in advanced capitalist countries. In the United States the impact of US industries relocating to China on labor has been significant. During the early post-war years the United Auto-

ble Workers union was a formidable force in labor issues against the Big Three automobile companies. To sidestep the UAW's reach and influence, the automobile companies first relocated their production from Detroit to American South where the wages were cheaper and labor organizing was weak. Then they moved to Mexico, taking advantage of the North American Free Trade Agreement (NAFTA) promoted under the Clinton Administration. The US government subsidized the automobile and other manufacturing industries to set up production across the border where workers were paid a fraction of even non-unionized wages in the US, and environmental laws were far weaker.

Then as China opened its border under Deng's Reform, US, as well as European, and Japanese companies flocked to China to invest. In addition to lower wages and lax environmental laws, China also had the advantage of solid infrastructure and a highly educated and disciplined workforce—all painstakingly developed during socialism and ripe for exploitation.

In the US, textile companies in North and South Carolina as well as in the Northeast began to leave in the early 1980s. Then other industries, such as automobiles, electronics, toys, even bicycles, began to relocate. The US, European countries, and Japan also imported large quantities of commodities from China. As a result workers in imperialist countries have been put in a weaker position to compete and have been less able to negotiate with their employers. Additionally increased automation in imperialist countries has also displaced many workers with machines. It was during and after these decades that workers in manufacturing lost their jobs and had no choice but to find work in the service industry, which pays less than a living wage and often with few or no benefits.

However, decades of capitalism in China have created large productive capacities in many major industries, which can only mean that an even bigger overproduction crisis is looming—not just in China but in the entire imperialist world.

Third: The impact of China's forty years of capitalism on Marxist-Leninists and Maoists and the future of the world's socialist revolution

In the short term, the capitalist coup in China had a big, negative impact on communist and communist movements and organizations in the world. Already reeling from the wholesale collapse of the USSR, China

turning capitalist was more devastating and in many ways more confusing. The USSR had turned revisionist long before, but many who “sided” with China in the split between the socialist siblings in the 1950s did not necessarily understand the line-struggle in the CPC. As a consequence, most did not recognize Deng’s Reform for what it was: the decisive victory of the capitalist line and the defeat of socialism.

This lack of understanding eventually resulted in the splitting of the international communist movement into several “camps.” Some, like those who followed Enver Hoxha in Albania, were unable to distinguish the line change and saw China’s actions under Deng’s leadership as cause to reject all of China’s modern history, including Mao and especially the Cultural Revolution. Others dug in their heels, unable to relinquish China as a symbolic beachhead against the West and continued to defend it and Deng’s capitalist reforms and policies—and also its wholesale denouncement of the Cultural Revolution. (Many who took this line finally gave it up after the June 4th Tiananmen Square Massacre in 1984, but many also persisted in defending China, even after the slaughter.)

A small minority in the International Communist Movement took some time to sort through the confusion to analyze what happened. They saw, as I do, that socialism in China was defeated. It was not the result of some inherent flaw in socialism—it was*n’t* the end of history—but rather the result of capitalists seizing power after a long line-struggle that had reached its climax during the Cultural Revolution. That small minority, after analyzing and learning the lessons from that struggle and defeat, went on to build the strongest, most resilient revolutionary movements that we see today in the Philippines and India.

Even though the Chinese state is continuing to try to erase and rewrite its revolutionary and socialist history, that history remains. The lessons that revolutionaries can learn from it are invaluable, and it is a tremendous weapon for the people against capitalism. Likewise, how the Deng and his allies defeated the socialist line and how and why he attacked and dismantled socialism, from its economic base to its superstructure, are equally important for those who still seek to understand rather than merely take sides to attack *or* defend China.

There is the socialism in theory and in the abstract and there is the socialism as it was concretely carried out in China. As a result, in China

the people will continue to fight against what they have experienced in the last forty years. While we yet to see a highly organized effort, their struggle against capitalism in China with all of its high and low points, is as important as the struggle to win socialism historically; their experiences will also be critical to those outside of China in order to have a deeper understanding of capitalism, imperialism, and the people's struggle for socialism.

Looking Ahead: Peoples' Struggle Against Capitalism in China

As the analysis so far has shown, after forty years of capitalism China is potentially facing a rather serious economic crisis starting from the financial crisis that is already underway. As I noted earlier China's housing market, both residential and business, has expanded too rapidly, and there has been a lot of speculation in the real estate sector. Moreover, the real estate companies have all been very heavily leveraged, betting on the continued rise of housing prices. The building, trading, and financing in housing together take about 30% of China's GDP economic activities. Currently, Evergrande, the largest real estate corporation in China, is having trouble meeting its financial obligations and its insolvency is predicted to have a serious impact on the world financial market.

As China loses its competitiveness in exporting labor-intensive products, it is no longer able to continue its strategy of using exports to grow its GDP. At the same time China is not yet able to successfully compete with the other imperialist powers in the production of the most technologically advanced products. There have been suggestions that China needs to expand its internal circulation; however, China has persistently had problems expanding its domestic consumer demand. Therefore, it means that China's growth will slow down and unemployment will continue to pick up. The Chinese state's greatest fear is unemployment.

After forty years of capitalism China faces many contradictions. The principal contradiction in China today is the contradiction between the capitalist regime and the broad masses of working people. The "Communist Party" possesses both political and economic power and represents the interests of the capital. It has carried out policies that control, exploit, and oppress China's laboring class: the workers and the peasants.

In addition to the principal contradiction between capital and labor there is also the contradiction within the capitalist class itself. Moreover, there is also contradiction between the private capitalists and those with political power. A recent example of this is the three month “disappearance” in November 2020 of Jack Ma, founder and current CEO of Alibaba and many other big corporations including media and real estate companies. Jack Ma got into trouble with the Party when he made critical remarks on China’s banking system at the same time his holdings were becoming vast. As a result, he was barred from taking his financial business, the Ant Group, to the IPO. After he reappeared, it became apparent that Ma had to make some concessions to the government.² In China there is the contradiction between those with economic power, such as Ma and other big capitalists, and those with both economic power and political power, i.e. the “Communist Party,” economic power alone cannot win.

There are also contradictions within the Party itself. It is common knowledge that President Xi Jinping launched an “anti-corruption” campaign in order to attack some of his opponents; periodically, different factions of the Party fight among each other to gain more control. Contradictions also exist between the central government and the many local governments (provincial, city, and township). The central government controls the tax revenue yet local governments have to pay for the costs of running the bureaucracy and for local infrastructure construction. The local governments control the land and in recent years have been selling it as a major source of their revenue. This contradicts the State’s national goal to maintain sufficient land for agriculture, as the central government bears the responsibility of feeding China’s large population. Moreover, local governments have borrowed excessively from the banks through the formation of private business identities, and the central government has to assure the safety of these banks. The promotion of local party members often depends on their “accomplishments” based on housing and infrastructure construction during their terms. The consequences have been excess constructions that have little connection to the area’s current or even future needs. The local governments’ growing inability to pay back these

² Ma and other Ant Group executives were borrowing money from state banks at low interest rates and making loans to consumers at higher rates. Recently China imposed a massive restructuring plan on the Ant Group.

loans has become a potential threat to the security of the banking system. All these contradictions are difficult to resolve for this capitalist regime—not to mention the principal contradiction between the regime, the private capitalists and the broad masses of workers and peasants.

During these past forty years lives of the majority of workers and peasants have worked hard, but their lives are precarious. It is fair to say that most of them have been able to purchase more new commodities, such as cell phones, clothes, shoes and enjoyed some other conveniences of life. But workers' wages are often too low for them to live without worrying about health (or other crisis) and to pay the medical bills, they are sometimes forced to borrow tens of thousands of RMB. Migrant workers' wages are usually not high enough to rent a place for their families in the cities where they work, much less save enough money to retire someday. As the economy heads towards a serious recession, many migrant workers have already lost their jobs have few options but to return to their homes in the countryside, where their options are extremely limited.

In the bigger picture the people who built modern China through the revolution and during the socialist years have seen their land wasted, environment badly polluted, and resources exhausted. Just as importantly, they have witnessed the deterioration of the socialist values once so central to their lives, to the point where people have not only lost their trust in the government but also in each other. If an older person falls in the street many are reluctant to come to his or her aid for fear of being sued. People no longer trust the police who used to protect them, because the police are often connected to the criminal underworld and use their power to abuse, intimidate and extort. Police stop cars without cause to demand cash payments—a far cry from China's socialist past where “serve the people” was actually practiced and those in “public security” actually secured the public. As a rule people, ordinary people resent much and are disgusted by the return of many criminal activities, such as prostitution and sex trafficking, gambling, illegal drugs, and above all, the millions and millions spent on bribing government officials. There have also been reported incidences where violence has broken out between doctors and their patients, college professors and their supervisors, or between business partners. Sometimes these disputes between or among them are so serious that they even involve

open killings. These occurrences demonstrate the kinds of contradictions among people that were totally unheard of during socialist times.

Currently leaders in the “Communist Party” no longer discuss the difference between socialism and capitalism; instead they use “socialism with Chinese characteristics” to obscure everything. The current strategy of the government is to promote Chinese nationalism by emphasizing China’s traditional cultural values and deemphasizing the revolution and peoples’ heroic struggles during socialism. The regime uses every opportunity to boast about its accomplishments as a country of rising power. For example China is bragging that about their construction of high-speed rails, not only in China but also in several other countries. However, China still does not control the most crucial components of the high-speed rail technology; it has to buy them from corporations in Germany, France, and Japan. Ordinary people as well as intellectuals continue to compare the current development to the socialist times and provide sharp and critical analysis. This deep-rooted socialist tradition will prove to be paramount to the peoples’ current and future struggles against capitalism and for socialism—just as the peoples’ struggle against capitalism and for socialism will prove to be paramount for peoples’ struggle to defeat capitalism and build socialism all over the world.

This book tries to present an analysis of China’s socialist revolution and construction from 1956 to 1976. It demonstrates how socialism benefited Chinese workers, peasants and how in a short period of twenty years laid the foundation for China’s independent economic development, leaving behind a critically important infrastructure for a socialist society—including worker management of factories as an initial step to eventually establish a workers’ state. China’s struggle to build socialism set an example for working people in other less developed countries on how to fight for their own Liberation during the era of imperialism. The last chapter of my most recent book, *From Victory to Defeat – China’s Socialist Road and Capitalist Reversal* (Foreign Languages Press, Paris, 2019) offers a more detailed overview and analysis of the time between this book’s Postscript written in 2012 and 2019.

After China’s Liberation in 1949, Chinese people struggled for thirty years to build a socialist society. After Mao died in 1976 the Chinese working people have struggled another forty years against capitalism. Seventy

years of struggle is a long time—the lifetime of two generations of revolutionaries. But since the Paris Commune 150 years ago, the proletariat of the world has continued to struggle to be free from the chains that capital has used so ruthlessly to control them. The October revolution in Russia 1917 and China's revolution in 1949 are two successful revolutions where the proletariat seized political power from the capitalists to establish socialist states and societies. For 150 years the struggle against capitalism and for socialism has not stopped. Currently people in the Philippines and people in India are courageously fighting wars against capitalism (imperialism). Their struggle and the struggles of other nations and people will continue until capitalism is finally defeated.

During these past several decades, lives for the majority of workers in imperialist countries have become more difficult. During the ongoing COVID-19 pandemic, many have had to go to food banks for the first time, and many newly unemployed workers have been evicted and forced onto the streets or to live in their cars. Most people in imperialist countries do not believe their governments can effectively address the worsening environmental crisis nor do they believe their governments are capable of ending their political and military interventions in other nations. The recent US withdrawal of its occupying troops in Afghanistan has only highlighted the contradictions and questions that have arisen after two decades of war in that nation.

Unfortunately many workers in imperialist countries are trapped in capitalist ideology; they are told they must not demand for higher wages and better benefits, because their demands only push companies to relocate. They believe these threats because they have seen many companies have done just that. Capitalist ideology has confused workers into believing that workers in other countries are their enemies. As long as workers believe these lies, it will not be possible for them to fight their common enemy and “workers of the world unite” will just remain empty rhetoric.

China is headed toward economic and potential political crisis. As policies derived from the neoliberal ideology of the 1970s have exhausted their options, other imperialist countries, such as the US, countries in the European Union and Japan are likely to find they are facing similar crises. However, as long as countries such as India, Brazil and other countries in Latin America and Southeast Asia stand in line, eager to play the role

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China once did, monopoly capital can continue the new international division a little longer. Thus, it is important for workers and peasants in these countries to know that they have little to gain, even if their governments are able to win a place in the new division of labor dominated by global monopoly capital. More importantly their countries will be ravaged in the process, damaging the conditions for development for future generations. Such understanding is critical in the struggle against imperialism and for socialism.

Introduction

2011

The essays in this book consist of the analyses of China's socialist development during the period from 1949 to 1978 and critiques of China's capitalist development since the Reform began in 1979. These essays show how, after the founding of the People's Republic of China in 1949, class struggles were waged in advancing socialist development and in fighting against the tendency to reverse the transition toward capitalism. Continuing class struggles in the 17 years after 1949 eventually reached a new height during the Great Proletarian Cultural Revolution from 1966 to 1976. After Mao's death in 1976, the bourgeoisie within the Chinese Communist Party (CCP) seized political power, and since then, has carried out so-called reforms to restore and develop capitalism and connect China's economy to the global capitalist system.

Before I outline the different essays in the book, I would like to say something about my background and how I started writing these articles. More precisely, a short introduction is in order here on how I was transformed from a bourgeois economist to a believer in Mao Zedong Thought.

Shattered Images of the US As an Ideal Country

When I entered Tunghai University in Taiwan, I chose economics as my major because at that time, as a freshman in college, I considered economics a very precise and logical subject.³

Students majoring in economics in Tunghai, as well as in all other colleges and universities in Taiwan, then (as now) received their training on this subject by studying the macroeconomics and microeconomics textbooks written and published in the United States. In the various courses I took at the university, the professors never said anything about the economy in Taiwan, nor were we assigned any readings on the topic.

Nevertheless, I studied hard and did very well in college. Upon my graduation, my father wanted me to further my studies in the US I received one of the five Asian scholarships Bryn Mawr College offered every year. The college is located in Bryn Mawr, a suburb of Philadelphia, Pennsylvania. I came to the graduate school there in 1961, just about the time the US civil rights movement was reaching its height.

³ The United Board for Christian Higher Education in Asia founded Tunghai University with funds leftover from the missionary colleges and universities in mainland China that had been closed down when the Communists took over.

Revolution and Counterrevolution

When I was in Taiwan, I believed that the US was the ideal country where all people lived happily and enjoyed a high standard of living. In high school and in college, I saw quite a few imported Hollywood movies. Boys loved heroes in Westerns, and girls adored movie stars in love stories. Most of the English instructors in Tunghai came from the US; they were young and energetic and were admired by their students. In the political science classes, we learned that the US democratic system was the most advanced and should be the model for all other countries to emulate.

However, my image of the US as an ideal country was shattered after my arrival in the country, when I saw pictures in *Life* magazine showing policemen chasing African-American demonstrators with their vicious dogs and powerful fire hoses. The civil rights movement heightened my awareness of the racial divide and inequality in American society, and I realized that not all Americans lived a good life. I noticed that the commuter train in the morning always brought in from Philadelphia to Bryn Mawr African-American women to clean and cook for wealthy suburban white families, while the train heading back to Philadelphia was filled with white men in suits commuting to work in the city. In the afternoon, the directions of these passengers were reversed. White men in suits came back from work to their clean homes with meals all prepared and the black women dragged their visibly tired bodies and returned to the city.

The Civil Rights Movement, and later the student movement and the movement against the Vietnam War, all helped open my eyes to the realities of American society. However, during the years of graduate study, I was quite isolated and my daily activities were mostly confined within the classroom, the library and the dorm in the small, tranquil and beautiful campus. Still I could not escape all the news about what went on beyond my immediate surroundings. I continued to enjoy my study of economics and was intrigued by the complicated yet elegant economics models. As I think back now, it was indeed a mental exercise similar to that of playing chess. I had no clue how all those models were supposed to work in the real world, nor did I care at that point.

When we were in Taiwan, all the news we heard about mainland China was manufactured by the Kuomintang (the Chinese Nationalist Party). We were fed daily reports saying how people on the mainland were suffering under the communist regime and were waiting for the return of

the Kuomintang to rescue them. Not only did we know nothing about people's lives on the mainland after Liberation, but we actually believed in the government's propaganda. This propaganda was necessary to justify Chiang Kai-shek's dictatorship, and later, that of his son. It helped legitimize the placing of Taiwan under martial law for 38 years on the grounds that the communists were planning to invade the island at any time. The threat of the so-called evil communists from China made the Taiwanese grateful to Washington for giving economic and military aid to Taipei. The Kuomintang government was especially grateful when the US Seventh Fleet positioned itself along the Taiwan Straits to "protect" Taiwan as soon as the Korean War began. Actually, the Kuomintang was more fearful of the internal threat: another rebellion by the Taiwanese.

At the end of World War II, Taiwan had been returned to China after fifty years of Japanese rule. People in Taiwan welcomed the Chinese government and celebrated its return to the motherland—only to face the corruption, incompetence and the brutality of Kuomintang officials. In early 1947, people in Taiwan at first engaged in simple protests to voice their frustrations and demands. Later, after the government's repression, they initiated a full-scale rebellion. The Kuomintang responded with a military crackdown, and in the days following February 28, brutally massacred tens of thousands of Taiwanese people and arrested and imprisoned many more. Taiwanese people also killed scores of Kuomintang police and soldiers and other mainlanders, venting their anger and hatred toward the Kuomintang. Mainlanders in Taiwan like me never learned this part of history, and people were forbidden to talk about what they had gone through during these horrible years.

Rethinking the Societies in Which I Grew Up

When I witnessed the social movements in the US, I began to seriously rethink the societies in which I grew up—first China, then Taiwan after 1950—and my place in those societies. Unlike many mainlanders in Taiwan, my family had no close relations with the Kuomintang. My father was a descendant of the royal family of the Qing Dynasty, so he felt no warmth toward the Nationalists. After all, it was the Kuomintang who brought the Qing Dynasty to its demise, and with it the downfall of my father's own family. My mother's family belonged to the national bour-

geoisie and the landlord class. My grandfather on my mother's side accumulated tremendous wealth from the building trade, retail businesses, and rents collected from both peasants and urban families. He was an indigenous Chinese architect who built part of the imperial Summer Palace for the Empress Dowager Cixi. Toward the end of the Qing Dynasty, when China was invaded repeatedly by foreign powers, Cixi used the money budgeted for building a modern Chinese navy to rebuild and even expand some old buildings into a 290-hectare Summer Palace just outside Beijing instead. My grandfather then built a miniature copy of the palace for himself and his family.

In 1996, I had a chance to talk to my uncle (my mother's younger brother) before he died. He told me that after his high school graduation that he did not get into the college he had wanted, so he spent a year at home. Our grandfather gave him the job of collecting rents from the houses their family owned in Beijing. He said that he collected rents from about a hundred families, and that all the rent money was spent to support one big family of about 20 people served by more than 20 accountants, maids, servants, cooks, butlers, gardeners and rickshaw pullers.

Therefore, I belonged to a very privileged family in China before the revolution. My father's job did not bring home much money but there was plenty of money coming in from my grandfather. My family lost its wealth when we moved to Taiwan after the Kuomintang was defeated by the Communists and retreated to Taiwan in 1949. But my father was well-educated and had jobs that earned enough money to support the family. I did have to earn scholarships to support my college education, but I never experienced being poor in Taiwan. However, only years later did I begin to understand what being in the privileged class meant and how the rest of the people in society lived.

After going to the US, I began to read the real history of China and Taiwan seriously. For the first time, I learned how China suffered repeated defeat at the hands of foreign imperialist powers in the 19th century and in the first half of the 20th century, and how ordinary Chinese people had to endure the pain and injury inflicted upon them by domestic overlords and foreign aggressors for so long. I also learned how people in Taiwan had fought courageously against the Japanese occupation but were eventually defeated. I understood how Taiwanese people saw the Kuomintang

as another outside group as bad as or even worse than the Japanese, arriving to the island to rule them. And I learned that there was communist involvement in the 1947 Taiwan rebellion.

I was not alone: in the US in the 1960s, many other Chinese students from Taiwan went through a similar awakening process and as a consequence, these overseas Taiwanese students began to organize study groups. When the Cultural Revolution started in 1966, the revolutionary fervor swept not only through China but also spread to the US and many other countries around the world. Chinese students on different campuses in the US published their own newspapers; they also learned from students in China to *chuanlian*, meaning, to travel to different campuses to make connections.

I belonged to a group based in New York City with D.Y. Hsu as its leader. He and others worked tirelessly to organize study groups. We studied Mao Zedong's *Selected Works* and the writings of Marx and Lenin. Hsu continued his work for many long years, including publishing two magazines and supporting the democratic movement in Taiwan. This movement eventually led to the founding of the Democratic Progressive Party in Taiwan, which forced the Kuomintang to lift martial law in 1987 and helped end its one-party rule.

By the time I joined this study group, I had already finished all my courses at Bryn Mawr and passed my preliminary examinations. I took a job and began working on my dissertation on the supply-and-demand for milk in the US and an evaluation of the government's Price Support Program. I wanted to understand why, even though there was surplus milk, children in poor families still did not have enough milk to drink. I also wanted to know why government policy had failed to solve this problem. I was instructed by my professor to use elegant equations and sophisticated statistical models, and I punched countless cards and fed them into a computer.⁴ In the whole process of writing my dissertation, I never once visited any dairy farms in the US or looked closely at a single milk cow. I finished my dissertation, but the neoclassical model could not give me the answers I was searching for. Looking back, I think at this point I became very aware of and concerned about the real problems of society and real-

⁴ Early computers required users to store, and read data through a system of manually loaded punch cards.

ized that bourgeois economics had no answers to these problems. I decided to study Karl Marx and Mao Zedong.

From studying Marx and Mao, I finally understood how these bourgeois economic models really work, or rather, don't work. Each model is built on a set of assumptions—e.g., one always acts rationally to protect and pursue his or her self-interest, each person always has the perfect knowledge of the market, and so on. If any of these assumptions turns out to be untrue, the whole model falls apart. Bourgeois economists tell us that the market will reach equilibrium when all these intricate curves (all based on assumptions) in the elaborate graphs intersect with one another. But what really happens is that either these assumptions are not grounded in reality or they keep changing, so that the market does not reach any equilibrium but is in a permanent state of disequilibrium.

Moreover, these bourgeois economists assume that everyone is an equal participant in the market and that no one has any advantage over others. But I became aware that the system is instead predicated on inequality. A worker has no choice but to sell his labor power in order to feed his family, while the capitalist owns the factory, buys labor power, and decides whether to hire this worker and what wage to pay him. Bourgeois economics has us imagine that the “fair” and “objective” market, if left without any interference, will work perfectly to determine prices, allocate resources, and distribute incomes. There is no exploitation, and therefore no cause for repression or violence. According to this logic, nobody should or can argue with the results determined by the market, because they are “objective.” Also, bourgeois economists are very good at making conditions appear to be blind forces that follow the iron law of “nature,” and are therefore unchangeable and permanent, whereas in reality these conditions are social, changeable, and can be redirected and revolutionized. In doing so, bourgeois economists attempt to justify, and cement, injustice and exploitation.

In the process of my ideological transformation, I continued to reflect on how in each society the few could build their privileges upon the sufferings of many. What did it mean for me to be one of the privileged few in the society I lived? When we were little, both my brother and I had wet nurses. Many years later, when I had my own child and was nursing her, I read about black women in South Africa who had to leave Soweto

every day to provide childcare for white families in Johannesburg. I tried to imagine the pain I would have felt if it had been necessary for me to leave my daughter to care for someone else's child. In China before Liberation, many women in the countryside left their newborns behind to nurse children of rich families in cities. Those women sent home one silver dollar they earned each month to keep the rest of their family barely alive. If she was lucky, she might have a relative who had just had a baby and could therefore nurse the baby she left behind, and she could return to visit her child after a year. However, more often than not, her baby would have been fed with only thin rice soup, suffered malnutrition, and died. I began to wonder what had happened to the babies of the wet nurses my family hired. I thought about the tremendous pain and suffering they and other women like them must have gone through. I also thought about the pain and suffering of many black women in slavery who had to take care of their white masters' children after their own children had been sold.

I found myself reflecting that, through all the years I was in school in China and Taiwan, I was nonproductive and was supported by the labor of workers and peasants, and that I never paid back what I owed them. After I went to the US, I studied only a few years before I began working. I am an actual case of the "brain drain" from less developed to developed countries. While this kind of realization disturbed me a great deal, it also helped determine what I wished to do and whom I wished to serve for the rest of my life.

A Reaffirmation of Mao Zedong Thought

By studying Mao's theory on revolution and the strategies he developed at each of the critical junctures in the long revolutionary process, I began to understand why the oppressed and courageous women and men in China were determined to follow the leadership of the CCP, and how they fought resolutely to victory. The fundamental changes in people's lives in China after the 1949 revolution demonstrated the power of the laboring class to turn the world upside down and in the process transform themselves. That was when I was transformed into a believer of Mao Zedong Thought. However, it was during and after the Cultural Revolution, and especially after the bourgeoisie began their capitalist Reform, that my understanding of Mao Zedong Thought deepened. I, together with tens

or even hundreds of millions of people inside and outside China, have learned critical lessons from the capitalist Reform of the past 30 or so years and have firmed up my belief in Mao Zedong Thought more than ever.

When Deng Xiaoping seized power in 1978 following Mao's death, I was confused about what was happening—but not for long. In summer 1979, I visited China for the first time since I left the mainland for Taiwan in 1950 as a child. I noticed some emerging signs of changes in the policies of the CCP. College entrance examinations had already been restored in 1978. The government had not only resumed paying dividends to the capitalists but also compensated them for the suspension of dividend payments during the Cultural Revolution years.⁵ There was talk of opening China's economy to foreign investment. And I directly heard someone say that he saw a Taiwan-made film at the Party School. It turned out to be a propaganda film entitled *A Family in Taipei*. The intention in showing the film was clear: it was to show how Taiwan's economy was flourishing and how people in Taipei were enjoying a good life. It was another way of saying that, compared to Taiwan, China's economy was falling behind due to its past policy of self-reliance.

The capitalist Reform was not yet in place in 1979, so I was able to visit several successful communes and was impressed with their accomplishments. In the communes I saw large, cultivated land areas with built-in electric irrigation and drainage systems. The farming was mechanized using tractors and combines. In recounting the history of the communes, the guides told us other examples of successes. I learned how hard the peasants worked to combine small pieces of land into large areas of flat land. The exhibits for visitors showed how peasants used their sheer physical strength to dig up small mounds on their land in order to flatten it. They then used the soil to fill in small creeks to prepare the land for irrigation and mechanization.

The communes built their own clinics and hospitals. In one hospital I saw women lined up to get their annual checkups and hospital workers proudly showed us the X-ray machine they had built themselves. I talked to the young men and women who served us tea on a train; they had all

⁵ Until the Cultural Revolution the China had been systematically paying dividends on the value of property that the State seized from the bourgeoisie after Liberation. A campaign during the Cultural Revolution ended this practice.

been to the countryside during the Cultural Revolution and knew how peasants lived. They were all very curious and inquisitive and had great concerns about China and the world at large. I remember one said: “We have laid a solid foundation for our economy.” I also visited some factories, where cadres proudly told us about their accomplishments. It was delightful to meet the cadres in the communes and factories. The leaders all dressed like ordinary peasants and workers; since it was summer, they were in sleeveless T-shirts, shorts and flip-flops. They knew the workplaces they “managed” inside out and had all the information at their fingertips, including the detailed history of the factories’ construction and expansion and production statistics.

By the time the Chinese Communist Party announced its “Resolution on Certain Questions in the History of our Party Since the Founding of the People’s Republic of China” in June 1981, the situation had become abundantly clear. The CCP, led by Deng Xiaoping, denounced the important accomplishments in socialist China, especially the Cultural Revolution. In the 1980s, I continued my study of China and began collaborating with D.Y. Hsu to write articles first in Chinese and then in English.⁶

This collection begins with an article D.Y. Hsu and I wrote entitled “Worker-Peasant Alliance as a Rural Development Strategy for China,” published originally in the *Monthly Review* in March 1991. The publication of this essay led to an invitation to the International Seminar on Mao Zedong Thought in commemoration of Mao’s centennial on November 6-7, 1993 in Gelsenkirchen, Germany. The seminar was organized by the Center for Social Studies in the Philippines and the Worker’s Education Center of Marxist and Leninist Party of Germany (MLPD).

In preparation for the seminar, Jose Maria Sison, then Chairman of the Center for Social Studies, solicited papers. D.Y. Hsu and I submitted two papers: “Labor Reform – Mao vs. Liu-Deng” and “Mass Movement: Mao’s Socialist Strategy for Change.” These two texts were later published in *Mao Zedong Thought Lives: Essays in Commemoration of Mao’s Centennial*, Volume I, in 1995 and are included in this book.

⁶ I learned a great deal from D. Y. Hsu in our collaboration. I included three of these co-written articles in this volume. Hsu died in 2009 after battling poor health for several years.

When I received the invitation to attend the seminar, I had expected some 50-60 people to commemorate Mao's Centennial. I was completely surprised and elated when I saw nearly one thousand people from 30 countries, including many leaders and members of Marxist, Leninist and Maoist political parties all over the world. From the speeches they delivered during the two-day seminar, I learned for the first time that revolutionaries in many parts of the world were actively engaging in revolutionary struggles. These revolutionaries did not only understand Mao's theories on revolution and class struggle; they were also putting these theories into practice. The International Seminar on Mao Zedong Thought opened my eyes to the tremendous impact of Mao Zedong Thought and the Chinese revolution all over the world.

After the 1993 seminar, I began actively participating in the many anti-imperialist activities organized by Bayan (New Patriotic Alliance) of the Philippines. Formed in May 1985, Bayan has been the coordinating center for mass mobilizations in the Philippines, bringing together large numbers of mass organizations and encompassing more than a million members representing workers, peasants, women, fisherfolk, urban poor, students, teachers, medical workers, journalists and many others. Bayan is committed to leading the Filipino people to the final victory in their struggles for national Liberation and democracy.

By the time I got to know these brave women and men in Bayan, it had already become a leader of international mass organizations. I followed its lead in the international anti-imperialist struggles from Manila in 1996 and 1997, Vancouver in 1997, Kuala Lumpur in 1998 and Seattle in 1999. My participation in these conferences and forums deepened my understanding of the nature of the revolutionary struggle at the end of the 20th century and at the beginning of the 21st century. The courage and determination of the oppressed people moved me deeply. They also educated me about the true cause of people's suffering in today's world and what I as an intellectual could do to be part of the same struggle. My education will continue throughout the rest of my life.

The Book in Overview

The first part this book, entitled "Class Struggle During Socialist Transition," includes the *Monthly Review* paper and the two papers in *Mao*

Zedong Thought Lives mentioned above, a speech I delivered during the 1993 seminar, and a paper I wrote earlier and revised recently, entitled “China’s Cultural Revolution and the Struggle Between Socialism and Capitalism.” Papers in Part I show that the struggle between socialism and capitalism began soon after the founding of the People’s Republic of China and that Deng Xiaoping’s capitalist Reform in 1979 can be traced back to what he and Liu Shaoqi tried to implement as early as the 1950s. Therefore, Deng’s avowal that his Reform did not have any preconceived plan and was merely intended to implement “socialism with Chinese characteristics” was a ploy to deceive the masses. These papers also show why the launching of the Cultural Revolution in 1966 was necessary for proletarian revolutionary class to retain political control and advance socialism after struggling against revisionism for 17 years—and refute Deng’s propaganda that Mao launched the Cultural Revolution merely to retain his personal hold on political power.

The second part, entitled “Socialist Construction and Mao’s Development Model,” consists of one major essay: “China’s Model of Socialist Development, 1949-1978.” In this text, I present the distinctive model of China’s socialist development and contrast it with capitalist development in other less developed countries in the post-World War II era; I also contrast China’s socialist development from 1949 to 1978 with its subsequent capitalist development from 1979. I cite the concrete experiences of China’s socialist development to demonstrate that a less developed country can indeed develop its productive forces and maintain its political independence and integrity without relying on either financial or technological “aid” from imperialist countries. I refute the claim that socialism failed—a claim asserted by mainstream economists in the West and many of their disciples who returned to China to advocate for capitalism.

On the contrary, although China’s model of socialist development was defeated, it did not fail. It continues to be a model for the poor and oppressed nations to emulate and for China to return to in the future. The specifics of this model to reclaim in the future vary from country to country and should be modified through time, but the principal elements in the economic, political, and ideological spheres remain the same. I used this

paper as the basis for my lectures in Brazil, the Philippines and Argentina, and then revised it some more for this book.⁷

Part III, entitled “Critique of China’s Capitalist Reform,” includes three papers. “An Analysis of China’s Capitalist Reform” (first published in the November 2006 issue of the *Journals* of the Institute of Political Economy) gives an overall critique of China’s capitalist Reform. “How Sustainable is China’s Agriculture?” examines the impact of the Reform policies on China’s agriculture and peasants.⁸ The third paper, entitled “Has Capitalist Reform Developed China’s Technology and Productive Forces?” (*Journals*, Institute of Political Economy, February 2009) was written with Hsin-Hsing Chen. The analyses of these papers show that although China’s GDP and exports grew at extraordinary rates in recent years, the Reform carried out since 1979 will not be able to sustain the country’s development in the long run. Also, if the Reform is to continue, China will not be able to free itself from its dependence on imported technology and foreign domination.

Part IV, “Chinese Society from Socialism to Capitalism,” consists of two papers. The first, “Mao’s Legacy in China’s Current Development,” shows how Mao’s leadership in the anti-revisionist struggle both internationally and domestically, after half a century has influenced and will continue to influence significantly the current and future struggles against the modern revisionists in China.⁹ The second paper, “Holding up a Half of the Sky, No More—From Socialism to Capitalism Came the Downward Spiral of the Status of Chinese Women,”¹⁰ summarizes the overall changes in women’s status in Chinese society over the past 60 years. I argue that the status of women rose with those of workers and peasants after Liberation,

⁷ Presented at the 59th Annual Meeting of the Brazilian Society for the Progress of Science (SBPC), Federal University of Para, Belem on July 13, 2007 and at meetings of workers’ and peasants’ organizations in Belo Horizonte, Rio de Janeiro and São Paulo. It later became the basis of my lectures in the Philippines in the summer of 2009 and in Argentina in the spring of 2010.

⁸ Commissioned and published by the Pesticide Action Network Asia Pacific (PAN AP) and People’s Coalition on Food Sovereignty (PCFS).

⁹ Delivered at the Conference on the Significance and Relevance of the Anti-Revisionist Struggle and the Great Proletarian Cultural Revolution in The Hague, The Netherlands on May 1, 2007.

¹⁰ Delivered at the Second International Feminist Congress of Argentina on May 22, 2010 in Buenos Aires, Argentina.

and then declined with those of workers and peasants since the capitalist Reform began some 30 plus years ago. I chose to include an interview of Shen Jilan by Shexiang Ma as an addendum, because it tells the story of how Shen Jilan witnessed critical changes in women's status in the past 60 plus years.

The last part (Part V) of this book contains one concluding paper that updates China's current development, analyzes the major contradictions in the contemporary Chinese society, and discusses issues relating to China's international status and its role in the current and future struggles against imperialism and for socialism.

One final note: Since many of these essays were written to stand on their own, certain sections may be repetitious. Please just skip them. Also, a postscript has been added to provide updates on the latest rising wave of strikes and protests and intensified political and ideological struggles.

PART I

Class Struggle During the Socialist Transition

WORKER-PEASANT ALLIANCE AS A RURAL DEVELOPMENT STRATEGY FOR CHINA¹¹

During the past few years, some high-level government officials and many social scientists in China have admitted the many accomplishments made in rural areas under the leadership of Mao Zedong.¹² While they acknowledged the building of an agricultural infrastructure, the increase in land productivity, the mechanization of agricultural production, and the provision of the basic necessities of life for the majority of China's rural population, they have conveniently avoided analyzing Mao's model of development.

Such an analysis would reveal the fundamental differences between two lines—Mao's versus Liu Shaoqi and Deng Xiaoping's—and would undermine Deng's interpretation of China's development and the reasons behind his Reform. Mao believed that the continuing class struggle after the land reform was the driving force in China's rural development. He placed the alliance between workers and peasants at the center of this struggle during the reconstruction period following the revolution. This class analysis fundamentally distinguished his line from the Liu-Deng line.

Deng and his associates attacked Mao for stirring up class struggle that hampered the development of economic forces. On the contrary, the evidence shows that class struggle led to changes in the relations of production and thus to the further development of productive forces. We will also emphasize the importance of the ideological struggle between Mao's line and the Liu-Deng line, and thus help explain Mao's national campaign to "Learn from Dazhai" in the early 1970s and Deng's effort to discredit

¹¹ This essay, co-authored by Deng-yuan Hsu, was first published in *Monthly Review*, Volume 42, No. 10, March 1991, pp. 27-43. Only minor copyedits have been made for this publication.

¹² As reported in *People's Daily* (overseas edition) June 12, 1986, China's Vice-Premier Tian Jiyun acknowledged that the development of the agricultural infrastructure in the 30 years before the 1979 Reform was the main reason for increases in agricultural production since the Reform. Since the June 4th massacre, the current regime, fearing the loss of credibility of the Chinese Communist Party, has repeatedly praised the achievements of the past 40 years.

Dazhai in order to push his line of “letting a small number of peasants get rich first” when his Reform began.

Collectivization of Agriculture

Between 1949 and 1952, land reform in the newly liberated areas of China’s countryside gave hundreds of millions of peasants land—a plot of land for each family—for the first time in their lives. Although holdings averaged only 0.2 hectares per capita, peasants cultivated their land with great enthusiasm. The output of both grain and cotton went up rapidly between 1949 and 1952. By 1953, however, grain production became stagnant and cotton production decreased sharply.¹³

After one hundred years of destruction from wars and perhaps as many years of neglect by landlords, China’s natural environment for agriculture was fragile, and arable land was scarce and infertile. Aside from owning very small plots of poor land, the majority of peasants owned very few productive tools. Among the poor and lower-middle peasant households—60 to 70 percent of China’s peasantry—many did not even own a plow, let alone other tools or draft animals. Without farm tools, enthusiasm alone could not continually increase production.

Moreover, in 1953 and 1954, floods and drought affected large areas of farmland. Individual peasants were defenseless against such natural disasters, and there were also personal mishaps such as illness or the death of a family member. As a result, many peasant families were forced into debt. Facing debts at usurious rates, many peasants were forced to sell their land. Before the cooperative movement began, land sales and private borrowing had started to rise, as had the number of peasants who hired themselves out as farm hands.¹⁴ Had there not been a cooperative movement, there would have been further polarization and re-concentration of land ownership.

Small landholdings and inadequate farm tools were the main economic reasons behind the formation of mutual aid teams at first, and elementary cooperatives next. Peasant households pooled their land, labor,

¹³ See Su Xing, “The Two-Line Struggle, Socialist vs. Capitalist, after the Land Reform” in *Jing Jin Yan Jiu (Research in Economics)*, 7, 1965, p. 24.

¹⁴ *Ibid.*

and productive tools to farm together. Output was distributed according to the amount of land, tools and labor contributed.

With increases in production, the cooperatives began to accumulate funds to buy the farm tools from households that had owned them. In the advanced cooperatives, both the land and the tools were collectively owned by the cooperatives, so there were no more dividends paid for either land or tools contributed and the distribution of output was based only on the amount of labor contributed. Then the communes were established in 1958.

At each stage of the cooperative movement, some peasants gained and some lost. The success of the movement depended on the fact that the majority had gained. At the elementary stage of the movement, the ones who lost were those who had owned more land or tools. They were mostly the originally rich and upper-middle class peasants, and some originally poor peasants' households who had more able-bodied productive labor and were able to save some of their income to buy productive tools and thus become new upper-middle class peasants.

If cooperatives had not been formed, these upper-strata peasants would have been at an advantage. With more land and farm tools, they would easily have been able to hire additional farm labor. By paying these laborers low wages, they could have accumulated more surplus and would then be able to afford more tools and even acquire more land.

However, with the poor and lower-middle class peasants joining the cooperatives, these rich and (new and old) upper-middle class peasants could no longer find anyone to hire. The upper-middle class peasants hesitated in the beginning. But when they realized they had no other alternative, they eventually joined. In the end, both the rich and upper-middle class peasants joined the elementary cooperatives and received dividends from the co-ops for the use of their land and tools. These dividends, however, were not large enough to compensate for what they could have accumulated had there been no co-op.

The majority of peasants, who would clearly have gained in joining the co-ops, also hesitated initially because it was an entirely new experience with an uncertain future. Moreover, unless the poor and the lower-middle class peasants were convinced that they would eventually win the battle, it would have been difficult to hold them together. Without much land, very

few tools, and no experience of working together, their cooperation was not on firm ground.

In this regard, the prestige and the credibility of the Chinese Communist Party (CCP) and its chairman, Mao Zedong, played a very important role. The party pushed for collectivization, and the majority of the peasantry believed that the CCP, which led them to victory in the revolution and throughout the land reform, would not betray them. Those who had joined the cooperatives badly needed the land and the tools owned by the rich and upper middle peasants, but in order to win them over, the ones who had joined first (mostly the poor and lower-middle class peasants) had to stand firm and not waver. The high tide of the movement came as more and more co-ops were formed and proved successful.

When the cooperative movement progressed to the advanced stage, the ones who lost were clearly those who had had to sell their property to the coops. These more well-to-do peasants would have been better off if they had been allowed to draw dividends continuously from such property, rather than having to settle for a final lump sum based on a “negotiated” price, to which they reluctantly agreed. Those who gained most from growth of the cooperative movement were clearly the majority of the peasants who had never owned anything but a small strip of land and their own labor.

Among those who benefited were the families who had no productive labor, such as elderly peasants without sons and widows with young children. Many of them lost their loved ones in the revolutionary war. Mao was very concerned about the livelihood of these people because the State was in no position to help them. Mao said that each cooperative would be able to “carry” a few such families.¹⁵ These families could not contribute anything to the common “pot,” but had to eat from it. From a point of view of pure self-interest, cooperatives would be unwilling to carry such a burden; they had to be persuaded to do so.

¹⁵ For Mao’s view on agricultural cooperatives, see “On the Co-operative Transformation of Agriculture,” (July 31, 1955), “Rely on Party and League Members and Poor and Lower-Middle Peasants in the Co-operative Transformation of Agriculture,” (September 7, 1955), “The Debate on the Co-operative Transformation of Agriculture and the Current Class Struggle,” (October 11, 1955), “Prefaces to Socialist Upsurge in China’s Countryside” (September and December 1955) in *Selected Works of Mao Zedong*, Vol. V, Foreign Languages Press, Paris, 2021.

Worker-Peasant Alliance As a Rural Development Strategy for China

Some China specialists in the West seemed to believe that during its initial stage, the cooperative movement was voluntary and participatory, but these voluntary and participatory elements were lost when the socialist high tide came. But a revolution of such magnitude and depth, involving hundreds of millions of people and changing the social order that had existed for more than three thousand years, met strong resistance from the beginning from those who were to lose their economic and political advantages along the way. It was a political struggle from the start and grew more intense as the movement progressed.

Mao repeatedly reminded the cadres who were organizing the cooperatives to make sure that the leadership of the co-ops remained in the hands of the poor and lower-middle class peasants who supported the movement most staunchly. The rich peasants, who would have preferred to see the cooperative movement collapse, often worked to sabotage it whenever they had a chance.

Although the land reform was a great popular success, peasants had difficulty holding on to the land they acquired, and polarization had begun to develop even before the cooperative movement started. Small peasant farming was not a form of production that could be stabilized. The same was true for the mutual aid teams and elementary cooperatives. One tendency was for those who had owned the productive tools to leave the co-op in the belief that they would be better off, at this point, on their own.

The other problem of elementary cooperatives, as William Hinton explained in *Shenfan*, was that when yields began to increase after the formation of the co-ops, it became obvious that most of the increases were due to more intensive labor rather than to better land or implements. The majority of members who contributed only labor resented the fact that those who owned the implements continued to draw large shares of the co-op's rising income. The issue of how to split the income became more complex and divisive.¹⁶ The solution was to move to advanced cooperatives, in which the co-ops bought the productive tools from their owners, and the income was then distributed only according to amounts of labor contributed.

¹⁶ William Hinton, *Shenfan*, New York: Random House, 1983, pp. 142-143.

The Unified Purchase System also played an important role in aiding the cooperative movement. In the fall of 1953, the CCP's Central Committee decided to adopt the policy of State monopoly in the purchasing and marketing of grain and other raw materials. The enforcement of this policy put an end to the connection between the rich peasants, who had surplus grain for sale, and the grain merchants who still controlled a certain amount of the grain supply and could profit from speculation.

Mao thought of development during the transition period as a class struggle in which the workers and the peasants had to maintain a solid alliance. China's revolutionary war was fought by this alliance, based on land reform, which meant the end of feudalism and freedom from foreign domination. This alliance, as Mao saw it, would determine the course of the country's development, and could only be achieved through the leadership of the workers and by the collectivization of agriculture on the one hand and state ownership of industry on the other. The material basis of the alliance in the transition period was a course of development that mutually benefitted the workers and the peasants. Peasants supplied cheap grain, cotton and other raw materials to workers, and workers supplied manufactured consumer and producer goods to peasants.

If the cooperative movement collapsed, the alliance between workers and peasants would collapse with it, because individual peasant farming would lead to polarization and divisiveness within the peasantry. The rich peasants in the countryside would then form their own alliance with the capitalists and merchants in the cities.

It is essential to understand within this context the events that took place between 1953 and 1959, including the Great Leap Forward and the Lushan Conference. There was great haste in the completion of the collectivization process. Was such haste necessary? Mao believed that it was necessary "to strike while the iron was hot." Given the political situation at the time, it is questionable whether there was an alternative. As Hinton wrote in *Shenfan*:

Looking at the result this time around, one is forced to conclude that, after all, Mao was right. Land Reform gave mutual aid and cooperation a momentum among the former poor and hired that made it possible for new collective relations of

production to sweep the countryside. Mao seized the opportunity and led the movement to completion. Had he not done so, he would have missed a unique historic opportunity and would have doomed the countryside to the kind of fragmentation and polarization that is now once more running rampant.¹⁷

Those within the CCP who would rather see China develop along the Liu-Deng line saw clearly from the start that the collectivization of agriculture would place roadblocks for their own alliance, i.e., the alliance between the capitalists and merchants in the city and the rich peasants in the countryside. These two antagonistic lines began to clash at the completion of the land reform and came to a direct confrontation at the Lushan Conference. Thus it was not an accident that Deng seized the first opportunity to de-collectivize agriculture when, some two decades later, he and his associates took decisive steps to change the course of development.

The Relationship Between Agriculture and Industry

When the first Five-Year Plan ended in 1957, the income gap between the urban and the rural population had widened. According to Christopher Howe:

In any event, urban incomes moved rapidly ahead, but there was little or no increase in peasant incomes. As a result, a very serious situation arose. For not only was inequality increasing, but by 1957 the growing incomes of the much enlarged number of wage earners were making demands on food and other supplies that could not be met.¹⁸

Mao obviously began to worry about this situation before 1957. When Mao wrote “On the Ten Major Relationships” in April 1956, he placed “the relationship between heavy industry on the one hand and light industry and agriculture on the other” as number one of the ten. Mao stressed the importance of agriculture and light industry, citing the grave

¹⁷ Ibid., p. 165.

¹⁸ Christopher Howe, *China's Economy: A Basic Guide*, New York, Basic Books, 1978, p. 191.

problems in both the Soviet Union and the East European countries that resulted from their lopsided stress on heavy industry. Although Mao noted that China had not so far made the same mistake, he said:

The problem now facing us is that of continuing to adjust properly the ratio between investments in heavy industry on the one hand and in agriculture and light industry on the other to bring about a greater development of the latter. Does this mean that heavy industry is no longer primary? It still is, it still claims the emphasis in our investment. But the proportion of agriculture and light industry must be somewhat increased.¹⁹

Mao warned against the overemphasis on heavy industry so China could avoid the mistakes of Soviet development. His concern was reflected in the Second Five-Year Plan and beyond.

The Material Base of the Worker-Peasant Alliance

From the Second Five-Year Plan until 1978, the State not only redirected investment toward agriculture but also increased investment in industries that produced agricultural inputs. In addition, the State cut agricultural taxes as a percentage of its revenue, thus reducing its budgetary dependence on agriculture. During this same period, the State also gradually increased its expenditures on agriculture, both in absolute amounts and in relation to its total expenditures. Moreover, the State also made adjustments to improve the terms of trade for agricultural products by continuing to reduce the prices of industrial products sold to the agricultural sector and increasing the prices of agricultural products. The prices farmers paid for agricultural inputs and consumer goods (in terms of wheat) declined steadily during these two decades. The figures in Table 1 reveal the shift in emphasis in China's development policy.

All of these favorable conditions helped the agricultural sector to develop. With more development, the agricultural sector was able to buy more from industry. According to Nicholas Lardy, the total amount of producer goods purchased by the agricultural sector increased both rela-

¹⁹ Mao Zedong, "On the Ten Major Relationships" in *Selected Works of Mao Zedong*, Vol. V, *op. cit.*, pp. 268-269.

tively and absolutely in the two decades between the late 1950s and the late 1970s. In relative terms, the agricultural sector's purchases of producer goods increased as a percentage of the sector's gross income from commodity sales to the State—from 16 percent in 1956 to 60 percent in 1978. In absolute terms, the total amount of producer goods purchased by the agricultural sector also increased from 3.26 billion Ren Min Bi (RMB, the Chinese currency unit) in 1957 to 29.37 billion RMB in 1978.²⁰ Such increases were even more significant because the prices of these goods were either stable or falling.

Table 1. Changes in the Economic Relations Between the State and the Collectives, 1957-1978

	1957	1978
Agricultural investment as a % of total state investment	7.8 ^a	12.5 ^b
Investment in agricultural inputs as a % of heavy industry investment	3.0 ^a	11.1 ^b
Agricultural taxes as a % of total state revenue	9.6	2.5
State expenditures on agriculture as a % of total state expenditures	7.4 ^a	12.6 ^c
Terms of trade for the agricultural sector	130.4	188.8

Source: Nicholas R. Lardy, *Agriculture in China's Modern Economic Development*, New York, Cambridge University Press, 1983, pp. 130-131; *Statistical Yearbook of China*, 1983, pp. 445-447; Xi-Yi, *Pricing Problems Under Socialism* (in Chinese), Beijing: China's Finance and Economic Publishers, 1982, p. 76.

(a) for the period 1953-1957; (b) for the period 1976-1978; (c) for the period 1976-1977.

In the course of development under Mao, China's agriculture was not squeezed excessively or sacrificed unduly. In buying grain and other raw materials from the peasants, the State paid low prices although these were gradually raised. These low-priced purchases, however, enabled the

²⁰ Nicholas R. Lardy, *Agriculture in China's Modern Economic Development*, New York, Cambridge University Press, 1983, pp. 7-8.

State to supply the urban population with low-priced food and clothing, so that wages could be kept fairly low, thus allowing industries a higher rate of accumulation. Moreover, with the low-priced raw materials, the State made profits in industries that used these inputs, such as textile, tobacco, alcohol, and food processing.

Part of these combined state profits was then invested in industries that produced agricultural inputs, such as machinery, equipment, fertilizer, and pesticides. These producer goods were then sold back to the agricultural sector at low and decreasing prices. Thus, the agricultural sector was able to afford to buy increasingly larger quantities of such modern farm inputs. The purchase increases were most significant from the mid-1960s to late 1970s. In addition, the State increased its investment in agriculture, which usually went to building large-scale agricultural infrastructure that the communes could not afford. Therefore, the agricultural sector was not drained of its resources although there were net outflows. Instead, it was continuously being replenished with modern products from the industrial sector. The exchange between agriculture and industry benefitted both sectors and was the material foundation of the worker-peasant alliance.

Even though it was not possible to achieve total parity between the two sectors, the policy in the Mao era emphasized investment in agriculture. In the majority of Third World countries, by contrast, surpluses from agriculture were drained to develop industry. A similar pattern appeared in China in the decade of Deng's Reform that began in 1979.

Deng's rural reform started with raising the purchase prices of grain and other crops by 20 percent in 1979, with another 50 percent added for bonus prices; these prices were further raised several times in the next few years. The peasants were, of course, overjoyed at first by the sudden increases in their incomes, especially those farm households that had large quantities of crops to sell at the much higher bonus prices. China experts in the United States and other Western countries praised Deng's policy and began to criticize the overexploitation of agriculture under Mao. Although consumption levels of farm households were raised for a brief period after the Reform, those who could afford to buy consumer durables and to build themselves new houses did not earn their incomes from selling grain. In most cases, they got rich first through privileges and connections.

But the higher levels of consumption enjoyed by the rural population could not be sustained. While the State paid the farmers higher prices for grain and other crops, it drastically cut back investment in agriculture and in industries that produced agricultural inputs. At the same time, the State did not raise the prices of staple foods for urban consumers for fear of inflation and discontent, thus adding to large budget deficits. After the 1984 Reform, the State cut subsidies to agricultural-input industries, which were then forced to cut output and raise prices of their products sold to farmers. The prices of chemical fertilizer, pesticides, plastic sheets, agricultural machinery, and diesel fuel all increased sharply. By 1984, the increases in farmers' earnings from higher-priced products were largely canceled out by the increased costs of production. This unfavorable price-cost ratio took the incentive out of farming.

In addition, higher earnings in nonfarm jobs made the hard work and low pay of farming seem even less attractive. In areas where the land is most fertile, such as the Yangtze River delta, there are also more nonfarm employment opportunities available. In most farm households, the more productive members either take factory jobs or engage in commerce, thus leaving those with limitations, such as women with children and the aged, to tend the land. On this most fertile land, these part-time tillers have been very reluctant to put in much input or much of their own labor. These areas, which had surplus grain in the past, now have to import grain, mostly from abroad, to feed themselves.²¹

Collectivization and Modernization of Agriculture

In Mao's model, the goal of agricultural development was to produce enough food and raw material to meet the needs of China's large and growing population. The difficult part, of course, was how to use limited resources to feed a large population. Mao's solution was to pool human and land resources together by collectivization, and to mobilize peasants to put in as much labor as possible to improve the productivity of land. The crop yield had to be raised not only by intensive cultivation, development of new seed varieties, use of fertilizers (both organic and chemical), irrigation and multiple cropping, but also by building irrigation and drainage networks to prevent droughts and floods.

²¹ Ibid.

Chinese peasants worked long and hard on farmland capital construction. Since most of the construction work was done during the winter months when farm production was slack, they extended the average number of days worked in a year from 119 in the mid-1950s to 250 in the mid-1970s. During the 1970s, on average, a total of eight billion days of labor was accumulated in land work each year.²² The late Alexander Eckstein, in a paper submitted to the US Congress in 1978, described China's farmland capital construction in these words:

It indeed means reshaping the geographical features of an area to provide the physical conditions necessary for the application of an appropriate mix of other inputs—labor, machinery, fertilizer, and the improved seed strains—to bring about high and stable yields. This often requires squaring or terracing the land; at times it involves leveling mountains and transporting soil manually in baskets for several kilometers to build a huge dam or to cover some areas with topsoil. In many areas, it means constructing underground drainage channels, reservoirs, canals, irrigation channels, pumping stations, and tube wells.²³

None of what Eckstein described could have been achieved without the organization of the communes, which mobilized the labor and allocated the resources needed to make such construction possible. The State also helped finance large construction projects that were too big for the collectives to undertake.

No matter how hard the peasants worked, human power alone could not develop agriculture. During the 30 years before 1979, the number of peasants doubled while the amount of arable land remained fixed. During these years, China more than doubled the crop yield per hectare. Although there have been claims that the productivity of labor in Chinese agriculture has declined, this question requires further study. It is not accurate to calculate labor productivity by simply dividing the value of current

²² Shi Bing, "More Inputs to Promoting Agricultural Development" in *Problems of Agricultural Economy*, 1, 1987, p. 8.

²³ Alexander Eckstein, "The Chinese Development Model" in *Chinese Economy Post-Mao, A Compendium of Papers*, Washington, US Government Printing Office, 1978, p. 88.

agricultural production by the size of the rural labor force, since over 30 percent of the peasants' annual labor time (a percentage which gradually increased from the 1950s to the 1970s) was spent in building the agricultural infrastructure, which should be considered as investment rather than current production.

The modernization of agriculture meant more modern inputs for the agricultural sector from the industrial sector. As we said earlier, the mutually supportive relationship between agriculture and industry made it possible for the agricultural sector to buy increasing quantities of industrial products. Table 2 shows the advances made in terms of using modern inputs for agricultural production between 1952 and 1979. As the table shows, in the 30 years before Deng's reform, China had already achieved some degree of mechanization, which took the hardest manual work out of farming, and greatly reduced the intensity of farm work.

Mao believed that collectivization had to come first before mechanization was possible, while Liu and Deng believed that mechanization had to come first. History has proved Mao was right. Mechanization and modernization would not have been possible without the collectivization of agriculture. In other words, the productive forces began to develop as class struggle brought major changes in the relations of production. One major victory won by the worker-peasant alliance in this class struggle was the collectivization of agriculture, which prevented the reassertion of rich peasants and pushed the rural development to a higher stage. Mao believed, however, that in order to push forward this line, it was crucial to win the struggle on the ideological front. This was where the "Learn from Dazhai" Movement came in.

Table 2. Modernization of Agriculture

	1952	1957	1965	1979
Tractor-plowed area as a percentage of cultivated area	0.1	2.4	15.0	42.4
Irrigation area as a percentage of cultivated area	18.5	24.4	31.9	45.2
Power-irrigated as a percentage of the total irrigated area	1.6	4.4	24.5	56.3
Kilos of chemical fertilizer applied per hectare	0.7	3.3	18.7	109.2
Small hydropower stations in rural areas	98	544	n/a	83,224
Generating capacity in thousands of kilowatts	8	20	n/a	276.3
Total horsepower of agricultural machinery (10,000 hp)	25	165	1,494	18,191
Large-and medium-size tractors (in thousands)	1.3	14.7	72.6	666.8
Small and walking tractors* (in thousands)	n/a	n/a	4	1,671
Motors for agricultural drainage and irrigation (10,000 hp)	12.8	56.4	907.4	7,122.1
Combine harvesters	284	1,789	6,704	23,026
Motorized fishing boats	n/a	1,485	7,789	52,225

*Although these were intended for agricultural use, many were used for transporting goods.

Source: *Statistical Year Book of China*, 1983, pp. 186, 197; *1981 China Economic Yearbook* (in Chinese), VI, p. 13.

The “Learn From Dazhai” Movement

The “Learn from Dazhai” Movement, which placed heavy emphasis on self-reliance in rural development, was very significant in Mao’s development model. That was why, in attacking Mao, Deng had to discredit Dazhai’s achievements made before his Reform, and remove Chen Yonggui²⁴ from a leadership position. The “Learn from Dazhai” Movement shows that Mao understood the importance of self-reliance because he understood the threat of imperialism to any country that dared to develop its own independent economy.

Mao’s development strategy places the agricultural sector at the foundation of the economy, because self-reliance meant that China must first produce enough food to feed her people. This was also the reason for placing grain production at such a high priority and making it the key link. The Chinese people understood from their experience of the previous 100 years what it meant to depend on the West for any kind of “assistance”—grain, capital, or technology. It was the determination that China must make it on her own that motivated the peasants to work so hard to build the infrastructure needed for the foundation of agricultural production.

China’s peasantry and the Party cadres that led them—and certainly the people of Dazhai—must have drawn inspiration from a short essay written by Mao in 1945, entitled “The Foolish Man who Moved the Mountains.” He recounted an ancient Chinese tale of how a foolish man was determined to move the two big mountains blocking the entrance to his house, instead of walking around them. Mao said that there were two big mountains sitting on top of the Chinese people—imperialism and feudalism. It was up to the determination and hard work of the Chinese people to remove them.

Dazhai was set up as a model because people there did not surrender to nature or to their lack of resources; instead, they fought collectively to gain every inch of arable land and to achieve self-sufficiency in food. They

²⁴ Chen Yonggui was a peasant who, as secretary of the Party branch in the Dazhai production brigade, led a local mass movement that emphasized self-reliant efforts to reclaim arable land and improve agriculture amidst the area’s harsh environment. He was gradually promoted, elected to the Politburo in 1973 (reelected in 1977), and named a vice-premier of the State Council in 1975, until he was dismissed from the State Council in 1980.

were the “foolish” ones who were trying to move mountains. They believed that persistence, hard work and cooperation would achieve more in the long run than an orientation toward a quick return this year or next.

The “Learn from Dazhai” Movement gave rural capital construction a big push nationwide. In Wuxi county of Jiangsu Province alone, one of the richest agricultural regions in China, the amount of land work done in the eight years after the “Learn from Dazhai” Movement began (1970-1978) was more than five times the work done in the previous 20 years.²⁵ Similar experiences could be found in many parts of China. In the 30 years after the revolution, “foolish” men and women, several hundred million of them, collectively worked long and hard to make China self-reliant. When Deng’s reform began in 1979, the central government adopted an exactly opposite policy by importing grain from abroad with borrowed money, so that today, peasants in areas as barren as the old Dazhai have had to give up trying to succeed in local farming and have crowded the cities to find jobs.

When the whole nation was mobilized to learn from Dazhai, the peasants collectively built the foundation of China’s agricultural infrastructure and produced more grain and other products. This valuable and significant experience made them realize their own strength. In cooperatively building irrigation and drainage networks, they also began to realize that if they put public interest first, it would translate into personal gain later.

Today, intensive class struggle continues in China while policies arising from Deng’s 1979 Reform continue to emphasize privatized agriculture and industry, effectively breaking Mao’s strategy for rural development based on the worker-peasant alliance. The outcome of this struggle will depend, to a large extent, on whether a new worker-peasant alliance can be formed in the years to come.

²⁵ Information obtained during an interview with Wuxi county officials by Pao-yu Ching in 1979.

MAO'S THEORY ON CAPITALIST RESTORATION IN SOCIALISM²⁶

The restoration of capitalism in the former Soviet Union, in Eastern European countries and in China has brought serious setbacks in the international socialist movement. This is happening at a time when the collaboration of capital beyond national borders across the globe has reached new heights.

The threat to socialism is both internal and external. However, as developments in these former socialist countries in the past few decades have shown, the enemy from within was more damaging than the enemy from without. In other words, it was (and still is) the revisionism within the ruling communist party in each country—not imperialism from outside—that posed the most serious threat to socialism. During the past decade (1980s), the communist parties in all the former socialist countries except China lost power and abandoned their goal of pursuing socialism. In the case of China, however, the Communist Party continues to proclaim that it is following the principles of Marxism, Leninism and Mao Zedong Thought while restoring capitalism. To borrow from a phrase used in an earlier era, the Chinese Communist Party is “raising the red flag while opposing the red flag.” This deceptive stance is more dangerous and requires more attention. Revolutionaries today have to gain a thorough understanding of how the revisionists within the communist parties seized power in these countries, thus eventually turning the dictatorship of the proletariat into the dictatorship of the bourgeoisie.

In 1957, when Mao wrote “On the Correct Handling of Contradictions Among the People,” he distinguished between contradictions among the people and contradictions between the enemy and the people. These two types of contradictions are of a different nature and thus require different ways to resolve them. Mao wrote:

²⁶ This was a speech delivered by the author at the International Seminar on Mao Zedong Thought, held on November 6-7, 1993 in Gelsenkirchen, Germany. The original text has been edited for inclusion in this book.

At the present state, the period of building socialism, the classes, strata and social groups which favor, support and work for the cause of socialist construction all come within the category of the people, while the social forces and groups which resist the socialist revolution and are hostile to or sabotage socialist construction are all enemies of the people.

Mao included the contradiction between the national bourgeoisie and the working class in the same category as the contradictions within the working class, contradictions within the peasantry, contradictions within the intelligentsia, contradictions between the working class and the peasantry, and so on—as one of the contradictions among the people. At that time, the State was a people's democratic dictatorship led by the proletariat and based on the worker-peasant alliance. As long as the national bourgeoisie obeyed the laws of the people's government, they were treated as part of the people. Mao then explained that the contradiction between the national bourgeoisie and the working class is one between the exploiter and the exploited, and is by nature antagonistic. However, he saw that in the concrete conditions of China, this antagonistic contradiction could be transformed into a non-antagonistic one and could thus be resolved by peaceful methods. Such methods, on the one hand, included criticizing them, educating them, and uniting with them. On the other hand, Mao also saw that this contradiction could change into a contradiction between the people and the enemy. According to Mao, this change would occur if the people's government should fail to follow the correct policy, or if the national bourgeoisie could not accept the government's policy.

At that time, the people's government had won the upper hand in the Anti-Rightist movement and had encountered little resistance in nationalizing the relatively small-sized private capital in the hands of national bourgeoisie. (Bureaucratic capital and foreign capital had already been nationalized soon after the establishment of the people's government.) The people's government took several steps to buy the assets owned by the national bourgeoisie, which had little choice but to go along.

In other words, if we look at the contradiction between the national bourgeoisie and the working class, the national bourgeoisie was the non-principal aspect of the contradiction while the working class was

the principal aspect. Very significantly, Mao was the first Communist Party leader to point out that contradictions, both among the people and between the enemy and the people, continue to exist during socialism. He also explained that the principal aspect and the non-principal aspect of the contradiction could transform into the other, and that a contradiction among the people could transform into a contradiction between the people and the enemy.

In the course of continuing struggle over the next ten years, Mao realized that rightist elements in socialist society, including the national bourgeoisie, the rich peasants and rightist intellectuals, tried to assert themselves at every opportunity. As the economy developed gradually, these elements found representatives within the Chinese Communist Party (CCP) who then acted to protect their interests and opposed the implementation of socialist projects at every step during the socialist transition. They opposed any policy that benefited the workers and the majority of peasants. Instead, they designed their own capitalist projects and pushed to implement these. Furthermore, Mao, who witnessed the rise of revisionism among power elites within the Soviet Communist Party, realized the serious threat that revisionism posed to the revolution in China and to the rest of the world.

At this point the CCP under Mao's leadership decided that the deceptive and erosive nature of revisionism had to be exposed lest the working class of the whole world, China included, fall into the revisionist trap and stop the proletarian revolution in midstream. In 1963, the CCP initiated a criticism of revisionism in the Soviet Union, with polemics in the form of open letters exchanged between the two parties—thus drawing a clear line between revisionism and Marxism-Leninism. In the course of his leading role in the struggle against the revisionists within the CCP and the revisionism practiced by the Soviet Communist Party, Mao developed his theory on capitalist restoration.

Between 1957 and 1966, the revisionists within the CCP, represented by Liu Shaoqi and Deng Xiaoping, gained substantial power and control. Had this been allowed to continue, as had happened in the Soviet Union, the chances for the proletariat to regain any control would have become remote. At this critical juncture, Mao initiated the Great Proletarian Cultural Revolution, describing it as “a great revolution that touches

people to their very soul and constitutes a new stage in the development of the socialist revolution in our country, a stage which is both broader and deeper.”

Initially, the Cultural Revolution was intended to arouse the masses to combat and eradicate bourgeois influences in the ideological sphere, which covered the fields of education, literature, art, and other parts of the superstructure. The target of the Cultural Revolution was clear from the beginning: those in authority within the Communist Party who were taking the capitalist road. Thus, the Cultural Revolution was the first large-scale attempt to stop capitalist restoration in socialist society. As Mao repeatedly said, during the socialist transition, the proletariat has to wage many more cultural revolutions to consolidate the socialist revolution and to finally eliminate the chances of capitalist restoration. As the Cultural Revolution progressed, the revisionists in authority within the Party launched vicious counter-attacks against the masses. In turn, the masses had to seize power. At that point, the contradiction between the revisionists and the masses transformed from a contradiction among the people into one between the people and the enemy.

Since then, events have shown how revisionists’ programs unfolded once they gained total control of the Party. After Deng Xiaoping consolidated his base of support during the Third Plenary Session of the 11th Central Committee of the Party at the end of 1978, he and his supporters began to implement a series of well-planned and well-thought-out capitalist projects.

On the theoretical level, Deng and other revisionist reformers distorted Marxist theory on socialist transition by dividing it into mechanical stages. Marx did say that there would be an initial phase and a higher phase in the transition from capitalism to communism and that each phase would have certain characteristics. However, Marx did not prescribe a rigid partition between the phases as if they were independent and separate entities. Deng and his supporters, on the other hand, partitioned the phases and treated them as qualitatively different with no continuity between them. Saying that China was still at the initial phase of socialism, they asserted that during this initial phase, the driving force to develop the productive forces was competition based on the profit motive.

Deng and the other revisionist reformers used this as an excuse to expand commodity production and to institute their capitalist projects. Insisting that the law of value should be followed without any restriction, they asserted that all productive resources, including labor power, should be turned into commodities. Furthermore, Deng also proclaimed that China had to open its door to foreign capital and participate in the international division of labor.

Deng began his Reform in China's countryside by dismantling the people's commune system that was established in 1958. First, he bought the peasants off in 1979 by raising the purchase prices of agricultural products, which resulted in short-term increases in peasant income. Then, Deng began what he and Liu Shaoqi had wanted to implement more than a decade earlier: to contract production to each peasant household. By 1984, with land and other productive facilities distributed among individual peasant households, de-collectivization of agriculture was completed. Soon after, however, Deng drastically raised the prices on all agricultural inputs sold by the State to the peasants. At the same time, State investment in agriculture was cut back severely. Then, in 1985, the State abolished the Unified Purchase and Unified Sale System. This reform policy was supposed to promote a free market in which market prices would become the regulator of production. This happened right after the good harvest of 1984, so the prices of agricultural products dropped sharply amid bountiful supply, and peasants found it difficult to find buyers for their crops.

In addition to the reduction of state investment in agriculture, the investment funds that the production teams used to accumulate also disappeared with the collapse of the communes. Moreover, the new rural rich chose to invest in other highly profitable ventures but not in agriculture, such that agricultural investment dropped below zero (less than what was needed for depreciation), resulting in a serious depletion of capital stock in China's countryside.

Moreover, with the collapse of the communes, the investment of labor into land and infrastructure also stopped. Existing irrigation drainage systems were not even maintained and gradually fell into disrepair. Today, peasants in China have to scabble hard just to keep farming their little plots of land. As in the old days, many peasants have had to abandon the land to seek work in the cities. Yet layers of bureaucrats at the province,

district, county, *xiang* (township) and village levels have imposed increasing taxes and various fees on the peasants. It is no wonder peasants in so many provinces are now rebelling against this new exploiting class.

The de-collectivization of agriculture was a crucial strategy used by Deng and his supporters in reversing the direction of the socialist transition. The collapse of the commune system meant the breakup of the worker-peasant alliance. During the revolutionary war and later during the socialist transition, Mao's strategy was for the workers and the peasants to form a strong alliance in their struggle, first against imperialism and feudalism and later against the bourgeoisie. Under socialism, the collectivization of agriculture was a necessary condition to solidify this alliance. Deng, on the other hand, wanted to dissolve this alliance. The peasantry became a polarized class after de-collectivization. There are now the handful of super-rich peasants, some rich and middle peasants, and the majority of poor peasants. With whom can the workers now form their alliance?

Many social scientists in China have recently recognized the devastating effect of the de-collectivization on agricultural production. In hindsight, they have suggested that in places where agriculture production was highly mechanized, breaking up the collectives might have been a mistake. This view is restrictive since it fails to see that the most important reason behind Deng's Rural Reform was political: it was to break up the worker-peasant alliance.

When Deng and his supporters embarked on the Reform, they declared that the period of class struggle had ended in China and that the new focus was to develop the productive forces. In reality, they waged the fiercest class struggle in the history of the People's Republic. Shortly after they took power, they amended China's Constitution, abolished the workers' right to strike, and banned the most important rights of free expression, namely the four *da* ("big"): *damin*, *dafang*, *dabianlun*, and *dazibao*—meaning: big voice, big openness, big debate, and big-character posters. Then, they moved to break up the worker-peasant alliance. Soon after, they directly assaulted the workers by taking away many of the workers' rights and privileges obtained in state enterprises since Liberation.

Individual capitalist projects in Deng's Reform were planned to fit the overall reform strategy. It was nothing like what was often quoted as "crossing the river by feeling the stones," meaning that the Reform was try-

ing to figure out what to do as it went along. Moreover, the Reform carried out its programs by imposing judicial changes from above.

The Wage Reform, which was the initial phase of the Labor Reform, began by adding direct material incentives to the wage system of state workers. The Wage Reform first added bonus pay to the workers' regular wages as direct material incentives and in 1979-80 reintroduced the piece-wage system. Then, new management positions were established in the state enterprises, such as the president, vice-president, senior engineer, etc., modeled after modern capitalist corporations. Each position entitled the holder additional pay commensurate to rank, thus creating large internal wage differences. Management-level officials were also given the authority to set up discretionary funds for themselves.

Next, instead of distributing the wage funds from the State to the workers as had been previously done, the management acquired the authority to pay workers as it saw fit. This destroyed the original eight-grade wage scale, which ensured that workers of the same grade received about the same wage in all state enterprises. However, such material incentives did not entice the masses of workers to increase productivity as Deng and his policy makers anticipated. As a result, the Reformers decided that workers' job security had to be tied to productivity. They reasoned that as long as the workers in state enterprises were assured of permanent employment status and guaranteed wages and benefits, it would be difficult for the management to exert pressure to raise productivity. In short, "the iron rice bowl"²⁷ had to be smashed.

Labor Reform is part of the grand plan to transform state enterprises into independent, profit-seeking entities. On October 20, 1985, the 12th Congress of the Central Committee of the CCP passed legislation entitled *The Economic Structure Reform*. This legislation reaffirmed the earlier temporary regulation, which granted the managers in state enterprises the autonomy to manage affairs in these enterprises and allowed individual enterprises to retain portions of their profits and reinvest the profits as they saw fit. The managers were also allowed to dispose of unused productive facilities by renting, leasing, or selling them. Management was given the right to discipline and promote workers. This legislation further stated that

²⁷ The "iron rice bowl" is a euphemism for the guaranteed employment and wages and benefits that workers had during socialism in China.

the State would no longer intervene directly in the affairs of individual enterprises. This meant that the State was taking the first step to relinquish its legal and economic ownership of the means of production.

Then, in 1988, the *Enterprise Law* was passed, granting the management in state enterprises the rights of possession, of usage, and of disposal of the property. The enterprise—now leased to the management by the State—became an independent legal entity. The *Enterprise Law* granted the management of each enterprise the autonomy to make major decisions regarding production, including disciplining and dismissing workers. The right of usage clause in the legislation implies the right of appropriation, including the disbursement of wages. The State gave up its legal and economic ownership of these enterprises so it also gave up its responsibilities to the workers in these enterprises. Workers in the formerly state-owned enterprises lost legal protection from the State, and with it, they also lost legally their rights and benefits.

Another new law, the Contract Labor Law, was passed in 1986. This law strengthened the legal power of the management of State enterprises. Under this law, all newly hired workers were now required to sign contracts with the enterprises that employed them. The terms of the contracts were limited to one year. The law provided that at the end of the contract term, either party had the right to unilaterally terminate the contract or to not renew it for another year. The goal of this new law was to first reduce and eventually eliminate permanent employment status for state employees.

Deng's reform of state enterprises facilitated the takeover of these enterprises by high-level party members and government officials. Top-ranking officials and their families were allowed to contract the enterprises from the State. At the same time, the Enterprise Law gave them the right to sell, to lease and to transfer state property in order to form their own private companies. They thus took the most profitable state enterprises and privatized them into profit-making enterprises. They also obtained large sums of loans from the state bank for their own companies and collaborated with foreign capital so they could enjoy the most favorable tax laws and other favorable treatment. In other words, bureaucrats in the state apparatus used their power by turning state property into their own private property. These high-level party and government officials in authority converted their power into material wealth, affording them lux-

urious lifestyles surpassing those of Kuomintang officials in pre-Liberation China.

These capitalist projects, which were implemented by Deng and his supporters by imposing legal changes from above, have created new contradictions in Chinese society. During the three decades under Mao's leadership, the CCP initiated and led many mass movements that helped maintain close links between the Party and the masses, and which also helped resolve contradictions in socialist society. In each mass movement, the Party set up the opposite and mobilized the masses to struggle against the opposite. Since Deng took power, he suspended party-sponsored mass movements and suppressed any spontaneous movement organized from below.

In Chinese society today, the principal contradiction is between the authority in power representing the new ruling class and the broad masses of toiling people. At the same time, the non-principal contradictions include the contradiction within the working class, within the peasantry, between the working class and peasantry, and so on. With mass movements suppressed, these contradictions have no outlet for expression, much less resolution. In Spring 1989, these contradictions reached such a height that students began to demonstrate in China's major cities. Many millions of urban residents also joined to express their discontent and voice their complaints. The regime at that time decided that such direct confrontation could no longer be tolerated. In the guise of "clearing Tiananmen Square and restoring stability" and with Deng's blessings, the Party center declared martial law, moved in the troops, and ended the mass protests with the June 4th Tiananmen Massacre.

Many years have passed since the massacre. The abuse of power and privileges by the bureaucratic elite, which was the main target of the demonstration, has not only continued but worsened despite repeated reassurances in Chinese mass media that those who commit economic crimes will be duly punished by law. People in China are well aware that only those who commit minor crimes are prosecuted while major cases of corruption involving the embezzlement of public funds worth billions of RMB are covered up and the guilty high-level officials left untouched.

The masses of peasants and workers are putting up strong resistance against Deng's reforms imposed on them by the passage of legislation.

Workers express their discontent and frustration through workplace slowdowns unprecedented in the history of the People's Republic; there have also been many reported and unreported strikes in Chinese factories. Peasant rebellions are recurrent and widespread. Deng and his supporters have placed all the necessary laws in place, but they also realize the importance of maintaining a stable environment for the Reform and foreign investment. In order to avoid further unrest, they have decided to go slow in enforcing these new laws. However, since actions of resistance taken by workers and peasant are not well organized, their rights and benefits are gradually being chipped away.

Mao developed his theory on the danger of capitalist restoration in socialist society by struggling against the revisionists in China and abroad. His theory has taught us that class struggle continues during socialist transition, because contradictions both among the people and between the people and the enemy continue to exist during this historical period. Different aspects of the contradictions transform into each other, and, at different stages, contradictions among the people transform into contradictions between the people and the enemy. Mao not only developed the theory of capitalist restoration, he also sought its resolution in practice by carrying out the Cultural Revolution. Thus, Mao's theory and practice on revisionism have given China's working class the weapon to fight against revisionism politically, economically, and culturally.

We gather here today in the commemoration of a great revolutionary leader, Mao Zedong. However, our commemoration of Mao can only be meaningful if we uphold his theory and practice of continuing the revolution to combat the restoration of capitalism by the revisionists in China today. After all, great revolutionary leaders of the past—Marx, Engels, Lenin and Mao—fought throughout their lives against those who were “Left” in appearance but Right in essence, those who wave the red flag to oppose the red flag. The task of struggling against revisionism remains the most important task for revolutionaries today. As Mao said, on the road of revolution there are many twists and turns, but the future is always bright.

LABOR REFORM: MAO VERSUS LIU AND DENG²⁸

The Third Plenary Session of the 11th Congress of the Chinese Communist Party held in December 1978 marked the beginning of Deng Xiaoping's Reform. Since then, the Reform has drastically changed policies, passing major legislation to deconstruct the political, economic and social system built during the first three decades of the People's Republic. So far, individual projects instituted by Deng and his supporters are all capitalist in essence, and they fit well together in the broad framework of the Reform.²⁹ These capitalist projects serve as concrete ways to reverse the direction of China's development from socialist transition to capitalism. The class forces that rally behind the Reform appear to be strong, but the implementation of the capitalist projects has encountered persistent resistance from the worker and peasant masses.

Under Mao Zedong's leadership, China took several major steps in the development toward socialism. Major socialist projects were instituted

²⁸ This essay was jointly written with Deng-yuan Hsu in 1992 and published in *Mao Zedong Thought Lives, Volume 1, Essays in Commemoration of Mao's Centennial* in 1995, pp. 183-213. The volume was published jointly by the Center for Social Studies in the Netherlands and New Road Publications in Germany, 1995.

²⁹ The goal of capitalist projects is to lead the transition toward capitalism. These projects are concrete ways to restore and expand the capitalist relations of production (and the dominating and dominated relation between the owners of the means of production and the direct producers). The implementation of capitalist projects will eventually remove the direct producers from having any control over the means of production and the products of their labor. Diametrically opposed to the capitalist projects are socialist projects, the goal of which is to lead the transition toward socialism—when the direct producers will have control over the means of production and the product of their labor, and the distribution will be according to the amount of labor, instead of according to the size of capital as is the case in capitalist projects. Socialist projects are projects designed to enhance the long-term class interest of the proletariat and they are not the same as the so-called social welfare programs in the advanced capitalist countries. Chinese history shows that only a state machine dictated by the proletariat can implement socialist projects.

However, during the socialist transition before 1978, the class forces that favored capitalist transition never ceased in their attempts to push forward the capitalist projects. These class forces often found their representatives within the Chinese Communist Party who were in positions of power. The contradictions in the relations of production during the socialist transition, if left unresolved, strengthen the capitalist class forces. As has happened in China, the capitalist class forces eventually took over the Party and the state machine. In China, the class struggle that has gone on since the beginning of the People's

during the three decades before 1979, one of which was the labor reform that changed the nature of work and the position of the proletariat in Chinese society. Mao pushed for policies that would eventually phase out wage labor so that labor power would cease to be a commodity. Before 1979, workers in state enterprises were paid according to an eight-grade scale based on their years of service and experience and were guaranteed the many basic necessities of life as well as permanent employment. Moreover, workers participated actively in matters concerning work and other aspects of factory life. During the last decade or so of this period, Chinese factories adopted practices that would lessen the differentiation in the roles of the management and the worker, practices including workers participating in managing the factory and managers doing productive work.

Deng's labor reform, which is diametrically opposed to that of Mao's, is to re-establish wage labor and to turn labor power into a commodity, which can be bought and sold in the labor market. As soon as Deng took power in 1979, he and his supporters amended the Constitution and abolished the workers' right to strike.³⁰ Then, the labor reform re-instituted bonus pay and the piece-rate wage system. In 1986, the Contract Labor Law was passed, which took several steps to legally abolish the permanent employment status of state employees. The breaking up of the people's communes in the countryside and the failure of the family responsibility

Republic to the current time is revealed by the competition between the socialist projects and the capitalist projects. The goal of capitalist projects is the opposite of that of the socialist projects and the method of implementation of capitalist projects is also drastically different from that of the socialist projects. The implementation of capitalist projects in Deng's reform involves first installing legal measures and then pushing from-the-top-to-individual production units. The implementation of socialist projects between 1949 and 1978 was through mass movements where the will of the masses was tested, verified and articulated. Mass movements in the past created new ideology owned by the masses. While it is true that in both periods, the implementation of projects emphasized the role of ideology in changing the relations of production, and as a tactic used propaganda in the media, there are fundamental differences. During the previous period (before the very end), the expression of the masses was encouraged, while under Deng's Reform, such expression is suppressed. Before 1978, the four *da*—*damin*, *dafang*, *dabianlun* and *dazibao*—were concrete ways for this expression. The four *da* and the worker's right to strike were banned when Deng's group took over the state machine and amended the Constitution in 1979.

³⁰ The right to strike and the guaranteed four "da" were first put in the Constitution in 1975 when it was amended for the first time (the Constitution was first published in 1954.) These rights were abolished in the 1979 Constitution. *China News Analysis*, No. 1114, March 1978, pp. 6-7, and No. 1188, August 29, 1980, p. 7.

system under Deng has resulted in the exodus of large numbers of peasants from the land and has helped the formation of the labor market. The open-door policy for foreign investment, which included capital-intensive investment by large foreign corporations and labor-intensive investment by businesses from Taiwan and Hong Kong in coastal areas, was the development that hastened the commodification of labor power.

This essay addresses the following questions:

- (1) During the three decades under Mao's leadership, to what extent were workers in China's state enterprises transformed? What were the contradictions in the implementation of Mao's project of turning labor power away from being a commodity? How were these contradictions resolved or not resolved?
- (2) What have been the most important changes in labor legislation and labor policies since 1979, and why is labor reform an important capitalist project in Deng's overall reform? How have the labor reform policies been implemented? And, how have the new contradictions resulting from policies of Deng's labor reform been resolved or not resolved?
- (3) What is the future outlook?

Mao's Labor Reform and Other Socialist Projects in State Enterprises

The Meaning of State Ownership

State ownership means that the State has effective control over the means of production and does not necessarily represent socialist relations of production. Only when a proletarian party has the firm control over the State will the latter be able to institute socialist projects to transform the relations of production. In this case, the proletarian party will be able to intervene in the production process, via state ownership, so that political forces may steer the purpose of production away from the realization of exchange value (value valorization) towards creation of use values that meet the people's expanding needs.

Based on the concrete experience of China in the 1953-1978 period, even though individual enterprises had possession of the means of production, the State effectively limited this possession. Through political control, the State prohibited individual enterprises from buying or selling in the market. The State also determined what each enterprise produced, including the categories of products and the quantity of products in each category. It determined the “prices” of the products “sold” by the enterprise to the State, as well as the “prices” of raw materials and machinery that the enterprises “bought” from the State. The enterprises also received wage funds, which went directly into workers’ wages and benefits. At the end of each year, the enterprises handed over its “profits,” or the “revenues” minus “costs excluding the cost of depreciation.” The State subsidized the enterprises that incurred “losses.” Then, according to the economic plan, it allocated funds to different enterprises for the purchase of new machinery and equipment and construction of new buildings and plants for expanded reproduction.

In China, the State was able to enforce all these legal limitations on individual enterprises and thus dominate the use of the enterprises’ possession. In other words, the State had both legal ownership and economic control of the means of production. Still, there were elements of private capital in state-owned enterprises. Until the Cultural Revolution, the pre-Liberation private owners still received fixed dividends and they were still involved in the management of enterprises that the State took over from them. However, with the expansion of state-owned enterprises, the relative share of private capital declined.

As long as the economic reality corresponded with the legal limitations imposed on the enterprises, the State removed the enterprises or production units from the responsibility for its “profit” or “loss.” The enterprises no longer had a direct interest in maximizing its profits. (This, however, was the contradiction. The enterprise managements had all the power of economic possession but were not able to translate this power into material gain.) Each worker employed by the enterprise was entitled to certain wages and benefits. Each enterprise received the wage fund from the State to cover the total wage bill and costs of providing workers’ benefits. The transfer of wage funds from the State to the workers removed from enterprise managers the responsibility of meeting the wage and ben-

efit payments as well as the power of extracting surplus value from its workers. The enterprises sold all of their products to the State at preset prices, so they no longer engaged in the value-valorization process. State ownership and intervention in the production process made it possible for managers of state enterprises to dissociate themselves from being the agents of capital, which in turn was the first step taken in the direction of phasing out wage labor.

Factory Setting and Worker Life

As soon as the means of production in the industrial sector were legally transferred to the State, workers in China gained legal state protection. Workers in state enterprises were guaranteed permanent employment status, an eight-hour day, an eight-grade wage scale, medical benefits, and subsidized food and housing. Workers were also entitled to paid maternity and sick leaves, subsidized childcare, pension and other benefits for retirement. It took industrial workers in capitalist countries more than a hundred years of often bloody struggle to gain similar rights and benefits. The Chinese workers got them overnight by their exercise of political power through the State. Industrial workers in the West were never guaranteed gainful employment, and with the current global restructuring in motion, they even stand to lose many benefits, which they struggled so hard to get.

Both the way that Chinese factories were set up and the way that they operated were unique.³¹ After 1949, when a new factory was built or an old factory was expanded, housing for workers and cadres was built around it. Over the years, the factory complex became not just a workplace for workers but their home and their community. A typical factory (or a hospital, or university or state agency) had one or more canteens providing meals for workers and cadres who lived and worked in the factory complex. There were also retail stores, bakeries, barber shops, and cleaners. It almost always had one or more daycare centers, kindergartens or even

³¹ We choose to use past tense for the description that follows, even though many aspects of factory life are still true. However, workers have lost or are losing many of the rights and privileges they enjoyed in the past. For example, schools now often charge students large fees to cover different expenses. Prices of utilities and rent for housing have been raised significantly and the Reformers are pushing to privatize all housing forcing the workers to buy their apartments. The medical system as it existed is collapsing or has already collapsed. There are many other examples.

elementary schools. In large factories, there were also middle schools, or even high schools. A factory also had a recreation center that provided entertainment, and clinics that treated minor ailments. Nearby hospitals handled the more serious illnesses.

These facilities provided services to workers and their families, were subsidized by the factory, and were funded by the worker's welfare fund. For example, for the food service, the factory built the dining halls and the kitchens. It paid the wages of the cook and other personnel and the utilities. The price workers and cadres paid for a meal in the canteen roughly equaled the cost of materials. The cost of daycare service was about equal to the meals the children ate at the center plus a small fee to cover some other direct expenses. The same was true for most other services. There were many other lesser services and benefits available. For example, the factory would use its trucks to haul seasonal fruits and vegetables from farms, which it then sold to the workers at the price it paid the farmers. During hot summer months, workers benefited from free cold soda drinks on the shop floors and a few extra yuan added to their pay to compensate for their added discomfort from the heat.

These and other benefits and services, although rather minor, represented an attitude shared by the management and workers alike that the factory should treat its workers well. The workers and the management also shared the belief that how effectively factory heads managed these services for workers was as important as how effectively they managed production itself. The workers complained when these services were not run efficiently or equitably and when the management showed favoritism. Whether workers put forth their efforts and performed well on the shop floor depended greatly on how the management performed its job in managing their factory life.

Supervisors in Chinese state factories played many roles. The supervisors did not only make sure that production ran smoothly on the shop floor, they also settled disputes among workers and even between spouses in workers' families. People outside China have been shocked when they hear cases of a wife complaining to her husband's supervisor about treating her badly at home. A supervisor in a Chinese state factory seemed to work in the capacity of a production manager, a counselor and a social worker, all rolled into one. In Chinese, the literal translation of the word

“supervisor” is “leader.” A leader was supposed to demonstrate his or her ability to lead, which included such qualities as correct political thinking, fairness, putting the workers’ interest first and so on. Nowadays, in contrast, Reform policy requires managers to make profits their top priority. In turn, workers are no longer sympathetic to the dilemma that these managers have to face.

Political Struggle and Class Consciousness

It was in this kind of environment in the state factories that Chinese workers carried on their political struggle. From the beginning of the socialist transition, Chinese workers were involved in the mass movements organized by the Chinese Communist Party (CCP)—the “Three-Anti” and “Five-Anti” movements in the early 1950s and later the Anti-Rightist Movement and the Great Leap Forward in 1958. The workers also played an important role in the legal transfer of ownership from the private capitalists to the State. During different stages of the transfer, workers supervised the operation of the factories. After the transfer, the relationship that developed between the cadres and the workers in state-owned factories was totally different from that between the managers and workers in Western capitalist-owned firms. In China, workers were able to criticize cadres for any case of bad leadership style and mismanagement. In many workplaces, there was a year-end evaluation, which gave workers the opportunity to evaluate management. Therefore, it is fair to say that worker autonomy and workplace democracy in Chinese factories, even before the Cultural Revolution, were far ahead of those in factories of advanced capitalist countries.

Before the Cultural Revolution began in 1966, however, there arose serious problems in the relationship between the workers and the Communist Party, which had the power and control within the factory. Since workers in state enterprises all received the rights and benefits mentioned earlier, they, like other recipients of benevolent endowments, were relatively content and passive. They were grateful to the Party and the State for what they received and believed that working hard to build their country was their way to show their gratitude. This was especially true for older workers who could compare through their direct experience the incredible differences between factory work before and after Liberation. The workers’

gratitude toward the Party and the State extended to the cadres in charge of factory management, the overwhelming majority of whom, especially those at the higher levels, were Party members.

Throughout China's long history of feudalism, government officials always had absolute authority. This old and outdated ideology had (and still keeps) staying power in the new society and could be manipulated easily by authority to reassert control. After the transfer of ownership, the Party cadres, who represented the State, assumed a lot of power and authority. Workers often did not question or challenge such authority. The new cadre-managers were certainly different from the old capitalist managers before Liberation; they, in many ways, went out of their way to look after the workers' interest. However, despite the fact that workers (like peasants and other segments of the masses) participated in the mass movements led by the CCP during the 1950s and early 1960s, the class consciousness of workers remained low. Workers were not aware that changes in the relations of production were not guaranteed after the judicial transfer of ownership to the State, nor were they aware that political struggle was continuing at the highest level within the Party and that the outcome of this struggle would determine the direction of the transition. This is not to contradict what was said earlier, that democracy in China's workplace went far beyond that of factories in West. However, before the Cultural Revolution, workers did not question or challenge the power (the dominant-subordinate) relations that existed in the factories.

In the meantime, as industrial production expanded between the early 1950s and mid-1960s, the number of workers in state enterprises grew rapidly, more than tripling between 1952 and 1965. As production grew, work rules and production processes in the factories became more rigid. The division of labor within the factories reflected the social division of labor in Chinese society at large. Graduates from universities and technical schools designed the products, developed the technology, and determined the labor process. Cadres managed the shops and made most decisions, which were seldom challenged by the workers. China's factories, which like those of the Soviet Union were, after all, still a modified version of modern factories in capitalist countries, began to operate under a more rigid hierarchy of power and control. The justification of this hierarchy was, of course, that running a factory required discipline, so the man-

agement needed to impose strict rules and regulations. Workers did not realize then that if this hierarchy of power and control was allowed to continue, basic contradictions would develop that may negate all the advances made by the Chinese workers up to that point.

The capitalist projects, including the labor-contract system implemented since the Reform started, did not originate with the current Reformers. As early as the 1950s, Liu Shaoqi began advocating the advantages of the labor-contract system. An essay from the recently published *Labor Contract System Handbook* revealed the history of Liu's attempts to institute temporary contract workers in state-owned factories. The essay stated that in 1956, Liu sent a team to the Soviet Union to study their labor system. Upon return, the team proposed the adoption of the labor-contract system modeled after the system adopted by the Soviet Union. However, the Great Leap Forward started right when the changes were about to take place, thus interrupting the system's implementation.

In the early 1960s, according to the essay, Liu again attempted to change the workers' permanent employment status by adopting a "two-track system," in which enterprises were to employ more temporary workers and fewer permanent workers, while mines were to employ peasants as temporary workers. Then in 1965, the State Council announced a new regulation on the employment of temporary workers, indicating that, instead of permanent workers, more temporary workers should be hired. The regulation also gave individual enterprises the authority to use allocated wage funds to replace permanent workers with temporary workers. Again, according to the essay's author, the Cultural Revolution interrupted Liu's attempt to reform the labor system, and, in 1971, large numbers of temporary workers were given permanent status.³² Although Liu could not fully implement his labor reform, he pursued "experimental projects" here and there, and before the Cultural Revolution began, large numbers of temporary workers had been hired.

As opposed to Liu's attempts to institute contract labor, the Anshan Constitution emerged as the most serious attempt made to change the organization of work and the labor process in the workplace. In 1958, spurred on by the calls of the Great Leap Forward, the workers of the

³² "The History of Our Contract Labor System" in *Labor Contract System Handbook*, ed. Liu Chiang-tan, Science Publisher, 1987, pp. 1-18.

Anshan Metallurgical Combine had taken the initiative to lay out new rules to change the existing operation of their workplace. Two years later, on March 22, 1960, Mao proclaimed that these new rules, which were named the Anshan Constitution, should be used as guidelines for the operation of state enterprises. The Anshan Constitution contained the most fundamental elements as well as concrete steps in revolutionizing work organization and the labor process of state-owned enterprises.

There are five principles in the Anshan Constitution:

- (1) Put politics in command;
- (2) Strengthen the Party leadership;
- (3) Launch vigorous mass movements;
- (4) Systematically promote the participation of cadres in productive labor and of workers in management; and
- (5) Reform any unreasonable rules, assure close cooperation among workers, cadres and technicians, and energetically promote technical revolution.³³

The principles in the Anshan Constitution represented a spirit toward the direction of eventually phasing out wage labor.

However, before the Cultural Revolution began, the factories only paid lip service to the Anshan Constitution. When the management was in firm control of the decision-making process in the running of the factory, it did not see any need to change. On the other hand, the workers, who were content to have the state-endowed privileges and benefits, assumed that the conditions of their employment and the benefits endowed were there to stay. The political struggle within the Communist Party over the direction of the transition was reflected within the factories in the changes in wage and employment policies. At times, policies issued from above pushed the implementation of the piece-wage rate and expanded the employment of temporary workers. Then at other times, often during mass movements, these policies were criticized and reversed. Before the Cultural Revolution, however, workers did not comprehend

³³ Charles Bettelheim, *Cultural Revolution and Industrial Organization in China, Changes in Management and the Division of Labor*, New York, Monthly Review Press, 1974.

the reasons behind these policy reversals. They were not aware that Liu had made numerous attempts to abolish permanent employment status. Without the Great Leap Forward and the Cultural Revolution, Liu and his supporters might have succeeded in their attempts to repeal the laws that protected workers in state enterprises. If that had been the case, permanent employment status and other benefits endowed to state employees might have become history decades ago.

As workers participated in the mass movements in the 1950s and 1960s, their class consciousness was gradually raised. However, workers did not realize until the Cultural Revolution that class struggle continued after the judicial transfer of the ownership of the means of production to the State. It was during the Cultural Revolution—a period of intensive political struggle in the factory and in Chinese society at large—that many crucial issues were raised. The workers and cadres in the factories openly discussed and debated many important issues such as material incentives, cadres' participation in production work, workers' participation in management, and factory rules and regulations. For the first time, workers in China's state enterprises grasped the meaning of putting politics in command, and the other principles in the Anshan Constitution. Since Deng began his Reform, especially after contract labor became law in 1986, Chinese workers have started to realize that their endowed rights and benefits have been gradually taken away. The implementation of Deng's reform policies has proven difficult, so far, because of the experiences of struggle China's proletariat went through in the previous decades.

Deng's Labor Reform: New Laws, Worker Resistance

Deng began his reform in China's countryside by dismantling the commune system established in 1958. By 1984, de-collectivization of agricultural production was complete; land and other productive facilities were distributed among individual peasant households. This was a very important strategy used by the Reformers in their effort to reverse the direction of the transition. The collapse of the commune has meant the breakup of the worker-peasant alliance.

During the revolutionary war and later, during the socialist transition, Mao Zedong's strategy was for the workers and the peasants to form a strong alliance in their struggle, first against imperialism and feudalism,

and later against the bourgeoisie. Under socialism, the collectivization of agriculture was a necessary condition to consolidate this alliance.

Peasants in China's vast countryside organized themselves into economic, social and political units, which made it possible for the working class to form an alliance with the peasantry as an organized class.³⁴ At the same time, rural collectivization broke the alliance between the bourgeoisie in the cities and the rich peasants in the countryside. The collectivization in China's countryside ruled out the possibility of the reconcentration of land in private hands and prevented the primitive accumulation of capital—a necessary condition for capitalist development.

Many social scientists in China now recognize the devastating effect of the de-collectivization of agricultural production. In hindsight, they suggest that, in places where agriculture production was highly mechanized, breaking up the collectives might have been a mistake. This view fails to recognize that the most important reason behind Deng's rural reform was to break up the worker-peasant alliance.

When Deng and his supporters embarked on the Reform, they declared that the period of class struggle had ended in China and that the new focus was to develop the productive forces. In reality, they waged the fiercest class struggle in the history of the People's Republic. Shortly after they took power, they amended China's Constitution, abolished the workers' right to strike, and banned the most important rights of free expression, namely the four *da* ("big"): *damin*, *dafang*, *dabianlun*, and *dazibao*—meaning "big voice," "big openness," "big debate" and "big-character posters."³⁵ Then they moved to break up the worker-peasant alliance. Soon after, they directly assaulted the working class by taking away many of the workers' rights and privileges obtained in state enterprises since Liberation.

Wage Reform

Deng's labor reform first began with the introduction of direct material incentives into the wage system of state employees. In the 1950s, wage payment by piecework was quite common, but it was abandoned during the Great Leap Forward. Piece-wage rate was implemented anew in the

³⁴ See the article "The Worker-Peasant Alliance as a Rural Development Strategy for China," p. 37.

³⁵ See footnote 29, pp. 63-64.

early 1960s, then totally banned again during the Cultural Revolution. From 1966 to 1979, workers in state enterprises were paid on an eight-grade wage system. The advancement of a worker's wage from a lower grade to a higher grade depended on the years of service and on his or her skills and experience. Workers who made significant contributions to increase productivity through their hard work, team spirit, or innovations were selected as model workers who received awards and praise. But they did not receive any direct material rewards, such as higher wages, bonus pay or promotion.

The wage reform began by adding bonus pay to the workers' regular wages as direct material incentives, and in 1979-1980 reintroduced wage payment according to piecework.³⁶ The Reformers believed that these incentives would encourage workers to compete with one another, thus raising their productivity. Before the wage reform, it was true that cadres and workers were already being paid according to different scales, but the wage reform added a new feature that tied the amount of the pay to the position an employee held. Before the reform, the wages of cadres went up only when they progressed from a lower grade to a higher grade.

In the wake of the wage reform, the management of each enterprise was allowed to set up positions such as the president, vice president, senior engineer, and so on, modeled after the hierarchy in modern capitalist corporations. Each position entitled the holder to additional pay on top of his or her regular wages. This change widened the internal wage differences within enterprises.

Next, the Economic Structure Reform in 1985 gave management the autonomy to set up their own discretionary funds and to pay workers higher wages from the enterprise's profits. The new policy allowed a worker in a profitable enterprise to be paid twice or three times the earnings of another worker of the same grade in an enterprise that incurs a loss.

However, five to six years into the wage reform, the Reformers realized that the material incentive in the new wage system was not working to increase labor productivity. They concluded that as long as workers in state

³⁶ During most of the 1950s, piecework wages were used extensively in China's state-owned industry; its coverage of industrial workers rose from 32 to 42 percent during this period. Payment by piecework increased from one percent of all personnel in 1981 to 11 percent in 1984 and 1985. David Granick, "Multiple Labor Markets in the Industrial State Enterprise Sector" in *The China Quarterly*, June 1991, p. 283.

enterprises enjoyed permanent employment status and guaranteed wages and benefits, it would be difficult for the management to exert pressure to raise productivity.

New Legislation: Judicial Changes Imposed From Above

Labor reform has been part of the grand plan to transform China's state enterprises into independent, profit-seeking legal entities. On May 10, 1984, the State Council issued a temporary regulation on granting expanded autonomy to individual state enterprises. On October 20, 1984, the third plenum of the 12th Central Committee of the CCP approved a decision on Economic Structure Reform that later took the form of state law.

In the latter part of 1986, the Contract Labor Law was passed, strengthening the legal power of the management in state enterprises. Since the passage of the law, all newly hired workers have been required to sign contracts with the enterprises that employed them, usually limited to one year in order to eventually eliminate permanent employment status for state employees.

Then, on April 13, 1988, the Enterprise Law of Whole People Owned Industry was passed and went into effect in August of the same year. On the surface, the Enterprise Law is a separation of ownership and management, but the essence of the reform was a judicial transfer of ownership from the State to the enterprise. The first section of the Law states: "The enterprises are granted the management rights of state property, such rights included the rights of possession, of use, and of disposition of the property. The enterprise becomes an independent legal (person) entity."³⁷

With the passage of the new law, the formerly state-owned enterprises became legally separated from the State and became independent entities.³⁸ When the State gives up its ownership rights to individual enterprises, it no longer employs the workers in those enterprises. After the passage of the Enterprise Law, workers in the formerly state-owned enterprises lost the State's legal protection: they were no longer legally entitled to those previously endowed rights and benefits.

³⁷ *People's Daily*, May 6, 1988, p. 2.

³⁸ *Ibid.*

In June 1988, the reform took another step towards tightening management's hold on its workers: a decree entitled "Work Organization Improvement Project (WOIP)" was made public—a project designed to achieve "optimal labor combination" in the enterprises. The *People's Daily* described the WOIP:

In order to improve the organization in the enterprises, each worker will be assigned to a fixed position. Work will be organized in such a way that a worker's pay could be directly linked to the worker's productivity. If a worker cannot meet the assigned production quota in two consecutive months, or if a worker seriously violates the rules and regulations of the enterprise, the enterprise has the right to fire the worker. During the period of unemployment, the payment of bonus would be terminated and wages would be gradually reduced each month in the following months.³⁹

The WOIP gave management new authority in disciplining workers, and it further established the legal groundwork for the wage-labor system.

Implementation of Reform Policies, Worker Resistance

When the Reformers imposed the wage reform, they hoped that workers would respond by competing for higher piece-wage rates and bonuses. Instead, in the overwhelming majority of cases, workers found different ways to limit their production and just barely meet the quota. They found ways to split up instead of compete for the available bonuses. When the prices of consumer goods began to rise sharply in 1984 and 1985, workers regarded the bonus pay as a subsidy to compensate for their loss of purchasing power. As private businesses and joint ventures with foreign businesses began to grow, people who went to work for a foreign or joint-venture firm or who opened private businesses themselves started earning several times the income of an average worker in a state enterprise. For example, a taxi driver who was either self-employed or working for a hotel-owned taxi fleet could earn three or four times the income of a driver in a state enterprise.

³⁹ *People's Daily*, June 23, 1988, p. 1.

Moreover, by the mid-1980s, embezzlement of public funds and other forms of corruption among high-level government officials and party members became rampant. Without mass movements, the masses felt powerless to correct wrongs and fell into passive discontent and frustration.

However, the workers began to express their discontent and frustration by carrying on work slowdowns unprecedented in the history of the People's Republic. A *People's Daily* article in January 1988, entitled "Enthusiasm of Workers Reaches the Bottom," reported the results of a survey conducted by the Chinese Workers' Union. Among the 210,000 workers in more than 400 enterprises in the 17 cities surveyed, only 12 percent said that they had put in their best effort.⁴⁰ One reason given for such low morale was growing social inequality. In the northeastern industrial city of Harbin, workers were reported to have added "overtime work" to their regular eight-hour day to complete a certain task which should have taken them only two hours with their best effort. According to the vice mayor of Harbin, workers in his city only worked about three hours a day on the average, and used the other five hours to attend to other matters. Similar work slowdowns have been quite common in almost all state enterprises.⁴¹

After the Contract Labor Law was passed in 1986, newly hired workers in state enterprises were required to sign an annual contract with management. At the end of the yearly contract management could invoke the right not to renew the contract for another year. However, the Reformers encountered strong resistance in enforcing the law. By April 1992, according to reports, 14.6 percent of state employees were on labor contracts.⁴² In reality, however, these labor contracts have been automatically renewed upon expiration. In 1988, a news report in the *People's Daily* announced that 28 enterprises in Beijing had already implemented the labor contract system to include all employees, those newly hired as well as formerly hired.⁴³ The report further stated that the goal was to implement a labor contract system that included all employees in all enterprises in Beijing within the next five years. The report went on to say that the labor-con-

⁴⁰ *People's Daily*, January 4, 1988, p. 1.

⁴¹ *China News Analysis*, No. 1370, October 15, 1988, p. 1.

⁴² *Workers' Daily*, April 20 and May 14, 1992, p. 1.

⁴³ *Ibid.*, August 13, 1988, p. 1.

tract system would force workers to put more effort into production or else face the risk of being laid off.

Pressure to enforce the new contract-labor system increased, and the State's propaganda machine rationalized the new assaults on workers' rights. By 1992, the total number of staff and workers affected by the "all-staff labor contract system" was only 4.4 million, a mere two percent of the total number of staff and workers.⁴⁴ In a speech in Shanghai in January 1992, Vice-Premier Zou Jiahua had to admit that the contract-labor system was meeting tremendous opposition. "To promote this reform," he said, "is perfectly in keeping with the orthodox view that the working class is the master of the house."⁴⁵

The WOIP, another step towards dismantling the permanent employment system, has been implemented in some factories and has affected about 10 million workers, or six percent of total employees. Work was reorganized in factories to get rid of "unfit" workers. Up to 1991, the total number of workers demoted under various forms of labor reform, including WOIP, was less than one million, or about 0.6 percent of the total workforce.⁴⁶

During the economic slowdown in the late 1980s, even when half the production lines in the factories were down, few workers were laid off. During the early part of 1986, the Reformers also issued an unemployment insurance policy to prepare for the large-scale layoffs that had yet to occur. Each year, the state enterprise set aside the equivalent of one percent of its total base wages for an unemployment fund to pay laid-off workers.

The unemployment benefit equals only about 25 percent of the workers' average take-home pay, which is not enough to carry the worker through the period of unemployment.⁴⁷ As a compromise, sometimes workers do not report to work during downtime and still draw base wages without bonuses. However, the base wage is less than 60 percent of take-home pay (the other 40 percent is made up by bonuses and other forms of subsidies) and a worker cannot live on the base wage for any extended

⁴⁴ *China News Analysis*, No. 1461, June 1, 1992, p. 3.

⁴⁵ *Ibid.*, Zou's speech in the *People's Daily*, January 6, 1992, p. 2.

⁴⁶ *Ibid.*

⁴⁷ *Ibid.*, pp. 24-25.

period.⁴⁸ The Reformers were very much aware of the explosive situation, such that many laid-off workers were often called back with full pay to get them off the street. Some workers found other ways to earn extra money to supplement their income, but continued to live in state-subsidized, low-rent housing.

In past years, the Reformers tried housing reform, turning housing into a commodity. Utility costs and rent of apartments occupied by workers and cadres were raised several times, and rents went up again significantly in 1992.

Every time rents were raised, wages had to be raised accordingly to compensate for the loss. As part of the housing reform, workers have been encouraged to buy the apartments in which they live. The Reformers believe that such purchases would soak up household savings, thus putting restraints on consumer purchasing power and avoiding inflation. However, since workers had already spent most of their savings on consumer durables, many could not afford to buy their apartments.

Reform and the Predicament of the Reformers

The labor reform was an integral part of Deng's overall Reform. The reasoning behind his labor reform in the 1980s was the same as that of Liu's some 20 years earlier. What did Liu try to achieve? On the surface, Liu's plan to reform the labor system can be easily explained by what he considered as the emphasis on the development of the productive forces. According to Liu, efficiency was the key to increasing the rate of capital accumulation. To him and his followers, efficiency meant maximizing production at minimum cost by adopting new technology and reducing labor costs. The permanent workers in state enterprises had a fixed eight-grade pay scale and received many benefits; replacing permanent workers with temporary workers reduced labor costs. They thought that a large pool of peasants could be released from agriculture to keep wages of temporary workers very low.

If Liu had succeeded in his attempt to institute and expand the temporary-worker system, a sizable labor market would have developed; this

⁴⁸ In 1988, base wage averaged 56.1 percent of worker take-home pay. See Zheng Yi Bu, "Problems of Unemployment and Unemployment Insurance at This Stage of Development" in *Fu Dan Academic Journal*, No. 1, 1992, p. 25.

would have aborted the socialist process of phasing out wage labor. The plentiful labor supply from the countryside would have forced workers in state enterprises to relinquish many of the rights and privileges they had obtained, including their permanent employment status. Along the same line of thought, Liu opposed the collectivization of agricultural production. Under the former communes, peasants organized their production collectively, and their “surplus labor” engaged in building rural infrastructure instead of migrating to cities to seek work. As was explained earlier, collectivization strengthened the worker-peasant alliance and at the same time weakened the alliance between the bourgeoisie in the cities and rich peasants in the countryside.

Liu failed to block the collectivization of agriculture and his several attempts to institute contract labor also failed. Deng successfully broke up the communes in 1984, but this was meant to be only the first stage of his rural reform. The second stage would be the formation of large-sized, privately owned commercial farms. These large-sized farms would operate like those in the West and would be motivated by profit maximization. According to both Liu and Deng, the incentive of higher profit rates was the only motivating force for these farms to upgrade technology and improve efficiency.

The development of large, efficient commercial farms was also the only way, according to the Reformers, to force small and inefficient family farms out of business. Peasants who were unable to keep their own farms would have to give up their land and work for the large farms. Many well-publicized policies were established to aid the large-sized specialized farms in the form of low-interest loans, low-priced agricultural inputs, technical assistance, and higher purchase prices for their output.

However, the massive formation of large, privately owned commercial farms never materialized despite state subsidies and other state-provided incentives. The majority of peasants simply refused to give up their land. They have so far been able to resist pressures to drive them off their land. The government yielded to the peasants and adjusted the prices of farm products several times. This allowed them to hold on to a small plot of land and subsist. The large-scale exodus of peasants from land, such as what occurred in many other Third World countries, is politically unthinkable in China. It is certainly true that labor migration has taken place from

poor rural areas to large cities and to coastal areas and that labor markets are in existence in cities and in the countryside. However, primitive accumulation of capital on a massive scale has not yet taken place.

In cities, while the number of job seekers from the countryside has increased significantly, both city and central governments still place strict restrictions on the scale of this migration for fear of unrest. So far, the size of labor markets in cities is not yet big enough to have a significant impact on employment in state enterprise. Workers in state enterprises have so far resisted the Reformers' many attempts to smash the "iron rice bowl" and turn labor power into a commodity. The question is, how long can they keep resisting?

How strong is China's proletariat? Although the transformation of China's proletariat before Deng's Reform was significant, as a class, it remains weak. This largely explains why Mao and his supporters eventually came to represent only a small minority within the CCP, and why Deng and his supporters were able to take over the state machinery in 1979, thereby reversing the direction of the transition.

The CCP was founded to represent China's proletariat. To what extent did workers actually participate in the revolution and in shaping the policies during the transition after the victory of the revolutionary war? It is true that workers in large industrial cities supported the CCP during its revolutionary struggle by organizing demonstrations and strikes. They did not, however, directly fight in the revolutionary war. The base of China's revolution was in the countryside mainly among the peasantry. The soldiers of the Red Armies (during the Anti-Japanese War, the Eighth Route and New Fourth Armies) that eventually became the People's Liberation Army were recruited in the countryside mainly among the peasantry as well.

After Liberation, before the completion of the transfer of ownership of the means of production from the capitalists to the State, workers did play an important role in supervising the operation of the private enterprises. During the process of the transfer, workers supported the State fully in maintaining order and raising production. However, unlike industrial workers in capitalist countries who had to struggle for every right and benefit, workers in China gained legal protection from the State from the

very beginning, when legal transfer of the ownership of the means of production was completed.

The struggle of China's proletariat during the decades before the 1979 reform was unique. Led by the Communist Party, workers participated in the mass movements, which came to a climax during the Cultural Revolution. It is fair to say that through these political struggles, the workers' class consciousness was somewhat raised, but their struggles either to gain or to retain rights and privileges, until the Reform, were not exactly a real test of their strength as a class because the Party and the State stood behind them. Mao called the Cultural Revolution an exercise before the real battle.

After Deng's Reforms, it becomes a real test of working class strength when the Party and the State try to take away all of their rights and privileges. For the first time since the Party was established, workers have had to fight on their own to retain their rights and benefits, and so far, they have been able to show some strength by resisting many fundamental changes imposed from above. This show of strength made Deng's reformers reluctant to confront the workers aggressively, for fear of large-scale unrest. The Reformers understand that they can only carry out their reform by maintaining law and order. Student demonstrations up to the spring of 1989 caused concern among the Reformers. But it was only after workers gave massive support to the students that Deng panicked and ordered the troops to move in and suppressed the demonstrators in bloody fashion.

Thus far, the workers' struggle against the state machine seems rather passive. They continue to fend off the many waves of offenses from the Reformers. There have been many unreported strikes nationwide, which are collective actions taken by the workers, but these seem rather scattered and disorganized. After the June 4th Tiananmen Massacre in 1989, the current regime left no room for doubt about what it will do when faced with organized opposition of any kind. This means that any organized opposition will have to go underground.

The lack of active and organized opposition by the workers to Deng's reforms can be traced back to how mass movements developed in the past, which were directed and organized by the CCP. For three decades, the Party organized and led the masses to participate in movements that advanced the causes of the working people and raised their conscious-

ness.⁴⁹ Apart from the Party-led mass movements, there were no other substantial efforts that represented the interests of the Chinese workers. At the end of the 1960s, when the high tide of the Cultural Revolution was over, Revolutionary Committees were set up to replace the hierarchy of party organization in the factories, but these committees never gained any real power. The Party continued to function as the decision-maker in the factories. When Deng and his supporters seized the leadership of the CCP, lower-ranked Party members understood that unless they followed the orders from above they would be taking the risk of being expelled from the Party.

It is also worthwhile to examine the role of the labor union in China's factories. Independent unions like those in the West never existed in China, nor has a labor union movement developed currently. When the Reformers instituted contract labor in factories, this represented a change in the terms of the labor contract. If the labor union had represented the interests of the workers, it would have been the collective bargaining unit negotiating with management on behalf of the workers. No such negotiation ever took place. The new contract-labor policy clearly stated that at the end of each contract term, the enterprise negotiates with each individual worker.

In capitalist countries, the labor union has two roles: 1) to represent the workers in their struggle against capital to push for the largest possible gain on behalf of the workers, and 2) to promote production by channeling the dispute between workers and management through formal negotiations. In China, during the socialist transition before 1979, the role of the labor union was limited to the latter plus some minor role in managing the workers' welfare. The assumption was that the interests of the workers and the state-owned enterprise were one and the same; there was no need for the labor union to fight for the workers' interests, so the labor union in China was an arm of state-owned enterprises with its focus on promoting production.

The Reformers have put all the necessary legal measures in place to reverse the transition. In addition to the legislation cited earlier, the bankruptcy law was also passed in 1986. However, as they proceeded to

⁴⁹ See the article "Mass Movement: Mao's Socialist Strategy for Change," p. 97.

enforce these new laws, the Reformers met with strong resistance. State enterprises could not lay off workers, even if they could not operate at full capacity and were incurring losses. According to the Enterprise Law, the enterprises are responsible for their own losses, but in reality the State has to grant loans to the enterprises so the workers can be paid. When the enterprises could not pay the loans, the loans were rescheduled and often new loans were granted. Thus, the Reformers were unable to force as many enterprises as they would like into bankruptcy.

The Reformers and the workers have been in this “tug-of-war” for the past several years, and the workers are trying to hold on. In order to maintain a “stable environment for the Reform and favorable conditions for foreign investment, the current regime in China has little choice but to go slowly in enforcing the new legal measures for fear of unrest. On the other hand, since workers are only passively resisting, their rights and benefits are gradually being chipped away.

Future Outlook

Official figures show that China’s gross national product has been growing rapidly and that the people’s standard of living has vastly improved in past years. The rosy picture of the Chinese economy is used as an example to show how a country can benefit when a “smooth” transition is made from a former “command economy” to a “market economy.” However, many China observers tend to ignore the fundamental and unresolved contradictions in the economy. (As of year 1992), large-and medium-sized state enterprises still produced 46 percent of China’s total industrial output and accounted for more than 60 percent of taxes paid to the State by all enterprises. Thus, the success of the Reform depended on the transformation of these enterprises into independent profit-seeking entities. However, among the 11,540 large-and medium-sized state industrial enterprises (in 1992), one-third to one-half had been losing money—and their losses have worsened since 1985. Since the mid-1980s, many state enterprises had been borrowing heavily from the State in order to pay their workers, and in 1988, the total debt owed to the State by enterprises increased rapidly. By March 1990, the total accumulation of debts owed by these enterprises reached over 100 billion RMB. In 1990, the central government cleared over 60 billion RMB of these debts. (This was probably done

by simply canceling the debt obligations.) However, only six months later, the debt reached another record high of over 200 billion RMB.⁵⁰

How to turn the situation around was one of the most critical challenges the Reformers faced in the 1990s—so critical that they made “deepening the reform of the large-and medium-sized state enterprises” their highest priority for 1992. In the spring of 1992, the United Nations and several state organs of China led by its State Council co-sponsored a conference in Beijing on how to improve the efficiency of China’s state enterprises. Representatives from PepsiCo, Shell, IBM, Japan Railroad, and private and public companies from Italy and Canada attended the conference. There was no basic disagreement among the conferees on what needed to be done. However, the question remained on how to proceed. The Reformers have had to face a crisis in ideology, which they themselves created.

When the Reformers insist that China is still a socialist country and the CCP is the legitimate representative of China’s proletariat, then they have to admit—at least in their own propaganda—that workers are still the masters of the country. The workers assert that if they are the masters of the State and if the State still legally owns the factory, then the factory belongs to them. The management is free to leave (as has often happened in the past), but workers are there to stay. Thus, although management has obtained the legal authority to manage the factory and to lay off workers as they see fit, this legal authority has yet to be enforced.

It is difficult to say how long the workers will be able to continue their resistance. Currently, the Reformers are on the offensive. They are planning new strategies and new tactics, while workers have been passively resisting. Thus, unless workers begin taking a more active role in planning their strategy in their struggle against the Reformers, they will be put in a more and more disadvantaged position. This is especially true since the commune system was broken up—the workers have lost their alliance with the peasants in their common struggle against the state machine now controlled by the bourgeoisie.⁵¹

⁵⁰ *China’s Economic Structure Reform*, June 1992, pp. 46-48.

⁵¹ Workers’ resistance did not last and the Reformers were on the offensive for more than 15 years. However, in the past few years workers have begun to step up their struggles.

The future outcome of the proletarian struggle in China depends on how much their past struggles have taken root among the proletarian masses themselves, and whether it is possible for the working class to organize and ally itself with the peasantry for the second time. Presently, the outlook is not very promising. But this is not to say that the Reformers will enjoy smooth sailing in pushing their capitalist projects.

In the meantime in the countryside, the short-term boom created by Deng's rural reform in the mid-1980s ended by the early 1990s. With the exception of the expansion of labor-intensive manufacturing in coastal areas and in the suburbs of large cities, peasants have struggled to carry on production with deteriorated infrastructure, a diminishing stock of large-sized agricultural machinery, and increasingly fragmented land. Moreover, as a result of the rising prices of many agricultural inputs and the large amount of debt owed by the government, the peasants' daily lives have become increasingly difficult. By 1992, there were many reported uprisings in China's countryside involving peasants whose number run in the millions.

As the reforms deepen, the antagonistic contradictions between labor and capital (now controlled by the Party bureaucrats) will escalate. When workers are pushed against the wall with no place to go, they will have to fight back. As this essay is being written (in 1992), reports from China stated that on February 15, 200 retired women workers from Capital Iron and Steel Corporation demonstrated at the main gate of the Zhongnanhai compound in Beijing where the senior government officials have their offices—the largest reported protest at that site since the 1989 Tiananmen Square demonstration.⁵²

These women demanded that Capital Iron and Steel pay back the pension it owed them. The company, a mega-sized conglomerate employing 200,000 workers, has been held as a model by the Reformers for its high level of profit, netting a total of 1.82 billion RMB in 1991.⁵³ It is

See "Continuing Class Struggle in China Sixty-Two Years After the Revolution," p. 361 of this book for a more detailed analysis.—Author's note 2011.

⁵² News report by David R. Schweisberg, United Press International, Beijing, clarinet.com.

⁵³ *China's Economic Structure Reform*, August 1992, p. 7.

I — Class Struggle During the Socialist Transition

not surprising that the workers' protest came from an enterprise where the Reform has had the most success.

ADDENDUM TO “LABOR REFORM: MAO VERSUS LIU AND DENG”⁵⁴

Socialist Transition

1. *What Do We Mean When We Say “Socialist Transition?”*

Socialist transition is the period during which a non-communist society is transformed into a communist society. During the socialist transition, there is no certain predetermined path by which policies and events can be judged to determine whether this path is being followed. Instead, the analysis of socialist transition depends on the general direction of the transition. Therefore, one single and isolated event cannot determine whether the transition is socialist or capitalist. (See discussion on capitalist projects and socialist projects below.) We have no predetermined path in mind and, thus, have no specific yardsticks to measure our evaluation. As Lenin said,

We do not claim that Marx or the Marxists know the road to socialism in all its completeness. That is nonsense. We know the direction of this road; we know what class forces lead along it, but concretely and practically it will be learned from the experiences of the millions who take up the task.⁵⁵

Viewed in their entirety, policies and events in China during the period between 1952 and 1978 clearly indicated that the direction of the transition was toward communism, so we regard the transition in this period to be socialist. On the other hand, after 14 years of observation (1978-1992), we no longer have any doubt that Deng’s reform is to transform China from a non-capitalist society to a capitalist society. Thus, the

⁵⁴ This essay was jointly written with Deng-yuan Hsu in 1992 and published in *Mao Zedong Thought Lives, Volume 1, Essays in Commemoration of Mao’s Centennial* in 1995, pp. 183-213. The volume was published jointly by the Center for Social Studies in the Netherlands and New Road Publications in Germany, 1995.

⁵⁵ V. I. Lenin, “From a Publicist’s Diary (*Peasants and Workers*)” in *Collected Works*, Vol. XXV.

direction of Deng's Reform is toward capitalism, and we call the period from 1979 to now capitalist transition.

2. We Do Not View Legal Change As a Point of Departure for Socialist Transition.

Here we differ from the traditional Chinese use of the term. In 1949, the new government confiscated all bureaucrat capital and foreign capital. It also nationalized all major assets in transportation, communication and manufacturing. Then in 1952, it completed land reform. After 1952, the government took several steps to nationalize all remaining private capital. By 1958, it completed both the nationalization of industry and the collectivization of agriculture. The government legally transferred the ownership of the means of production to the State and the collectives. China called the period from 1952 to 1958 the transition to socialism and the period from 1958 socialism.

Legal transfers of ownership, which were completed by 1958, provided the possibility for major changes in the relations of production. However, to assume that legal transfer of ownership of the means of production was a point of departure for building socialism is wrong. When the legal transfer occurred, there was no way to judge the nature of the transition—socialist or capitalist. Whether the transition was socialist or capitalist depended on concrete events after the legal transfers. Therefore, legal change in ownership was only a point of reference: it was merely an index that marked the historical development until that time. Judicial change in ownership simply provided the possibility for future changes. Future development after the point of legal change might bring basic changes in the relations of production. This can only happen if there was in fact the dictatorship of the proletariat. On the contrary, if the bourgeoisie has effective control of the state machine, there will not be any socialist transition. Marx criticized M. Proudhon because Proudhon considered the legal aspect, not the real form, as the relations of production.⁵⁶

⁵⁶ Karl Marx, "On Proudhon (letter to J. B. Schweitzer)," January 24, 1865 in *The Poverty of Philosophy*, Foreign Languages Press, Paris, 2021, pp. 200-209.

3. *We Oppose the Partitioning of the Phases of Socialist Transition.*

Marx did say that there would be an initial phase and an advanced phase in the transition from capitalism to communism. Each phase has certain characteristics. However, we are against the partitioning of the phases as if they are separate from each other. This is what Deng and his supporters are doing. They would say that China is still at the initial phase of socialism, and they use this as an excuse for expanding commodity production and for instituting their capitalist projects.

Likewise, Deng and at an earlier time Liu tried to partition China’s revolution into two separate stages: the new-democratic revolution and the socialist revolution, as if the new-democratic revolution could be separated from the socialist revolution. According to Mao, however, these could not be so clearly separated as such. That was the reason for naming it the new-democratic revolution. Mao disagreed with the *Soviet Political Economy: A Textbook*, on what it said about the nature of China’s revolution right after the establishment of the People’s Republic. He said:

At the end of page 330 the text takes up the transformation of the democratic revolution into the socialist revolution but does not clearly explain how the transformation is effected... During the War of Liberation, China solved the tasks of the democratic revolution. It took another three years [after 1949] to conclude the land reform, but at the time the Republic was founded we immediately expropriated the bureaucratic capitalist enterprises—80 percent of the fixed assets of our industry and transport—and converted them to ownership by the whole people.

Mao continued,

But it would be wrong to think that after the Liberation of the whole country “the revolution in its earliest stages had only in the main the character of a bourgeois democratic revolution and not until later would it gradually develop into a socialist revolution.”⁵⁷

⁵⁷ Mao Zedong, “Reading Notes on the Soviet Text *Political Economy*” in *Selected Works of Mao Zedong*, Vol. VIII, Foreign Languages Press, Paris, 2021, pp. 323-324.

Even during the period of the Liberation War, the revolution contained socialist elements. China's revolution was against feudalism, imperialism (and its agent, the comprador bourgeoisie) and bureaucrat capitalism. Foreign capital and bureaucrat capital together were by far the largest capital (compared to the capital of the national bourgeoisie). Thus, at this stage of the revolution, when the Communist Party of China targeted foreign capital and bureaucrat capital, the new-democratic revolution already contained socialist elements.

This is not to say that we disagree that there were two stages in China's revolution—the new-democratic revolution and the socialist revolution. Instead, we want to stress the continuity between the two stages and the duality of each stage. For the same reason, during the socialist transition, there were capitalist projects as well as socialist projects. Both capitalist and socialist projects can only indicate the principal aspect of the dual character.

4. During the Socialist Transition, Socialist and Capitalist Projects Coexist and Compete With Each Other.

Both socialist projects and capitalist projects existed during the socialist transition. For example, land reform, viewed by itself in isolation, was a capitalist project. However, land reform was a necessary part of the long-term socialist strategy. Mutual-aid teams and the elementary cooperatives were both capitalist projects, yet they were also part of the overall socialist strategy. The advanced co-op was a socialist project because at this level the distribution was according only to labor contributed, and the accumulation fund was deducted from the total gross income before it was distributed to the coop members. Under different circumstances, it may be necessary to institute more capitalist projects. The young Soviet state's New Economic Policy (NEP) was a good example. NEP was a necessary retreat and should be recognized as such. Therefore, one cannot use a single event or policy to determine the direction of transition.

Between 1979 and 1984, Deng took several steps to redistribute land to individual peasant households. Like the 1949-1952 land reform, Deng's land redistribution was a capitalist project. The argument Deng and his supporters made for dismantling the communes was that "eating from a big pot breeds laziness." While this might have been true in some

places, Deng dismantled all communes in one sweep despite the fact that the majority of communes were doing well. When we view Deng’s land redistribution with other capitalist projects he and his supporters instituted—such as the phasing out of the unified purchase system, the privatization of rural industry, the reduction of state support for the production of agricultural machinery and other agricultural inputs, and eventually, the contracting out of state-owned enterprises and the replacement of permanent workers with contract workers in state enterprises—we can conclude that this was a capitalist project in his overall capitalist strategy.

Deng’s capitalist strategy reveals the class line of his land reform. His reform deliberately broke up the worker-peasant alliance and strengthened the alliance between the bureaucrat capitalists and the new “entrepreneurs” in the countryside (who were either Party officials themselves or had a strong connection with the Party).

During the socialist transition, setting up some capitalist projects was necessary. Land reform, as we just mentioned, was one example. It was a necessary step before the collectivization of agriculture. Therefore, land reform was a capitalist project with dual character.

Mao made this comment on state capitalism in July 1953:

The present-day capitalist economy in China is a capitalist economy which for the most part is under the control of the People’s Government and which is linked with the state-owned socialist economy in various forms and supervised by the workers. It is not an ordinary but a particular kind of capitalist economy, namely, a state-capitalist economy of a new type. It exists not chiefly to make profits for the capitalists, but to meet the needs of the people and the state. True, a share of the profits produced by the workers goes to the capitalists, but that is only a small part, about one quarter, of the total. The remaining three-quarters are produced for the workers (in form of the welfare fund), for the state (in the form of income tax), and for expanding productive capacity (a small part of which produces profits for the capitalists). Therefore, this state-capitalist economy of a new type takes on a socialist

character to a very great extent and benefits the workers and the state.⁵⁸

The period between the very beginning of the People's Republic and 1979 was a period of socialist transition during which socialist projects competed with capitalist projects. Up to the very end of this period, China still had two types of ownership, the state and the collective, and it was still not possible to have distribution according to labor on a national scale. It was obvious that what a worker in the state sector received for an hour of work was quite different from what a peasant received for an hour of work. Differences also existed among peasants of different communes. The worth of a work point in a rich commune (or team or brigade within a commune) could be several times that of a poor commune (or team or brigade). There were also eight different grades of wages for state workers. If the socialist transition had continued, the two types of ownership would have had to be phased out to form one single ownership. It would take many more years to make it possible to implement distribution according to labor on a national scale. When finally distribution could be made according to labor, there still would be the bourgeois right—a non-communist element.

However, as early as 1958, working people in China were ignoring the principle of equal exchange. During the Great Leap Forward, the people were so enthusiastic in their endeavor to build a socialist China that they worked long hours into the night, not questioning whether they were receiving an equal exchange for their labor. Therefore, it was possible to have communist elements even in the initial phase of the socialist transition. There were many more heroic examples, including the building of socialist agriculture in Dazhai. Under Chen Yonggui's leadership, peasants in Dazhai overcame severe difficult conditions and worked to terrace their land and to build an irrigation system for the prevention of flood and droughts. They worked long hours without rest in bitter cold weather. The thought of making careful calculations of how much each would get for an hour of their work didn't enter their minds.

⁵⁸ Mao Zedong, "On State Capitalism" (July 9, 1953) in *Selected Works of Mao Zedong*, Vol. V, Foreign Languages Press, Paris, 2021, p. 85.

To Mao, these communist elements were possible during the socialist transition. Mao de-emphasized the material incentive of work. However, Liu and Deng, who always tried to separate the phases of the transition, would deny any possibility of having such communist elements in the so-called initial phase. They, instead, overemphasized the aspect of material incentives in work.

Moreover, as we said in the context of labor reform, some benefits received by the state workers were based on need, such as low-cost housing, subsidized food, free childcare and many more. Also under the commune system, peasants were guaranteed a certain amount of quota grain, even if they did not earn enough work points to exchange for their minimum grain consumption. In addition, during the socialist transition, many socialist projects were set up to reduce the differences between physical labor and mental labor, between town and country, and between industry and agriculture. In contrast, Deng’s capitalist projects widened these differences.

Socialist projects and capitalists projects competed throughout the period of socialist transition on the political, economic and ideological fronts. Different class forces (or different interest groups) were for or against different projects (socialist or capitalist) and the actual struggle between them was the content of class struggle during the socialist transition.

MASS MOVEMENTS: MAO'S SOCIALIST STRATEGY FOR CHANGE⁵⁹

Under Mao Zedong's leadership, China had one unique experience during the socialist transition: the Communist Party of China (CPC) sponsored a sequence of mass movements during the period between 1949 and 1978. Mass movements accompanied all major changes during this period: the land reform, the "Three-Anti" and the "Five-Anti" movements, the Anti-Rightist Movement in the early 1950s, the Great Leap Forward in 1958, and the Cultural Revolution in 1966-1976. The analysis in this essay focuses on how and why mass movements were a socialist strategy for change during the first three decades of the People's Republic.

There have been two opposing views on the issue of mass movements during these decades. One view regarded the mass movements as events artificially and deliberately agitated by Mao in order to discredit his opponents. It regarded the mass movements as wasted time and energy, which should have been spent developing China's productive forces. This view was held and publicized by the current regime in China. Since Deng Xiaoping and his supporters began their "reform" (i.e., revisionist policies) in 1979, they suspended all Party-sponsored mass movements.

We, however, believe that Party-sponsored mass movements in the past helped maintain the link between the CPC and the masses. Each mass movement gave expression to the principal contradiction at the time within Chinese society, and at the same time it was a process to resolve that contradiction.⁶⁰ When the CPC mobilized the masses in movements for

⁵⁹ This essay was jointly written with Deng-Yuan Hsu in 1992 and published in *Mao Zedong Thought Lives, Volume 1, Essays in Commemoration of Mao's Centennial* in 1995, pp. 215-229. The volume was published jointly by the Center for Social Studies in the Netherlands and New Road Publications in Germany, 1995.

⁶⁰ "There are many contradictions in the process of development of a complex thing, and one of them is necessarily the principle contradiction whose existence and development determine or influence the existence and development of the other contradictions." He used an example to further explain, "For instance, in capitalist society the two forces in contradiction, the proletariat and the bourgeoisie, form the principle contradiction. The other contradictions, such as those between the remnant feudal class and the bourgeoisie, between the peasant petit bourgeoisie and the bourgeoisie, between the proletariat and the peasant petit bourgeoisie, between the non-monopoly capitalists and the monopoly

the resolution of contradictions, the Party became the agent for continual change in the transformation of the society. Participation in movements raised the consciousness of workers and peasants and helped them imbibe the new ideology. All major economic, political and ideological changes in China between 1949 and 1978 were accompanied by mass movements. In addition, the implementation of major government policies was repeatedly tested in movements among the workers and peasants for their validation.

We believe any mass movement sponsored by the Party in power is unusual because ordinarily the authorities fear not only that the movements might end in chaos but also that they might become the targets of mass action themselves. In China, mass movements proved to be a viable vehicle for socialist democracy, and it was the only countervailing force that existed to challenge the structural rigidity of China's bureaucracy. This essay will present an analysis from this perspective.

Since Deng and his supporters seized power in 1979, they have steadfastly pushed forward a set of projects that fit well together in the broad framework of the so-called Reform. All these projects were capitalist in nature⁶¹ and have been carried out by passing legislation and issuing decrees and administrative orders—that is, by legal action imposed on the masses from above. In 1979, the “reformers” (i.e., China's revisionists) amended the Constitution and abolished the workers' right to strike and the right of freedom of expression.⁶² Later, the Reformers passed the Contract Labor Law to legally abolish the permanent employment system in state enterprises.⁶³

Thus, Deng's reform created many new contradictions in Chinese society. The contradiction between party bureaucrats and the masses stood out as the principal one. Without a mass movement, these contradictions had no outlet for expression—much less resolution. In Spring 1989, these contradictions caused students to begin to demonstrate in China's major cities. When Man millions of urban residents also joined to express their

capitalists, between bourgeois democracy and bourgeois fascism, among the capitalist countries and between imperialism and the colonies, are all determined or influenced by this principle contradiction.” (Mao Zedong, “On Contradiction” in *Selected Works of Mao Zedong*, Vol. I, Foreign Languages Press, Paris, 2020, pp. 301-302.)

⁶¹ For capitalist projects, see footnote 29, pp. 63-64.

⁶² Ibid.

⁶³ Ibid.

discontent and voice their complaints, Deng's regime ordered the troops to move in, resulting in the June 4th Tiananmen Massacre.

The Material Base of the Mass Movement

The ways to examine a post-revolutionary society are not different from the ways to examine any other society. Mao wrote about the two different world outlooks concerning the law of development: the metaphysical world outlook and the materialist-dialectical world outlook. In the beginning of the essay, "On Contradiction," he explained:

They [those carrying the metaphysical outlook] contend that a thing can only keep on repeating itself as the same kind of thing and cannot change into anything different. In their opinion, capitalist exploitation, capitalist competition, the individualist ideology of capitalist society, and so on, can all be found in ancient slave society, or even in primitive society, and will exist forever unchanged.⁶⁴

On the other hand, the materialist-dialectical world outlook sees development as a unity of opposites. In other words, contradiction exists in the process of the development of all things. While the opposites of a contradiction continually transform themselves, a new process emerges from the transformation. This new process is not a repetition of the old, but rather a qualitative change. Mao explains further:

This dialectical world outlook teaches us primarily how to observe and analyze the movement of opposites in different things and, on the basis of such analysis, to indicate the methods for resolving contradiction. It is therefore most important for us to understand the law of contradiction in things in a concrete way.⁶⁵

Contradictions in post-revolutionary China after 1949 were the material base of the mass movements, which in turn were a socialist strategy to resolve these contradictions. What were the contradictions in China

⁶⁴ Mao Zedong, "On Contradiction," *op. cit.*, p. 287.

⁶⁵ *Ibid.*, p. 315.

after 1949? And, among these contradictions, what was the principal contradiction during different stages of development? After seizing power, the CPC immediately faced these important questions. In the analysis of post-revolutionary China and the CPC's role, Mao on one hand and Liu Shaoqi and Deng Xiaoping on the other, had fundamental differences.

After the CPC came to power and transferred the means of production to the State, Liu and Deng viewed the principal contradiction to be between the “advanced social system” and the “backward social productive forces,” as expressed in the “Resolution of the Eighth National Congress of the CPC” in 1956.⁶⁶ Therefore, according to Liu (and later Deng), after the ownership of the means of production was legally transferred to the State, the main task of the CPC was to devote itself to the development of the productive forces.

Mao, on the other hand, believed that the social system (including the relations of production) was far from being advanced, and contradictions existed within the economic base as well as between the economic base and the superstructure.⁶⁷ Even though feudal ideology had lost its economic base after the land reform, Mao believed that it still possessed staying power; if left unchallenged, it could easily lodge itself in the new economic base. Liu (and later Deng) implemented, or attempted to implement, policies that regarded the productive forces as the dominant aspect in the contradiction between relations of production and productive forces.⁶⁸ Mao criticized this mechanical conception:

⁶⁶ “Resolution of the Eighth National Congress of the Communist Party of China” in *Eighth National Congress of the Communist Party*, p. 16.

⁶⁷ Mao Zedong, “On the Correct Handling of Contradictions Among the People” in *Selected Works of Mao Zedong*, Vol. V, Foreign Languages Press, Paris, 2021, pp. 372-373.

⁶⁸ Mao wrote about the two aspects of a contradiction. He said, “Of the two contradictory aspects, one must be the principal and the other secondary. The principal aspect is the one playing the leading role in the contradiction. The nature of a thing is determined mainly by the principal aspect of a contradiction, the aspect which has gained the dominant position.” Then, he continues, but this situation is not static; the principal and non-principal aspects of a contradiction transform themselves into each other and the nature of the thing changes accordingly. In a given process or at a given stage in the development of a contradiction, A is the principal aspect and B is the non-principal aspect; at another stage or in another process the roles are reversed—a change determined by the extent of the increase or decrease in the force of each aspect in its struggle against the other in the course of the development of a thing.” (Mao Zedong, “On Contradiction,” *op. cit.*, p. 303.)

In the contradiction between the productive forces and the relations of production, the productive forces are the principal aspect; in the contradiction between theory and practice, practice is the principal aspect; in the contradiction between economic base and the superstructure, the economic base is the principal aspect; and there is no change in their respective positions. This is the mechanical-materialist conception, not the dialectical-materialist conception. True, the productive forces, practice and the economic base generally play the principal and decisive role, whoever denies this is not a materialist, but it must also be admitted that under certain conditions, such aspects as the relations of production, theory and superstructure in turn manifest themselves in the principal and decisive role. When it is impossible for the productive forces to develop without a change in the relations of production, then the change in the relations of production plays the principal and decisive role.⁶⁹

Mao did not believe that with the transfer of ownership of production, the change in the economic base (and the relations of production within the economic base) became complete or "advanced." Rather, he saw that contradiction existed within the economic base as well as between the economic base and the superstructure. Within the economic base, he believed that the relations of production at times could be the principal aspect of the contradiction; without further changes in the relations of production, productive forces could not be developed. He also saw that the transformation of Chinese society involved struggle on all fronts: economic, political and ideological, each of which would play a dominant role at different times. It was through resolving these contradictions that the productive forces developed.

Mao's conception of socialist construction was not so different from his conception of revolutionary war. During the long period of the CPC-led people's war, Mao never thought that final victory would be determined by those who had superior firearms. Rather, military victory depended on careful and patient work on the political, economic and ideological

⁶⁹ *Ibid.*, p. 336.

fronts; the soldiers had to understand the reasons behind the revolution in order to become revolutionaries. Similarly, during the period of socialist construction, Mao did not believe economic development could be separated from political and ideological struggles. Only when working people understood the aims and reasons behind their efforts would they devote themselves to the long hard struggle of building the economy.

One example illustrates the difference between the views of Mao and Liu on the development of Chinese society: the nature of the relationship between collectivization and mechanization of agriculture, including the question of which should come first.

As Liu saw it, all efforts should be devoted to the development of productive forces. Thus, in his view, conditions for agricultural collectivization could mature only on the basis of mechanization when China could produce enough steel to make tractors and other agricultural machinery and equipment. Therefore, Liu asserted, any attempt to collectivize farms before China had more advanced productive forces would be doomed to fail.

Mao, on the other hand, believed that it was possible to collectivize farms without an advanced development of productive forces. Mao saw the energy and enthusiasm of Chinese working people as the engine for future development. When peasants were mobilized and their consciousness raised beyond that of small producers, the possibility opened up for organized production on a larger scale. When elementary co-ops progressed to advanced co-ops, which in turn later led to the formation of people's communes, peasants were able to bring together their small pieces of land and build infrastructure on the land in preparation for mechanization.⁷⁰ The accumulation fund, which the peasants' production teams saved every year from their joint labor, enabled them to buy machinery and equipment from the State. Based on the worker-peasant alliance, the production of agricultural machinery was given high priority in the industrial development plan. The worker-peasant alliance expressed the CPC's clear class stand. Without this class stand, industrial development would have been directed toward more profitable projects rather than agricultural machinery, as we have witnessed during the many years under Deng's

⁷⁰ William Hinton, *Shenfan*, New York, Random House, 1983, Part III.

reform. In the process of collectivization, the poor and lower-middle peasants took control of their lives. In the contradiction between the poor and lower-middle peasants and the upper-middle and rich peasants, the power of the poor and lower-middle peasants grew and transformed itself into the principal aspect, while that of the rich and upper-middle peasants became the non-dominant aspect. Each aspect of the contradiction transformed into the other, and as a result, a new process of development emerged in society.

These two fundamentally different analyses of Chinese society determined how Mao and Liu viewed the CPC's role.

From Liu's perspective, the CPC's main task was to develop the productive forces. To speed up such development, he believed the CPC should create a stable environment for economic growth and promote the development of new technology, relying on the expertise of technical personnel for this task. However, to ensure the spirit of communism, members of the Communist Party should "purify" themselves by following a set of standard moral principles, as described in some of Liu's works.⁷¹

Mao, however, regarded the masses as the creators of history and their enthusiasm as the driving force for resolving contradictions and transforming the society. To be the catalyst for change, the CPC had to keep in close touch with the masses and mobilize them as well as direct their energy and enthusiasm toward resolving the contradictions in society. Mao believed that party members could not transform themselves unless they involved themselves in struggle, interacted with the masses, and accepted mass criticism. In Mao's view, if party members were to become an elite group above the masses, the Party would lose its credibility and cease to be the agent for change along the mass line. Then, even if the CPC could pursue policies to advance the productive forces and develop the economy, it would no longer be the vanguard of the proletariat. Moreover, the CPC's representation of the workers and peasants would become mere lip service, unless the CPC could continually initiate changes that would promote the class interests of the workers and peasants.

⁷¹ Liu Shaoqi, "On the Moral Principles of the Communist," a speech made by Liu in 1937, then published in 1939 in *Liberation*: No. 81 to 84. It was published as a book in 1962 by the People's Publishing House.

Mass Movements: Concrete Cases

Mao was able to point out the principal contradiction at different points in time. He worked out the appropriate strategy and tactics to resolve each principal contradiction throughout the three decades of post-Liberation development, as he had done during the period of the revolutionary war.

Soon after Liberation, Mao wrote the essay, “Don’t Hit Out in All Directions” (June 6, 1950), in which he warned that since the agrarian reform had not yet been completed, remnant Kuomintang forces, secret agents, and other reactionary forces still remained. The principal contradiction was still between the Chinese people and the landlord class and other remaining reactionary elements. Thus, it was not yet time to attack the national capitalists and make them enemies. Land reform gradually resolved the contradiction between the small number of landlords and the majority of land-poor peasants and hired farm hands, and thus strengthened the worker-peasant alliance. Two years later, at the completion of land reform, Mao wrote:

With the overthrow of the landlord class and the bureaucrat-capitalist class, the contradiction between the working class and the national bourgeoisie has become the principal contradiction in China; therefore the national bourgeoisie should no longer be defined as an intermediate class.⁷²

In the cities, after the CPC confiscated Kuomintang bureaucrat capital in 1949, it was able to nationalize 80 percent of the productive assets in industry, mining, transportation and communication. The new people’s government still had to rely on the tens of thousands of bureaucrats at different levels to run the daily business of the government. Former Kuomintang officials, however, were notorious for their corruption and abuse of power and were strongly resented by the masses. Moreover, there were reported cases of corruption and waste among high-level party officials. If this were allowed to continue, Party members who had just tasted real

⁷² Mao Zedong, “The Contradiction Between the Working Class and the Bourgeoisie Is the Principal Contradiction in China” in *Selected Works of Mao Zedong*, Vol. V, *op. cit.*, p. 62.

power could easily become new bourgeois bureaucrats, abusing power and clutching onto it.

In response, the Party launched the “Three-Anti” Movement, which targeted corruption, waste and bureaucracy. The movement mobilized all levels of government personnel and the broad masses in the cities to expose bribery and other corruption. Those who had committed crimes were duly punished according to the seriousness of their crimes. Among those punished were two high-level Party officials, Liu Qingshan and Zhang Zishan, who had made great contributions in the Anti-Japanese War and the Liberation War. They embezzled large amounts of public funds by taking big kickbacks from construction and other dealings. Despite their high positions and previous contributions, Liu and Zhang received no protection from the government and were both put to death.⁷³

Since public corruption could not be committed without the participation of private capitalists, the “Three-Anti” Movement also exposed the collaboration between corrupt government officials and the private sector in stealing public property and other economic crimes. Some private capitalists seized the opportunity provided by the Korean War to make illegal profits by cheating on government contracts; they were able to bribe government officials to get what they wanted. Immediately following the “Three-Anti” Movement, the Party launched the “Five-Anti” Movement, which targeted bribery, tax evasion, theft of state property, cheating on government contracts, and stealing economic information. These campaigns were necessary and timely to make a clean break with the past as private capital was soon to join the state-owned enterprises, which required closer cooperation between state bureaucrats and private capitalists. At this point, the contradiction between the Chinese people, and the corrupt officials and capitalists who violated state laws was the principal contradiction. It was not possible to proceed to nationalization until this contradiction was resolved. In these movements, the corrupt officials and the criminal elements among the capitalists were set up as the opposites.

It may be helpful at this point to explain the meaning of “setting up an opposite” in a mass movement. According to Mao, a mass movement

⁷³ Bo Yibo, *My Memoir of Many Important Policy Decisions*, Volume 1, Chinese Communist Party School Publisher, 1991, pp. 148-151.

was to resolve major contradictions in society. Both sides of every contradiction in society existed objectively. Mao explained:

The rightists, for example are in existence to start with, but whether to bring them out or not is a policy issue. We are determined to bring them out, set them up as opposites, launch the laboring people to debate and compete with them and knock them down... The other includes what is not in existence in nature. It has some material conditions. To build a dam, for example, we can use artificial means to set up an opposite. The water level is raised to make it flow and produce a fall, resulting in power generation and shipping.⁷⁴

Similarly, setting up the opposite in a mass movement can direct the energy and the enthusiasm for social change. Without the opposite or when the opposite is not well focused, energy created in a mass movement is often diverted to different directions and eventually dissipated, as we have witnessed in the many spontaneous mass movements in the past several decades in Western societies.

The corrupt officials and criminal capitalists and the resentment and anger from the masses existed objectively in society. These were not imagined or dreamed up. The mass movements created the climate for the masses to participate in making changes. Without them, people would have felt powerless to do anything about the situation, and their resentment and anger would have turned into disappointment and despair.

Almost four million people participated in the “Three-Anti” movement by writing letters and revealing what they knew, thus exposing the corruption, waste, and bureaucratization of government officials.⁷⁵ The masses became enthusiastic when they involved themselves in solving the problems. The “Three-Anti” and “Five-Anti” movements demonstrated that, with the help of the masses, the new government could exercise firm control. Setting the precedent, the Party forced government officials and

⁷⁴ Mao Zedong, “Speech at the Second Session of the Eighth Party Congress (3)” in *Selected Works of Mao Zedong*, Vol. VIII, Foreign Languages Press, Paris, 2020, pp. 112-113.

⁷⁵ See Mao Zedong, “On the Struggle Against the ‘Three Evils’ and the ‘Five Evils’” in *Selected Works of Mao Zedong*, Vol. V, *op. cit.*, pp. 49-55.

private capitalists to be mindful of the watchful eyes of the masses, and to recognize that they would be held accountable for their actions.

Moreover, in their contradiction with the people, government officials (and their merchant collaborators) were historically always the principal or dominant aspect of the contradiction. The mass movements transformed the government officials into the non-principal or subordinate side, and at the same time transformed the people into the principal or dominant side. As a result, an entirely new ideology emerged and persisted to this day, borne of the many years of experience by the people in joining mass movements. It was the same urgent need felt by the students and the working masses to speak up against the abuse of power by high-level government officials that spurred the demonstrations in Beijing and other major cities in China in the spring and summer of 1989.

Setting up opposites in a mass movement requires a thorough understanding of the principal contradiction as well as the skill of translating such understanding into practice at an operational level. It is an extremely difficult task. As Chinese society developed economically, different interest groups began to appear among the masses. Therefore, other sets of contradictions (though minor compared to the principal contradiction) became very important to these groups with opposing interests—for example, contradictions between rich and poor communes, among the production brigades within the communes, between workers and peasants, and between workers and intellectuals. Therefore, the struggle became more sophisticated and the task of setting up the opposite also became increasingly difficult. This partially explains why factionalism developed to such an extent during the latter part of the Cultural Revolution. When factionalism developed, group interests were placed above class interests, which distracted the movement from its main course.

The land reform program as carried out in China, was not simply an economic policy of land redistribution by the State taking the land deeds from landlords and handing them out to the peasants. Rather, it was a mass movement led by the CPC for economic, political and ideological change.⁷⁶ The CPC mobilized the peasantry, mostly the poor and lower-middle peasants, and organized them to seize the land from the class

⁷⁶ William Hinton, *Fanshen, A Documentary of Revolution in a Chinese Village*, New York, Vintage Books, 1966.

enemy—the landlords and, to a limited extent, the rich peasants—and to expose their crimes. The enthusiasm of the peasants, who were the main actors in the land reform, swept across the countryside. Land reform turned passive peasants into active participants, and eventually their actions went beyond land reform to the cooperative movement that followed.

Throughout the land reform, the peasants adopted a new ideology. While the pre-Liberation Chinese peasantry always experienced exploitation and suffering, these were justified by the ideology of feudalism—as ideologies of other exploitative societies have always done. In articulating and adopting the new ideology, the mass movement turned the old ideology upside down. The new ideology taught that it was wrong for landlords and rich peasants to seize the products of labor of poor and lower-middle peasants, and it was wrong for a privileged and powerful few to enslave and abuse the underprivileged majority. Land reform created the trend and the atmosphere that encouraged the poor peasants to express themselves for the first time. With peasants finally daring to speak their minds, serious crimes committed by some landlords were exposed. Land expropriation changed the dominant-dominated economic relationship between landlord and peasant; the adoption of the new ideology reversed the master-serf (or superordinate-subordinate) relationship between landlord and peasant.⁷⁷ Mass participation in the land reform strengthened the determination of landless peasants to right past wrongs, sparked their enthusiasm, and empowered them to carry the land reform program to its completion and beyond.

The above analysis gives only sketches of the three mass movements that occurred during the early years of the People's Republic. More careful and detailed studies are needed for a better understanding of these movements. Moreover, we need to study and analyze the two most important and most controversial mass movements during the People's Republic's first two decades: the Great Leap Forward and the Great Cultural Revolution.

From Liu's and Deng's perspective, the Great Leap Forward was a total disaster, and the Cultural Revolution destroyed China's opportunity

⁷⁷ Furthermore, members of the landlord class lost their right to vote, and thus were denied their political participation. Therefore, like in the case of any other movement, the struggle was on all three fronts: economic, political, and ideological.

to become an economic superpower. In a recent conversation we had, a high-level manager in a joint-venture enterprise in China expressed his frustration in managing the workers. He said that if there had been no Cultural Revolution, Chinese workers would be as obedient as their counterparts in Japan, and the managers would be able to push for higher productivity, doubling the current production per worker. We, on the other hand, believe that without the Great Leap Forward, there was little chance for the cooperative movement to continue and lead to the formation of the communes. Moreover, we believe that if there had not been the Cultural Revolution, Deng's reforms would have been implemented in the 1960s and with little resistance. If that had been the case, the opportunity to reverse the capitalist transition would have been forever lost.

Mass Movements: The Socialist Strategy for Change

During the decades of armed struggle, the CPC worked very closely with the masses; it was with the full support of the workers and the peasants that China's new-democratic revolution won nationwide victory in 1949. Grasping the analogy of fish being able to survive, swim and thrive so long as they remained in water, the people's army was able to survive, fight on, and ultimately win because it remained immersed among the masses.

After the CPC seized power, its survival (at least in the short run) no longer depended directly on the masses. The CPC had acquired such high prestige that its members could have enjoyed as many privileges as those who seized power and established new dynasties in China's long feudal history. Mao saw that the only way the CPC could maintain close links with the masses and continue to be the agent for change was through mass movements. Moreover, the mass movement provided an open forum where the masses could voice their opinions and express their discontent, criticizing party members for any wrongdoing or abuse of power. The mass movement also provided a test to check whether party members and others in authority actually practiced the mass line.

The mass line, as expressed by the slogan "from the masses, to the masses," meant that cadres should do their best to find out the thoughts and concerns of the masses. Cadres were urged to talk with the masses, conduct surveys, or even live among them for periods of time. Their find-

ings helped the CPC to study and analyze social conditions and determine the principal contradiction at the time. Policies could then be formulated to resolve the contradiction. To implement the policies, the cadres were again urged to spread out among the masses and explain these policies. The process of policy implementation involved a mass movement where new ideas were propagated and important issues debated. If the policies truly promoted the interests of the masses, according to the mass line principle, the masses would eventually adopt them. Mass movements in the past provided the only opportunity to validate government policies. Policies so validated by the masses had a better chance of success. However, the practice of “from the masses, to the masses” very often did not match the ideal as described. Instead of soliciting opinions and ideas from the masses, cadres often saw themselves as carrying out orders from above. This attitude of the cadres helped promote commandism and bureaucratism.

The participation of workers and peasants in movements, where important political, economic and social issues were openly discussed and debated, was a very important form of democracy in China during the transition. In the mass movement, the four *da* were practiced as the socialist form of democracy: *damin* (big voice), *dafang* (big openness), *dabianlun* (big debate), and *dazibao* (big-character posters). The masses were able to openly express themselves in these four ways during the mass movement.

The popular Western view on Chinese mass movements during that time often emphasized the suppression of ideas and opinions. This view is not entirely incorrect; ideas and opinions that were not in favor of the masses were often suppressed during the periods of mass movements. For example, during the land reform, when the landlord class was under attack, praising the good deeds of certain individual landlords was considered detrimental to the movement. (However, the Party continued to draw distinctions between good and bad landlords; only those who committed serious crimes were punished.) As stated earlier, during the mass movement the two sides of a contradiction transformed into the other. The creation of a new ideology played an important role in this transformation. It is a myth that an ideology can be neutral in terms of its class stand. The class stand of the toiling masses fighting for their interests fueled the creation and adoption of the ideology favoring the working class. This was

crucial in raising the class consciousness of workers and peasants and the reproduction of these classes.

It is important, however, to address the issue of using mass movements to adopt ideology. Critics charge that during mass movements, ideas were often imposed on the masses from the top, and that such ideas had little relevance to the problems and concerns of the masses. This is a valid criticism. The worker and peasant masses had a hard time grasping the meaning of ideas that were detached from reality, let alone adopting or owning these as their own. Such situations happened during the latter part of the Cultural Revolution and possibly happened in other mass movements as well. When it did happen, open discussion and debate disappeared and indoctrination set in, while the practice of “from the masses, to the masses” was discarded. Interpretation of Marxism and Leninism became dogmatic. However, one can hardly conclude that to avoid the same mistakes, mass movements should be avoided altogether. The only way workers and peasants can learn from these mistakes is through practice and struggle. It is through repeated practice and struggle that the workers and peasants gain a better understanding of the objective world.

Since the Reform began in 1979, the Reformers have adopted their own “new” ideology. They have promoted ideas such as “Eating from a big pot breeds laziness,” “The iron rice bowl creates inefficiency,” and “Let a few get rich first.” Later, when the Reformers were pushing for the adoption of the contract-labor system, the *People's Daily* highly praised this new system with the official line saying that it would motivate workers to work harder by creating a sense of crisis and insecurity among them. These notions are obviously insulting to Chinese workers, such that the Reformers have not promoted them through a mass movement where ideas can be discussed and debated. Rather, such notions have been promoted through the party-controlled media, which served as its propaganda machine. Just as Deng's reform policies were pushed through the legal processes and not validated by the mass movement, the Reform's propagandized ideology could not be accepted by the masses. In response, common folk in China have circulated among themselves many interesting verses and rhymes that more honestly reflect what the masses think. The ideology reflected in these modern folk verses and rhymes is directly opposite to that of the official propaganda.

One of the utmost concerns of the students and urban residents who demonstrated in the spring of 1989 was the corruption among high-level government officials. The Reform opened up new opportunities for corruption because officials in individual enterprises were given more autonomy to manage their own affairs. Many bureaucrats seized this opportunity to reward themselves with “profits” made in “their” enterprises, thus turning their managerial power into material wealth. Moreover, some high government officials converted state properties into their own private companies—set up in their relatives’ names—and thus reaped even larger sums of money. High officials also made extra “profits” by taking advantage of the multi-tier prices to sell their products illegally, above the regulated prices.

A very important component of the Reform has been “opening up” China’s economy to foreign trade and foreign investment. Individual enterprises were also encouraged to take the initiative in exploring export opportunities and forming joint ventures with foreign capital. To encourage exports, enterprises with export plans were allowed access to foreign exchange at official rates for importing necessary equipment and raw materials. This two-tier (and sometimes three-tier or more) pricing system and the multiple exchange rates have provided fertile ground for bribery and profiteering. However, only those in power could take advantage of these opportunities to enrich themselves and their relatives. Such practices have created deep resentments among university students who do not see nepotism as fair play, even if they belong to a privileged group themselves.

Without a mass movement geared to launch anti-corruption campaigns such as what flourished during the Mao era, there is little possibility at present that government will be rid of corruption. It is usually the lower-level government workers who know about the bribery, embezzlement of public funds, favoritism and tax evasions. It is well known among the public, especially in the urban centers, that managers in enterprises keep two sets of accounting books: one for the central government’s tax assessment and another for their own use. These managers also keep a special account in which to stash their own discretionary funds. In the past, a mass movement would have been able to expose these corrupt bureaucrats because lower-level workers and common folk would have dared to speak up against them. Any mass movement today, however, would greatly threaten those in power. Thus, the current regime has not organized any

mass movement and in fact has suppressed any grassroots movement organized from below.

The most crucial issue during socialist transition is whether direct producers will gain more control over the means of production. In an underdeveloped country like China, the issue also includes whether the worker-peasant alliance will be consolidated. Party-sponsored mass movements are part of this crucial issue because, in the past, these movements played a key role in the socialist strategy to push for policies that gave workers more representation and instituted policies that consolidated the worker-peasant alliance. Without the mass movements, Liu and Deng would have been successful in implementing their capitalist projects long before 1979. The CPC, under Mao's leadership, sponsored a series of mass movements, which continually resolved the contradictions in China between 1949 and 1976, resulting in fundamental and qualitative changes in Chinese society. These changes have made the Reformers uneasy because of the workers' and peasants' persistent resistance to their Reforms. After the uprisings in the cities were put down by violent force in 1989, there have been many open rebellions in China's countryside. As the Reform "deepens," it will create more contradictions. The principal contradiction will reveal itself as being the one between the small number of high-level Party officials and government bureaucrats and the vast masses of Chinese people.

CHINA'S CULTURAL REVOLUTION AND THE STRUGGLE BETWEEN SOCIALISM AND CAPITALISM⁷⁸

Most people outside China who were sympathetic to its 1949 revolution have accepted the reasons given for the Reform that began in 1977. These reasons were based on two premises, which have been skillfully designed and carefully worded by the Reformers:

1. The first is that the ten-year Cultural Revolution period (1966-1976) was a calamity, bringing violence to Chinese society and ruining the economy. The Reformers later went back further to 1956 to negate all the progress made during the socialist period. In that year, privately owned means of production in industry were expropriated by the State, while the collectivization of agriculture reached its high tide.
2. The second premise is that the Reform aimed to revive a stagnant economy and develop the productive forces, and that it did not follow any pre-charted course. To describe the Reform's approach, the following Chinese saying was often quoted: "Crossing the river by feeling one stone at a time."

Both of these premises were based on false claims intentionally propagated among the population by the Deng regime. These claims, which distorted the facts, were necessary to pave the way for the Reform, and for the Communist Party to legitimize its continued rule.⁷⁹ Until recently, progressive scholars in the West did not challenge these premises. In fact, most of the Left in the West accepted the new regime's propaganda at face value; they took much longer than the Right to realize that a regime change actually occurred, and that the new regime altered the fundamental course of development in China from socialist to capitalist. For perhaps as long as 20 years, most of the Left in the West were oblivious to all the

⁷⁸ This paper was completed by the author in 2010.

⁷⁹ For a detailed account of how the Reformers distorted the facts through deliberate fabrication about the Cultural Revolution and related matters during the socialist period, see Mobo Gao, *The Battle for China's Past: Mao and the Cultural Revolution*, London and Ann Arbor, MI, Pluto Press, 2008.

necessary pieces Deng and his followers put together to launch full-blown capitalist development.

Only in the late 1990s—when Deng’s capitalist Reform was nearing completion, when large numbers of state-owned enterprises were closed down and then privatized, and when most workers in these enterprises were permanently laid off—did reality set in for those who still believed that China was a socialist country. Then the regime implemented steeper reforms to liberalize foreign trade and foreign investment as pre-conditions to join the World Trade Organization, which made it harder to claim that China was still a socialist country.

In its July-August 2004 issue, the *Monthly Review* published a book entitled *China and Socialism* by Martin Hart-Landsburg and Paul Burkett.⁸⁰ The two authors analyzed the reforms of the state-owned enterprises, the labor reform, the dismantling of communes, the opening up of China to foreign investment and the establishment of the Special Economic Zones during three time periods: 1978-1984, 1984-1991, and from 1991 to the time they wrote the book. They also analyzed concrete reform policies and how these were carried out and concluded that China was no longer a socialist country. Their analysis contributed to a better understanding of the Reform.

Explaining their reason for writing the book, Hart-Landsburg and Burkett said they felt that “the confusion surrounding China’s post-reform experiences signifies a deeper theoretical and political confusion about Marxism and socialism that greatly hurts our collective efforts to build a world free from alienation, oppression, and exploitation.” However, the root of the problem is not just confusion about China’s post-Reform experiences, but rather the confusion about its *pre-Reform* experiences. The Left outside of China who had a clear understanding of the socialist era before the Reform were not confused about the capitalist nature of the Reform and its consequences. If they were initially misled, their confusion did not last long—certainly not for over 20 years.⁸¹ It was the lack of understand-

⁸⁰ *China and Socialism: Market Reform and Class Struggle*, by Martin Hart-Landsburg and Paul Burkett, 2005, was first published as an article in the July-August 2004 issue of *Monthly Review*.

⁸¹ Charles Bettelheim was the very first to openly point out the nature of what was to be called Deng’s Reform, and he resigned as the president of the Franco-Chinese Friendship Association on May 11, 1977. His letter of resignation and his paper on “The Great Leap

ing of China's socialist past that caused confusion about the present and that "signifies a deeper theoretical and political confusion about socialism."

China and socialism were able to show that Deng's Reform has indeed established capitalism in China. That is an important contribution. However, the book did not contribute to the understanding of China's socialist development before the Reform. If anything, it added further confusion about many crucial issues during China's pre-1978 socialist development. The authors said that progressive scholars should not have considered China's capitalist development in the past twenty-some years as a model for other developing countries to follow—which is a correct statement. However, they failed to recognize that during the socialist era, China's development was actually a model for other underdeveloped countries to emulate, because its socialist system offered an alternative to dependent capitalist development. In fact, the possibility of less developed countries following the same path and pursuing a revolutionary course to socialism generated a fear that underlay the US foreign policy of containing China for three decades. When the Reformers denounced China's 30 years of socialist development and proclaimed it as a failure, it was a big relief for the United States and other imperialist countries.

China's capitalist Reform coincided with the collapse of the "import substitution" model of capitalist development in many Latin American countries, many of which had searched for a more independent way to develop capitalism. Their endeavors fell apart in the early 1980s—for which the most immediate reason was the foreign debt crisis in these countries when they defaulted on debts owed to the multinational banks, the International Monetary Fund, and other financial institutions. The Latin American meltdown preceded the demise of the Soviet Union and the collapse of the former bloc of Eastern European socialist countries, and contributed to burgeoning neoliberal ideology and policies. These events over-shadowed the fact that one of the most important forces fueling neoliberal policies, both domestic and international, was the economic stagnation in advanced capitalist countries and the crisis of global capitalism.

The authors' lack of understanding of China's socialist era is apparent in the various statements they made in an effort to track down the real

Backward" (March 3, 1978) were published in the July-August 1978 issue of *Monthly Review*.

reasons for Deng's Reform. They did not believe the Reformers' line that Mao left the country in a dismal economic situation, because the Chinese economy by the end of the 1970s was far from disastrous. Citing statistics, they said that China's industrial output increased at an average annual rate of 11.2 percent between 1952 and 1976. Even during the Cultural Revolution (1966-1976), it grew at an average annual rate of over 10 percent (Landsburg and Burkett 2005, 28). However, they also claimed that at the time of Mao's death, the Chinese people were far from enjoying steady and secure increases in their standard of living. Two related questions must be asked, however: What did the authors mean by "steady and secure increases in the standard of living," and with whom did they compare the Chinese people? If we compare the Chinese people's standards of living in 1956 and 1976, those 20 years in fact represent a rapid and steady increase in standard of living. Chinese people in 1976 enjoyed stable prices, free education, and extremely low-cost health care—in addition to the absence of unemployment. They were also doing far better in 1976 compared to the majority of workers and peasants in other less developed countries. Hart-Landsburg and Burkett, however, stated their claim without any reference, and thus made it difficult for the reader to know what exactly they meant.

Quoting Maurice Meisner, the authors concluded that China's agriculture stagnated due to the policy of subsidizing heavy industry at the expense of agriculture and that the commune system of managing agriculture was authoritarian and inflexible. However, they also said that Chinese peasants did enjoy meaningful improvements in public health, housing, education and social security through the commune system. They also stated that Chinese agriculture outperformed those of many other Third World countries. How could the commune system accomplish so much in a short period (1958-1976) when its management was authoritarian and inflexible, and when China's agriculture was stagnant? And if its agriculture had indeed been stagnant during the same period, how could it have fed and clothed a rapidly growing population, achieved self-sufficiency in food, and provided enough raw materials for the manufactured goods that its population consumed?

Yet Hart-Landsburg and Burkett went on to conclude, in the next paragraph, that China's economy faced serious and growing problems at

the end of the Mao era that could only be overcome through the adoption of new state policies. Therefore, despite their not completely buying the Reformers' argument that China's economy was a disaster, the authors remained convinced that its problems were serious, growing, and could not be corrected by policy adjustments—and could only be *overcome* by the adoption of *new state policies*. The authors apparently believed (and still believe) the Reformers' claim that the failing economy they inherited was the problem, and they implemented the Reform to correct the problem.

Hart-Landsburg and Burkett's misunderstanding of China's socialist era explains their inability to trace the origins of Deng's Reform policies to that period. It is wrong to say that Deng did not have a carefully thought-out plan to institute capitalism in China. As stated by the authors, the Reform first started simply with "marketization," and then when the market imperative became uncontrollable, market forces had to be further expanded to resolve the resulting tensions.⁸² The Reform did not "just begin" that way. Deng Xiaoping and his mentor Liu Shaoqi conceived of and pushed their capitalist projects by rallying support from within and outside the Communist Party. The two-line struggle—socialism vs. capitalism—existed through the entire socialist period from 1956 to 1976 and has continued in the post-Reform era. Hart-Landsburg and Burkett described the class struggle that has been going on since the Reform began well, but they failed to see that this struggle is actually a continuation of previous class struggles from 1956 onwards.

Deng wanted the Chinese people to believe that his Reform was not in any way connected to the capitalist projects that he and Liu had tried but failed to institute throughout the socialist period. Those projects were severely criticized and beaten back by different mass movements, especially and lastly during the Cultural Revolution. Unfortunately, most people on the Left outside of China, including Hart-Landsburg and Burkett, believed Deng's claim that his Reform was initiated at the end of the 1970s as a response to solve the serious economic problems left from earlier decades. They also believed his claim that the Reform was not an

⁸² What the authors meant was that Deng and his supporters introduced market forces into the economy without any awareness of what they were doing. However, once brought in, the market forces acquired a life of their own and thus made further reliance on the market forces necessary.

overall plan to implement capitalism; it was only taking a pragmatic one-step-at-a-time approach to find solutions to economic problems and eventually to develop the country.

If one were to believe these claims, then one has to conclude that Deng was totally innocent about how “marketization” would consolidate the power of the bourgeoisie. One would also conclude that there was no history of a two-line struggle within the Communist Party, with Liu and Deng on one side and Mao on the other. If there indeed had not been any two-line struggle, then all the political movements Mao initiated which led to the Cultural Revolution were targeting an imaginary enemy. The Reformers have perpetuated this distorted view of Chinese history, and it will be impossible for the Left to gain a clear understanding of China’s past, present, and future unless it can effectively deconstruct their distortions.

This essay thus focuses on the following questions, which will then be answered successively in the three major sections:

First, what were China’s concrete experiences in class struggle between the socialist and capitalist lines? Second, in the mid-1960s, what were the major unresolved issues and why was the Cultural Revolution necessary? And third, based on China’s concrete experiences, how did socialism develop productive forces with the goal of satisfying people’s needs?

1. Class Struggle Between Two Lines—Socialist vs. Capitalist

The Chinese people won the new-democratic revolution under the leadership of the proletariat, with the Chinese Communist Party (CCP) as its vanguard and in close alliance with the peasants who made up the majority of the toiling masses. The revolution freed China from foreign domination and liberated its people from feudal exploitation and oppression. During the revolution, the worker-peasant alliance was principally based on the proletariat’s exercise of leadership in the agrarian revolution to end the feudal land tenure system and to free peasants from exorbitant rent and other forms of oppression. Even before the establishment of the People’s Republic in 1949, land reform was already in full swing in the old liberated areas. Soon after 1949, it expanded into all newly liberated areas and was completed in 1952.

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Hundreds of millions of peasants each received a plot of land for the first time in their lives. Although their holdings only averaged 0.2 hectares per capita, peasants cultivated their land with great enthusiasm. The output of both grain and cotton rose rapidly during the recovery period of 1949-1952. However, by 1953, grain production stagnated and cotton production actually fell.

After more than one hundred years of foreign invasions and civil wars, China's countryside was in ruins by the time the revolution won nationwide victory. Moreover, under feudalism, the landlord had overexploited the land with little or no investment into it. For many decades before Liberation, China suffered severe drought and flooding, because its river control and irrigation systems had been neglected. Therefore, the natural environment for agriculture was fragile, and land fertility was depleted from the ravages of war and long neglect.

Shortly after Land Reform, peasants' enthusiasm alone could not sustain increased production. Many poor and lower-middle peasant households—60 to 70 percent of China's peasantry—did not even own a plow, let alone other farm tools or draft animals. Many peasant families had to borrow money when bad weather hit in 1953 and 1954 or when they suffered personal mishaps, such as illness or death among family members. When their debts—incurred at high interest—started piling up, they were forced to sell their land. By 1954, both land sales and hired labor were on the rise in the countryside.

China's experience showed that in a poor country, land reform alone could not solve many of the problems faced by peasants, and that the dominance of small landholdings was not a viable way to develop agriculture. Had no steps been taken beyond land reform, land would have again been consolidated in the hands of rich peasants to reconstitute the old and/or a new landowning class. With the majority of peasants living in extreme poverty with little or no productive tools, how could China develop its agriculture in such a harsh natural environment and with an extreme lack of resources? Moreover, how could the agricultural sector generate enough surpluses needed for industrialization?

Mao and Liu had very different ideas on how to develop China's agriculture and its economy as a whole. There was not much disagreement about Land Reform. For either capitalist or socialist development to take

place, the feudal land tenure system indisputably had to end. But China's revolution was both a democratic revolution and a socialist revolution. According to Mao, the old type of democratic revolution led by the bourgeoisie had not worked to liberate workers and peasants in China under imperialism, because the domestic bourgeoisie had been too weak to lead an independent democratic revolution to end feudalism and foreign domination. The Kuomintang ended up collaborating with the foreign powers and the domestic landlords. The new democratic revolution had to be led by the proletariat in a close alliance with the peasants. The strong worker-peasant alliance would form a coalition with the national bourgeoisie, but the goal was to proceed to socialism.

The completion of Land Reform ended the material base for feudalism, and at that point urgent debates began on which direction China should take. In Liu's point of view, the new-democratic stage should be prolonged and that the national bourgeoisie could play an important role in developing China.⁸³ Years later, when Deng began his Reform, he and his supporters repeated the same arguments, insisting that the new-democratic stage in China had not been long enough and that Mao should not have rushed China into socialist development. The Reformers have thus advocated that China should relive the new-democratic period, give the "national bourgeoisie" its proper role in economic and political affairs, and thus make up for what China had missed.

Mao's view was the complete opposite of Liu's and Deng's. He saw that at the end of Land Reform the situation was ripe to launch socialism. After nationwide Liberation in 1949, the new government appropriated foreign-owned and Kuomintang government-owned assets. Together, these accounted for 80 percent of the total assets in industry, transportation and communication. Mao estimated that the other 20 percent of privately owned assets could be incorporated into the state-owned system within a rather short period. This transfer from private to public ownership was carried out smoothly through successive stages and completed in 1956.

⁸³ In Mao's talk before the Politburo of the Central Committee of the Chinese Communist Party on June 15, 1953, he criticized the rightist view of Liu Shaoqi to "firmly establish the new-democratic social order." See Mao Zedong, "Refute Right Deviationist Views That Depart From the General Line" in *Selected Works of Mao Zedong*, Vol. V, Foreign Languages Press, Paris, 2021, pp. 77-78.

However, what should be done about agriculture? The new-democratic revolution was won under the leadership of the proletariat in close alliance with the peasantry. As Mao saw it, during the period of socialist construction, the workers needed to continue and further consolidate their alliance with the peasants. Mao saw that after attaining Land Reform, the peasants' demand would be to increase production and to improve their standard of living. The way to achieve this, in Mao's view, was by pooling all the key rural resources through collectivizing agriculture. He saw agricultural collectivization not only as a way to develop productive forces but also as a concrete form of consolidating the worker-peasant alliance. As Land Reform approached completion, the Communist Party began pushing the cooperative movement in earnest.

However, it was not easy for the peasants to organize themselves into cooperatives, because they did not have any experience of working together in groups. Mao saw that the success of the cooperative movement depended on the willingness of the middle-and upper-middle peasants, who possessed more farm tools and larger pieces of land, to join the cooperatives. However, these peasants took a wait-and-see approach, since they had a chance to make it on their own and become rich peasants. The policy of the Communist Party was to rely on the poor and the lower-middle peasants. These lower peasant strata worked hard to increase production and exerted efforts to win over the middle-and upper-middle peasants. They stood firm, mainly because they had few alternatives and they trusted the Party to lead them to a better life.

The poor and lower-middle peasants first formed mutual-aid teams so they could share their productive tools and human power. Then they formed elementary cooperatives, where all farm households put in whatever productive tools they had for the cooperatives to use and, in turn, drew a share of the total production output as payment. Later, when they had enough money, the cooperatives bought the productive tools from the individual farm households; from that point on, distribution of output was based only on how much labor each member contributed. In the process of these three stages of cooperation, the middle-and upper-middle peasants saw the advantages of pooling resources and working together

and so gradually joined.⁸⁴ After the majority of the peasants joined the cooperatives, the rich peasants had no choice but to join, because they could no longer hire farm workers to work for them.

Before the cooperative movement began, rural economic polarization was developing. Rich peasants produced most of the surplus grain and other farm products. They sold their grain, cotton, and other agricultural products to city merchants and private manufacturers. Private capitalists in cities and rich peasants in the countryside began to form their own alliance.

In 1953, the State set up the Unified Purchase and Sale Network. As the newly formed cooperatives produced more grain and other farm products, this network bought the surplus farm produce from the cooperatives. In the meantime, the private enterprises were gradually incorporated into the state-owned sector through various stages. Most of these private enterprises produced light industrial goods essential for urban residents. In the initial stage, the State supplied the raw materials and bought the finished products from these enterprises. In the next stage, the State contracted these enterprises to produce certain products. Eventually, the State bought the assets from the private capitalists but allowed them to manage the enterprises. In return, they received a fixed percentage of the agreed purchase price of their assets.

The Unified Purchase and Sale Network and the nationalization of private enterprises enabled the State to gain control of the bulk of grain, raw materials, and other basic goods needed by the urban population. When merchants raised the prices of grain and other daily necessities in an attempt to reap windfall profits during the Korean War, the State fought back by flooding the market with grain and other consumer goods to drive down the prices. The transfer of ownership from the national bourgeoisie to the State and the collectivization of agriculture blocked the alliance between the bourgeoisie and the rich peasants while consolidating the worker-peasant alliance.

⁸⁴ Mao gave his first two talks on agricultural cooperatives in October and November 1953. Then in the second half of 1955 he gave a series of major talks on the agricultural cooperative movement. See “Two Talks on Mutual Aid and Cooperation in Agriculture,” “On the Cooperative Transformation of Agriculture” and “The Debate on the Cooperative Transformation of Agriculture and the Current Class Struggle” in *Selected Works of Mao Zedong*, Vol. V, *op. cit.*, pp. 116-125; 167-190; 194-216.

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In addition, Mao saw collectivization as the way to construct a welfare network for the rural population, because at that time the State had no ability to do so directly. Mao was especially concerned about countless families whose productive members died during the anti-Japanese war of resistance and later during the war that finally overthrew Kuomintang rule. Through collectivization Mao said each cooperative could “carry” a few of these families.

A cooperative movement that involved tens of millions of farm households was historic, and had the effect of gradually increasing farm production. The CCP policy to rely on the poor and lower-middle peasants was the key to this success. Also, the implementation of this policy depended on party cadres, who transformed their roles from fighting a Liberation war into organizing peasants in agricultural production. Since the overwhelming majority of these cadres came from poor peasant households, they closely identified with the class interest of poor peasants.⁸⁵

From the very beginning, Liu Shaoqi opposed the cooperative movement. He believed that peasants needed material incentives to work harder—that individual farm households would have extra incentive to work harder if they were left to pursue production on their own. Moreover, he did not believe that China had developed its productive forces enough to produce modern farm implements for large-scale agricultural production. He believed that China first had to be capable of manufacturing tractors and other agricultural machinery; only then would it have the material foundation to develop large-scale commercial farms. Mao, on the other hand, believed that changes in the relations of production in agriculture (from private ownership to collective ownership) was a key factor in helping develop productive forces. History proved Mao right.

The communes were established and the Great Leap Forward was launched in 1958. This was followed by what was known as the three Difficult Years—1959, 1960 and 1961—when agricultural production dropped.

There were three reasons for the Difficult Years. The first was natural disasters. As mentioned earlier, China's agricultural infrastructure had been long neglected, and although much work was done on the irrigation

⁸⁵ There were many exceptions, of course, as Han Dongping pointed out happened in his own village.

and drainage systems since the People's Republic was established, it was not enough to deal with the severe drought and floods during these three years. Second, the Great Leap Forward and the establishment of the communes were partially to blame, as they were carried out in great haste without adequate planning. The third reason was the Soviet Union's demand for the immediate repayment of the loans it had extended to China to help fight the Korean War, as well as the withdrawal of all of their technical advisors in industrial projects.⁸⁶

However, Liu and his supporters placed the blame for the Difficult Years entirely on the collectivization of agriculture and the Great Leap Forward, using mistakes in carrying out the two mass movements as an opportunity to attack Mao. The contradiction between Mao and Liu became obvious during the 1959 Lushan Conference, where Liu's supporters openly criticized Mao and blamed him for China's difficulties. Mao made a self-criticism and accepted responsibility for the mistakes he made in his leadership but also clarified that the Party's mistakes were only partially responsible for the Difficult Years. Several adjustments were made to help the commune function better, including reducing the basic accounting unit to the size of the production team (consisting of 20-30 farm households).⁸⁷ However, Mao refused to let Liu use the opportunity to dismantle the communes. After Deng took over in the late 1970s, the Reformers launched vicious attacks on the Great Leap Forward by greatly exaggerating the number of deaths during the Difficult Years. Some "scholars" have spent their entire academic careers attacking the Great Leap Forward and claiming the disasters were entirely human made, with Mao being the most to blame.

As the communes readjusted their policies and stabilized agricultural production, Liu continued his efforts to undermine collective agriculture. In 1964, he pushed for the implementation of the "Three Zi, One Bao" project on a limited scale, as an experiment to increase agricultural production. The "Three Zi" represented the expansion of peasants' private

⁸⁶ Mao said that there were three reasons, each having an equal share of responsibility, for these difficult years: the natural disasters, the Soviet Union's demand for immediate debt payment and the withdrawal of its technical advisors, and the mistakes in the Party.

⁸⁷ Before the adjustment, the basic accounting unit was much bigger, which made management more difficult.

plots (*ziliudi*), the expansion of private free markets (*zi you shichang*), and making individual peasant households responsible for their own profit or loss (*zifu yinkui*). The “One Bao” meant that peasants would sign contracts with the State to guarantee a fixed production.

The expansion of the private lots and the free market directly undermined the commune. Under the commune system, peasants still maintained a small private lot, because while the productive forces were still underdeveloped, peasant households needed such plots to grow vegetables and raise poultry to improve their diet or to earn some cash. But these plots were limited in size. When Liu advocated policies to expand the private lots and the free market, his aim was for peasants to work more on their private lots and to sell their surpluses on the private market. The “One Bao” policy also urged individual peasants to work harder, as the extra products from their extra efforts would not be shared with others in the collective. The “Three Zi One Bao” project was laid out to encourage individual peasants to make it on their own, which would undermine their efforts to build a stronger and more prosperous collective agriculture.

Liu's agricultural policy was related to his strategy to develop industry. Even though ownership of industry had been transferred to the State, this did not necessarily equal socialism. In hindsight, we can see how his policies reflected his attempt to develop state capitalism. For instance, he believed that state-owned enterprises should be operated on a profit-and-loss basis to increase productivity. He proclaimed that the state-guaranteed permanent employment system was too costly and should be replaced by a contract labor system. The logic was that if labor could be employed on a renewable contract basis, state enterprises could draw on the abundance of rural labor that is amenable to lower wages and fewer benefits.

In contrast, Mao saw guaranteed permanent employment as the first step in phasing out labor power as a commodity, which was a prerequisite for developing socialism. The development of a labor market, where labor power could be bought and sold, was contradictory to the goal of achieving socialism. Moreover, if the proletarians were to become the masters of their own country, they needed to first have decision-making power in their workplaces. If workers' employment had not been guaranteed, they would have found it difficult to voice their opinions, let alone exercise decision-making power in the factories where they worked.

Liu made several serious attempts to institute the contract labor system as early as the 1950s. He sent a team to the Soviet Union to learn about the experiences of implementing contract labor there. When the team got back and was getting ready to try it in China's state enterprises, however, the Great Leap Forward movement started and their efforts failed. In the early 1960s, Liu made another attempt and was able to get state enterprises to adopt a "two-track system," in which these enterprises could employ both permanent workers and temporary workers. Then in 1965 just before the Cultural Revolution, the State Council went as far as announcing a new regulation on the employment of temporary workers. The Cultural Revolution stopped temporary employment from becoming a reality and assured the permanent employment status of workers as State policy.⁸⁸

Soon after the Reform began, Deng and his supporters attacked permanent employment in state factories by deriding it as the "iron rice bowl"—meaning the workers were guaranteed a livelihood by having an unbreakable rice bowl. They said this "bowl" was preventing workers from giving their best efforts and so began to dismantle the permanent employment system, saying that unemployment was a good thing, because it would increase workers' sense of insecurity, motivating them to work harder. The logic was reminiscent of Marx's description of the "reserve army of labor" under capitalism that served to press down wages.

In addition to several attempts to institute the contract labor system in state enterprises, Liu also tried to change the wage system. State enterprises had an eight-grade wage system, and workers moved up to a higher grade as they gained more experience and acquired more skills. Liu however believed that this wage system was not enough to motivate workers to work hard. Instead, he wanted to link workers' wages directly to their productivity.⁸⁹ He experimented with different kinds of material incentives, including bonuses and piece wages. Mao, however, strongly opposed using material incentives to entice workers to work hard. He believed that

⁸⁸ See the article "Labor Reform — Mao vs. Liu and Deng," p. 63.

⁸⁹ Dao-yuan Chou documented in her book, *Silage Choppers and Snake Spirits*, how Joan Hinton, a nuclear physicist from the United States, joined China's socialist construction. In Chou's account, Hinton was at first enthusiastic about linking state farm workers' wages to their productivity but saw that the production went down when each worker became narrowly focused on his/her self-interest. (See Dao-yuan Chou, *Silage Choppers and Snake Spirits*, Foreign Languages Press, Paris, 2019, pp. 209-210, pp. 260-261.)

if workers could feel a sense of ownership, they would put forth their best efforts. He saw Liu's scheme as divisive for the working class and struggled to block Liu's many endeavors to change the wage system in state enterprises. After Deng began his Reform in the early 1980s, he reintroduced the bonus system and the piece-wage rate while encouraging workers to compete. In the mid-1980s, however, with high rates of inflation, most of the workers simply divided the bonuses equally to compensate for the loss in real wages.

Throughout the entire socialist era, the struggle between classes constantly shaped the direction of China's development, either toward socialism or toward capitalism. However, this struggle between two lines—the socialist road and the capitalist road—did not become clear to the masses until the Cultural Revolution. The masses had not been aware at all of the struggle within the Communist Party over the path of China's development. The Cultural Revolution brought the two-line struggle out into the open and articulated the differences between socialist and capitalist development. Deng's capitalist reforms have a history. They were not, as he claimed, mere corrections of the various problems he inherited. The current class struggle in China is intimately linked to the class struggle between the 1950s and Mao's death in 1976. The class struggle during the socialist period has a profound influence, not only on the current struggle in China but also on the class struggle that is yet to come.

2. Major Unresolved Issues in the Mid-1960s and the Cultural Revolution

Liu, Deng and their supporters made many attempts to implement their capitalist projects from the mid-1950s to the mid-1960s, until they were criticized and held back during the Cultural Revolution.

The biggest issue in the mid-1960s was the unresolved question of whether China would pursue socialist or capitalist development. Related to this principle issue were major issues that existed in all spheres of society, from industrial organization and production processes, to organization of agricultural production; from providing health care and for other needs of the population to the question of education and culture. In addition, if socialism were to persist and take root, China had to progressively resolve

the differences between industry and agriculture, cities and rural areas, and physical and mental labor.

Before the Cultural Revolution, however, all these issues were not understood by the masses. The majority of CCP members in the mid-1960s were not even aware there was a two-line struggle going on within the Party, even though the ideological disputes between the CCP and Communist Party of the Soviet Union (CPSU) became public in 1963. As far as the Chinese workers and peasants were concerned, they had overwhelming trust in the CCP. Their general perspective was one of gratitude to the Party for leading their struggle for Liberation and better lives. For most people, it was inconceivable that the Party could do anything wrong. Although workers and peasants had experienced more than a whole decade of struggle between the two lines, they had little or no understanding about the nature of these struggles. Most policies were decided by the Party's Central Committee and carried out by the government of the People's Republic.⁹⁰ The Party and the new government were held in such high esteem and socialism had been such a positive experience that the only conceivable enemies in the eyes of the general public were residual elements of the Kuomintang or agents of foreign powers. In fact, Liu wrote a book entitled *How to Be a Good Communist*, so the masses found it difficult to imagine that he would advocate anything against socialism. Not only was the capitalist Reform that began in the end-1970s dressed up as socialism; Liu, Deng and their supporters had always claimed their policies to be socialist.

Whether China pursued socialist development or capitalist development was the determining factor for resolving key issues. One was whether state-owned factories should guarantee permanent employment or employ temporary contract workers. Another was whether state-owned factories should rely on workers to be self-motivated and self-disciplined, or use bonuses and piece wage rates as incentives for workers to work harder while instituting rigid and unreasonable rules and regulations to keep them in line. Still another was the question of how workers participated in management and what role they had in technological innovation. All of

⁹⁰ Liu Shaoqi did carry out some of his experiments without the approval of the Party.

these issues were terribly significant in deciding the organization of work and labor processes in state factories.

Workers at Anshan Metallurgical Combine factory took the initiative to write new rules designed to change the operation of their workplace. Mao saw the workers' initiatives as fundamental and concrete steps to revolutionize work organization and labor processes in state enterprises. On March 22, 1960, he proclaimed these new rules the Angang Constitution and called on other state enterprises to adopt them as guidelines.⁹¹

The Angang Constitution consists of five principles:

- (1) Put politics in command;
- (2) Strengthen party leadership;
- (3) Launch vigorous mass movement;
- (4) Systematically promote the participation of cadres in production labor and of workers in management, and
- (5) Reform any unreasonable rules and assure close cooperation among workers, cadres and technicians, and energetically promote technical innovation.

These principles were and to this day remain among the most radical guidelines to change industrial organization and production processes in factories.⁹² Before the Cultural Revolution began, however, state factories only paid lip service to the guidelines spelled out in the Angang Constitution. When management was in firm control of the decision-making process in running the factory, it did not see any need to change. On the other hand, workers who were content to receive state-endowed privileges and benefits, assumed that the conditions of employment and benefits they enjoyed were there to stay.

The issue of industrial organization and production processes was only one of many major issues to be resolved in deciding which direction China was to take. There were other major issues as well, although few had recognized their significance. In the struggle against the Soviet revisionist

⁹¹ Angang is an abbreviation for Anshan Iron and Steel Factory.

⁹² A small group of people organized the celebration of the 50th anniversary of the Angang Constitution in Beijing in March 2010.

party, the CCP clearly stated that when party members degenerated into state bureaucrats, they place themselves in opposition to the working class. Within the CCP itself, however, the majority of members could not grasp that China could also go down the same slippery road if nothing was done to prevent it. Seeing the danger, Mao and a small minority realized that the only way to stop China from going down that road was to bring out into the open the existence of a small group of “capitalist roaders” within the Party’s Central Committee. Mao also saw that the only way to make this happen was through a mass movement, where all the major issues could be articulated and debated by the masses. This was the driving reason behind the launching of the Cultural Revolution.

During the Cultural Revolution, workers in state factories came to understand through debate, study and first-hand experience why contract labor, piece-wage rates and bonuses were detrimental to the unity of the working class. They also came to understand why they needed to participate in managing the factories, and why management should participate in productive labor so as to understand the problems and difficulties workers faced and thus solve them correctly. Finally, workers came to understand why they needed to play a much bigger role in carrying out technological innovations and in making decisions in the factories.

Charles Bettelheim visited China in 1958, 1964, 1967 and 1971, and investigated and studied many aspects of socialist society. During his 1971 visit, he specifically studied the changes made in production processes and management in factories since the beginning of the Cultural Revolution. Bettelheim was impressed by how the Angang Constitution was put into practice in the factories he visited, as well as the high level of political consciousness of the workers and the cadres. He witnessed the abolition of unreasonable rules and regulations, how technical innovations had shifted from reliance on the engineers to reliance on production workers, and how workers were involved in solving problems related to management.⁹³

Education is another area to examine when discussing the Cultural Revolution. Under three thousand years of feudalism, education was reserved for the very privileged few. A system of examinations evolved

⁹³ Charles Bettelheim, *Cultural Revolution and Industrial Organization in China, Changes in Management and the Division of Labor*, New York, Monthly Review Press, 1974.

from this long history, designed as a way to select a few qualified people to join the ruling class. Landlord families set up private schools and hired tutors to educate their sons. The younger generation had to study hard and then took the difficult examination; if they passed, they could become officials serving in the imperial government. This system of selection was how the land-owning class linked to the ruling class. Education, as an avenue to advance oneself in social stature, had deep roots in the thousands of years of feudalism and in the consciousness of ordinary people. The divide between mental work and physical work was similarly rooted. As Confucius famously said: "Those who do mental work rule, and those who do physical work are ruled."

Modern Western-style education found its way into China in the mid-1880s through missionary schools and later through returned students educated in the US and other Western countries. Toward the end of the Qing Dynasty, the first university was established and the examination system of selecting government officials was abolished. After the 1911 revolution, the government adopted many aspects of modern education from the West, including the levels of education and the number of years at each level: six years of elementary, three years of junior high, three years of high school, and four years of college. Curriculum at different levels was changed to include modern science, modern languages, social sciences, psychology, and others. However, in the 1930s, only about 15 percent of Chinese children received elementary education and even fewer attended high school.⁹⁴ University education only served the extremely small upper class in the urban areas and provided an important vehicle for obtaining wealth, fame and power.

When the new People's Republic was established in 1949, the literacy rate was between 20 percent and 40 percent.^{95, 96} The focus of education in the early years of the new government was to quickly increase the population's literacy through formal schooling, as well as through literacy campaigns and establishing informal schools that taught people

⁹⁴ Peter Mauger, et al., *Education in China*, Modern China Series 5, Anglo-Chinese Educational Institute, 1974, p. 6.

⁹⁵ The criteria of literacy varied from knowing 1,500 Chinese characters to knowing over 3,000 or more characters.

⁹⁶ Dwight Perkins and Shahid Yusuf, *Rural Development in China*, World Bank Publication, Baltimore, Johns Hopkins University Press, 1984, p. 164.

how to read and write. Between 1949 and 1965, elementary school enrollment more than tripled from 45 million to 160 million, secondary school enrollment increased 8.5 times from 2.3 million to 19.7 million, and college enrollment increased 4.3 times from 230,000 to 930,000.⁹⁷ Curriculum at different levels went through major revisions—Western influences were largely replaced by influences from the Soviet Union. Education in urban areas was basically free of charge. College students no longer had to pay tuition and were also given monthly stipends to cover their living expenses. In this sense, education was no longer limited to those who could afford to pay and was expanded to include young people from other segments of society.

The basic philosophy of education, however, remained largely unchanged and continued to follow in the old tradition. Although schools expanded at all levels during the first 16 years of the People's Republic, there was a strong bias in favor of the urban population at the expense of the rural population. Even in urban areas, children of working-class families were in a disadvantaged position although cost was no longer a barrier for them to attend school. In the 1950s and 1960s, schools at different levels used test scores to judge students' performances, and admission to high school and college was based on the entrance examination scores. "Key schools" were set up to attract students with the best scores and a tracking system within them—very much like the tracking system in US schools—further differentiated the futures of these students; placement in the upper tracks of "key high schools" almost guaranteed a place in the best universities. These "key schools" had more resources and had better trained teachers and better facilities.⁹⁸

This system of competition based on book learning strongly favored students from intellectual families, who had more books, and whose parents were better equipped to tutor them to help raise their exam scores. While children from working-class families were at a disadvantage, children of peasant families had even more limited chances to attend high school and all the barriers to enter university were almost insurmountable. Both feudalism and capitalism use the surplus created by workers and

⁹⁷ State Statistical Bureau, 1981, *Statistical Yearbook* (in Chinese), Hong Kong Economic Information Agency, 1982.

⁹⁸ Dwight Perkins and Shahid Yusuf, *Rural Development in China*, *op. cit.*, p. 186.

peasants to educate elites who turn around to rule them. Should socialism continue that well-established tradition? If not, where were future leaders of the working class going to come from?

The old admissions process and standards no longer met the needs of the new society, and neither did the old curriculum. There was too much book learning, which imparted outdated and irrelevant knowledge that did not meet the urgent needs of China's rapid industrial and agricultural development. Even though Mao was well-versed in the ancient forms of the Chinese language, he always thought education in its traditional form stifled young people's curiosity and imagination and provided no useful knowledge. He had dropped out of school a few times in his youth and studied on his own to acquire a wealth of knowledge in breadth and depth unmatched by known scholars. Thus Mao had a bias against the kind of formal education taught in regular institutions and saw education reform as a key to the success of building a new socialist society—not only so that young people could acquire useful knowledge for developing the economy, but also in bridging the divide between mental and physical work. However, in the institutes of higher learning, school administrations and faculties considered decision-making on curriculum matters their prerogative—a role that was not to be challenged by anyone.

During the Cultural Revolution, there were several basic questions confronting education reform. The questions consisted of the following: First, who should be admitted to schools of higher learning? Second, what should be taught in these schools and how should book learning be connected with practice? And third, how could education be expanded to include more young people in the countryside? There was also the question of learning beyond classrooms and whether the length of formal education at different levels should be shortened.

Education reform generated great enthusiasm among young Red Guards during the Cultural Revolution. Schools were suspended so that the young people could play a critical role in the revolution.⁹⁹ Education reform also provoked uproars in institutions of higher learning. After three years of intense struggle, in the end, the admission processes and standards were changed and written entrance examinations abolished. High school

⁹⁹ Schools were suspended for three years from 1966 to 1968.

graduates worked either in factories or on farms, and their work units were the ones who decided whether they should be sent back to school for further education. Additionally, large numbers of high school graduates were sent to the countryside to work. The curriculum was revised to better fit the needs of society. Physical labor was incorporated into the curriculum as an integral part of learning. University faculty in science and engineering started going to factories to see how to make a better connection between what they were teaching and what was needed for industrial development, while faculties in agricultural sciences went to the communes to help peasants improve planting methods and soil conditions, develop new seeds, and control insects.

These drastic changes caused major controversies and were met with strong resistance. To this day, the opponents of education reform accuse the Cultural Revolution of ruining opportunities for a whole generation of China's talented elite to excel. They charge that the admission of students from worker, peasant, and soldier backgrounds (*gong, nong, bing* students) lowered the overall education standards for all students. The entrance examination was quickly restored in 1978, even before the overall capitalist reform began. The resistance to change is reminiscent of the opposition to the open admission policy, which radical students fought for in US universities in the late 1960s and early 1970s, as well as the opposition by some university administrations to education benefits for US soldiers returning from war to attend college through the GI Bill—for fear of lowering academic standards.

Education reform during the Cultural Revolution greatly expanded the educational opportunities for China's youth in the countryside. As the economy of the communes stabilized, there were more resources available for education and health. The State transferred funds for building schools and paying teachers. Just as importantly, more young intellectuals were willing to come to the countryside to teach. By the end of the 1970s, each commune had 15 elementary schools on the average, 90-95 percent of all school-age children in rural areas attended primary schools, and about 50 percent attended junior high and high schools.¹⁰⁰

¹⁰⁰ For a detailed account on the improvement in education in rural areas, see Han Dong-ping, *The Unknown Cultural Revolution: Life and Change in a Chinese Village*, New York, Monthly Review Press, 2008.

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Related to education reform were changes made in the areas of art and culture, including literature, music, film and theater. Before the Cultural Revolution, there were very few cultural productions that reflected the lives and struggles of workers and peasants; familiar subjects of traditional Chinese brush paintings included flowers, birds, and an old man sitting in a boat appreciating the scenery. Traditional Chinese opera continued to tell the stories of old imperial dynasties, which had little relevance to the new society. Drastic changes in all areas of art and culture took place during the Cultural Revolution. The lives and struggles of peasants and workers became the new subject of the arts and were often created by peasants and workers themselves. Workers, peasants, and revolutionary soldiers became the heroes and heroines in film and theater.

The many essential changes made during the Cultural Revolution not only blocked Liu and his supporters' many attempts to institute capitalist projects, but also demonstrated that there could be many "newborn things" in a socialist society. The many "newborn things" included workers and peasants attending universities, women becoming leaders in factories and communes, the spread of peasant paintings in the countryside, bare-foot doctors, and many more.

Another significant gain was the progress made in the distribution of medical resources, which greatly favored the cities prior to the Cultural Revolution. In Guangdong Province in 1967 (when the Cultural Revolution was just starting to pick up steam), the urban population was 20 percent of the total but enjoyed 70-80 percent of the total medical resources, 60 percent of high-level medical personnel, and two-thirds of the hospital beds. In Guangzhou (the largest city), the doctor-to-patient ratio was one in 600, while the corresponding ratio in the countryside was one in 10,000.¹⁰¹

The policy during the Cultural Revolution was to resolve the unequal distribution of medical resources between cities and the rural areas. Physicians and other medical personnel were persuaded to go to the countryside to train more physicians, including barefoot doctors. Not only did physicians in the countryside become more highly trained during the decade of Cultural Revolution, each production team also had a member who was a

¹⁰¹ Ruth and Victor W. Sidel, *The Health of China*, Boston, Beacon Press, 1982, p. 34.

barefoot doctor while working alongside other team members in production. Barefoot doctors attended to the minor medical needs of their team members and had the medical knowledge to detect more serious problems warranting the care of physicians or admission to hospitals. By 1979 the number of hospital beds in China's countryside reached 62 percent of the nation's total, while the quality of rural hospitals improved a great deal (Table 3).

Table 3. Number of Hospitals and Hospital Beds

		Hospital Beds (thousands)		Ratio of Hospital Beds to population	
Year	Hospitals	Nationally	Rural Areas	Nationally	Rural Areas
1949	2600	80	20	1:6,667	1:24,201
1957	4,179	295	74	1:2,174	1:7,392
1965	42,711	766	308	1:943	1:1,932
1978	64,421	1,856	1,140	1:515	1:693

In their book, *The Health of China*, Ruth Sidel and Victor W. Sidel cited statistical data mostly from the World Bank to compare a selected number of poor and also rich countries. Their comparison showed that by the end of the 1970s, even though China was still a poor country, with its per capita GNP comparable to that of Sri Lanka or Mozambique, its health and education data were closer to other countries with much higher per capita GNP, such as the United Kingdom, Japan, and the US^{102, 103} In a period of 30 years, China was able to drastically reduce infant mortality rates and crude death rates and double its life expectancy. That could only be the result of China achieving its socialist development goals, which were meeting people's basic needs.

After decades of negative propaganda from the new post-Mao regime, a reevaluation of the Cultural Revolution is urgently needed; many

¹⁰² The health and education data used were: crude birth rate, crude death rate, infant mortality rate, life expectancy at birth, daily caloric supply per capita, children enrolled in primary school (percentage of age group) and adult literacy rate.

¹⁰³ Ruth and Victor W. Sidel, *The Health of China*, *op. cit.*, p. 92.

people from various sectors in different regions of China have been doing exactly that in the past few years. Refuting the official account of the Cultural Revolution, they have written their own accounts and evaluated the Cultural Revolution based on their experiences as coming from different sectors and many different localities. Their reports have been published on various websites and in underground publications. These reports detail all aspects of the Cultural Revolution, including the major issues in different areas, what the rebels were trying to do, what mistakes were made, and how the Leftist rebels were attacked by those on the Right. These reports also record the chaotic situations and excesses that occurred during that time.

One important revelation is how those who opposed the Cultural Revolution tried to carry the movement to extremes as a strategy and tactic to discredit those on the Left. *Mao Zedong's Zhu Feng*, an important book about the Cultural Revolution, explains how Mao understood that the Rightists could express themselves in different forms.¹⁰⁴ He said that the Right only showed its true colors when the Left was weak and on the defensive. However, when the Left was on the offensive, the Right would use ultra-Left strategies and tactics as a disguise. An example that could help us grasp this pattern is Liu's strategy to dismantle the communes. One point in his "Three Zi" policy called for the expansion of private plots when the communes were experiencing difficulties, as a way to break apart the collectives. However, when the communes were doing well and during mass movements such as the Cultural Revolution, the Right would advocate for the total elimination of private plots as a way to confuse the masses and cause them not to trust the Left. Liu and his supporters, and later Lin Biao and his supporters, used this same strategy repeatedly.

In these reports were vivid descriptions of clashes between radical factions and conservative factions. The conservatives were often subject to criticism and even verbal and physical attacks by the radicals for their unwillingness to criticize those in power in the Party. It seems clear now that the majority of the conservatives were good and honest people but found it too difficult to criticize Party cadres whom they trusted. Of great significance is that countless former conservatives, who later understood

¹⁰⁴ Mei Qiao, *Mao Zedong's "Zhu Feng" (The Everest Peak of Mao Zedong)*, Yin-He Publishing, 2007.

the issues involved, are now staunch defenders of the Cultural Revolution—often in spite of the insults and sometimes abuse they suffered at the time.

For more than a decade, Mao saw the revisionist line gaining strength within the Party. During the debates between the CPSU and CPC, which became public in the early 1960s, Mao had to grapple with what to do with the growing revisionist tendencies in his own Party. He understood that unless the broad masses of workers and peasants could grasp the issues and distinguish the fundamental differences between the socialist line and the capitalist line, there would be little chance for the socialist line to prevail. The Cultural Revolution failed to prevent the capitalist takeover, but Mao made it very clear that it would take more than one Cultural Revolution to firmly establish socialism. And after all, the Cultural Revolution succeeded in delaying for ten years the bourgeoisie's seizure of power. During the intense struggle through those ten crucial years (1966-1976), workers and peasants had a chance to sort out issues and apply the socialist line to their daily practice. Had it not been for the Cultural Revolution, Deng wouldn't have had to wait until 1979 to institute his grand plan; he and Liu would have succeeded earlier in the late 1960s or early 1970s.

The communes in 1966 had been in existence for merely eight years—still too early for them to demonstrate that collective agriculture was a viable model for agricultural development in countries where productive forces were still at low levels. By 1979 China's rural economy was strong and vibrant; by then communes had proven that organizing agricultural production into collectives could develop the productive forces. As mentioned earlier, in the mid-1960s workers did not yet understand the nature of the struggle they were in. The intense struggle within state factories during the Cultural Revolution was indispensable for understanding the subsequent workers' struggles in the past three decades of capitalist reform. Many workers and peasants now say, "Mao warned us about capitalism but we did not understand what capitalism was. Now we do."

Another crucial achievement of the Cultural Revolution was the practice of democracy at the grassroots level. The mere suggestion of democracy under socialism causes many controversies. Many people ask, how could a country have democracy when China was under the one-

party rule of the Communist Party? If examined from a different angle, however, a different perspective emerges.

As explained above, in the mid-1960s there were actually two headquarters within the Chinese Communist Party: the bourgeois headquarters that was actively pursuing capitalism, and the proletarian headquarters that was actively pursuing socialism. The dichotomy between the two headquarters could not be resolved by a voting system like the bourgeois democracy of modern capitalism, which has a two-party or multi-party system with one or more Left-of-center parties and one or more Right-of-center parties. The differences between or among these different political parties in the West are very limited in scope—mostly around the issue of more or less government involvement in managing the domestic economy and a narrow range of foreign policy alternatives. Yet, during the Cultural Revolution, the Party encouraged a movement that debated fundamental issues between capitalism and socialism. These debates were based on the fundamental class interests of the bourgeoisie and proletariat and took the form of mass participation.

The proletarian headquarters of the Party, which was not afraid of the masses, encouraged their participation in the debate; for a ruling party, that is an historically unprecedented move. The masses practiced the four *da* in grassroots democracy. The government could not censor what people wanted to say, because they simply wrote big-character posters and pasted them on walls or hung them from ceilings in buildings. The right for people to practice the four *da*, as well as the workers' right to strike, was written into the Constitution in 1974. These same rights were quickly repealed in 1978 as soon as the capitalist reformers seized power. This shows which headquarters was afraid of the masses and which headquarters was not.

The Cultural Revolution not only articulated the major differences between socialism and capitalism, it also took concrete steps in advancing socialism in many spheres in Chinese society. It showed in practice why the proletariat has to be in control in order to advance socialism. When the bourgeoisie seized power in 1977, it was able to reverse the course of development and dismantle the achievements made during the socialist period. It also distorted that period of history, especially the Cultural Revolution, and demonized Mao. However, the people's experience of the Cultural

Revolution made it difficult for the bourgeoisie to keep up appearances that they were actually pursuing socialism.

Chinese workers and peasants lived and struggled through socialism and capitalism as two distinctively different societies. Their struggles during the past 30 years of capitalist reform have deepened their understanding of the two-line struggle, which they had only begun to comprehend and grasp during the Cultural Revolution.

It is, therefore, rather arrogant for Hart-Landsburg and Burkett to suggest in their conclusion that “foreign leftist endorsement of China’s ‘socialist market economy’ could easily lead Chinese worker-activists to reject socialism altogether.”¹⁰⁵ In the current struggle against the revisionists, state bureaucrats and private capitalists, the Left in China today draws its inspiration, strategy and tactics from the rich tradition of its own past, and through a return to studying Marx, Lenin and Mao in order to strengthen its theoretical understanding of both socialism and capitalism. Most workers in China would welcome support from the Left outside of China. However, whether foreign Leftists mistakenly believe China’s capitalist reform is socialist does not have any impact on Chinese workers’ belief in socialism.

3. Socialist Development Under the Worker-Peasant Alliance With the Goal of Satisfying People’s Basic Needs

What is socialist development? What is the meaning and significance of the worker-peasant alliance in socialist development? Why is it that only socialist development can make satisfying people’s needs as its goal?

We can best answer these questions by first briefly discussing the meaning of development for less developed countries. During the 1960s and early 1970s, a number of mainstream bourgeois writers in development economics searched for the kind of development that would eliminate poverty and improve the welfare of people in less developed countries. However, the field of developmental economics took a drastic turn by 1980, when advanced capitalist countries agreed on the Washington Consensus and put in place a set of concrete neoliberal policies. Con-

¹⁰⁵ Martin Hart-Landsburg and Paul Burkett, *China and Socialism, Market Reform and Class Struggle*, New York, Monthly Review Press, 2005, p. 111.

sequently, serious discussions on development issues began to disappear from mainstream Western economic literature.

A book entitled *Leading Issues in Economic Development*, edited by Gerald M. Meier of Stanford University, was first published in 1964.¹⁰⁶ In the first chapter, "International Poverty and Inequality," Meier wrote a note on the "Misconception of Development" where he said: "The growth of GNP is no longer regarded as the main objective or index of development..." He explained that this was because of the disappointing results of the first generation of development efforts in the 1950s and 1960s.

Meier also noted that economic development should not simply be equated with industrialization. One reason he gave was that progress in the industrial sector is dependent on progress in the agricultural sector. A typical dual economy develops when a modern industrial sector coexists with a backward agricultural sector. In the case of dual economies, increases in total and per capita income typically occur in the modern industrial sector, with little or no change in the backward agricultural sector. He went on to say that the distribution of income should be an integral part of the problem of development, and concluded that an increase in real per capita income by itself is not a sufficient condition for development.¹⁰⁷

Meier explained why development economists no longer "worship at the altar of GNP" but pay more attention to the quality of the development process. He suggested that instead of any aggregate or even per capita income, there should be an index of development that gives attention to achievements made in better nourishment, better health, better education, better living conditions and better conditions of employment for low-end poverty groups in the poor countries of the world.¹⁰⁸ The experiences of China and other less developed countries in the past six decades tell us that the kind of development that Meier talked about can only be achieved by socialist development, which sets satisfying people's basic needs as its goal.

China's socialist development accomplished the three conditions needed for meeting its goal of satisfying people's needs. Thus, after 20

¹⁰⁶ The Oxford University Press subsequently put out the second, third, and fourth printing in 1970, 1976, and 1978.

¹⁰⁷ Gerald M. Meier, *Leading Issues in Economic Development* (3rd ed.), New York, Oxford University Press, ed. 1979, pp. 5-11.

¹⁰⁸ *Ibid.*, p. 11.

years, it achieved the kind of development index Meier talked about in his essay. *First*, socialist development developed the productive forces in agriculture, construction, industry, and transportation. *Second*, socialist development was able to achieve a balanced development in both agriculture and industry and an equitable distribution of resources and income between cities and rural areas and also within cities and rural areas. *Third*, socialist development phased out the commodity characteristics of goods that people needed, such as food, clean water, housing, health care and education. Socialist development also phased out labor power as a commodity, so it could no longer be bought and sold in the labor market. As will be explained below, these three conditions are fundamentally interrelated; if the focus had only been on the development of productive forces and equitable distribution of resources and income, without persistent struggle to change the relations of production to gradually phase out commodity production, it would not have been possible to achieve the goal of meeting people's basic needs.

China developed its productive forces by achieving high rates of growth in agriculture, construction, industry and communication; their average annual rates of growth were 3.4 percent, 9.4 percent and 10.7 percent respectively between 1952 and 1978.¹⁰⁹ China achieved these rates of growth by pursuing development based on self-reliance, both in generating the capital it needed internally and by relying on developing its own technological base. In contrast, other less developed countries that choose capitalist development become dependent on foreign investment and/or foreign loans. This results in much more capital leaving the country than coming in. These countries' dependence on foreign technology means that they have to spend their precious foreign exchange to import technology that is not appropriate for their development. In addition, they also have to hand over decision-making power regarding development in technology to foreign multinational corporations.

The second condition for socialist development was balanced growth between agriculture and industry. China was able to achieve high rates of growth in different sectors because of its concrete policies that avoided

¹⁰⁹ Thomas G. Rawski, *Economic Growth and Employment in China*, for the World Bank, New York, Oxford University Press, 1979, p. 4. Comparable figures are found in other studies of China for this period.

overemphasizing industrial development at the expense of agriculture. During early stages of any development, surplus has to come from the agricultural sector because there is little industry to speak of. This was true for the early stage of development in industrialized countries and is true for any less developed country today. However, after the economy develops and surplus is taken out of agriculture, the agricultural sector needs to be replenished by resources from the industrial sector. In many less developed countries today, the agricultural sector is stagnant because it was drained of its resources with little or no new resources being invested back.

China paid great attention to the balance among economic sectors. As a poor country right after Liberation, industrial development in metal, heavy machinery and equipment was necessary to lay the foundation for future development. However, China realized in the 1950s it had to avoid the mistakes made by the Soviet Union in overemphasizing heavy industry at the expense of light industry and agriculture, which provided food and other consumer goods that people needed. In 1956 Mao wrote *On the Ten Major Relationships*, which discussed the importance of maintaining a balance between the agricultural sector and the industrial sector of the economy, as well as the balance between heavy and light industries within the industrial sector.¹¹⁰

The way to achieve balance among sectors was a policy of gradually reducing the surplus extracted from the agricultural sector and at the same time gradually transferring industrial resources to the agricultural sector. Between 1957 and 1978, the State decreased agricultural taxes as a percentage of its total revenue from 9.6 percent to 2.5 percent and increased its spending in agriculture from 7.4 percent to 12.6 percent of the total state budgets. At the same time, it increased investment in agriculture from 7.8 percent to 12.5 percent of the total investment, and increased its investment in agricultural machinery as a percentage of total investment in heavy industry from 3.0 percent to 11.1 percent.¹¹¹ Also, more and more agricultural machinery and other industrial inputs for agriculture, such as fertilizer and pesticides, were sold to the agricultural sector at state-subsidized prices, while the State gradually raised its purchase prices

¹¹⁰ Mao Zedong, "On the Ten Major Relationships" in *Selected Works of Mao Zedong*, Vol. V, *op. cit.*, pp. 267-290.

¹¹¹ See Table 1 p. 45.

for agricultural products. As a result, the terms of trade between the sectors during this period changed from 130.4 to 188.8 in favor of the agricultural sector.¹¹²

The combination of these concrete policies gradually reduced the surplus from agriculture, even if only in relative terms. This policy of achieving balance between agriculture and industry was not only a sound developmental strategy, but was also the material base to solidify the class alliance between workers and peasants, which in turn provided the political base for socialist development.

Under the worker-peasant alliance, China was able to modernize its agriculture in a period of 20 years after the formation of the communes. Peasants' hard work in building infrastructure, as well as China's development policy of replenishing the agricultural sector with industrial inputs, changed the entire landscape of the countryside. Machine-cultivated land increased from 2.4 percent in 1957 to 42.4 percent in 1979 and irrigated land area increased from 24.4 percent of all land area in 1957 to 45.2 percent in 1979. During the same period, land area irrigated by electricity (as a percentage of total irrigated land) increased from 4.4 percent to 56.3 percent. In 1957 there were 544 electric stations; by 1979 that number increased to 83,244. During the same period, the number of large and medium-sized tractors increased 45 times, agricultural combines increased 12 times, and small tractors increased from zero to 1.67 million.¹¹³ According to Rawski, during the period from 1957 to 1978, mechanization in agriculture increased rural power consumption at an annual rate of 21 percent, stocks of irrigation and drainage equipment increased at an annual rate of 25 percent, and the horsepower usage per hectare from three types of machinery (irrigation/drainage equipment, tractors and power tillers) increased at an annual rate of 24 percent.¹¹⁴

Thus, concrete policies based on the worker-peasant alliance modernized China's agriculture in a little over two decades and met the second condition for socialist development. Moreover, by the 1960s, with the growth of agricultural production, the countryside started to industrialize when production brigades and communes set up small-scale industries.

¹¹² Ibid.

¹¹³ See Table 2, p. 50.

¹¹⁴ Thomas G. Rawski, *Economic Growth and Employment in China*, op. cit., p. 82.

These small industries did not use advanced technology, but they provided a vital function for the modernization of agricultural production. They produced tractors and other agricultural machinery as well as providing repair and maintenance services. They produced chemical fertilizers for farming and cement for construction. They also produced light industrial goods for people in rural areas.¹¹⁵ What the Great Leap Forward hoped but failed to accomplish due to inadequate objective conditions, succeeded when the collective economy became stronger. The development of industry in rural areas contributed toward reducing the gap between urban and rural areas; so did the construction of railroads and highways that linked cities, towns and villages.

The third condition for socialist development was gradually phasing out the commodity characteristics of basic goods—or at least for these characteristics to no longer set the essential character of such goods. Based on China's experience, the State under proletarian leadership was able to implement policies aimed at phasing out commodity production in the publicly owned (State) sector and restricting commodity production in the collective sector. In the process of phasing out and restricting commodity production, the goal of production ceases to be profit-making; only then can the goal be changed to meeting people's needs.

In China, this process began with the transfer of ownership of industrial enterprises to the State in 1956, and the completion of agricultural collectivization in 1958.¹¹⁶ However, state ownership does not necessarily mean socialist public ownership unless individual enterprises in this sector no longer set profit-making as the goal of production and each enterprise is no longer considered as a separate accounting unit. The State set artificial prices for both outputs and inputs, towards encouraging production to meet people's needs. Prices of basic necessities were set extra low so that workers and peasants could afford to buy them. On the other hand, in order to conserve resources, prices of some "semi-luxury" goods were set extra high. For example, people had to save for several months in order to

¹¹⁵ Dwight Perkins (Chairman, the American Rural Small-Scale Industry Delegation), ed., *Rural Small-Scale Industry in the People's Republic of China*, Berkeley, CA, University of California Press, 1977, p. 121.

¹¹⁶ In the urban areas, the majority of enterprises were state-owned with the exception of some smaller urban collectives.

buy high-priced “semi-luxury” items, such as a watch or a camera. Since the “profit” or “loss” of each enterprise was the result of pricing policy, they did not reflect, nor were they used to judge, the performance of the enterprise. Each state enterprise competed with its own past record and used four criteria: “more quantity, faster speed, better quality, and more conserving” as the standard to evaluate and improve its performance.

Since “profit” or “loss” was the result of state pricing policy, the “profits” of an enterprise were to be handed back to the State, which in turn allocated funds to cover the “losses” of other enterprises. Moreover, the expansion of an enterprise or an industry did not depend on how profitable they were. Rather, the investment fund came directly from the State according to development goals set in the economic plan. When state-owned enterprises ceased to use profit-making as their goal of production, economic planning could then allocate resources according to the use value of different products. Since satisfying people’s basic needs was the goal of development, high use value was placed on those products that met people’s needs. When the State set the goal of modernizing agriculture towards meeting the future needs of the people, the economic plan allocated more investment funds to the agricultural machinery industry and other industries that produced farm inputs, and then deliberately set the prices of these products low, so the communes were able to purchase them. When individual state enterprises move away from producing commodities that return a profit towards producing goods that meet people’s needs, the true meaning of socialist public ownership of the means of production is realized.

Under socialism, a state enterprise could at no time use the excuse of losing money to lay off workers, because wage funds came directly from the State based on the number of workers and their wage scales plus benefits for that particular enterprise. The State guaranteed permanent employment for workers in these publicly owned enterprises, when it directly allocated workers’ wages and benefits in the form of wage funds to each enterprise. Therefore, each socialist enterprise no longer considered workers’ wages and benefits a cost that had to be constantly cut to increase profits, as is routinely done in a capitalist enterprise. This labor setup was a necessary condition for phasing out labor power as a commodity. Beginning in the Cultural Revolution until the start of the capitalist reform,

workers in China's state enterprises increased their participation in management, while managers engaged more in direct production. Workers also gained more decision-making power in the enterprises where they worked. Both these steps were critical to phasing out labor power as a commodity. In publicly owned socialist enterprises, workers ceased to be treated as wage labor.

The permanent employment system guaranteed workers' rights to a job and adequate compensation to meet their and their families' needs. The eight-grade wage system reduced the income disparity among workers and during the Cultural Revolution the income gap between management and workers was also reduced. The most important factor that made equitable income distribution possible was state appropriation of private capital that eliminated profits as sources of income, so that all incomes were based only on labor contributed by individuals.

When both prices of outputs and inputs in the state-owned sector were set artificially and did not reflect the value in them, it was then possible for production to move away from following the law of value.¹¹⁷ When Deng's Reform started, his first move was to make each state enterprise a separate accounting unit, just as had been done during the capitalist reform in the Soviet Union. Then Deng transformed the goal of each enterprise to profit maximization, using profit as a yardstick to judge its efficiency. Managers were rewarded according to the profits made by their enterprises. Investment went to enterprises and industries that had the highest returns. Therefore, even before the massive scale of privatization began, tens of millions of workers were laid off by the reformed state enterprises so that they could increase their rates of profits in the name of achieving higher efficiency.

As soon as individual state enterprises became separate accounting units, together with the introduction of the profit motive, the true meaning of socialist public ownership was lost and economic planning became obsolete. Capital, whether state-owned or privately owned, is now directed

¹¹⁷ In a capitalist economy, the law of value determines what products are to be produced and how they are produced. By following the law of value, private capital will be invested into making products that have the highest return potentials; CEOs of capitalist enterprises have to find the most profitable way to make the products, including replacing labor with machines, speeding the pace of production, and reallocating production to foreign countries.

by the market to go to where rates of returns are higher—not to where production is needed for people's basic needs. In today's China, food, clean water, housing, medical care and education are all commodities. Above all, labor power has again become a commodity bought and sold in the labor market. State and private enterprises lay off tens of millions of workers. The neglect of agriculture, as a result of state policy, has forced a large pool of labor, numbering some 200 million or more, to migrate from the countryside. This way, workers' wages are pushed down to the subsistence level or even lower, enabling China to export low-priced products in the international market. This was precisely the labor reform Liu had in mind but was unable to carry out in the 1950s, 1960s or 1970s.

In China's countryside during the socialist period, communes were structured under a three-tier ownership—communes, production brigades and production teams. Production teams consisted of 20 to 30 farm households; brigades, the size of a village, had on the average about seven teams; and communes, the size of a township, on the average had about 13 brigades. The production team was the basic accounting unit that managed production and distribution. Brigades owned larger agricultural equipment, which could be shared among the teams; they also owned milling stations and other processing facilities. Later, many brigades also had their own factories. Brigades also coordinated with teams and communes in irrigation work and other infrastructure construction. Communes were new rural administrative units that replaced township governments. They were in charge of overall planning in production, building large infrastructure projects, collecting taxes, managing health and welfare and militia for defense, and overseeing education and cultural affairs.

Commune members produced grain, which was mainly for their own consumption rather than sale. Production teams distributed most of the grain they produced as quota grain to their members according to each member's age and physical activities. Each member received his or her quota grain even if he/she could not work due to old age or disability. The team used the surplus grain to pay taxes and to sell to the State for cash. The same was true for other agricultural products. From the cash received by the team, it set aside an accumulation fund for investment and a welfare fund for health care, education and aid for needy families. The team then distributed the remaining cash to team members according to the number

of work points they earned. Team members used their cash income to buy consumer goods they needed. Production and distribution in the commune system was set up not mainly to make profit. However, collective ownership was different from state ownership. The incentive remained for the production team, the brigade, and the commune to produce goods that would yield them higher returns. Grains and other agricultural products still had commodity characteristics, and the law of value was still at work.

Mao understood this clearly and explained that the State had to pay a sufficiently high price for pigs while supplying peasants with a sufficiently low price for feed—otherwise peasants would not raise pigs. Mao said that state planning needed to make use of the law of value to plan the production of pork, but the State should not blindly follow that law by relying on the supply and demand of the market to regulate pork production. The same was true for other agricultural products. He clearly saw the coexistence of two types of ownership, state and collective, as a problem that needed to be resolved within a reasonably short period of time. Otherwise the law of value would continue to play a crucial role in the collective sector.¹¹⁸ It was not an accident that Deng moved to dismantle the communes before he vigorously tackled the Reform in state factories. Not only did he want to break the worker-peasant alliance by taking apart collective agriculture, but he also knew it was an easier task to break up the communes than to reform state factories.

China's experiences show that only socialist development could phase out commodity production and replace it with economic planning to meet people's needs. When grain, other food items, medical care, housing, education, and other necessities of life shed their major characteristics as commodities, these goods and services could be produced according to their use value to satisfy people's needs. When labor power was no longer a commodity and workers could no longer be laid off to increase the profit of the enterprises, only then could the livelihood of workers be guaranteed. China's socialist development achieved the three conditions for satisfying

¹¹⁸ Mao clearly saw the problem of the coexistence of two types of ownership. However, he understood that unless the productive forces could reach a much higher level, it was not possible to transform the collectively owned communes into state-owned farms. This and other related problems of two types of ownership and commodity production will be discussed in a future paper.

people's needs as the goal of development: it developed the productive forces, it developed China's countryside along with its cities, and it took concrete steps to phase out commodity production.

To conclude, China's experiences show that socialism is only possible when the proletarian class has political power. This is the meaning of "politics in command" in the context of socialist construction. In a less developed country like China was and still is, where the majority of the population consists of peasants, the proletariat must form a close alliance with the peasants to solidify political power. A worker-peasant alliance means that agriculture must be developed along with industry, and the differences between city and countryside have to be gradually reduced and eventually eliminated. The Cultural Revolution not only articulated the major issues in the struggle between socialism and capitalism; it also demonstrated how to carry out this struggle. For all the mistakes made during the Cultural Revolution, the lessons learned from that intense struggle remain extremely valuable in the current and future struggles for socialism in China, and for those who believe that socialism *is* an alternative to capitalism.

PART II

Socialist Construction and Mao's Development Model

CHINA'S MODEL OF SOCIALIST DEVELOPMENT, 1949-1978¹¹⁹

This paper is based on the concrete experiences of China during its socialist development from 1949 to 1978. Socialist development as it was carried out was based on Mao Zedong's theory and practice of development. In the discussion, China's socialist development will be contrasted with the experiences of capitalist development in other less developed countries and China's own experience of capitalist development since the Reform that began in 1979.

How does one distinguish China's socialist development from the capitalist development of less developed nations in the post-World War II era and the capitalist development in and China since 1979? We can make this distinction by examining the fundamental differences between these two models of development.

Mao's theory and practice on socialist development was rooted in his belief in dialectical materialism. According to him, in order to understand how development takes place, we would need to grasp the dialectical relationship between the economic base (the productive forces and the relations of production) and the superstructure (the political and cultural spheres). He said that in the contradiction between the economic base and the superstructure, the economic base is the principal aspect; this means that changes in the economic base play the principal and decisive role. However, under certain conditions, he said, aspects of the superstructure could also manifest into the principal and decisive role. This paper will

¹¹⁹ This paper was first delivered at the 59th Annual Meeting of the Brazilian Society for the Progress of Science (SBPC), Federal University of Para, Belem, Brazil, on July 13, 2007 and in lectures to worker and peasant organizations in Belo Horizonte, Rio de Janeiro and São Paulo. This paper was also delivered at the Symposium for mass organizations in Quezon City, the Philippines in May 2009 and in lectures to other student and worker organizations. In May 2010, this paper was again delivered to the History and Philosophy Department of Buenos Aires University in Argentina. The original title of this paper was "China: Socialist Development and Capitalist Restoration." Although it has been edited, there is still substantial repetition in many of the other essays in this book and also *From Victory to Defeat* (Foreign Languages Press, 2019). However, we decided to include it, because there is some additional information that might be of use or interest to some readers.

give examples of how Mao initiated political movements by mobilizing the masses to adopt and internalize new ideology, and how these political movements were able to promote and achieve major changes in the economic base—both in the productive forces and in the relations of production.

The analysis that follows shows the basic characteristics of China's socialist development in the economic, the political, and the ideological and cultural spheres, i.e., both in the economic base and in the superstructure, and how they are dialectically related, forming together an integrated model of development. In each of these three spheres, there are fundamental differences between the socialist model and the capitalist model of development. These fundamental differences explain why China's socialist development during the first three decades of the People's Republic is diametrically opposed to both the capitalist development that is seen in varying degrees in the majority of developing nations and the capitalist development in China since the 1979 Reform. The discussion below will not follow the sequence of events during the period of socialist development. Instead, it will emphasize the fundamental components of socialist development as opposed to capitalist development in the economic sphere, the political sphere, and the ideological and cultural sphere.

A. In the Economic Sphere

The socialist development model has two major components in the economic sphere and both are rooted in the socialist relations of production. One is that socialist development is based on self-reliance; the other is that socialist development has the goal of satisfying people's needs. What do these two components mean, and why are they significant in distinguishing between socialist and capitalist development in the economic sphere?

1. Self-Reliance

The two important and interrelated dimensions of self-reliance are reliance on internal financing for development and reliance on building a nation's own system of technology.

Reliance on Internal Financing for Development

In today's world of imperialist domination, any country that genuinely wants to develop its economy must rely on internal financing. "Experts" in developmental economics have created the myth that poor countries have to rely on external finance to develop. However, the experiences of less developed countries in the past several decades have proven that the exact opposite is true. These experiences show that relying on external finance has meant that several times more resources have been taken out of these countries than what little came in. Many of these countries that borrowed heavily from abroad have been left in shambles; their peoples are actually worse off after several decades of "development." During the last three decades of the 20th century, underdeveloped countries ended up paying large sums of interest to international monopoly capital and international financial institutions.¹²⁰ Moreover, imperialist countries were able to use this debt trap as a vehicle to shift the burden of economic crises to the debtor countries, with the help of international trade and financial institutions. The result was that large foreign multinationals took over many sectors of these economies including manufacturing, communication and transportation, as well as finance and banking.

The concrete experiences of China's socialist development from 1949 to 1976 show that a less developed country can indeed develop by tapping into its own resources. However, to achieve self-reliance and development through internal financing, domestic resources have to be mobilized. In any underdeveloped country where industrialization is either absent or is still in its early stages, the initial investment and other resources needed for industrialization have to come from surplus generated in the agricultural sector.

¹²⁰ According to Susan George in *The Debt Boomerang*, between 1982 and 1990, developing countries paid advanced capitalist countries a total of 1,345 billion USD in principal and interest (not including profits, dividends, or royalties) and received from the advanced capitalist countries a total of 927 billion USD in investment, aid, and new loans. Therefore, the net capital outflow during these eight years was 418 billion USD. In 1948 constant dollars, the 418 billion USD capital outflow equals six Marshall Plans (referring to the US aid program to postwar Europe). At the end of these eight years, debt owed by developing countries not only did not decrease but increased by 61 percent instead. (Susan George, *The Debt Boomerang*, Pluto Press, 2002, Chapters XV-XVI.)

II — Socialist Construction and Mao's Development Model

During the early stages of industrialization, China paid great attention to the balances between the industrial and agricultural sectors. Its socialist development model emphasized that after the transfer of surplus from the agricultural sector, and as the economy developed, the agricultural sector needed replenishment from resources provided by the industrial sector. In a poor country such as China was after the revolution, development in metal, heavy machinery and equipment industries was necessary to lay the foundation for future development. However, China realized in the 1950s that it had to avoid the Soviet Union's mistake of over-emphasizing heavy industry at the expense of the light industry and agriculture, which provide goods people need. In Mao's *On the Ten Major Relationships*, he discussed the importance of maintaining a balance between the agricultural sector and the industrial sector as well as the balance between heavy and light industries within the industrial sector.¹²¹

After more than a century of foreign invasions and civil wars, China's newly liberated countryside was in ruins. Moreover, under feudalism, the landlord class had over-exploited the land with little or no investment put back into it. For many decades before 1949, China suffered severe drought and flooding, because its rivers and irrigation systems had been too long neglected. The majority of Chinese peasants lived in extreme poverty. How could China develop its agriculture with such severe environmental conditions and extreme lack of resources? Moreover, how could the agricultural sector generate the surplus needed for industrialization?

Land Reform in the newly liberated areas began soon after the establishment of the People's Republic and was basically completed by the end of 1952. More than 300 millions peasants, who were either landless or had very little land, received their own plots of land for the first time in their lives. Although holdings averaged only 0.2 hectares per capita, peasants cultivated their land with great enthusiasm. The output of both grain and cotton rose rapidly between 1949 and 1952. However, by 1953 grain production stagnated and cotton production actually fell.

As mentioned above, China's natural environment for agriculture was fragile and land was infertile because of ravages of war and long-term neglect in the 100 years leading up to Liberation. Shortly after the Land

¹²¹ Mao Zedong, "On the Ten Major Relationships" in *Selected Works of Mao Zedong*, Vol. V, Foreign Languages Press, Paris, 2021, pp. 267-290.

Reform, peasant enthusiasm alone could no longer increase production. Poor and lower-middle peasant households—60 to 70 percent of China's peasantry—did not even own a plow, let alone other farm tools or draft animals. When bad weather hit in 1953 and 1954, many of these peasant families again had to borrow money. When debt incurred at high interest started piled up, they were forced to sell their land. By 1954 both land sales and hired labor were on the rise in the countryside.

China's experience after Land Reform showed that the predominance of small landholdings was not a viable way to develop agriculture. To begin with, small peasant households did not have enough farm tools and other resources to produce enough for their own food, let alone generate surplus to buy new tools to increase production. Small plots of land, human labor and other resources had to be joined together some way into a more appropriate size for production. Under the socialist model of development, land and resources were joined together through collectivization. These concrete experiences showed that if agriculture had not been collectivized, landholdings would have again been consolidated in the hands of rich peasants, and a new (or the old) landowning class would have emerged.¹²²

Through several stages of collectivization leading to the formation of the communes in 1958, peasants were able to pool their resources together,¹²³ so that scarce resources could be used more efficiently to increase output. As the industrial sector developed, it provided increasing quantities and varieties of industrial input to agriculture, ranging from simple farm tools in the earlier years to more sophisticated agricultural machinery, irrigation equipment and chemical fertilizer later. With the hard work of the peasants and a gradual increase in aid from the State, as well as more and better industrial inputs, agricultural output increased steadily to provide better diets for both peasants and workers. After the formation of the communes, with the exception of the "three difficult years" (1959-1961), peasants received a guaranteed grain quota from their production teams.¹²⁴

¹²² See "The Worker-Peasant Alliance As a Strategy for Rural Development in China," p. 37.

¹²³ Starting from mutual-aid teams and elementary cooperatives, the collectivization proceeded to advanced cooperatives, then finally to the communes.

¹²⁴ These were the three difficult years when both severe droughts and floods hit many parts of China. The economic hardships worsened when the Soviet Union demanded

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As grain and other sideline production increased, peasants were able to improve their nutrition. The Unified Purchase and Supply System set up in 1953 assured adequate food rations for all urban residents, including the poorest in cities and towns. With rapidly increasing employment opportunities and low food prices, workers' diets also improved significantly.

From 1958 until 1978, China was able to modernize its agricultural production and improve the lives of the great majority of its peasants. After pooling together their land and whatever tools they had, the peasants spent tremendous amounts of time and energy on land conservation and improvement projects. They built terraces, leveled the land, and filled small creeks with soil. They merged small plots of land into large tracts so later they could use machinery to till them. They improved the fertility of the land by intensively applying organic fertilizer. They built irrigation and drainage systems and power stations, so crops could be irrigated using electricity and pumps. They also constructed roads, bridges and other infrastructure. Additionally, they planted trees to fend off desertification and worked hard to preserve pasture and forest land.¹²⁵

Commune members did all this work in addition to planting and harvesting crops. They extended their working days into the winter months, when agricultural production was slow. This increased their workdays per year from approximately 119 days in the mid-1950s to 250 days in the mid-1970s.¹²⁶ In addition, communes took "accumulation funds" from their annual revenue to invest in land improvement projects and in machinery and equipment. Moreover, the State transferred resources back to agriculture by gradually improving the terms of trade between the two sectors in favor of the agricultural sector. The State also gradually reduced agricultural taxes, and increased investment as percent of total state investment in large agricultural infrastructure, such as the Red Flag Canal and Yellow River Project, among many others.¹²⁷

immediate payments for debts incurred by China in fighting the Korean War. Mistakes made during the Great Leap Forward were also partially responsible.

¹²⁵ See "The Worker-Peasant Alliance As a Strategy for Rural Development in China," p. 37.

¹²⁶ Thomas G. Rawski, *Economic Growth and Employment in China*, for the World Bank, New York, Oxford University Press, 1979, pp. 7-8.

¹²⁷ The Red Flag Canal was a 1,500-kilometer long canal winding through the Taihang Mountains. Taking 10 years to complete, the construction cut across 1,250 rocky peaks

The hard work of peasants and China's development policy changed the whole landscape of the countryside and modernized its agricultural production during the 20 years' existence of the communes. Machine-cultivated land increased from 2.4 percent in 1957 to 42.4 percent in 1979, while irrigated land area increased from 24.4 percent of all land area in 1957 to 45.2 percent in 1979. During the same period, land irrigated by electricity (as percent of total irrigated land) increased from 4.4 percent to 56.3 percent. In 1957 there were 544 electric stations; by 1979, that number increased to 83,244. During the same period, the numbers of large and medium size tractors increased 45 times, agricultural combines increased 12 times, and small tractors increased from zero to 1.67 million.¹²⁸

For many peasants, agricultural mechanization eliminated the hardest kinds of manual work and dramatically reduced the intensity of farm labor. Through mechanization, rural power consumption increased at an annual rate of 21 percent, while horsepower per hectare from three types of machinery (irrigation/drainage equipment, tractors and power tillers) increased at an annual rate of 24 percent.¹²⁹ By the late 1970s, these three types of equipment alone provided Chinese farmers with mechanical power that was somewhat larger than the 0.69 horsepower per hectare of cultivated land available to Japanese farmers from all types of power machinery in 1955.¹³⁰

Great improvements in land fertility doubled grain yields per unit of land area. Making substantial gains in agriculture, China was able to increase grain production from 181 million tons in 1952 (at the end of the recovery period) to 285 million tons in 1977. With the exception of 1959-1961, annual grain production increased on the average by more than three percent, which was higher than the average annual population growth during the same period. China's rate of growth during this period was higher than its own historical record and the records of most devel-

and bore 134 tunnels. The Yellow River Project, which started in the 1950s and continued for many years, aimed to prevent the Yellow River from causing massive floods, as it repeatedly did in the 1930s and 1940s.

¹²⁸ See "The Worker-Peasant Alliance As a Strategy for Rural Development in China," p. 37.

¹²⁹ Thomas G. Rawski, *Economic Growth and Employment in China*, *op. cit.*, p. 82.

¹³⁰ *Ibid.*, p. 83.

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oping countries.¹³¹ By the end of the 1970s, China was able to achieve self-sufficiency in food. The newly built irrigation and drainage systems made it possible for millions of peasants to be less dependent on the weather for the first time. Mechanization likewise made it possible for them to be gradually freed from the most backbreaking work in the fields.

During the quarter century of socialist development, China was able to achieve rapid development in agriculture, industry, transport and construction. The annual growth rate for agriculture, industry, and transport and construction grew at the average rates of 3.4 percent, 9.4 percent, and 10.7 percent respectively during the period 1952-1978. China's concrete experiences show how the changes in the relations of production enabled it to develop its productive forces. It was able to rely on internal financing to achieve a balanced growth between industry and agriculture, such that peasants' standard of living in the countryside improved along with that of workers in the cities.

China's development during the socialist transition is exactly the opposite of what we have seen in the less developed countries in the past several decades. In most of these countries, peasants have not benefited from whatever "development" their economies attained. In many cases, vast tracts of land have been consolidated into (or retained in) the hands of large landowners in order to produce export crops, while leaving landless peasants with no choice but to migrate to cities to find work. In addition, the governments of many countries have subsidized large enterprises in the agricultural sector for the production of export crops. This kind of development policy deprives both workers and peasants of their right to utilize the resources of their own country to support themselves. Most people who migrate to cities are hard pressed to find stable employment that pays even bare subsistence wages. As a result, large numbers of workers and peasants in these countries live amidst devastatingly poor conditions.

In the case of China, following the 1979 capitalist Reform, agriculture has also been deprived of the resources needed for long-term development. The irrigation and drainage systems built during the commune years have fallen apart due to lack of maintenance. State investment has not

¹³¹ Henry J. Groen and James A. Kilpatrick, "China's Agricultural Production" in *Chinese Economy Post-Mao, A Compendium of Papers*, Washington, US Government Printing Office, 1978, p. 619.

been used to build new agricultural infrastructure. Instead, much of state funding has been invested in commercial buildings, residential structures, and restaurants and hotels for tourists. Since the communes collapsed, the agricultural sector has been unable to accumulate funds for its own investment. As a result, it has not been able to support the tens of millions people who still lived in the countryside, while as many as 150 million working-age peasants have migrated to cities to seek work. They have become a vast pool of cheap labor that has supported China's export industries.¹³²

The experiences of many less developed countries show that the importance of relying on internal finance cannot be overemphasized. When a country is dependent on external finance, it becomes impossible to find any balance between the sectors, even if political leaders are at all inclined to maintain such a balance. The constant and relentless pressure on the country to service its external debt forces economic policymakers to pursue exports promotion towards bigger foreign exchange earnings as their ultimate goal. Falling into the debt trap, and then clutching at export-oriented strategies in the attempt to climb out of the trap, have victimized many countries—including those that had at an earlier period declared their political and economic independence from their former colonizers.

International financial institutions (IFIs) controlled by global monopoly capital and imperialist nations have used debt as an instrument to force Structural Adjustment Programs (SAP) on many developing countries. Through the SAP, IFIs have been able to dictate on these countries' internal economic and political affairs. Countries placed under the SAP have lost their autonomy to decide how to use their own resources to produce food and other necessities for their own people. Under the SAP, resources are shifted from production for domestic use to production for export. Earning foreign exchange to pay the interest on ever-growing debt has become the only objective for "development," while people's basic needs for food, clean water, medical care, housing, and education are nowhere to be found in the "development" program.

Even though China has not become a debtor country during the past 30 years of capitalist development, the Reformers' choice of using

¹³² See "How Sustainable Is China's Agriculture? A Closer Look at China's Agriculture and Peasantry" p. 249.

constantly increasing exports as the means to promote growth has tied the nation's economy to the global capitalist economy. This makes it impossible for China to use its own resources for the needs of its masses of workers and peasants. As a result of this capitalist development strategy,

China's countryside has been deprived of the resources needed for long-term investment. Moreover, except for a few years after the collapse of the communes, when peasants were paid higher prices for their crops, they have not been able to earn enough income from farming for the last twenty-some years. Thus, migrating to cities to find work became the only alternative way for them to earn a living. Migrants from the rural areas are found primarily in the export sector, and in construction and service industries, earning low wages under oppressive working conditions.

Building a System of Independent Technology for Development

The second dimension of China's self-reliant approach in development is the reliance on its own technology. Better technology is vital to a country's economic development. Better technology in metal and machinery production helps build the foundation for industrialization. However, in developing technology, a country needs to carefully choose the kind of technology that is appropriate to its own development needs.

During the socialist period, China used the "walking on two legs" strategy to advance its technology. "Walking on two legs" meant that the country learned advanced technology from the West—one of the legs—but in adopting this technology, China carefully evaluated how such technology would fit its own development needs. At the same time, the country also used whatever local or primitive technology was available—the other "leg"—in order to conserve its scarce capital resources. China did not discard old machinery and equipment that were still usable for producing goods, even though these goods were of lesser quality.

In contrast, governments of many less developed countries pursuing capitalist development believed the myth advocated by many "development experts" that they must import advanced technology from developed countries. These "experts" claim that poor countries do not have the capacity (or will take an impossibly long time) to develop their own advanced technology. Thus, these poor countries supposedly must rely on imported

technology from the Western countries that possess the most advanced technology.

However, dependence on imported foreign technology works very much like dependence on external capital to finance development: such dependence is self-reinforcing, i.e., it merely assures continued dependence. Moreover, once a country becomes dependent on imported technology, it must then adopt and accept the logic of capital and the way capital defines efficiency. Following this logic, for example, higher efficiency is achieved when a factory adopts new and advanced technology and fires half of its workers. The logic of capital means that “efficiency” can only be achieved by continually using “advanced” technology to replace labor. This logic obviously goes against common sense for developing countries that are endowed with abundant labor but scarce capital.

This dimension of self-reliance in technology is related to self-reliance in internal finance, and is of critical importance. The contrast is very clear between the self-reliant development model and the one based on external finance and imported technology. When a country becomes heavily indebted to international monopoly capital and IFIs, it has to forego all other development objectives and to use whatever means necessary to promote exports in order to service its foreign debt. In addition, when a country's production is concentrated on exporting either agricultural or industrial products, it also must employ advanced technology—which is controlled by monopoly capital—in order to compete in the international market.

By relying on its own internal finance and independent technological advances, China was able to develop rapidly from 1949 to 1979. It was able to develop sophisticated technology in its industrial sector and raise the level of mechanization in its agricultural sector. Countless technological advancements helped raise productive capacity in the steel industry, other heavy industries such as machinery and equipment for light industries and agriculture, the chemical industry, transportation (railroad, shipbuilding, aerospace, etc.), and telecommunications. Under the commune system, the communes and brigades set up as many as 40,000 agricultural technological expansion and improvement stations with the help of the central

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government.¹³³ A network of these research and experiment stations covered the entire breadth of rural areas, greatly raising the level of technology for agricultural production by improving seed strains, controlling plant diseases, and improving soil conditions towards increased production.¹³⁴

By the mid-1960s, along with growth in agricultural production, small-scale rural industries were set up by production brigades and communes. These industries produced tractors and other agricultural machinery and provided repair and maintenance services to the increasingly mechanized agricultural production. They also produced other industrial goods, such as fertilizer for farming and cement for construction, as well as consumer goods for rural residents.¹³⁵ These industries employed commune members and raised the level of technical knowhow in the countryside. They often did not use the most advanced technology, but they served well the increasingly modernized agricultural sector by using the level of technology available to them—often machinery and equipment phased out by industries in the state sector. This was a good example of the “walking on two legs” development strategy.

An economic model based on self-reliance made it possible for China to develop its economy during the socialist transition, to better the lives of its people, and to consolidate the alliance between workers and peasants. To be clear, China did receive financial and technological aid from the Soviet Union in the 1950s. Soviet aid, given in the spirit of helping another socialist state, had a very positive impact on China's heavy industry development. However, the Soviet Union withdrew all of its technical personnel in 1960 and left many projects unfinished, after the Chinese Communist Party (CCP) criticized the Communist Party of the Soviet Union (CPSU) on the revisionist path it took after its 20th Congress in 1956. The Soviet Union also demanded immediate repayment of all

¹³³ These stations operated at the county, commune, brigade, and team levels.

¹³⁴ Thomas B. Wiens, “The Evolution of Policy and Capabilities in China's Agricultural Technology” in *Chinese Economy Post-Mao, A Compendium of Papers*, Washington, US Government Printing Office, 1978, pp. 671-703.

¹³⁵ Dwight Perkins (Chairman, the American Rural Small-Scale Industry Delegation), ed., *Rural Small-Scale Industry in the People's Republic of China*, Berkeley, CA, University of California Press, 1977, p. 121.

China's debt.¹³⁶ China learned the importance of self-reliance from this experience.

It also needs to be pointed out that self-reliant development does not mean a country has to totally rely on itself without trade with other nations. China had always maintained that it welcomed foreign trade, as long as it benefited both trading partners and was carried out on a basis of equal treatment. For many years, however, China was not able to trade with many countries because of a trade embargo imposed on it by the United States.

Under the self-reliance model, China did import technology from advanced capitalist countries. Alexander Eckstein, an expert on China's socialist economy, wrote:

Complete-plant imports from Japan, Western Europe, and to some extent the United States are making a major contribution to the expansion of production capacity in the chemical fertilizer, petrochemical, and iron and steel industries, as well as in power generation and commercial aviation, in the 1970s.¹³⁷

China benefited from selected technology imports, because it was able to use these not to replace but to upgrade its own technology. After a foreign-designed complete plant was imported and built, China was able to build a copy of the plant in a fairly short time.

John G. Gurley, another expert on the Chinese economy, said:

In the 1960s, China purchased four complete nitrogenous-fertilizer plants from the Netherlands, Britain, and Italy, which were installed in 1966. It began building its own fertilizer plants in 1964, and around this time set a goal of one large-scale plant for each of the country's 180-190 districts and one smaller plant for each of the more than two thousand counties. In fact, much of the increased production of chemical fertilizers in the 1960s came from the medium and small-

¹³⁶ Including the debt China owed to finance its war effort in Korea.

¹³⁷ Alexander Eckstein, "The Chinese Development Model" in *Chinese Economy Post-Mao, A Compendium of Papers*, Washington, US Government Printing Office, 1978, p. 107.

scale plants that were constructed throughout the countryside during the decade.¹³⁸

Gurley added that China continued to import fertilizer from abroad as well. The small-scale plants he was referring to were those owned and operated by the communes and production brigades.

When China began its capitalist Reform, also called “Reform and Opening Up,” it started to promote the idea that the country needed foreign investment and advanced foreign technology. One of the Reform policies was to use the huge Chinese market to entice foreign investment in the hope of acquiring advanced technologies from foreign multinationals. So far that strategy has totally failed. When the Vice Chair of the Ministry of Science and Technology, Liu Yanhua, spoke at China's Science and Humanity Forum in Hong Kong in 2005, he admitted that this belief (that technology will be forthcoming if China opened its market) was totally false, saying that it was naïve and self-deceiving. Since China opened its automobile market, 90 percent of this market has been occupied by foreign multinationals. Not only has China been unable to acquire new automotive technology, its automobile industry has discarded the old technology it used to possess, and has become totally dependent on foreign multinationals.¹³⁹

During the socialist period lasting for over 20 years, in contrast, China was able to develop rapidly by mobilizing its own resources and by developing its own technologies. During those years, China was able to devote an estimated 25 percent of its annual production into investment for the future. This estimate does not include the tremendous amounts of labor that peasants contributed to building infrastructure and improving the land in the countryside.

2. Satisfying People's Needs as the Goal of Development

The goal of socialist development is to take care of people's basic needs and raise their standard of living by increasing production. Thus, every effort is made to ensure that the most urgent needs are met first.

¹³⁸ John G. Gurley, *China's economy and the Maoist Strategy*, New York, Monthly Review Press, 1976, p. 249.

¹³⁹ See http://news.xinhuanet.com/fortune/2005-11/30/content_3855583.htm.

Common sense dictates that people must have enough food with adequate nutrition to ensure good health, clean water to drink, adequate shelter, basic medical care health, and basic education. This goal of development is diametrically opposed to the goal of capitalist development, which is to increase capital accumulation. Production in a capitalist economy will not take place unless it is profitable, unless it increases capital accumulation. When satisfying human needs is the goal of development, production is seen in an entirely different light. Investment in the steel industry is made to build the capacity to produce machinery and equipment for light industries, which in turn produces consumer goods and services that satisfy people's needs. Or, investment in steel can also provide the raw material for agricultural machinery that makes farm work less labor intensive for peasants.

In contrast, in the overwhelming majority of less developed countries today, investment in steel has to be weighed against other kinds of investment, depending on their rates of return. The rate of return on a specific investment depends to a large extent on its products' export market. In the early 21st century, many less developed countries, which had invested in steel, tried to export their products, only to find that steel prices on the international market had fallen drastically. Facing a worldwide oversupply and low prices of steel, the United States protected its domestic market by setting up anti-dumping measures to block steel imports. Steel is only one of many products exported by less developed countries that have suffered from lower prices and the effects of growing protectionism by imperialist countries.

As mentioned earlier, Mao's *Ten Major Relationships* showed the dialectical relationship between development in agriculture and in heavy and light industry. In addition to the balance between the agricultural and industrial sectors, China's socialist development placed the balance between the city and the countryside as one of its main priorities. The balance between agriculture and industry, of course, is the key to the balance between the city and the countryside. Moreover, as mentioned earlier, with the growth of agricultural production by the 1960s, China's countryside started to industrialize when production brigades and communes set up small-scale industries. These industries did not use advanced technology

but played a vital role in modernizing agricultural production and producing consumer goods to satisfy the needs of rural residents.

By the 1970s, peasants in most rural areas were engaged in productive work all year round in agriculture, building infrastructure, and rural industries. With the exception of some very poor communes, most peoples' lives in rural China improved immensely. A production team distributed a quota of grain to each of its members, even those who were too young, too old, or too sick to work.¹⁴⁰ Teams also set aside a welfare fund from their income to provide low-cost health care and education for their members.¹⁴¹ The welfare fund also covered major expenses for needy families.¹⁴² In addition, the State allocated funds to pay for education in the rural areas (teachers' salaries and school construction), as well as the training of teachers and healthcare personnel working in the countryside.

Workers in state factories were paid low wages but they only had to pay a few Renminbi (RMB) for housing and utilities. They also had free medical care and paid only a small fee for the coverage of their families.¹⁴³ Food in factory cafeterias was cheap, and workers bought rationed food, clothing, and other supplies at low prices. Childcare and education for their children were practically free.¹⁴⁴ Thus, workers were able to save a small amount each month and eventually buy radios, bicycles, sewing machines, watches, cameras, and goods then considered as semi-luxury items. When they retired (men at 60 and women at 55), their monthly pension equaled 80 percent of their former wages, with full medical and other benefits. Over the period of socialist development, workers' lives improved tremendously. Above all, their lives were secure and they had no worries about being laid off or being unable to earn enough to cover their living expenses.

¹⁴⁰ The amount of the quota grain varied according to a person's age and whether he/she actively participated in production, on the assumption that children and older people needed less grain than an actively working person.

¹⁴¹ The out-of-pocket expenses for medical treatment were extremely low. In education, students only paid for their own notebooks, pencils, etc.

¹⁴² The five "guarantees" for needy families (including people who had lost their ability to work, or the elderly who had no children) were food, clothing, shelter, medical needs, and burial.

¹⁴³ In addition to state factories, there were also urban collectives. Workers in urban collectives earned a little less in wages and enjoyed fewer benefits.

¹⁴⁴ Parents paid for the food for their children at daycare.

While its people's diet was improving, China made rapid progress in other areas of people's health. In only one and a half decades after 1949, China was able to eradicate most of the infectious diseases that had plagued its population for centuries, including cholera, diphtheria, tuberculosis, schistosomiasis (snail fever), typhoid fever, smallpox, and many others. Before 1949, malnutrition and outbreaks of these diseases had been the main reasons for China's high death rate. During the 1930s, China's crude death rate was 27 per 1,000; the infant mortality rate was 156 per 1,000 births in the country as a whole and was as high as 200 per 1,000 among the peasant population. On average, approximately one third of all children died before the age of five. Among the peasant population, life expectancy at birth was less than 30 years.¹⁴⁵ These grim statistics are not surprising, considering that in 1949 only one hospital bed existed for every 24,000 rural residents,¹⁴⁶ and there was no preventive medicine to speak of. China was known worldwide as the "sick man of Asia."

Under the new People's Republic, infectious diseases were eradicated by relying on the masses. Mobile medical units toured the countryside and cities to explain the nature of these diseases, persuading people to change their sanitary conditions and personal hygiene habits for better disease prevention. Many mass campaigns were initiated to eradicate different diseases, along with mass campaigns to kill flies, mosquitoes and other carriers of diseases. People's enthusiastic participation in these campaigns showed how they wanted to be in charge in improving their own situation. China was able to accomplish this feat, not only because people were mobilized to take control of their own lives, but also because China devoted a lot of resources in pursuing the satisfaction of human needs as its development goal.

In contrast, large numbers of people in most other less developed countries have not been able to improve their health, even during "good" years of "development." Since the SAP was imposed on heavily indebted countries in recent decades, these countries have been required to cut government expenditures. Typically, the first items to be cut are funds for food

¹⁴⁵ Dwight Perkins and Shahid Yusuf, *Rural Development in China*, World Bank Publication, Baltimore, Johns Hopkins University Press, 1984, pp. 133-134.

¹⁴⁶ Chinese Statistics Bureau, *Important Statistics on China's Agriculture* (in Chinese, *Zhongguo Nongyi Zhaiyao*), 1983, pp. 13, 93.

subsidies and health care for the poor, which usually are already too small to provide any meaningful protection. In a US National Public Radio report, Michael Kremer, an economics professor at Harvard, said that in some parts of Africa, 90 percent of children carry intestinal worms, which can be easily treated with medicine that costs about one US dollar a year, but which many countries still could not afford. In the same report, Ronald Bayer from Columbia University's School of Public Health said that diarrhea-associated diseases and tuberculosis kill more than two million people a year, malaria more than one million, and measles almost one million—diseases curable or preventable with vaccines. However, these professors from prestigious American universities are unable to really understand the devastating health problems faced by poor people in poor countries today. A few million dollars will not cure sick people when they continue to lack clean water supply and adequate nutrition, and when they continue to live in substandard housing. In the world of imperialism, a poor dependent country must forego its priority of meeting even the most basic and urgent needs of a large number of its people. Solving the ills that poor people suffer goes far beyond x million dollars donated by kind-hearted people from rich countries. These ills are deeply rooted in the systematic exploitation they suffer under imperialism.

Although China made miraculous progress in improving people's health by improving the nutrition of its people and wiping out infectious diseases, after 15 years of development, the levels of health services and the distribution of health resources between the urban areas and countryside still remained grossly unequal. It was only during the Cultural Revolution that rural health services improved both in accessibility and quality. Medical personnel from cities came to conduct training programs towards improving the quality of health services. The barefoot doctor network in the countryside reached production teams and made basic medical care widely accessible. By the end of the 1970s, the urban-rural gap in medical care shrank significantly.

China also made tremendous progress in education during the first decade and a half after Liberation. In 1949, the literacy rate¹⁴⁷ was between

¹⁴⁷ The criteria of literacy varied from knowing 1,500 Chinese characters to over 3,000 or more characters.

20 percent and 40 percent.¹⁴⁸ The focus of education in the early years of the new government was to quickly increase literacy through formal schooling, as well as through literacy campaigns and informal schools that taught people how to read and write. Between 1949 and 1965, elementary school enrollment more than tripled from 45 million to 160 million, secondary school enrollment increased 8.5 times from 2.3 million to 19.7 million, and college enrollment increased 4.3 times from 230,000 to 930,000.¹⁴⁹ However, after the commune system was established in 1958 and elementary and junior high education spread quickly in the countryside, large gaps of educational levels between urban and rural areas remained. The Cultural Revolution addressed such inequality issue and mobilized large numbers of educated youth to go to the countryside. With the improvement in production, more schools were established in the rural areas. By the end-1970s, most production brigades had their own elementary schools, most communes had junior high schools, and most counties had high schools. After the Cultural Revolution, education in the countryside began to catch up with that in the urban areas.

As stated earlier, Mao put great emphasis on the balance between development in industry and agriculture that, of course, was the basis for balanced development between China's urban and rural areas. Moreover, he believed that the balance between urban life and rural life had to go beyond equality in income, and that rural health, education, and cultural life in general had to be raised so that the gaps between countryside and city could be narrowed. As described above, by the mid-1960s big gaps in health services and education continued to exist between China's urban and rural areas. Before the Cultural Revolution, it was not easy to mobilize large numbers of educated people to go to the countryside to raise the level of medical and educational services for peasants. However, the Cultural Revolution affirmed China's socialist development and, at least until 1978, resolved many critical issues regarding socialist vs. capitalist development.

China was able to accomplish economic development during the socialist period and thus vastly improved the people's well-being by ensur-

¹⁴⁸ Dwight Perkins, *Rural Small-Scale Industry in the People's Republic of China*, *op. cit.*, p. 164.

¹⁴⁹ State Statistical Bureau, *Statistical Yearbook of China, 1981* (Hong Kong Economic Information Agency, 1982).

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ing their basic necessities—and then made further improvement in their standards of living, including health and education. China built its industries, transportation and communication, and modernized its agriculture as well, in a short span of twenty-some years. China succeeded in its economic development by mobilizing its own resources and by building an independent system of technology.

By the end of the 1970s, even the World Bank reported that despite China's low per capita GNP, its death rate had dropped to the level of developed countries. Its crude death rate dropped from 27 per 1,000 in the 1930s to six per 1,000 in 1979. During the same period, its infant mortality rate dropped from 156 to 56 per 1,000 births. Life expectancy at birth doubled within one generation. China was "the sick man of Asia" no more. Moreover, children enrolled in primary school reached 93 percent of their age group, while adult literacy rate reached 66 percent.^{150, 151}

In the mid-1970s, Thomas G. Rawski was commissioned by the World Bank's Development Economics Department to research and write about China's development. Published in 1979, his book *Economic Growth and Employment in China* was an update of his 1977 World Bank report. Rawski's book provided a wealth of information and analysis on China's development. He gives this summary in his introduction:

Qualitative changes are less easily documented, but they have been of equal significance. China has made great strides in providing adequate food, shelter, health care, and other basic necessities to its entire population, including the lowest income groups. Mastery of modern technology has spread rapidly over a broad range of manufacturing industries and scientific disciplines. A nation that until 1957 could not manufacture tractors, power plants, or wristwatches now produces computers, earth satellites, oral contraceptives, and nuclear weapons. The technical skills required for industrial development are no longer confined within a few isolated urban enclaves. The spread of rural electrification, local industry, technical training, and publishing has brought modern science and technology to

¹⁵⁰ Dwight Perkins and Shahid Yusuf, *Rural Development in China, op. cit.*, pp. 133-134.

¹⁵¹ Ruth and Victor W. Sidel, *The Health of China*, Boston, Beacon Press, 1982, pp. 92-93.

the doorstep of most of China's 200-odd million households. Nearly universal participation by Chinese youth in primary education and the rapid expansion of secondary education ensure that the dissemination of knowledge will continue to broaden and deepen.¹⁵²

B. In the Political Sphere

The proletarian leadership of the State gave full support to the crucial components of socialist economic development, namely, self-reliance and making the satisfaction of people's needs as the goal of development. As we have seen in the economic sphere, China's self-reliance was necessary to prevent imperialist powers from hijacking its development and thus to avoid suffering the same fate as those of other less developed countries. The balance between industrial and agricultural sectors was crucial for development through internal financing. Surpluses generated from the agricultural sector were used for industrialization, and then the agricultural sector was replenished with modern inputs produced in the industrial sector. Thus, China was able to develop by building a solid industrial and infrastructure base in both urban and rural areas, paving the way for future development.

China achieved this by building its own system of technology while importing appropriate technology from abroad. At the same time, the balanced development between agriculture and industry and between heavy and light industries provided food, clean water, and other necessities of life including housing, health care, and education for workers and peasants. This policy of achieving balance between agriculture and industry not only made developmental sense; it also solidified the alliance between workers and peasants. The solid worker-peasant alliance strengthened the political basis for socialist development and made China strong enough politically to resist dependence on foreign investment and foreign technology.

The question that remains is this: Why does economic development with these components have to be necessarily socialist? In other words, why is being socialist essential to achieving self-reliant development with the goal of satisfying peoples' needs?

¹⁵² Thomas G. Rawski, *Economic Growth and Employment in China*, *op. cit.*, p. 6.

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The kind of economic development that embraces the two critical components discussed above has to be based on public ownership of means of production and on economic planning by the State—that is, based on socialist relations of production. In less developed countries where the development of productive forces is still low, there has to be coexistence of two types of ownership of the means of production, namely, public ownership in the industrial sector and collective ownership in the agricultural sector. During the socialist transition, the scope of commodity production has to be limited and regulated to prevent it from spreading over to all spheres of production. State economic planning is required to change the goal of production from capital accumulation to the goal of satisfying people's needs. However, public ownership and economic planning are only possible when the State is based on the dictatorship of the proletariat. In a less developed country, the proletariat must form a strong alliance with peasants, who are the majority of the laboring population. The discussion below shows how China carried out socialist development politically between 1949 and 1978, when the proletarian class held state power and closely allied itself with the peasantry.

What exactly is the meaning of worker-peasant alliance? How was the alliance between workers and peasants solidified during the socialist development in China? From this perspective, it is easy to see that the collectivization of agriculture discussed in the previous section was not just for the development of productive forces, but actually provided the material base for this political alliance. If there had not been collectivized agriculture, polarization in the countryside would have taken place. In that case, with whom could the workers have formed their alliance? When the bourgeoisie took political power in 1978, the goal of production was transformed from satisfying people's needs to profit-making. In attaining that goal, the State played a crucial role in privatizing the means of production. Before the Reformers privatized ownership in the industrial sector, they first dissolved the communes and reverted to land ownership by individual peasant households, thus breaking the alliance between workers and peasants and politically weakening the working class' capacity to resist privatization.

1. Phasing Out Commodity Production via Economic Planning

In China's experience, only when the State was under proletarian leadership was it possible to implement policies aimed at phasing out commodity production. Eliminating commodity production is rooted in the fundamental changes in the country's economic base, which are focused on the relations of production, particularly in the ownership of the means of production. The process begins with the major functions of the market being replaced by an economic plan. When the goal of production in the economic plan ceases to be profit making, it can be changed to meeting the needs of people. In China, this was made possible when ownership of industrial enterprises was transferred to the State in 1956 and the collectivization of agriculture was completed in 1958. It was only after this change was basically completed that the goal of production was set to meeting the needs of the overwhelming majority of people.

Economic planning has to be administered politically. In China, the economic plan determined the allocation of resources between the industrial and agricultural sectors and between heavy and light industries in order to achieve balanced development. In the industrial sector, the planners set the price of goods but not according to their "cost," so that prices of basic necessities were low enough for workers and peasants. On the other hand, in order to conserve resources, prices of some "semi-luxury" goods were set high. For example, people had to save several months in order to buy a watch, which was then a high-priced "semi-luxury" item. Since "profit" or "loss" of each enterprise was the result of pricing policy, they did not reflect on nor were they used to judge the performance of the enterprise. Each enterprise was publicly owned and was not considered a separate individual accounting unit. The State simply transferred "profit" from enterprises that made high-priced goods to enterprises that made low-priced necessities for basic consumption or agricultural machinery and equipment sold to communes at low prices. This is the true meaning of public ownership. At no time could an enterprise use the excuse of "losing money" to lay off workers, because wage funds (including benefits) came directly from the State according to the number of workers and their wage scales plus benefits for that particular enterprise.

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When state-owned enterprises ceased to pursue profit-making as their goal of production, economic planning could then allocate resources according to the use values of different products. Then they could stop considering workers' wages as an expense (cost) that had to be met by their revenue. The State guaranteed permanent employment for workers in state enterprises by directly allocating workers' wages and benefits in the form of a wage fund to each enterprise. When state enterprises could not invoke "lack of revenue" as an excuse to lay off workers, it became possible to phase out the commodity aspect of labor power.

However, the process of phasing out commodity labor power during the socialist transition in China was a constant political struggle. The permanent employment status of workers in state enterprises was not a certainty, because there were those in the Communist Party who opposed socialism and tried repeatedly to replace permanently employed workers with contractual and temporary workers. As my co-author and I wrote in *Labor Reform: Mao vs. Liu and Deng*, Liu Shaoqi made several serious attempts to institute the contract labor system as early as the 1950s. In the early 1960s, Liu was able to get state enterprises to adopt a "two-track system" so these enterprises could employ both permanent workers and temporary workers. Then, in 1965 just before the Cultural Revolution, the State Council went as far as announcing a new regulation on the employment of temporary workers.¹⁵³ If it had not been for the Cultural Revolution, Liu would have successfully abolished the permanent employment status of state workers. Whether to phase out or retain labor power as a commodity, like many other major issues during the transition period in China, was a constant struggle between classes and determined the direction of the transition—whether it was toward socialism or toward capitalism.

During the socialist transition, the struggle in the political sphere is over state power, that is, which class actually controls the State. Concrete experience in China shows that the struggle has to be carried out in all areas of life. The dictatorship of the proletariat would be meaningless, unless in reality workers could gain more and more control of public affairs in all domains, which of course included their work place. China's

¹⁵³ See "Labor Reform — Mao vs. Liu and Deng," p. 63.

experience shows the major difference between wage-labor and workers in publicly owned factories. At the Anshan Metallurgical Combine factory, workers took the initiative in restructuring their factory rules and wrote new ones such that workers exercised more control in their factory. Mao saw the workers' initiatives as fundamental and concrete steps to revolutionize work organization and labor processes in state enterprises. On March 22, 1960, he proclaimed these new rules as the Angang Constitution and called on other state enterprises to adopt them as guidelines.¹⁵⁴

The Angang Constitution consists of five principles: (1) Put politics in command; (2) Strengthen Party leadership; (3) Launch vigorous mass movements; (4) Systematically promote the participation of cadres in production labor and of workers in management; and (5) Reform any unreasonable rules and assure close cooperation among workers, cadres, and technicians, and energetically promote technical innovation.

These principles were broadly propagated and carried out during the Cultural Revolution, and to this day remain among the most radical guidelines to change industrial organization and production processes in factories.¹⁵⁵ Such a high degree of industrial democracy was what Charles Bettelheim witnessed in China's factories when he visited there in 1971. From what Bettelheim observed in the factories and in society at large, he wrote in the preface of his book: "Through discussions and struggles involving millions of workers and vast sections of the population, a new road was opened up in the struggle for socialism."¹⁵⁶

In China's countryside during the socialist period, commune members produced grain, but not mainly for sale. Most of the grain produced by each team was distributed to its members as quota grain. A portion was used to pay taxes to the State, and whatever was left was sold to the State for cash. The same was true for other agricultural products. Within the commune, the production team was the accounting unit. Each team used the cash it received to set up an accumulation fund for investment and a welfare fund for health care, education, and needy families. The team then

¹⁵⁴ Angang is an abbreviation for Anshan Iron and Steel Factory.

¹⁵⁵ A small group of people organized the celebration of the 50th anniversary of Angang Constitution in Beijing in March 2010.

¹⁵⁶ Charles Bettelheim, *Cultural Revolution and Industrial Organization in China, Changes in Management and the Division of Labor*, New York, Monthly Review Press, 1974, pp. 7-8.

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distributed the remaining cash to team members according to the number of work points they earned during the year. Team members used their cash income to buy consumer goods they needed. Therefore, production and distribution in the commune system was set up in such a way that the goal was not to make profit but to meet the basic needs of the commune members.

This experience shows that during the period of socialist transition, if the economic base has to be transformed, the goal must be to phase out commodity production. When grain, other food items, medical care and other necessities of life, as well as labor power, lose their major characteristics of being commodities, they can be produced according to their use values in satisfying people's needs.

For the majority of less developed countries that have pursued capitalist development, agricultural products and other necessities of life have increasingly become commodities sold for profit. Large numbers of people go hungry because they have no money to buy food. Many peasants lose their lands when these are consolidated into large commercial farms producing export crops or are converted into other profit-seeking operations. Such landless peasants, in order to survive, are thus forced to sell their labor power as a commodity. However, large mechanized commercial farms do not require many workers to operate, and the few people they do hire can only earn low wages. Thus, former peasants lose their means of earning a living or are paid wages too low to buy the products they actually produce. Moreover, if a country's development is dependent on external financing, it is indebted to international capital and IFIs. The country is compelled to export its agricultural and manufacturing products in order to earn the foreign exchange it needs. In this case, food and other necessities of life become commodities on the international market and are sold to whoever has the purchasing power.

For example, Brazil is the largest exporter of soybeans, an important source of protein, while at the same time many Brazilian children are malnourished. Most of Brazil's soybean exports to developed countries are used for animal feed. The same is true for the many agricultural products exported by the less developed countries. In the Philippines, large quantities of tropical fruits and other agricultural exports deprive workers and peasants of the use of land and other resources to produce their own food.

Chile, with its long coastline, is endowed with plentiful seafood, and its people have traditionally relied on seafood as their main source of protein. However, according to an Oxfam project report, since Chile's fish and seafood exports took off in the early 1970s, the country's per-capita consumption of animal protein by the late 1980s fell by 15-25 percent, and caloric intake fell by 10-22 percent, due to the reduction of fish and other seafood consumption.¹⁵⁷ Fisherfolk and workers in the fish-processing industry are too poor to buy enough fish for their own consumption. Yet, a great deal of exported Chilean fish is ground into fishmeal for pet food and animal feed in developed countries.

After the Reform in China, all the basic necessities that used to be guaranteed for workers and peasants—including food, clothing, housing, education, and medical services—have become commodities. Only the small number of the extremely rich, and to some degree about 20-25 percent of the population who are the so-called middle class, can afford to buy what they need and desire. The overwhelming majority of workers and peasants resent deeply what has been taken away from them. As many as 150 million peasants have left home to work for the new exporting industries in order to send money home to barely cover their families' expenses. The labor power of peasants and of workers in formerly state-owned factories have become commodities for sale, yet the wages of majority of workers are too low to buy all basic necessities and to pay for basic medical care and education for their families.

2. Difficulties in Phasing Out Commodity Production Under the Two Types of Ownership

During the socialist transition, there is always continuous struggle to move away from commodity production. In China, which was (and still is) an underdeveloped country, it was not possible to have a single ownership of the means of production. Therefore, one of the difficulties of phasing out commodity production is rooted in the economic base, because there exist two types of ownership: public ownership in the industrial sector and collective ownership in the agricultural sector. The concrete experiences during China's socialist transition show the contradiction between

¹⁵⁷ Belinda Coote with Caroline Lequesne, *The Trade Trap: Poverty and the Global Commodity Markets* (new ed.), Oxford, Oxfam, 1996, p. 144.

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two simultaneous needs: the need to develop commodity production, and the need to restrict and regulate commodity production. At least one of the reasons for this contradiction was the coexistence of the two types of ownership, which Mao was greatly concerned about especially if the coexistence was to be drawn out over a long period. He saw that collective ownership would have to be transformed into public ownership as the productive forces developed.¹⁵⁸ However, this transformation could not be done prematurely, because it would lead to the averaging of the incomes of rich communes and poor communes, which would undermine the incentives of peasants in the more well-to-do communes.¹⁵⁹

Commodity production has to follow the law of value, that is, with products realizing their value through exchange, which is expressed as specific selling and buying prices influenced by supply and demand forces, and which results in certain rates of profit that engender the continuation of the commodity production cycle. However, even though this is in opposition to the overall goal of the socialist transition, commodity production has to continue during the transition—and in many cases it has to expand.

One of the challenges is figuring out how to restrict commodity production so it does not take over every sphere of production. According to Mao, during the socialist transition, the State could harness the law of value instead of following it blindly (by chasing after the largest possible exchange values, as is the practice under capitalism). Using the example of raising pigs to illustrate his point, Mao said that pork production in China still had commodity characteristics, because peasants raised pigs mainly for sale.¹⁶⁰ The State decided the quantity of pork needed according to the economic plan instead of relying on the market forces of supply and demand. However, in order for people in the cities to have enough pork to eat, peasants had to raise a certain number of pigs each year. When the State set the price it paid to the peasants for pigs and the price of feed it sold to the peasants, it had to adjust the prices of both to make it worthwhile for

¹⁵⁸ Mao Zedong, "Reading Notes on the Soviet Text *Political Economy*" in *Selected Works of Mao Zedong*, Vol. VIII, Foreign Languages Press, Paris, 2021, pp. 318-319.

¹⁵⁹ Actually for most communes in China in the 1970s, the accounting unit was still the production team. It would take several steps to transform the accounting unit to the production brigade and then to the communes.

¹⁶⁰ Pork production is somewhat different from grain production, because peasants raise pigs mainly for sale.

the peasants to raise pigs. If the price of pigs was set too low or the price of feed was too high, or both, peasants would simply refuse to raise pigs.¹⁶¹

The example of pork production illustrates the difficulty of phasing out commodity production. When pork is produced by the collective sector for sale, it retains its commodity characteristics. This would not change until farm production could be transformed completely into public ownership—and that would only be possible when productive forces could be more fully developed. Before that stage is reached, the law of value needs to be skillfully directed as was done in China during the socialist period. This does not mean, however, that China was always able to resolve the contradiction of how to develop and at the same time restrict commodity production. How to actually carry out these policies requires skill and experience. The determining factor of the direction of the transition in China's case was proletarian leadership based on the worker-peasant alliance. That is, which class is in control in the political sphere is of utmost importance. For that reason, the masses were repeatedly mobilized to put politics in command.

In the publicly owned sector, the same challenge existed. However, here the State had much more leeway to allocate resources according to the economic plan. For example, when China made mechanization of agriculture one of its development priorities, the State was able to sell machinery and equipment to the agricultural sector at “prices” below production “costs.” (In fact both the “price” and the “cost” deviate from calculations used in a capitalist enterprise.) Another example is when the State transferred technology nationwide from more developed areas on the eastern coast to less developed areas in the western interior. When China moved to industrialize the western provinces for a more geographically even development, the State relocated machinery and equipment as well as engineers and workers from the more technologically advanced factories in areas like Shanghai and the Northeast to the newly built factories in the West. China was able to disperse technology towards a faster and more even development all over the country, which Chinese leaders described with the saying: “An old hen lays eggs all over the place.” This kind of technology transfer

¹⁶¹ *Mao Zedong Sixiang Wansui (Long Live Mao Tsetung's Thought)* published in Japan in 1967, p. 117.

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can only be done when each enterprise is not a separate accounting unit with a goal of maximizing its own profits.

When the Soviet Union went through its revisionist reform, it took the major step of making each enterprise a separate entity. Similarly, when China started its own capitalist-oriented reforms in 1979, one of the first items on the Reform agenda was to make each enterprise a separate entity, which would be responsible for its own profits and loss. When each enterprise became an individual accounting unit and was charged with the responsibility of profit maximization, the socialist character of public ownership was already lost, even if the enterprises were still legally owned by the State.

One of the reasons for the defeat of proletarian leadership in China at the end of the 1970s was the difficulty in resolving the contradiction between developing commodity production and at the same time restricting commodity production and preventing it from spreading to all spheres of production. The re-emergent bourgeoisie, of course, was pushing for unlimited expansion of commodity production, and when it finally gained the upper hand in this struggle, it proceeded to develop full-scale capitalism.

Mass Line, Mass Movement, and Grassroots Democracy

After the new-democratic revolution and during the socialist transition, the Communist Party continues to act as the representative of the proletarian class, and in this role it makes all decisions in the economic, political, and ideological and cultural spheres. However, the Party needs to be subjected to constant and repeated tests in order to ensure that it really carries out policies on behalf of the entire proletarian class. In China, the Party examined its own policies to see whether they were actually based on or against the mass line. Adhering to the mass line meant that the Party had to pay close attention to the needs of the masses, derive policies from what the masses objectively need, and constantly and carefully examine the masses' responses to policies they implemented. Party members undertook this process by going to the masses, talking with them, and sometimes even staying with them in their homes, to solicit their opinions and grasp their situation more concretely. Carrying out the mass line meant that policies were not to be implemented in a top-down manner by issuing

decrees, without paying close attention to what the masses want. During the socialist transition, society has to go through many major changes. It matters greatly how these changes take place. It is terribly important whether the masses support or oppose the Party in these changes.

Because of China's long feudal past, its people did not have a tradition of speaking out against the authorities. In the feudal tradition, people could only depend on the goodwill and moral standards of those in power not to abuse them. However, that tradition changed—first in the Liberated Areas, and then in the whole country after the founding of the new People's Republic. The CCP initiated mass movements to push for change, during which ordinary people were encouraged to speak out. Changes in the economic sphere, in the political sphere, and of course in the ideological and cultural spheres, were continuously carried out through mass movements.

For example, the Land Reform carried out in China was not simply an economic policy or administrative process of land redistribution, which merely took land deeds from the landlords and handed them out to the peasants. Rather, it was a mass movement led by the CCP that pushed for economic, political and ideological changes. As a mass movement, Land Reform turned passive peasants into active participants; only then did real changes begin to take place in China's countryside. Mobilized through this movement, peasants dared to speak their minds against exploitation and oppression. Peasant enthusiasm, especially that of poor and lower-middle peasants, became the moving force that initiated and eventually achieved the collectivization of agriculture. During the commune years, peasants spoke out and criticized cadres at the team, brigade and commune levels. Sessions of criticism and self-criticism were usually held after the fall harvests, during which people expressed their opinions freely on matters related to production and distribution and how well the cadres at different levels carried out their responsibilities.¹⁶²

Among all the misconceptions and misunderstandings about China's socialist transition, one stands out above all others: that the CCP forced the workers and peasants to do things against their will. Shocking stories have been told, including one about how people were forced to

¹⁶² See William Hinton, *Shenfan: The Continuing Revolution in a Chinese Village*, New York, Random House, 1983.

work on the Yellow River flood prevention project. Pictures accompanying the story often showed women and men using their sheer physical strength like beasts of burden to pull loaded carts to build the levee. The insinuation is that people in their right minds would not have willingly participated in this kind of backbreaking work, and so they must have been forced. In fact, the people went all out to support these flood prevention projects. They did so willingly and enthusiastically, because they were the ones who had suffered the devastating Yellow River floods in the past, and in fact they were taking control of their lives and destinies by controlling the river to prevent flooding.

During the transition period in China, there was a continuous struggle on which way the country should go—toward socialism or capitalism. This struggle between the two classes, the proletariat and the bourgeoisie, was waged in the economic, political, as well as in the ideological and cultural spheres. Struggles in all three spheres were dialectically related and inextricable from each other.

C. In the Ideological and Cultural Sphere

The struggle in the ideological and cultural sphere between socialism and capitalism is equally intense during the transition; China's concrete experience certainly demonstrates this. The culture and the ideology of the old society had to be destroyed in the process of building a new one. However, the process was not easy to achieve within a period of several decades. Culture and ideology have their staying power even after the economic base has been changed. Since feudalism existed for thousands of years in China, feudal ideas were deeply entrenched in its culture and were not easy to get rid of. In the construction of socialist ideology and culture, the struggle was not only to combat feudal ideas and values; it was also to combat capitalist ideas and values. Concrete experiences in China show that in the struggle between socialism and capitalism, the bourgeoisie made use of feudal values and culture to further their goals. As one example, the capitalist Reformers strongly advocated the virtues contained in Confucius' teachings as a guide to maintain an orderly society, where the roles between the ruler and the ruled, between father and son, as well as between men and women, are clearly defined. Under socialism, clearly these outdated roles would have to be broken in order to construct a society where

new egalitarian relationships between the cadres and the masses, between generations, and between sexes could be built.

Mass movements, which were used as a strategy in economic and political struggles, were also an important strategy in promoting changes in the ideological and cultural sphere. For example, during the mass movement for Land Reform, people spoke out against how they were exploited by the feudal land tenure system and abused by the landowning class. Thus, the Land Reform not only redistributed the land, but made a clear-cut distinction between right and wrong and between justice and injustice. When peasants joined the movement enthusiastically and became determined to right past wrongs, turning their destinies upside down, they gave flesh to new ideology and new culture. What exactly was this new ideology and culture? This new ideology and culture reflected a set of socialist values.

1. Socialist Values vs. Capitalist Values

China's model of development from 1949 to 1976 was carried out in accordance with socialist values, which were integral to socialist economic and political development. One of the most important socialist values is the commitment to end all exploitation, which means that development must move towards a future in which people receive all the fruits of their labors such that all their needs are met. In the meantime, during the socialist transition, distribution should be according to the labor one contributes, instead of the amount of capital one possesses.

However, the socialist value of ending exploitation has to be grounded in the socialist economic base. In other words, the ownership of the means of production has to be changed from private to public in the industrial sector and to people's collectives (communes and similar production groups) in the agricultural sector. In China, ever since the State nationalized all industries in 1956 (which lasted until 1978), workers earned wages according to eight different grades based on skills and seniority. The eight-grade wage system was applied nationwide and was only adjusted slightly according to the differences in the costs of living among different cities. Between 1956 (when the State nationalized industries) and the Cultural Revolution, former capitalists still received fixed dividends

from the enterprises they previously owned. After the Cultural Revolution, dividend payments were stopped.¹⁶³

During the early stages of socialist transition, differences in wages will remain because different kinds of labor still exist. However, all efforts have to be made to achieve equality. During its socialist transition, China made great strides in instilling the socialist value of building the nation through reliance on the masses instead of following the capitalist value of relying on a few elite. In this respect, the Angang Constitution mentioned earlier was especially instrumental in phasing out the distinction between management and workers, as well as the differences between technical people and direct producers in factories. A closely related effort was made to reform China's education system during the Cultural Revolution. Changes made in the education system during the Cultural Revolution not only improved the opportunity for workers and peasants to attend all levels of education, they also revised the content of education at all levels to be more complementary to a socialist society that is moving towards the eventual elimination of the dichotomy between "mental labor" and "physical labor."

Moreover, socialist values motivate people in a drastically different way compared to capitalist values, in which capitalists rely on carrot-and-stick methods to motivate people to work. In line with socialist values propagated in China, the political consciousness of the working people was deemed the driving force that could create the great energy required to develop the country. China was able to develop rapidly because its people believed they were in charge of their own destinies, and that they were part of the larger vision of building a new society. It was precisely this kind of spirit and vision that motivated peasants in Dazhai—later emulated by countless other rural communes—to overcome the most severe natural adversities to build a long-term sustainable agricultural base.¹⁶⁴ In the same spirit, workers in state enterprises refused material incentives, such as being given bonuses and piece-wage rates as enticement to work

¹⁶³ One major policy change made immediately after the Reform was not only to restore dividend payments but also to pay all the dividends "owed" in the previous 13 years.

¹⁶⁴ Dazhai was a production brigade in Shanxi Province. Its leader, Chen Yonggui, led his brigade to overcome extremely harsh natural difficulties to achieve a high level of agricultural development. In the 1970s, Dazhai became a socialist model for agriculture.

harder. The devotion of workers at the Daqing Oil Refinery in their work to overcome many difficulties was set up as a model for workers in other factories to emulate.

Another important socialist value is cooperation, as opposed to the capitalist value of competition. The example of technology transfers demonstrates the importance of cooperation. In China's experience, even though the State had the power to relocate resources and people from more to less developed areas, the transfer of technology could not have taken place if people ready to operate the technology had not been willing to go. Under capitalist development, the direction of migration is just the opposite. People move to more developed areas where they have a better chance of advancing themselves and enjoying a higher standard of living. Since the United States offers the best opportunities for the technological elite, it has enjoyed a concentration of brainpower from people coming from all over the world. Another example mentioned above is the simultaneous use of different levels of technology, or the "walking on two legs" strategy. China used low-level backward technology alongside advanced technology, putting to work old machinery and equipment and even traditional methods that could still produce useful products and services. If competition had prevailed instead of cooperation, newer and more advanced technology would have driven out old and backward technology. This is exactly what has happened to the Chinese textile industry in the last two decades after the capitalist Reform. Large numbers of textile and clothing factories in many major cities in China were closed down on the grounds that their technology was obsolete, while new ones were built in coastal cities, using imported up-to-date technology, to produce for export and compete in the international market. As mentioned earlier, dependence on technology imported from capitalist countries means laying off large numbers of workers to achieve "efficiency," and wasting resources by rendering older machines and equipment obsolete. It is also self-reinforcing, in which dependence on foreign technology creates the conditions for deeper dependence in the future.

Henry Ford II once said, "Obsolescence is the hallmark of progress." That is, the accumulation of capital depends on continuously making useful machines and equipment obsolete. The key to the process is competition. When computer chip giant Intel Corporation opened its new facility

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in New Mexico for making the then-new Pentium 5 chip, Intel president Andy Grove said, "This is what we do. We eat our children and do it faster and faster. That is how we keep our lead."¹⁶⁵ Capital accumulation depends on the constant phasing out of existing technology. That is why it is so important for international monopoly capital to protect its intellectual property rights. That is why it insists on putting Trade Related Intellectual Property Rights (TRIPS) in the World Trade Organization (WTO) rules and regulations. Major multinational companies have been able to use their new technology, protected by the patent law, so they can monopolize it, and use it to compete with and eventually drive out older technology adopted earlier by less developed countries. Then before the patents expire, these multinational giants make sure they already have newer technologies to replace the older ones. This behavior of producing only to destroy, of "eating one's own children," amounts to a total disrespect of labor (that is, living labor that has acquired skills in using the equipment, and dead labor stored in the equipment itself) and resources. It is the big capitalists' way to maintain monopoly control over their technological lead and is essential to attaining a high level of profits. This is happening not just in the computer industry but also in the pharmaceutical, bio-technological, and many other industries.

Socialism stands for the sustainable future of humankind, and so it places great emphasis on conservation and preservation. Thus, socialist values dictate that we value all resources from the earth as well as the products of labor, using them carefully, regardless of whether these resources and products have high price tags. On the other hand, capital accumulation requires planned obsolescence, which demands an abundant supply of cheap resources. Therefore, capitalist production must resist any serious effort to conserve or to preserve. Capital has to consume whatever resources are available at a faster and faster speed, while continuing to relentlessly explore cheaper resources. Thus, people in less developed countries suffer the consequences of having their natural resources continuously pillaged, and when manufacturing production is increasingly relocated to

¹⁶⁵ Leslie Byster, "Impact on the Environment and People's Resistance," Citizens' Perspectives, Conference Series on Cross-Border Capital Expansion and Peoples' Resistance, Marygrove College, Detroit, Michigan, April 8, 2000.

these countries, their people also suffer from serious environmental disasters that sometimes require several generations to clean up.

The large-scale devastation of China's environment since the capitalist Reform began is a testimony to the difference between socialist and capitalist development. In China today, after 30 years of capitalist development, 75 percent of the rivers are heavily polluted; half of those rivers are too polluted for any use in irrigation or industrial production. The Reformers adopted the policy of exporting, at cheap prices, large quantities of manufactured products—from electronics, textiles, toys, footwear, and furniture, to other house wares and auto parts—as a way to boost China's GDP growth. In the process of producing and exporting these goods, not only Chinese workers have been severely exploited, but the Chinese environment as well. All these manufactured products left China with ground, water (both river and groundwater), and air pollution exceeding the worst pollution indicators in any part of the world.

It needs to be emphasized that socialist values can only be encouraged and promoted in a society pursuing socialism. People are more willing to accept socialist values when they are part of a large endeavor to build a better society for everyone, and when they can see that those in charge are not using their power to pursue their own self-interest. Moreover, in China under socialism, when people's basic needs were guaranteed, and when they did not risk losing their gainful employment, they no longer looked for ways to seek wealth in order to ensure their security. In China today, in contrast, even ordinary people try their best to accumulate some money, so they can secure a place for their family to live, pay for children's education, and pay for medical expenses when they get sick. For most workers and peasants, however, attaining a secure life and future is a near-impossibility in spite of trying as hard as they can.

In socialist China, socialist values were taught in schools and in all other areas of people's lives. Children were taught to respect public property and physical labor. They were taught to look up not to people who exploited others to get rich, but to people who made contributions to society. While working extremely hard, workers and peasants felt keenly the dignity of their work and enjoyed the highest social status in socialist China. Even children in pre-school and kindergarten were trained to do small tasks to take care of themselves. Children were praised not when they

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excelled academically, but when they helped others improve their performance. Children were also taught to conserve by carefully using school supplies, like not throwing away a very short but still usable pencil. It was not easy to establish socialist values during the socialist transition, but the overwhelming majority of workers and peasants and even intellectuals readily accepted these values. Moreover, these socialist values and culture also have their staying power. If we observe older people in today's China, these values persist even after the socialist economic base had been abolished. People also continually use these values and standards to critique the capitalist Reform.

In propagating socialist values, we cannot underestimate the power of the media. On the one hand, it is true that the Chinese government placed tight controls on the media during the socialist transition. On the other hand, people were encouraged to speak freely during mass movements and in their daily lives. Writing and posting *dazibao* (big-character posters) were an effective and accessible way for the public to express their opinions. The media portrayed the heroic deeds of workers, peasants, and People's Liberation Army soldiers. There were big campaigns in the media to report about the model workers, model peasants, and model soldiers elected by their respective units. Their stories were told for others to emulate. If we look at the media in capitalist countries, leaders in the corporate world are similarly praised for their entrepreneurship, ingenuity, creativeness, and adventurous spirit. On the other hand, workers who rely on physical labor for a living are often portrayed as ignorant and lazy people who resist hard work unless enticed with higher wages and better benefits. Because capitalist values have reached maturity and are firmly planted in society, there is generally no more need to put tight controls on the media to make sure they propagate these values. For the same reason, media control in a socialist country would no longer be necessary when socialism reaches maturity and when socialist values have taken roots in society.

2. *The Many "Newborn Things"*¹⁶⁶

During the socialist transition and especially during and after the Cultural Revolution, many new ways of doing things and many new and creative projects came into being. As explained earlier, China made signif-

¹⁶⁶ "Newborn things" mean the many things that were born in the new socialist society.

icant progress in increasing its schools as well as in launching campaigns to eliminate illiteracy through informal adult schools. However, until the Cultural Revolution, the education system itself did not go through any significant transformation to serve the needs of the new society. One of the problems with the education system before the Cultural Revolution was the great inequality between schools in cities and schools in the countryside, where 70 percent of the population lived. By the mid-1960s, the communes had more resources to allocate to the welfare fund to establish more schools. However, the number of rural schools was still far from adequate, in addition to the lack of teachers in rural areas. Moreover, the material taught in both urban and rural schools were not rooted in the reality of China's new society and often did not meet the needs of agricultural and industrial production.

One "newborn thing" in education during the Cultural Revolution was the elimination of the entrance examination as a way to select people who could go to college. Instead, high school graduates were required first to work in factories or on farms. Then, after two or more years, their work units would decide whether to recommend them to go to college.

Another change was to downplay the importance of book learning. The curriculum was changed so that book learning was combined with practical experience. Then, many young people were sent to the countryside to teach in order to improve the level of education in rural China. The central government also increased its assistance to schools in rural areas by providing funds to build schoolhouses and to pay teachers' salaries.

Another "newborn thing" was the expansion of the healthcare system in the countryside and the adoption of the well-known "barefoot doctor" system. Healthcare services were greatly expanded under the new People's Republic, and the cooperative healthcare system was implemented when the communes were set up. However, before the Cultural Revolution, gross inequities between cities and countryside still existed in terms of the allocation of healthcare resources. During the Cultural Revolution, doctors and other medical personnel were persuaded (many went on their initiative, without persuasion) to go to the countryside to train doctors in county and commune hospitals. By 1979 significant changes were made, and 60 percent of the nation's hospital beds were located in the coun-

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tryside.¹⁶⁷ The training of “barefoot doctors” was another serious effort to make medical services widely available in the countryside. The system provided each production team (30-40 farm households) a trained “barefoot doctor,” who continued to work in the fields with his or her teammates. These “barefoot doctors” had enough medical training and skills to treat minor illness and injuries, and to recognize signs of serious illness or injury, so that patients they can't handle could be transferred to the brigade or county hospital. All these “newborn things” in medical care resulted in greatly reducing the country's death rate and infant mortality rate, and nearly doubling life expectancy—all in the span of one generation.

Yet another “newborn thing” was the participation of workers and peasants in the creation of arts and culture. Workers and peasants created arts that were relevant to their daily living; these included the highly popular peasant paintings and the dramas and films produced during the Cultural Revolution. Even though these dramas and films were often written and performed by intellectuals, their contents reflected the new socialist values. Students and teachers in art and music schools were encouraged to produce works that told the stories of working people. Many students from music schools traveled afar to regions where national minorities lived to seek and record the folk music of these minorities. One piece of artwork that comes to mind was the famous Rent Collection Courtyard, which reenacted the scene of rent collection in the bad old days of feudalism. The Rent Collection Courtyard showed how peasants were robbed of the products of their labor, with the landlord's helper weighing the grain the peasants brought in as payment for rent. The peasants and the landlord were sculptures of life-size figures and the cruelty of rent collection was vividly revealed in the facial and bodily expressions both of the outraged peasants and of the merciless landlord.

Therefore, the Cultural Revolution was not merely a mass movement to preserve Mao's model of development, but rather to help advance this model of development and socialism to a higher level. The Cultural Revolution made it possible for people to envision the future of an entirely new society. Even as Deng Xiaoping, and later Jiang Zemin and now Hu Jintao have blatantly led in imposing capitalist reforms, they claim that

¹⁶⁷ Ruth and Victor W. Sidel, *The Health of China*, *op. cit.*, pp. 34, 48.

the Communist Party continues to represent the masses of workers and peasants. But the Chinese people were not fooled. By the late 1980s and even in the 1990s, while the Left in the West was still debating the class nature of the Reform, Chinese workers, peasants, and many intellectuals had already recognized what China had become: capitalism with Chinese characteristics.

D. Summing Up

This paper uses China's concrete experiences to explain Mao's socialist development in all spheres of the society: economic, political, and ideological and cultural. It emphasizes that fundamental changes in all three spheres are inseparable in moving society toward socialism. Had there not been proletarian politics in command, it would not have been possible to pursue economic development based on self-reliance, with all efforts made to satisfy the basic needs of the people. Moreover, fundamental changes in the ideological and cultural fronts were just as important for the socialist model of development as the economic and political fronts. These changes set socialist values against capitalist values in order to promote cooperation, public interest, pride and dignity of physical labor, equality, democracy, and conservation.

When the bourgeoisie seized political power and began to restore and develop capitalism from 1979 onwards, China became dependent on external finance and on imported technology. Subsequently, the goal of development shifted from meeting people's needs to that of capital accumulation. The new regime promoted the ideology of "getting rich is glorious" and "let a few get rich first." These slogans and the ideas behind them helped facilitate the privatization of state and collective property, resulting in the layoff of tens of millions of workers and the collapse of the commune system. When the Reformers abolished freedom of expression, the right for workers to strike, and banned mass movements, they tightened their economic and political control over the past 30 years.

During the past 30 years of capitalist development, China has become a highly polarized society in terms of class inequalities; its Gini Index increased from 0.24 in 1985 to 0.47 in 2004. (The UN Gini Index, which is based on the Gini coefficient, is a measure of income inequality for each country, and can thus be used to compare such inequalities

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across countries or from year to year within each country.) By 1994, China's Gini Index was higher than that of India, Indonesia, Iran and Egypt. In 2004, the World Health Organization ranked the effectiveness of the world health system among its 191 members and placed China's health system at 144th place. China was ranked behind Egypt, Indonesia, India, Pakistan, Sudan, and Haiti.

To conclude, if we believe that Mao's model of socialist development has left a deep imprint on Chinese society and that contradictions created by the capitalist reform in the past 30 years are irresolvable within its political framework, then it follows that the struggle between socialism and capitalism has continued up to now and will inevitably continue in the future. Its outcome can only be determined in the continuing struggles ahead.

PART III

Critique of China's Reform

AN ANALYSIS OF CHINA'S CAPITALIST REFORM¹⁶⁸

News reports on China have appeared more frequently in the mainstream media in recent years. Many of these reports paint a rosy picture of China's economy, while others tell stories of demonstrations and protests in different parts of the country. There have also been more reports on China's environmental disasters. But visitors touring the large cities are likely to be impressed by the endless blocks of new high-rise buildings, crowded restaurants, and well-supplied stores. Some conclude that capitalism has worked for China, and Western capital and technology were what the country needed to modernize. Others predict that China may soon become the next economic power to compete with the United States, the European Union, and Japan.

This prediction about China becoming an economic superpower is as much grounded in reality as earlier predictions that the "Asian miracle" was going to make the 21st century an "Asian century." However, in the summer of 1997, before the 20th century even ended, the bubble burst in Thailand, Malaysia, Indonesia, Singapore, and the Philippines. The crisis that began in Southeast Asia quickly spread to Korea, Hong Kong, Russia, Brazil, and other countries in Asia and Latin America. Today, nine years later, peoples in Southeast Asia are still struggling to recover from the crisis. But their governments are telling them that they must make more sacrifices, because the global market is slowing and their new competitor, China, has the upper hand. The credibility of these forecasters is questionable, when their margin of error was as big as it was when the predicted prosperous Asian century quickly vanished after a growth spurt lasted just one short decade. Now similar forecasts about China are pouring out of the same international securities firms and financial institutions.

That China's economic growth in the past two decades has been impressive or even spectacular is not in question. Its GDP continues to

¹⁶⁸ This paper was first published as an article in *Journals*, Institute of Political Economy, Quezon City (Philippines), November 2006, pp. 3-42. It is reprinted here with minor revisions.

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grow at around nine percent or higher in real terms,¹⁶⁹ and its export growth rates have stayed around 30 percent for the past three years. Its trade surplus continues to hit record highs, reaching 102 billion USD in 2005, or triple the 32 billion USD in 2004. For the first seven months in 2006, its trade surplus reached 75.95 billion USD, another 51.9 percent increase from the same period last year. Since 2002, China has surpassed the United States to become the largest recipient of foreign direct investment, and at the same time it has also exported capital. China is the world's largest producer of more than 170 products, including steel, aluminum, cement, among others. The amount of energy it consumes is second only to the United States.

The fact that China has been able to achieve such rapid GDP growth in the past quarter of a century seems to confirm the development myth created by the dominant capitalist ideology. Global monopoly capital and the imperialist powers have used the “miracle” image—an “Asian miracle” earlier and the “China miracle” now—as propaganda to perpetuate a myth about economic development. The myth is that when global capital hops from one country to another, it creates wealth for that country and develops its economy. All that these less developed countries need to do is to open their gates to the pools of international capital and adopt the advanced technologies transferred to them by the multinationals. Then, these countries can expect miracles to happen by joining the international division of labor and exporting themselves to prosperity.

Monopoly capital needs this myth to justify imposing neoliberal policies, which are so vital for its global expansion, on developing countries. When it comes to breaking doors to open up these countries for monopoly capital, few countries have been left behind. Taking down all barriers for the expansion of monopoly capital on a global scale is the coordinated work of international capital, the imperialist powers, and key international trade and financial institutions, namely, the International Monetary Fund (IMF), the World Bank (WB) and the World Trade Organization (WTO).

¹⁶⁹ There have been some disputes on China's actual rates of growth. Some suggest that China's growth rates are inflated and should be adjusted downward. Nicholas R. Lardy, *Integrating China Into the Global Economy*, Washington D.C., Brookings Institution Press, 2002, p. 11.

Despite the fact that this strategy of development has spread crisis around the globe, the myth has persisted.

A critical analysis of China's economic growth at this point in history is of great importance. Studying what has happened here since the capitalist Reform began in 1979 presents us the opportunity to dispel the development myths perpetuated by global monopoly capital. Studying China's economy also enables us to show the difference between short-term GDP growth and long-term sustainable economic development. This paper argues that short-term GDP growth, rather than helping long-term economic development, actually deters it.

During the past two decades, China has implemented Reform policies that transformed its economy from a socialist economy based on self-reliance to a capitalist economy that is now well integrated into the world's capitalist system. On the surface, its fast economic growth seems to confirm that the development strategy advocated by monopoly capital has worked. China has replaced the four "Asian dragons" and in recent years, become a model for other developing countries to emulate. But looking more carefully beneath the surface leads to a different conclusion. In this essay, the assessment of China's capitalist development and its impact is based on the answers to the following questions:

- How do we assess China's economy after it went through two decades of fast GDP growth?
- What has China's GDP growth meant to its 1.3 billion people?
- How does this path of growth affect its sustainable long-term development for the future?
- What is the chance for China to become a strong capitalist economic power?
- Is China headed toward an inevitable crisis? Why? What would be the potential impact of such a crisis? and
- What have been the forces that have been behind China's capitalist Reform and its fast GDP growth?

A. China's Capitalist Reform: An Overview

Deng Xiaoping seized power after Mao Zedong's death and officially began his Reform after the conclusion of the Third Plenary Session of the Eleventh Congress of the Chinese Communist Party in December 1978. While the debates about the nature (whether capitalist or socialist) of Deng's Reform may continue in certain circles outside China, the majority of people inside the country recognize the fundamental differences in their society before and after the 1979 Reform. Most people know that they live in two drastically different societies, because they have experienced and are keenly aware of the basic changes in the class relations between then and now. The Reform could not have proceeded the way it did had there not been that fundamental change.

Deng's Reform program consisted of two components: *gaige* and *kaifang*, which can literally be translated as "reform" and "opening up." What it meant was that China was to develop capitalism and connect its economy to the world capitalist system. Even though they never used the word "capitalism" (using instead the catchphrase "socialism with Chinese characteristics"), Deng and his supporters believed that the reformed system, which is none other than capitalism in threadbare socialist dress, would be able to develop China's productive forces in order to catch up and surpass other economic superpowers in the world.

Deng's capitalist Reform consisted of several parts, all of which belong to a well-integrated plan designed to deconstruct the socialist system built during the first 30 years of the People's Republic. The Reformers were able to change the basic class relations in China from above by passing legislation and imposing them on workers and peasants. Despite efforts made by workers and peasants to resist these reform programs, the Reform was able to accomplish all its aims as planned.

Although there were occasional patriotic voices calling for caution when dealing with foreign capital, China continued to open up to foreign capital and expand its international trade. By the time China joined the WTO at the end of 2001, the country had fully opened itself up and taken down barriers to foreign capital expansion. Even a mainstream economist, Nicholas R. Lardy of the Brookings Institution, admitted: "By the time China entered the WTO it was already perhaps the most open of all devel-

oping countries.” In the foreword of his book, Lardy also said that “under the pressure from industrialized countries, China has granted WTO members unprecedented authority to limit imports of Chinese products.”¹⁷⁰

However, while the capitalist Reform was successfully carried out as planned, the results turned out to be very different from what the Reformers and their supporters had expected. What had been their expectations when the Reform began? What are the results, and why are these so different? Some answers will be provided in this section and the rest will be given in the rest of this essay.

In post-Liberation China, there was no argument among its leaders that the country needed to develop its economy to become a strong industrial modern nation, so that it would never again have to suffer the aggression and humiliation inflicted by foreign powers during the previous one hundred years. However, by the late 1950s, fierce arguments and struggles over how China should achieve economic development began within the Communist Party.

For the followers of Liu and later Deng, the process of socialist development was too slow, despite China's great accomplishments in developing industry and agriculture during the socialist period. And when Deng proposed his Reform in 1979, he had the support of many people in the Chinese Communist Party. These leaders believed that China could develop faster if it adopted a different strategy of development. They were impatient and felt that China did not seem to have much to show the world. Its cities did not have many modern high-rise buildings nor were there superhighways. Shanghai, the largest city in China, looked rather shabby compared to other modern cities in the US, Europe, or Japan. They also believed that China's isolation was self-imposed, in spite of the fact that, led by the United States, Western countries chose to isolate China politically and that the US had imposed a trade embargo against China until the Vietnam War ended in the 1970s.

When China began the capitalist Reform, many of its supporters thought that the country already had a rather strong industrial base and that by adopting state capitalism, it would have enough strength to fend off advances made by global monopoly capital. They believed that China

¹⁷⁰ Nicholas R. Lardy, *Integrating China Into the Global Economy*, *op. cit.*, p. vii.

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could make use of foreign capital and technology without subjecting itself to the domination of the industrial powers. They also thought that because foreign capital wanted to expand into China's huge market, they could offer foreign access to a part of this market in exchange for acquiring advanced foreign technology. During the 1980s and the beginning of 1990s, the Reformers made efforts to protect China's national interests. For that reason, China's negotiations towards joining the General Agreement on Tariffs and Trade (GATT) did not go smoothly.

By the mid-1990s and especially after the Asian crisis in 1997, the Chinese government had to give up many of the conditions it had insisted upon earlier, and finally accepted the terms set by global monopoly capital. From this experience, it was clear that by the end of the 20th century, international capital was too strong to let any developing country develop capitalism independently. By this time, the import-substitution model of capitalist development in Latin America had already collapsed and the bourgeoisie in developing countries, China included, realized that in their own interest they had to cooperate with global monopoly capital. In China itself, state power had fallen to various groups, all pursuing their own interests and grabbing whatever they could get their hands on. These power groups also realized that cooperating with foreign capital was (as it still is) one of the most lucrative ways to accumulate wealth.

The grabbing of power and wealth by an elite few can best be demonstrated by the Reform of China's former state enterprises. After the most profitable enterprises were contracted out to connected individuals, the State took another step by *fangquan rangli*, meaning, the State relinquished to enterprise management even broader powers and gave it a bigger portion of the profits. Later, *ligaisui* was implemented, which meant each management no longer needed to turn over any portion of the enterprise's profits; instead, they paid the State taxes on the enterprise's earnings.

The contracts stipulated that managers would be rewarded based on their performance. However, the contracts often did not specify what kinds of responsibilities management needed to fulfill, and how they would be held accountable for their business decisions and operations. As it turned out, these new managers of the "state-owned" enterprises were all rewarded handsomely. Their performance was not judged on how efficiently they ran the enterprises but by investment projects and the size of

the projects completed during their terms. The bigger the projects, the bigger the rewards. Moreover, even before there was enough time to evaluate whether these investment projects were viable and profitable, managers were often promoted to management positions in bigger enterprises, or to higher positions in the government. Therefore, management had strong incentive to invest in additional facilities or build new plants without serious concern for the consequences. As a result, overinvestment became a very serious problem.

Networking between high-level government officials and enterprise-level managements made it possible for both parties to acquire and accumulate wealth. It soon became apparent that many corruption cases were related to the Reform of former state enterprises. Contracted management often used fraudulent accounting to cover up illegal selling of assets and sharing of "profits" with government officials. The government officials who benefited from these shady deals had good reason to conceal where the "profits" came from. Frequent personnel transfers between government posts and management teams made it difficult to track down who was responsible for what. Actually, people were being transferred back and forth frequently so they could avoid taking responsibility.

One of the schemes employed by management teams to acquire wealth was (and still is) to separate the profitable sections of the enterprises and set them up as separate subsidiaries. They would then reap the "profits" from these "separate" companies. Managements could also separate the non-profitable sections of the enterprises and declare them bankrupt, which was another way to absolve them of their responsibilities.

Because profit-making was the enterprise's new goal, management started to adopt efficiency as a means to increase profitability, for example, by using "inefficiency" as an excuse to lay off half or more than half of the workers. They also used the opportunity to cut wages and benefits for the remaining workers. In the process of instituting reforms, the permanent employment system followed in the old state-owned enterprises was eventually destroyed and replaced by mechanisms for hiring contract workers in order for the management to have the flexibility to run a profitable business.

Despite laying off large numbers of workers, these former state enterprises continued to incur heavy losses because management kept

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investing in projects and making fraudulent deals. Next came another phase of the reform, called *bogaidai* (“loans replacing grants”). It meant that the State no longer appropriated funds for the enterprises. Instead, they would obtain loans from State banks for the funds they needed. The State implemented this because it no longer had the financial resources to support the enterprises. Under this reform, managers obtained loans from banks and were supposedly responsible for paying interest and returning the principal when loans came due.

However, *bogaidai* did not solve the problem; the State simply shifted the problem to the State banks. For instance, an enterprise would borrow money from a bank for an investment project. Government officials as well as the management would be rewarded at the completion of these projects. However, before the project began to realize profits, there would be several rounds of management turnovers. Later, when problems became apparent due to wrong investment decisions, bad management, or large payoffs that siphoned off money from the coffers of the enterprise, the management teams that were responsible would be long gone. The enterprises turned out to be delinquent on payment, while the banks incurred bad loans. One way or another, management of these enterprises conspired with government officials, and both sides were able to obtain large amounts of wealth.

In the late 1990s, when large quantities of loans defaulted and there was little hope that the principal or the interest would ever be repaid, the Reform entered into another phase. This phase, called *zhaiizhuangu* (“converting debts to stock shares”), began in 1998, meant that the bad debts would be forgiven so enterprises could issue stocks to get the funds they needed. The move was supposed to cancel all bad debts over three years so the enterprises could get over their financial difficulties. The State paid out trillions of RMB to clear the bad debt, but no one was held responsible for the huge cost as the debt clearance also cleared all the responsibilities of management and the government officials associated with them. In addition to debt clearance, the State also wrote off bad assets from the enterprises' books. Once the enterprises got rid of their debts and worthless assets, they were able to borrow more and make more investments. Putting a brake on investment has proven very difficult because the people in power get richer and richer from the continuous investing and building;

the problem of overinvestment is a problem that has been built into the very structure of Reform in the “state-owned” enterprises.

What is true with formerly state-owned enterprises has also been true with infrastructure projects built by different levels of government. The upward mobility of government officials depends on accomplishments made during their terms, which, again, are based on the number of infrastructure and other projects built; thus the construction of highways, airports, large office buildings, exhibit centers, or even a whole new district adjoining a city.

A paper written by Bai Jingfu, the vice-chair of a Research Center in the State Council,¹⁷¹ gave a rather gloomy picture of the current state of China's economy and reflected the problems accumulated during the 26 years of reform. He listed ten major contradictions that exist within it. Bai wrote this paper in November 2005, as the 10th Five-year Plan (2000-2005) was coming to an end and the 11th Five-year Plan (2006-2010) was about to begin. Due to the importance of Bai's position, his paper had to be approved officially. Therefore, Bai's assessment of the current state of China's economy represents the views of at least some high-level government officials.¹⁷²

According to Bai, China's economy is facing serious problems despite high GDP growth rates, as it has become greatly dependent on continued foreign investment and the external market to sustain its high growth rates. Its development of advanced technology is disappointing. After spending tens of billions of dollars on foreign technology imports, China has not made much progress in upgrading its technology and is nowhere near a position to compete with foreign multinationals. In addition, China has to continue to assume its role as assigned by the multinationals in the international market, that is, to continue exporting large volumes of low-value products at the expense of its low-wage labor, its scarce and dwindling natural resources, and its deteriorating natural environment. Bai's report further indicated that the problems of dependence on foreign technology

¹⁷¹ The Research Center belongs to a State Council Committee. This Committee supervises and manages State assets.

¹⁷² This does not mean that China's top government officials have reached a consensus on the issue of how to assess the development of the past 26 years, but there have been some serious concerns voiced in the media.

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and foreign markets could not be easily corrected. His conclusion implied that the chance is not promising for China to become a strong and independent economic power.

Bai explained that China's domestic economy has become increasingly uneven and unbalanced. GDP growth has generated increasingly smaller employment growth. The unemployment in the countryside, according to Bai, translates to an estimated 106 million to 108 million additional people migrating to urban areas between 2001 and 2010 to seek work. High unemployment rates and highly unequal income distribution have resulted in slow growth of domestic consumer demand. In addition, investment has continued at a fast pace despite the fact that excess capacity now exists in more than 75 percent of China's industries.

Bai not only pointed out the existence of all the said problems and contradictions in the economy but also indicated that these are getting worse instead of getting better. He did not offer any solutions. These problems and contradictions resulted from the Reform and have become structural. Thus, they cannot be resolved by simply making adjustments here and there. A growing number of publications in China have expressed similar concerns about the problems raised by Bai, as well as other important problems in the Chinese economy.

In the following sections, in discussing the obvious problems in China's economy, I offer my own explanations of why these problems are inherent to the development strategy of the capitalist Reform, which began in the last 20 years of the 20th century. To some extent, Chinese policy makers chose this strategy when they embarked on the capitalist Reform. However, their choices were rather limited, like in the case of other developing countries. When the import substitution strategy of capitalist development in Latin America finally collapsed in the 1980s under the pressure of global monopoly capital and the imperialist states, developing countries that wanted to develop capitalism were left with only one choice: opening up their economies and breaking down all the barriers for global monopoly capital. Not surprisingly, development under the conditions prescribed by international monopoly capital leads to a GDP growth that is based on a growing dependence on foreign investment, foreign technology and external markets, rather than one based on the development of an independent capitalist economy.

The Reform of the past 26 years and the way it was carried out resulted in a very polarized society. It has stripped tens of millions of workers of their jobs and thrown them onto the streets, while cutting the wages and benefits of remaining workers. They have also taken over both urban and rural lands, often without the permission of the current occupants and with very little compensation. These decisions and actions have spurred increasing numbers of mass demonstrations and protests—several hundred protest actions a day—throughout China.

In response to questions and concerns raised by many members in the Communist Party including those in positions to formulate and implement policies, and also fearing a general uprising, China's current leaders announced a new direction for future development. Party Chairman Hu Jintao and Premier Wen Jiabao proclaimed that a scientific view of sustainable economic development, one based on the needs of people as well as environmentally sound, should be adopted. They also call for a "harmonious society," indicating that China's top leaders have realized the severity of the problems resulting from the development of the past few decades, including a seriously polarized and divided society. The goals of capitalist reform were accomplished but the results were not what had been expected. It is thus ironic that China has come full circle after 26 years of Reform. Hu and Wen are now calling for China to return to a path of sustainable development that is based on the people's needs. But wasn't that the kind of development China had during socialism before the Reform began? If it stays on the same course of continuing capitalist economic growth, as narrowly defined by international capital in today's global environment, how can China expect to accomplish the kind of people-based sustainable development that Hu and Wen proposed?

B. Impact of Capitalist Reform on China's Economy, People and Society

1. Imbalances Between China's Economy and the Rest of the World

After more than two decades of high export growth rates, especially during the five years since 2001, there are now serious imbalances between China's domestic economy and the rest of the world, especially with the United States. By the end of June 2005, China accumulated 711 billion

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USD in foreign exchange reserves from its trade surpluses in the previous years; then its reserves went up further to 769 billion USD at the end of October 2005. The majority of the foreign exchange reserves are in foreign currencies (mostly in US dollars), foreign stocks, bonds, and securities (mostly US government bonds and Treasury Bills), and other foreign assets, all of which is debt owed by foreign countries. Therefore, most of China's trade surpluses from these past years were exchanged into foreign IOUs and now sit in the Central Bank as foreign exchange reserves.

By the end of the third quarter of 2005, China became a net capital exporter. China received a total of 570 billion USD in foreign investment (capital imports), but had 769 billion USD in foreign exchange (capital exports).¹⁷³ Due to the large capital exports of China and other Asian countries, Monique Morrissey and Dean Baker of the Center for Economic and Policy Research concluded that by 2000, the developing countries as a whole became a net capital exporter to developed countries.¹⁷⁴

Putting it another way, China's current account surplus (mostly from trade) in the first half of 2005 jumped to 8.1 percent of GDP, a nine-fold increase from the first six months of 2004. This sudden jump in trade surplus means that in the first half of 2005, 8.1 percent of what China produced was not consumed or invested domestically, and neither was it spent by the government. The huge amount of surplus capital—8.1 percent of China's immense GDP is not to be sneezed at—was simply exported (in net after deducting imports) with nothing in return but mere promissory notes to be paid sometime in the future. This is a serious imbalance between China and the rest of the world, especially the United States.

China is still a poor country that needs capital for its own development and for the immediate needs of its people, such as clean water, basic health care, and basic education. Yet it is exporting capital at an accelerating rate, mostly to the United States, the richest country in the world. Even though other economies such as South Korea and Taiwan have also exported capital, China's capital export is astonishing—both the absolute quantity and relative to GDP.

¹⁷³ China's total foreign debt, which is capital imports, is about 100 billion USD.

¹⁷⁴ Monique Morrissey and Dean Baker, "When Rivers Flow Upstream: International Capital Movements in the Era of Globalization," Center for Economic and Policy Research. http://www.cepr.net/pages/publications_2003.htm, 2003.

During the socialist period, a balance between China's domestic economy and the external sector was maintained. China's debt owed to the Soviet Union, incurred during the 1950s for importing machinery and equipment and for financing the Korean War, was quickly paid off. Thus, China did not have to export large quantities of capital, as most less-developed countries did, in order to pay the interest on their foreign debts. This financial independence freed China from the domination of rich and powerful nations as well as from international financial institutions. It was a very important part of self-reliant socialist development strategy. After some 20 years of Reform, China's current high rate of GDP growth depends on its large volumes of exports to the rest of the world, especially to the United States. However, China's huge exports have to be financed by its capital exports. More plainly put, it means that China has to continue loaning money to the US in order for the US to buy its products. Common sense should tell us that this is not a viable development strategy.

2. High GDP Growth Rates Sustained By High Growth Rates in Investment and Exports

Rapid export growth has become the major contributor to China's high GDP growth rates. According to Bai's report, of the 9.7 percent GDP growth rate in 2004, 5.7 percent (or three-fifths) was due to increased demand in the external market.¹⁷⁵ This shows how much China relies on the fast growth in its exports to sustain its high GDP growth rates.

Within China's domestic economy, there have been serious imbalances as well. It has maintained high rates of investment growth (in foreign, domestic, and government investment) to boost its GDP. In recent years, the estimated investment has been over 45 percent of GDP—an extremely high rate unseen in any other developing or developed economies. On the other hand, consumption as a percent of GDP has been low by any country's standard: a mere 43.4 percent in 2003.¹⁷⁶

¹⁷⁵ This was total exports, not net exports.

¹⁷⁶ According to Bai, China's per capita GDP has reached 1,000 USD and, for countries of this level of per capita GDP, personal consumption averages 60 percent of GDP. However, but China's personal consumption was only 43.4 percent of GDP in 2003. Bai Jingfu, "The Main Contradiction of Our Country's Economic Growth During the 11th Five-Year Plan" (in Chinese), <http://theory.people.com.cn>, n.d., Point 2.

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The huge investments, both foreign and domestic, in manufacturing facilities and large government investments in infrastructure, together with high export growth rates, were the major sources of the aggregated demand that has been driving high GDP growth rates.

Recent figures show that the government spent around 22 percent of GDP, but half of that figure was in fact government savings and was used for investment in building offices, residential housing, highways, airports and other infrastructure, much of which are currently under-utilized. The other half (only 11 percent of GDP) was spent on purchasing goods and services.¹⁷⁷

Government investment in buildings and infrastructure has been one major stimulus that helped maintain high GDP growth rates. Shanghai, China's largest city, boasts of 450 large-scale projects completed in the past 20 years, including the development of Pudong area and the building of the second tallest tower in Asia.¹⁷⁸ In addition, there is a new light rail system, built by the Germans, that runs with few people on it, between the city and the Pudong airport.

But mega-sized projects have not been limited to large cities; many airports built in the last two decades are in much smaller cities and many of them lie unused.¹⁷⁹ *The Economist* reported another example of these vast construction projects in Henan. The provincial government is building a new district east of its capital, Zhengzhou, called Zhengdong. The report reads:

The towering half-finished buildings of its central business district encircle an artificial lake and an exhibition center that will be one of China's biggest when it opens later this year. Plans are afoot for a hexagonal pyramid-shaped hotel that would be nearly as tall as the Eiffel Tower. Broad highways are spreading across former farmland.¹⁸⁰

¹⁷⁷ "The Frugal Giant" in *The Economist*, September 24-30, 2005, p. 12.

¹⁷⁸ The tallest tower is in Kuala Lumpur.

¹⁷⁹ Two examples of these airports are Huyang airport in Anhui, which was never used, and Mianyang airport in Sichuan, which has not been fully utilized. The cost of each was in the hundreds of millions of RMB.

¹⁸⁰ *The Economist*, January 7-23, 2006, p. 34.

Henan is one of several provinces in central China that in recent years has experienced one of the worst economic crises in the country when the majority of its former state-owned enterprises went bankrupt. The construction of Zhengdong is considered a “dragonhead” project that is supposed to lift Henan out of its current stagnation. This mania for extravagant mega-projects has spread all over China. Moreover, no mechanism exists to prevent the construction of Zhengdong and similar mega-projects. Even when there is a serious water shortage in Henan, the artificial lake in the Zhengdong district will have to be filled.

While Hu and Wen are advocating sustainable people-based development, they are in fact accelerating construction in infrastructure. A report from a recent issue of *The Economist* said that China has a plan to spend two trillion RMB on building railways and several new subway lines in Shanghai and 24,000 km (15,000 miles) of expressways by 2010. China is also planning to build another 21 nuclear power stations by 2020, in addition to the nine nuclear power stations it already has.¹⁸¹

3. Labor Reform and the Reserve Army of the Unemployed

From the beginning, labor reform was a critical part of the capitalist Reform. Its goal was to turn labor power into commodities by eliminating the permanent employment status (“breaking the iron rice bowl”) of workers in state enterprises.

When the Reform first began, workers in state enterprises resisted the efforts of the Reformers to fundamentally change their status but this resistance eventually failed. Since the early 1990s, China's employment structure has undergone thorough and drastic changes. The new management in state enterprises junked the permanent employment system and laid off large numbers of workers. The number of workers in state-owned units and urban collectives decreased as a percentage of the total, from 84.3 percent in 1992 to 47.5 percent in 1999. Since private-sector employment in 1999 only accounted for 8.5 percent of the total number of workers, it clearly did not absorb the employment loss in other sectors. Therefore, in 1999, only 56 percent of workers were listed as working in

¹⁸¹ *The Economist*, April 8-14, 2006, pp. 72-73.

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the formal sector of the economy while the rest (44 percent) were in the so-called informal sector¹⁸² (Table 1).

Bai's report (Point 10) provides figures for the numbers of workers in both state-owned units and urban collectives for the first six months of 2005. If we use Bai's 2005 figures to update Hu's 1999 figures, then in less than six years, employment in state-owned units decreased another one third, from 99.88 million in 1999 to 66.38 million in the first six months of 2005. For urban collectives, employment decreased almost half, from 16.52 million to 8.67 million during the same six years. However, in the ten years between 1995 and 2005, the number of workers employed by private enterprises increased from 8.2 million to 47.1 million, a significant increase of 38.9 million workers. The increase in the private sector employment was not quite big enough to compensate for the loss of employment in the public sector. Moreover, since there were additional people entering into the workforce during this period, more people had to be absorbed into the informal sector.

These laid-off workers try to find whatever odd jobs they could to support themselves and many of them live on or below subsistence income levels. They work as street vendors selling food or other low-cost items. Many others are also hired for a few hours or a few days at a time. The temporary and casual jobs pay below-subsistence level wages, which usually amount to about less than half of that received by low-paid regular workers in the formal sector. Successful food peddlers earn higher income but they also take a big risk; they need initial capital and may have to pay high rent for a small space to do business.

Officials are well aware of the serious unemployment problem. In 2000 I gathered information showing very high unemployment rates in some cities. For example, cities in the northeast where China's heavy industries were once located saw unemployment rates skyrocket as a great number of former state-owned industries were closed down and large numbers of workers were permanently laid off. The unemployment rates for cities in Henan, Sichuan, Anhui, and other provinces in central China were also very high. If those who work in the informal sector were counted as unemployed, the unemployment rates in cities in northeast and central

¹⁸² Hu An-gang, "China's Employment Problems: Analysis and Solutions" in *World Economy and China*, Number 1, 2001.

China provinces reached as high as 40 percent to 50 percent. Local people in these cities said that more than 60 percent to 70 percent of the workers in formerly state-owned industries had been laid off. These workers were either forced into early retirement or began working subsequently in the informal sector. Large number of young men and women in towns and cities of these and other provinces migrated to coastal cities to work in the export industries. Large number of migrant male workers have become employed in construction, doing hard labor. Many women migrated to Beijing, Shanghai and other large cities to work as domestic workers for well-to-do families.

Through rounds of restructuring, China's enterprises have been able, not only to lay off large numbers of workers but also to cut wages and benefits for the remaining workers. Despite high GDP growth rates, wages have mostly stayed unchanged. Workers in large profitable enterprises in large cities earn the highest wages, with wages ranging from 1,500 to 2,000 RMB (1 USD = 8 RMB) a month, but they represent a very small portion of the total workforce. Other workers in the formal sector, including those in export industries located in coastal cities, earn much less—between 800 to a little over 1,000 RMB a month. Most other workers in cities in north-east and central China, where there are high rates of unemployment, earn about 600-800 RMB a month. Meanwhile, workers who do odd jobs in the informal sector are only paid 300-400 RMB a month. Some of the employed are covered by the new insurance system, in which they have to pay a health insurance premium and contribute to their retirement from their gross income.¹⁸³

The effect of China's economic growth on job creation was already low in the first place, and has decreased even further in recent years despite the fact that the country has been exporting labor-intensive products. According to Bai's report, during the early years of the Reform every one percent GDP growth brought a 0.4 percent employment gain, but in 2000 the rate of employment gain dropped to 0.1 percent.¹⁸⁴ Based on the number of jobs lost in the State and urban collective enterprises as stated

¹⁸³ The health insurance only pays a limited number of treatments. Much of the medical cost still has to come out of the workers' pockets.

¹⁸⁴ Bai Jingfu, "The Main Contradiction of Our Country's Economic Growth During the 11th Five-Year Plan," *op. cit.*, Point 10.

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above and on the fact that GDP growth has had less impact on job creation, there is reason to believe that the unemployment situation is likely to become worse.

4. *Rural Reform and Backwardness in the Agricultural Sector*

The biggest challenge in Chinese agriculture was (and remains up to now) the lack of arable land. China has one seventh of the world's arable land but has to feed a quarter of the world's population. Therefore, preserving and improving agricultural land should be one of the most important tasks for Chinese agriculture. During the commune years (1958-1978), Chinese peasants worked very hard on land improvement projects. However, since the 1979 Reform, large areas of farmland have been lost and continue to be lost to industrial use, tourism, residential and commercial housing, desertification, and other development.

From 1958 until 1978, China was able to modernize its agriculture in many parts of its countryside. After pooling their land together, commune members used the winter months to do intensive and extensive agricultural land improvement projects. They took out "accumulation funds" from their annual revenue to invest in land improvement projects, machinery, and other equipment. Peasants leveled the land and filled small creeks with soil, so later they could use machinery to till large tracts of land. They built irrigation and drainage systems and power stations, so farmland could be irrigated by electricity.¹⁸⁵ They worked hard on farmland construction projects by extending their workdays into the winter months; the number of days they worked in a year increased from 119 days in the mid-1950s to 250 days in the mid-1970s.¹⁸⁶ In addition to the peasants' own efforts, the State invested its own funds on large-scale irrigation projects.

With the exception of some very poor communes, most people's lives in rural China improved immensely. The great improvements in land fertility increased grain yields per *mu* of land. The newly built irrigation and drainage systems made it possible for peasants, for the first time in their lives, to look forward to a future when their production would no longer

¹⁸⁵ See "Mass Movement – Mao's Socialist Strategy for Change," p. 97.

¹⁸⁶ Thomas G. Rawski, *Economic Growth and Employment in China*, for the World Bank, New York, Oxford University Press, 1979, pp. 7-8.

be totally dependent on the weather. Mechanization made it possible for many peasants to be finally freed from much of the most back-breaking work in the fields.

China was able to increase grain production from 181 million tons in 1952, at the end of the recovery period, to 285 million tons in 1977. With the exception of the 1959-1961 period, grain production increased by more than three percent annually on the average, which was higher than the average population growth during the same period. The rate of growth was higher than China's historical record and the records of most developing countries.¹⁸⁷ By the end of the 1970s, China was able to achieve self-sufficiency in food. On the average, China only imported a few million tons of grain per year (a small fraction of its total production), while it exported grain and other agricultural products as well.

In 1979 Deng's agricultural Reform took several steps to break up the communes and by 1984 land was redistributed to individual peasant households. China's grain production increased rapidly during the first few years of the Reform, when the government increased the purchasing price for grain by 20 percent with another 50 percent bonus for above-quota grain purchases. Grain production increased 22.5 percent between 1979 and 1984.¹⁸⁸ During these early Reform years, agricultural machinery and other agricultural infrastructure, bought and built during the commune years, were still functional. The fertilizer plants built earlier increased fertilizer supply. Later, however, irrigation and drainage systems and other rural public works began to fall apart due to lack of maintenance. Agricultural machinery bought earlier by production brigades and communes aged, and individual peasant households had no money to invest in new ones.

Moreover, in some areas such as the Yangtze Delta where land has been subdivided into small strips, it was no longer possible to use agricultural machinery. These and many other areas, peasants went back to old ways of farming their land, each with a simple farm tool, as they had done before collectivization. No wonder peasants now say, "We worked so

¹⁸⁷ Henry J. Groen and James A. Kilpatrick, "China's Agricultural Production" in *Chinese Economy Post-Mao, A Compendium of Papers*, Washington, US Government Printing Office, 1978, p. 619.

¹⁸⁸ Total grain production includes wheat, rice, and corn.

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hard for 30 years to build up our farmland, but overnight we returned to pre-Liberation days.”

In central and northwest China, where individual land plots average around one *mu*, major crops (wheat and corn) are still harvested by combines. Private individuals invest in combines and then hire drivers to harvest crops from farm to farm, charging 40-45 RMB per *mu*. Combine owners can earn as much tens of thousands of RMB during the harvest season and, after costs are deducted, make quite a large profit. A documentary film made in 2003 called *The Iron Reapers* showed many poor peasants working as hand reapers during the harvesting season in areas that are hard to reach by combines. These peasants compete with the machines by lowering their price to 35 RMB per *mu*. The film showed four men leaving home and traveling by long-distance bus with their reapers to harvest wheat. Each man working a 12-hour day in the hot sun harvested an average of 1.5 *mu* land and earned about 45 RMB for the grueling back-breaking work. Some days they did not get work, so after the entire harvesting season each man came home with less than 200 RMB.

From 1984 to 1996, a period of twelve years, grain production increased by only 20.4 percent.¹⁸⁹ Then it fell for four consecutive years from 392 million tons in 1998 to 322 million tons in 2003. The gap between total grain consumption and grain production was about 40 million tons a year and most of the shortage came out of the grain reserves. US pioneer environmentalist Lester Brown, who has paid close attention to China's food production, attributed the sharp decline in grain production to the decrease in grain-harvested areas from 90 million hectares in 1998 to 76 million hectares in 2003, apart from other reasons.¹⁹⁰ However, Brown failed to point out that continuing increases in farm input prices since the early 1990s and the sharp drops in government grain purchase

¹⁸⁹ Harry Wu, “Reform in Chinese Agriculture—Trade Implications” in *Briefing Paper Series*, No. 9, Department of Foreign Affairs and Trade, Australia, December 1997, Appendix Table A-1.

¹⁹⁰ Brown explained the reasons for the decrease: “Several trends are converging to reduce the grain area, including the loss of irrigation water, desert expansion, the conversion of cropland to non-farm uses, the shift to higher-value crops and a decline in double-cropping.” To show the significance of the 70 million ton decrease in grain production between 1998 and 2003, he said that it was more than the total yearly grain harvest of Canada. Lester Brown, “China's Shrinking Grain Harvest.” *The Globalist*, March 12, 2004.

prices in 1998 and 1999 were also important reasons for farmers to abandon their land.¹⁹¹

Quite a few agricultural specialists in China have spoken openly about the so-called “*sannong*” problems, or the three related agricultural problems: agriculture, rural villages, and peasants. They point out similar problems as Brown did regarding grain production. Well-known Chinese scholar and author Lu Xueyi stated these problems in his recent book:

The first problem is the massive loss of farmland. Since 1981 land loss has averaged 5-7 million mu a year (1 mu = 0.067 hectare). The second is the deterioration of land fertility. In 1976, land area that used organic fertilizer was 150 million mu and by 1987 land area that used organic fertilizer decreased by 60 percent. The third problem is, after 1980, there has been loss of irrigated land; before 1980, irrigated land area had increased by eight to 10 million mu a year but after 1980 no additional irrigation was built and the old system lost its function due to lack of maintenance. The irrigated land area has since continued to decrease. The fourth problem is dated agricultural instruments. Between 1980 and 1986, machine farmed land decreased 11.1 percent. The fifth problem is the loss of more than 100 million mu of natural forest, the loss of one billion mu of pasture land, and increasing desertification.¹⁹²

Chinese agriculture will continue to deteriorate because it desperately needs more investment. The central government has promised more investment, but it is far from adequate. The modernization of agriculture during the commune years came to a halt when the Reform redistributed land to individual peasant households. As stated above, individual peasants lack the ability to invest in large agricultural instruments. Moreover, with the collapse of the communes, labor can no longer be organized as it was by the former brigades and communes to work on intensive and extensive

¹⁹¹ Tan Shukui, *Gengdi liaohuang (Study of Land Abandonment)*, in Chinese), Science Publisher, 2004, pp. 101-102.

¹⁹² Lu Xueyi, *The Study of the Three Related Agricultural Problems – Agriculture, Rural Villages, and the Peasants* (in Chinese), Social Science Literature Publisher, 2002, pp. 5-6.

land improvement projects. This explains partially the large number of unemployed and underemployed peasants in the countryside.

The sharp drop in grain production between 1998 and 2003 was the impetus for the government's emergency increase in the agriculture budget. The government used an additional 3 billion USD in 2004 to support a 25 percent increase in the buying price for wheat and rice and for improving agricultural infrastructure.¹⁹³ Grain production went up both in 2004 and in 2005, reaching the output level of 1998. But the basic problems in agriculture are far from over. The government also eliminated agricultural taxes in order to boost peasant income. However, without taxes, the local governments have no way of supporting themselves. Therefore they will probably have to increase fees charged to the peasants.

There are several hundred million peasants who still rely on farming as their main source of income; they have had a very hard time making ends meet. Many have either lost or abandoned their land, while many more have suffered from natural disasters. As mentioned earlier, a large and growing number of peasants migrate to cities to work and send home whatever they can from their meager wages so their families can live.

Small-scale farming that relies mainly on labor means low labor productivity and low peasant income. Since work on land improvement projects eventually stopped, land productivity has also declined. Peasant incomes have been further squeezed by unstable and often falling output prices and rising input prices and higher taxes and fees. Many rural families have had to rely on money sent home by migrant workers. The recent efforts made by the central government to raise purchase prices of farm products and cut farm taxes will help to a certain degree, but these measures will not solve the basic problems of small-scale farming: low labor productivity and lack of long-term investment to modernize agriculture. With no improvement in the income of peasants, who still make up the vast majority of the population, there is little hope for China's domestic market to expand. Therefore, the imbalances in its domestic economy due to over-investment and weak consumer demand are likely to continue.

¹⁹³ Earth Policy Institute, "Eco-Economy Update," March 10, 2004, earthpolicy.org/Updates/Update36.html.

5. *Failure of Health Care Reform and Its Impact on Workers' and Peasants' Lives*

On top of unemployment, unsteady jobs and low income, Chinese workers and peasants also lost their protection from illness. Large numbers of working people no longer have any preventive health care and cannot afford medical treatment when they get sick. China's health care system during the socialist period was widely praised. As a recent newspaper report said:

For 30 years after the Communist Revolution in 1949, China relied on a socialized health care system managed by collective farms and factory communities and staffed by legions of lightly trained so-called barefoot doctors. It was threadbare but functional, and life expectancy nationwide doubled within a generation, from 35 to 68 years.¹⁹⁴

Even the World Bank praised the China's "barefoot doctors" saying that, for 3 USD, each commune member enjoyed the equivalent health care that would be worth several hundred dollars in other countries.¹⁹⁵

But now, after some 20 years of reform, China's health care system is in crisis. Even a top Chinese government thinktank recently admitted that medical reform, which started in the early 1980s was a failure.¹⁹⁶ The whole network of preventive health care built up during the socialist period was totally eliminated. The majority of urban and town residents now do not have health insurance because, as stated earlier, almost all laid-off workers from former state-owned factories lost their health benefits. The "free market" approach to health care reform resulted in skyrocketing costs of doctor visits, medicine, and hospitalization. People can no longer afford the high cost of medicine, let alone hospitalization for serious

¹⁹⁴ "Debt, Lines are Symptoms of China's Frail Health Care" in *Detroit Free Press*, October 5, 2005. It should be noted that in addition to the barefoot doctors who were only trained to take care of the most common illness, there were also highly trained physicians and specialists who were trained to take care of other diseases and serious conditions.

¹⁹⁵ Sun Jing, *Chinese Peasants and China's Modernization* (in Chinese), National Editing and Translating Publishing Co., 2004.

¹⁹⁶ *The Economist*, November 19-25, 2005, p. 29. David Blumenthal, who co-authored an article in the *New England Journal of Medicine*, agreed with the conclusion reached by the thinktank (*Detroit Free Press*, October 5, 2005).

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illnesses. An operation can cost from 40,000 to 50,000 RMB, which is five to seven times that of the annual income of better-paid workers. No medical treatment is given, even in emergency cases, unless the patients and their families can make total cash payment in advance. This practice results in countless people with treatable illnesses literally dying at the hospitals' steps.

The health situation of peasants in the countryside is even worse. After the breakup of the commune system 20 some years ago, former commune members lost their health care and other benefits that had previously carried them through hard times. According to the *Status of Rural China (2003-2004)*, peasant participation rates in any kind of insurance are very low. In 2002 the participation rate for rural population in old-age insurance was 7.7 percent but only 1.4 percent of the insured actually received an old-age pension. The percentage of people who received a minimum living expense relief was only 0.5 percent.¹⁹⁷ Only about five percent of rural residents participate in cooperative health insurance. In 2002, 170 million people were affected by natural disasters, but only 9.4 million, or about five percent, received any kind of disaster relief.¹⁹⁸ The absence of any preventive medicine has meant that infectious diseases such as tuberculosis and schistosomiasis (snail fever), which had been eliminated in the 1950s, have returned in full force.¹⁹⁹ In addition, new infectious diseases such as HIV/AIDS and SARS have caused suffering for tens of millions of people, not only from the effects of the disease but also from the government's denials and cover-ups and the low priority it has placed on public health. Moreover, people in rural areas have disproportionately suffered from diseases caused by environment pollution.

In China today there are still many tens of millions of people who do not have clean water and adequate nutrition, which are basic requirements for better health, in addition to losing access to any preventative

¹⁹⁷ It is a form of welfare relief—a small cash payment to help the extreme poor. The amount is about 130 RMB for city and town residents. The amount is unknown for rural residents.

¹⁹⁸ Li Xiaoyun, Zuo Ting, and Ye Jingzhong, eds., "Poverty and Relief Situation in China's Villages" in *Status of Rural China, 2003-2004* (in Chinese), Social Science Academic Press, 2004, p. 63.

¹⁹⁹ Nationally, 900,000 people have been infected by the disease and an estimated 30 million are now at risk (*New York Times*, February 23, 2005).

health care. Under the capitalist Reform, health care has become a commodity affordable only to a minority of people who enjoy high incomes.

At the same time that workers and peasants lost their health insurance, they have been increasingly subjected to hazardous and toxic working conditions. Many high-tech firms relocated to China to take advantage of low wages and also to avoid occupational health and safety regulations in their home countries, such as those that limit worker exposure to toxic materials.²⁰⁰ Hundreds of thousands of young Chinese workers, mostly women, have flocked to the Pearl River Delta and in the last few years to the city of Kunshan near Shanghai, to work in electronics factories that assemble computers and other electronic products for the world's major tech companies.²⁰¹ These workers work long hours with little or no protection from exposure to high toxin levels.

Moreover, many Chinese also work to extract toxic metals from hazardous electronic waste from the United States. The US has so far not ratified the 1994 Basel Convention, which bans exportation of hazardous waste from developed countries to poor countries. In the small city of Guiyu, environmentalists found 100,000 people dismantling discarded electronics without any protection from the highly toxic waste materials. According to a study released in California in August 2005, high levels of toxic metals were found in 70 samples collected from industrial waste, river sediment, soil and groundwater around Guiyu, as well as in the suburbs of New Delhi where workers also work with imported electronic wastes.²⁰²

Even the mainstream press in the West has been alarmed by the number of coal miner deaths in mine accidents in China, which has come to be known operating the deadliest mines in the world. According to a Nov. 5, 2004 report posted on China.org.cn containing an interview

²⁰⁰ China Labour Bulletin cited one such firm, American Xtal Corporation (AXT), which in 2000-2002 was found by California health officials to be exposing its workers to extremely high levels of toxins. AXT closed down its California operation and relocated to China in 2004. "The Plight of China's E-Waste Workers" in *China Labour Bulletin*, April 15, 2005.

²⁰¹ Many major electronic firms in Taiwan moved their production to the Pearl River Delta in the 1990s and even more Taiwanese electronic firms moved to Kunshan in the past four years. All these Taiwanese firms are contractor that produce computer and computer components for large American corporations.

²⁰² Terence Chea, "American Electronic Waste Contaminates China and India," Associated Press, San Francisco, August 17, 2005.

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by the *People's Daily*, Professor Wang Deming of the China University of Mining and Technology admitted that “China has a poor safety record among coal-producing countries: in fact, we can say it has the poorest safety record.” Wang went on to say that in 2003, China produced 1.7 billion tons of coal while 6,434 coal miners died in accidents. Thus, he calculated that China's fatality rate for every million tons of coal produced was nearly four. In contrast, he said, the fatality rate (per millions ton of coal) for Russian miners was 0.34 and for developed countries was 0.4, about one-tenth of China's fatality rate.²⁰³

While the majority of Chinese are denied medical care at the same time as they are increasingly exposed to health risks, foreign health care corporations have rushed into the country to meet the demand for high-quality health care by China's super-rich. A Wall Street Journal article reported that health care providers such as China Healthcare Holdings of Hong Kong and Chindex International Inc. of Bethesda, Maryland, have already invested in big cities like Beijing and Shanghai to provide health care for the well-to-do—among them a young lawyer in Beijing with an annual income of 250,000 USD (or about two million RMB) and other high-ranking executives. Pictures accompanying the report showed the new health facility in Beijing, which looks more like an upscale hotel than a health clinic.²⁰⁴

6. Education Reform and Deepening Class Divisions

During the socialist transition, the goal was to reduce the three great differences: the difference between physical and mental labor, industry and agriculture, and city and countryside. Education reform, especially since the Cultural Revolution, played a big role in the reduction of all three differences.

The capitalist Reform that began in the 1980s shifted China's education completely toward the opposite direction. As the communes collapsed, the State also stopped financing education in the countryside. The more well-to-do villages, where sideline business in manufacturing and commerce flourished, built their own private schools. Villages where agri-

²⁰³ “Rehabilitating China's Killer Coal Mines,” china.org.cn/archive/2004-11/05/content_1111285.htm.

²⁰⁴ *Wall Street Journal*, August 18, 2005, p. B-1.

cultural production increased in the mid-1980s were able to maintain their schools. But when grain production growth slowed in the 1990s and then declined in the late 1990s, villages had trouble maintaining their schools. Teachers' salaries went unpaid and schoolhouses fell apart. Moreover, since city intellectuals were no longer encouraged to go to the countryside while educated youth from the countryside no longer go back to their own villages as a matter of course, it has become difficult to find teachers and maintain teachers' quality for rural schools. The gap of education between city/town and the countryside, which had begun to shrink during the 1960s and 1970s, has now widened.

In today's Chinese society, education again becomes a necessary means for elevating one's social status and increasing one's income. The education reform increased the number of colleges and universities and expanded the enrollment of existing schools. However, the costs of a four-year college education went up to 40,000-50,000 RMB—equivalent to several years' income of better-paid workers. Parents will do everything possible to put their children through college but, in today's competitive job market and with the exception of graduates from the most prestigious universities, college graduates are having a hard time landing jobs.

7. Social Polarization, Stagnant Consumer Demand, and Potential Crisis of Overproduction

More and more people outside China are noticing the polarization of Chinese society. Bai quoted the UN's statistics that the lowest 20 percent of China's population has a current income share of only 4.7 percent, while the highest 20 percent of the population gets 50 percent of the income. The Gini index for China's income distribution has reached 0.45. In the past, among all the developing countries, China had the most equal income distribution. So what changes did the capitalist Reform bring about that resulted in this extreme inequality? Large layoffs, low wages, lack of benefits for workers in restructured state enterprises, and low income for peasants—these are the main reasons for the extremely lopsided numbers at the bottom. On the higher end of the income distribution are high-ranking government officials, private business people, and some high-salaried professionals. Official statistics do not even reflect the

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full extent of income inequalities because much of the income of the very rich was obtained illegally and thus unreported.

Since 80 percent of the population, or more than one billion people, received only 50 percent of the total income, it's obvious that many of them could barely make ends meet and do not have money to spend on the large volumes of consumer goods that have been flooding the Chinese market. The result is a stagnated domestic consumer market. According to Bai's report, consumption was only about 44 percent of the total GDP in 2004. This means that 80 percent of the people who produced most of nation's output only consumed less than 20 percent of the total output.²⁰⁵ The high rates of investment and the lack of growth in domestic consumption have resulted in over-capacity, first in consumer goods industries, and lately in producer goods industries as well. Even though the problem of over-capacity (and the consequent problem of over-supply) is normal for any capitalist economy, the scale and magnitude of over-capacity in manufacturing and in the over-built infrastructure went unchecked for a prolonged period in China, making the problem much more severe. In China's post-1979 political structure, profits are often declared and rewards often handed out at the time of investment, before there is even any proof that the investment is viable or will yield a positive return.

The 2003 *China's Industrial Development Report* stated that, as early as 1995, a general survey of industries showed that more than 40 percent over-capacity of productive facilities existed in more than half of all industries. For example, the capacity utilization rates for facilities producing color televisions, washing machines, bicycles and air conditioners was only 46.1 percent, 43.4 percent, 54.5 percent, and 20 percent respectively. Bai wrote in his report that a more recent survey of 600 major consumer products showed similar problems. Predictions in the report indicate that for the second half of 2005, only 172 products (28.7 percent of total) would be basically balanced in supply and demand. In the other 428 product categories (71.3 percent of total), supply would exceed demand. In other

²⁰⁵ Since the total consumption was only 43.4 percent of the total GDP and we can assume that the highest 20 percent income group would save more than the lowest 89 percent group. It is reasonable to assume that the lowest 80 percent of Chinese people consumed 25 percent of GDP, or more than half of the 43.4 percent.

words, in the majority of consumer good categories, there would be many more goods than the total demand.

Before 2003 there were shortages in some of the producer goods such as steel, cement, and energy. Now those shortages have disappeared. The high profits for steel production resulted in a doubling of its investment since 2003. During the first nine months of 2005, demand for steel went up only 19 percent but supply went up 27 percent. As a result, the price of steel decreased sharply since March 2005. However, investment in steel continued to go up another 28 percent in the first nine months of 2005. Similar developments occurred in the cement industry and even in the energy industry, including coal and electricity. A *New York Times* article in 2004 said that 90 percent of all industries in China had over-capacity.²⁰⁶ China's authorities now belatedly realize that its economy is seriously imbalanced.²⁰⁷ Even many economists on the Right, who advocate the neoliberal strategy of free market development, have had to admit that a crash seems inevitable, and that it may happen mid-way through the 11th Five-Year Plan that begins in 2006. However, within the framework of China's course of development, these imbalances are structural and cannot be corrected by simply making adjustments here and there.

8. Dependence on Foreign Technology and Foreign Markets

As explained earlier, opening up China's economy to the rest of the world has always been an integral part of the Reform. The Reformers were inspired by the "success" of the export growth strategy of the so-called four Asian Tigers (or Dragons) that were regarded as models of development, namely, South Korea, Taiwan, Hong Kong and Singapore. The Reformers believed that China could do better than these small economies due to its economic foundation and its size. Initially, China's strategy was to use foreign capital and foreign technology to produce products for exports to other less developed countries; the Reformers believed that it would be a win-win situation for both China and foreign capital. They thought that foreign technology would help upgrade the technologies of domestic firms.

²⁰⁶ *New York Times*, July 4, 2004, p. 30.

²⁰⁷ Bai Jingfu, "The Main Contradiction of Our Country's Economic Growth During the 11th Five-Year Plan," *op. cit.*, Point 9.

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From 1999 to 2003, over a period of merely four years, China imported 75 billion USD worth of foreign technology. Yet technological innovation and development of domestic firms has not improved significantly since the beginning of the Reform. In addition to technology imports, China has also imported most of the machines and equipment used to produce exports, as well as certain raw materials, components, and parts.²⁰⁸

However, the original intent of using imported technology to upgrade domestic technological capacity was not realized. The 2003 *China's Industrial Development Report* said that the development of the past decade (and more), especially in the past three years, resulted in very serious structural problems in China's industry. On the one hand, manufacturing has grown at very fast rates. Yet the foundation of the industry that produces machinery and equipment has remained very weak. The *Report* further stated, "The capacity utilization of the industry that makes machinery and equipment stays at only 50 percent on the average. The high demand for high tech and specialized machinery and equipment could only be met by imports." Its footnotes gave some examples: 80 percent of machinery and equipment in the synthetic fiber industry as well as 70 percent of machinery and digital control equipment in the petrochemical and passenger car industries have to be imported.²⁰⁹

In addition to imported machinery and equipment, China has also had to import specific technology, components, and parts for manufacturing its export products. Even though China is number one in steel production, the same report said that the domestic content for certain kinds of steel is low: it is 65 percent for a special kind of sheet steel and only 15 percent for stainless steel. The report also said that China has a strong capacity to produce high-quality consumer durables, but such production depends on the imports of intermediate components and certain specific materials.²¹⁰ According to Bai, the problem related to the dissemination of imported technology was due to lack of funding. He said that in

²⁰⁸ *Ibid.*, Point 8.

²⁰⁹ Chinese Academy of Social Sciences, *Study Report on China's Agricultural Village Development, No. 1* (in Chinese), Agricultural Village Development Study Center, Social Science Academy Publisher, 2000, p. 28.

²¹⁰ *Ibid.*, p. 27.

Japan and Korea, for each 1 USD spent on imported technology, from 5 USD to 8 USD was spent in efforts to spread and absorb such technology domestically. China has only spent 0.07 USD for each 1 USD of imported technology. He said, therefore, that China's ability to disseminate foreign technology is very weak.

However, the low expenditures for spreading and absorbing foreign technology are only a small part of a much bigger problem. The 2003 *China's Industrial Development Report* also admitted that the positive impact of foreign technology on domestic industries has been very limited.²¹¹ The report said that in order for the multinationals to maintain their superior position in advanced technology, their most current technology has not been exported to China, while the technology that they have exported is strictly controlled to prevent dissemination. Both Bai's report (Point 8) and the 2003 *China's Industrial Development Report* concluded that foreign technology has helped very little in terms of domestic technological development, and that China's over-dependence on foreign technology is not likely to change in the future.

There has been no central comprehensive plan or specific standard with regard to importing foreign technology or accepting foreign investment. The small expenditures on technology dissemination are the result of not having an overall plan. The acceptance and adoption of foreign investment have been done in an ad hoc manner. Multinational corporations often approach local officials with investment plans containing elaborate photos of "advanced" technology. Since local officials stand to reap big benefits and rewards by the number and value of foreign investment they are able to attract, they would be more than willing to offer the foreign investor tax concessions, upgraded physical infrastructure, simplified administrative procedures, and a disciplined workforce willing to accept low wages. These local officials would also look the other way when it came to foreign investors bypassing environmental regulations.

Under the self-reliance development strategy of the socialist period, China also imported technology from advanced capitalist countries. Alex-

²¹¹ Chinese Academy of Social Sciences, *China's Industrial Development Report* (in Chinese), School of Industry and Economics Study, Economic Management Publisher, 2003, p. 56.

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ander Eckstein, an expert on China's socialist economy, wrote a paper in 1978 where he said,

Complete-plant imports from Japan, Western Europe, and to some extent the United States are making a major contribution to the expansion of production capacity in the chemical fertilizer, petrochemical, and iron and steel industries, as well as in power generation and commercial aviation, in the 1970s.²¹²

China benefited by using the imported technology to upgrade its own. In the past, after a complete plant was imported, China was able to build a copy of the plant in a fairly short time. Following the self-reliance principle of socialist development, machine-building industry was regarded as the foundation of industrialization and was given high priority in policy decisions and planning. However, since the Reform there has been little planning or even coordinated efforts to use the imported technology to upgrade China's own technology. Other capitalist states, such as South Korea, have done far better in assisting the efforts of their domestic capital to upgrade technology. China's record of technology imports shows a complete failure, even judging by the standard of the performance of a capitalist state, which often sets certain priorities and acts as a coordinator.

9. China's Role As a Processing Center for Multinationals

Monopoly capital controls not only the technology it exports to China but also the price of such technology, the price of capital equipment, the prices of components and parts, as well as the prices of the finished products that China exports. Foreign-invested enterprises control about 60 percent to 70 percent of China's export value. Lower export prices mean higher profits for the multinationals when goods are sold in the retail markets abroad.²¹³ One such example is China's exports of toys. According to Dong Tao, an economist at UBS in Hong Kong, a Barbie

²¹² Alexander Eckstein, "The Chinese Development Model" in *Chinese Economy Post-Mao, A Compendium of Papers*, Washington, US Government Printing Office, 1978, p. 107.

²¹³ *China View*, September 6, 2005.

doll imported from China costs 20 USD in the United States but China only gets about 35 cents of that.²¹⁴

In the same *New York Times* article, Yasheng Huang, associate professor of the Sloan School of Management at the Massachusetts Institute of Technology, said that goods marked “made in China” are mostly made elsewhere—by multinational companies in Japan, South Korea, Taiwan and the United States. These multinationals rely on their China operations to complete the final assembly of their products as part of their vast “global production networks.” He added, “the controls and therefore profits of these operations firmly rest with foreign firms.”

China's role in the international division of labor dictated by global monopoly capital is no different from that of many other developing countries. China has been and will continue to be a processing center, with its assigned role of producing (mostly through assembly operations) low-cost and low-quality products. The 2003 *China's Industrial Development Report* stated that China's industrial exports have increased in volume but decreased in value. Its terms of trade for industrial products decreased 14 percent between 1993 and 2000.²¹⁵ This problem is very similar to that of other less developed countries. Thus, the earlier optimism and belief of the Reformers and their supporters that China was on its way to become a strong independent capitalist country has not been and will not be achieved.

Before China joined the WTO, Han Deqiang, a well-known scholar and writer, wrote a book that documented how foreign firms had by 2000 already taken over many industries in China. Han said that foreign firms first took over those industries with the least protection, such as factories that produced beers and beverages, detergents, bicycles, clothing, paper, etc., and that foreign firms were positioning themselves to take over many others.²¹⁶

In order to join the WTO in 2001, China negotiated but obtained unfavorable conditions. Even some liberal economists believe that,

²¹⁴ *New York Times*, February 9, 2006.

²¹⁵ Chinese Academy of Social Sciences, *China's Industrial Development Report*, *op. cit.*, p. 87.

²¹⁶ Han Deqiang, *Collision* (*Peng Chuang* in Chinese), Beijing, Economic Management Publisher, 2001, pp. 40-56.

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in exchange for WTO accession, China gave up too much for its own good.²¹⁷ China has not yet felt the full effect of the privileges that the multinationals obtained through its accession. But the country actually began its reforms much earlier to prepare for WTO membership. From 1982 to 2001, China lowered its import duties for industrial products from 56 percent to 15 percent and eliminated its import quota on many import items. Also, before China joined the WTO, it already eliminated import duties on machinery and equipment of foreign direct investment and, beginning in 1997, eliminated import duties on scientific instruments imported for scientific research. In 2000 it included computer software as part of a growing list of duty-free items. Therefore, by 2000, less than 40 percent of Chinese imports were subjected to any tariffs.²¹⁸

When China joined the WTO it agreed to continue to lower its import tariff on industrial products, with the exceptions of a few items, from 15 percent to 8.9 percent by 2004. The 8.9 percent import tariff is much lower than those imposed by many other developing countries. For example, the import tariffs for industrial products imposed by four large countries—Argentina, Brazil, India, and Indonesia, are 30.9 percent, 27 percent, 32.4 percent and 36.9 percent, respectively. China also agreed to lower its import tariff on agricultural products from 23 percent to 15 percent, which would be lower than that of Japan. When China joined the WTO, it already made the decision to give up its highly protected industries, such as the automobile. Not only did China agree to lower its import tariffs, it also agreed to “bind all tariffs” once they became effective. Even the US trade representative at that time commented, “Very few countries have done this.”²¹⁹

In the area of services, China agreed to open its domestic service sector markets, including telecommunications, education, entertainment, banking, insurance, security and other financial trading, and fields in consulting, such as legal, accounting, and management. It also agreed to let foreign firms in engineering, architecture, urban planning, medical, and computer specialist services open businesses in China. Before China

²¹⁷ One of these liberal economists is Nicholas R. Lardy of the Brookings Institute in Washington, DC.

²¹⁸ Nicholas R. Lardy, *Integrating China into the Global Economy*, *op. cit.*, p. 36.

²¹⁹ *Ibid.*, p. 79.

joined the WTO, foreign banks were only allowed to conduct their business in certain cities. They were also permitted to deal only with business customers and only in foreign currencies, not in RMB. After 2005 China has to eliminate the restrictions on foreign bank locations, and in 2007 foreign banks will be allowed to do business in RMB. By 2008 foreign banks will be allowed to accept personal deposits and offer personal loans. After 2010, foreign banks will enjoy the same national treatment as domestic banks. Foreign financial institutions have positioned themselves to compete aggressively for a market share in China's financial market. As more and more foreign banks continue to buy shares of Chinese banks, the future outlook is not good for China's fragile financial sector.

10. The Harsh Reality of Working People and Their Struggle

The majority of workers and peasants in China today are facing many difficulties in most aspects of their lives. The percentage of workers in the formal sector was drastically reduced as China's employment structure underwent a thorough overhaul. Tens of millions of workers were thrown out of work and lost all their benefits, including health insurance and accumulated pensions. Many of these former workers also had claims for back wages.

For workers who were kept on the job, their wages have been reduced and benefits cut. All the protections that Chinese workers enjoyed during the socialist period were eliminated. The lack of benefits has further caused the deterioration of living standards for a great number of China's workers and the unemployed, many of whom are at subsistence or below-subsistence levels of living.

Life for many peasants in the countryside is poor and precarious. With little income from growing crops, many are forced to migrate to the city slums to do the most difficult and dangerous work. Migrants with no city residence permits suffer from abuse by employers and police with little recourse.

In addition to all the suffering, hardship, injuries, and even deaths that Chinese workers and peasants have endured at work and in their daily life, they have also been harshly treated and abused by government officials, especially by local bureaucrats in the countryside and the police in cities. These low-level officials have direct authority over the people and the

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majority of them are corrupt. They are the ones who evict peasants from their land and evict urban residents from factories and homes. There have been large-scale protests over land and home evictions and issues related to taking land without adequate compensation, plant closures, unpaid wages, exorbitant tax collection, corruption, and other injustices.

For the year 2004, the officially published number of reported protests involving over 100 people totaled 200 to 300 a day, or 74,000—apart from the many unreported cases. One of the latest protests happened in a fishing village, Dongzhou, near Hong Kong on December 10, 2005. Dongzhou residents were protesting against the building of a power plant which occupied land for which they were not compensated. The residents also feared pollution from the plant would damage the environment and endanger their livelihood as fishermen. During the protest, police opened fired into the crowd, killing 20 people.²²⁰

Just as importantly, workers in China have lost the dignity and the respect that they once had. In the past they were considered the “masters” of the country, but now their social status has sunk to the lowest level since Liberation. Older unemployed workers are often outraged when the state enterprises they helped build through decades of hard work are squandered away by the powerful and privileged few. They feel a very strong sense of injustice. A former model worker in his seventies recalled how he and his coworkers used to volunteer overtime on Sundays by jumping over the factory wall and secretly working to increase production. There was no overtime pay or any bonuses, but the overwhelming majority of workers put forth their best efforts. The ex-worker and others like him are infuriated by the Reformers' claim that state enterprises were inefficient due to lax and lazy workers, which became the excuse to institute Labor Reform and throw the workers out on the street.

The 150 million migrant workers from the countryside have little to compare their current conditions with, having never experienced the lives of workers in the state enterprises during the socialist period. However, they are the ones suffering the brunt of exploitation without protection of any kind. They are also the main workforce in producing export goods, and will be the first to be laid off when exports begin to slow down.

²²⁰ *New York Times*, December 10, 2005. Chinese authorities claimed fewer people were killed by the police.

The legacy of socialism has instilled a strong sense of justice and fairness in Chinese society. Despite 26 years of Reform making only a few people very rich, ordinary Chinese people are holding on to what they believe. They can tell you countless cases of people accumulating tremendous wealth simply because they are in power or are close to those in power. They can tell you how much money will buy various government positions, and how long it takes to get a full return for your money. With such glaring abuse of power and gross injustice, working people in China can only consider Hu's and Wen's empty rhetoric calling for a "harmonious society" to cover up an increasingly divided, chaotic and conflict-ridden society.

C. Capitalist Reform's Impact on China's Long-Term Development

The production of large quantities of goods—a large part of which has been marked for export—at rapid rates has caused China's natural resources to be rapidly depleted and has caused serious damage to its environment. Although a vast country, China is not endowed with abundant natural resources and its natural environment is very fragile. The devastating impact of fast GDP growth and large volumes of exports on natural resources and the environment has been aggravated by China's inefficient use of these resources, and government neglect of its responsibility to legislate and enforce environmental laws and regulations. Moreover, under the policy of speeding up GDP growth by any means necessary, all levels of governments have focused single-mindedly on investing in buildings and infrastructure, wasting tremendous amounts of resources. These central, provincial and local governments have not been willing to spend the resources necessary to clean up China's polluted rivers, ground, and air.²²¹

1. China's Dwindling Natural Resources

When it comes to the problems of China's scarce resources, water shortage is the first on the list. China's water resources have always been

²²¹ The World Bank has said that China is in an environmental crisis and it is costing an estimated eight percent to 12 percent of China's total production. Bai Jingfu, "The Main Contradiction of Our Country's Economic Growth During the 11th Five-Year Plan," *op. cit.*, Point 5.

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scarce. The average water available per person is only 2,200 cubic meters, which is a quarter of the world's average. Also, the distribution of water is very uneven; the shortages are most acute in northwestern provinces.

The high growth of industrial production and urbanization has increased water use, taking water away from agriculture and rural residents. According to the Ministry of Water Resources, factories and urban residents used 34 percent of the total water supply in 2004, up from 25 percent in 1998.²²² Earlier projections showed that residential demand for water will increase from 31 billion tons in 1995 to 134 billion tons in 2030, and industrial water demand will increase from 52 billion tons to 269 billion tons during the same period.²²³ There is simply not enough water in China to go around.

The water shortage has already had serious effects on agricultural production and has kept many rural residents from improving their standard of living. In 1994, farmers in a region near Beijing were not allowed to use their regular source of water supply from the reservoirs for irrigation because the city's fast-growing need for water was given a higher priority. In the late 1990s, 300 of China's 617 cities faced water shortages.²²⁴ It is much worse by now. When confronted with water shortages, cities are likely to restrict water use for agriculture in nearby regions and further deprive the rural population the opportunity to improve their lives. Unless conditions of increasing water shortage can be reversed, the government's most recent plan to improve the lives of the rural population will remain an unrealized dream. The following examples only highlight the seriousness of the problem.

The Yellow River is the second largest river in China and has provided water for people and farms in central China for thousands of years. Today, heavy water consumption upstream has exhausted the Yellow River's water supply and caused water shortages for the 170 million people in this region who are dependent on its water. Even though there were instances before the 1990s that the Yellow River ran dry before reaching the sea, the problem has become increasingly worse since 1990. In 1997, the Yellow

²²² Bloomberg.com, February 22, 2006.

²²³ Worldwatch Institute, news release, April 22, 1998.

²²⁴ Ibid.

River ran dry for a record-breaking 226 days.²²⁵ Yi Huimin, author of *The Warning of Yellow River*, stated that the problems of exhausted water supply, river pollution, and increasing occurrences of flooding were spreading nationwide. In 1998 both the Yangtze River in the south and Song Hua River in the North had the worst floods in 100 years. In 1999, the Yangtze River flooded again and rendered 600,000 people homeless.²²⁶

Not only is water supply from rivers dwindling, China is also losing groundwater at a fast rate due to overuse. Groundwater levels in many cities are approaching dangerously low points. For example, groundwater in Beijing has decreased very rapidly; according to the Ministry of Water Resources, Beijing's groundwater tables have dropped 1.5 to two meters a year. The Ministry said that lower water tables will not only further aggravate shortages but will also lower the quality of water and increase the risk of earthquakes and landslides.²²⁷ The heavy loss of groundwater has also speeded up desertification in the northwest. According to Ji Yongfu, the director of Gansu's Desert Control Research Institute, overuse of groundwater and overgrazing have caused the desert to advance at a rate of about 2,000 square kilometers a year.²²⁸

China's rapid production of large volumes of industrial goods for export is responsible for the rapid depletion of its natural resources. This problem has been worsened by the inefficient use of the resources. The Ministry of Water Resources pointed out that since China only recycles 20-30 percent of its industrial water, its water consumption per industrial output is five to ten times higher than those of other industrialized countries.²²⁹

As the rate of export growth has accelerated since the late 1990s, China's oil consumption has also increased rapidly. According to Bai's report (Point 5), China's oil consumption doubled from 1990 to 2001. China's oil consumption surpassed Japan's in 2005 and became the second largest oil consumer in the world, next only to the United States. China's

²²⁵ Yi Huimin, *The Warning of Yellow River* (in Chinese), Yellow River Utilization Publisher, 1999, pp. 1, 12.

²²⁶ *Ibid.*, p. 1.

²²⁷ "China's Water Shortage to Hit Danger Limit in 2030" in *People's Daily Online*.

²²⁸ Bloomberg.com, February 22, 2006.

²²⁹ *Ibid.*

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domestic oil production has not been enough to meet its oil demand. Thus oil imports doubled in merely five years, from 1998 to 2003, and increased another 40 percent in the first half of 2004.²³⁰ In 2005 China consumed 300 million tons of crude oil, of which 123 million tons were imported. China's high level of energy consumption to produce high volumes of products has been aggravated, like the usage of water and other natural resources, by its inefficient energy usage. According to Bai's report (Point 5), for every dollar of GDP increase, China's energy use is 4.3 times that of the US, 7.7 times that of Germany and France, and 11.5 times that of Japan. Bai also reported that between 1990 and 2001, China's consumption of natural gas increased by 92 percent, steel 143 percent, copper 189 percent, aluminum 380 percent, and zinc 311 percent. He concluded that China has reached the limits of this kind of rapid but inefficient economic growth.

China still relies on its own coal reserves as the main source of its energy consumption, but its coal reserves have been rapidly depleted.²³¹ If China continues its current strategy of pursuing fast GDP growth, it must acquire a bigger share of the world's oil, natural gas, iron ore, lumber, and other natural resources. However, China is not in a strong position to compete with the United States, Europe, and Japan for these natural resources.

Therefore, in order to continue exporting large volume of goods to sustain high rates of GDP growth, China has been using up its resources at an accelerated rate. Large quantities of resources, including large areas of farmland, have also been used to build excess infrastructure—airports, office towers, super highways, exhibition halls, as well as the luxury mansions of the rich. The massive consumption of China's natural resources is the complete opposite of the policy during the socialist period, which was to conserve resources. Conserving resources, not increasing profits, was one of the standards used to judge the performance of state enterprises.

²³⁰ *Time Asia*, October 18, 2004.

²³¹ You Xuan, "Inquiring into the Strategy of Our Country's Coal Reserves" in *Economic Forum (Jingji Luntan* in Chinese), July 2005, p. 13.

2. *China's Environmental Crisis*

Environmental pollution became a serious problem beginning in the 1980s and grew increasingly worse in the mid-1990s. Environmental experts in China have given different estimates of the loss of production due to environmental disasters. The World Bank has said that China is in an environmental crisis and that an estimated eight percent to 12 percent of its annual production was lost in recent years due to this.²³² Water pollution has brought tremendous losses to agricultural production and has caused serious illness for people exposed to it—mostly peasants in rural areas.

The government-run *People's Daily* reported last year that in Liuku-aizhuang, a village of 6,000 people near the city of Tianjin, water pollution drove the cancer rate to 25 times the national average in 2004. This was in addition to the chemical plant accident that contaminated the Songhua River, which caught international media attention. More recently, a tributary of the Yangtze River, China's longest river, was polluted last month after a zinc smelter spilled cadmium into the water. Cadmium is a toxic metal that can cause neurological disorders and cancer.

While the effects of these large-scale accidents are horrific, the impact of smaller scale but constant dumping of industrial wastes into rivers and ground is even more devastating. According to the Water Ministry, most of China's rivers are seriously polluted and contaminated by toxins. According to a report published by the Water Resources Ministry (*China's Water Resources 2000*) of all the water in China's rivers, with a total length of 114,000 kilometers, only 28.9 percent is better quality (ranked class I and II), and 29.8 percent is a lesser quality (ranked class III). Some 16.1 percent of water in rivers is dangerous for humans to touch (Class IV) and the rest, or 25.2 percent of all water in rivers, is too polluted to use for any purpose (Class V).

Air pollution is just as serious in many of China's major cities as indicated by the rapid increases in respiratory diseases. Last spring, Beijing and other northern cities were hit by one of the largest sand storms to come from the Mongolian desert. Since the rapid advance of desertifica-

²³² Bai Jingfu, "The Main Contradiction of Our Country's Economic Growth During the 11th Five-Year Plan," *op. cit.*, Point 5.

tion, above a rate of about 2,000 square kilometers a year, sand storms have become increasingly worse, affecting cities in Korea, Japan and even Taiwan. Sand storms are also a major cause of respiratory disease.

The over-consumption of natural resources and the deterioration of its natural environment are the direct results of China's mindless strategy of high GDP growth. In order to promote export growth and to support the high consumption of China's new rich, its government has used subsidies to keep the prices of these resources low. For example, the government subsidizes energy so that the prices of certain export products can be kept low. At the same time, a low gasoline price encourages the purchase of automobiles. The strategy of high GDP growth is depleting China's natural resources and causing its environmental crisis, making the country's long-term sustainable development even more difficult. Before China can embark again on the path of long-term sustainable development, large expenditures are needed to clean up the environment and restore ecological balance.

D. External Forces Behind China's Capitalist Reform and Rapid GDP Growth

The first three sections of this essay focused on an analysis of how changes in basic class relations have pushed capitalist reform forward. However, the forces behind the Reform are both internal and external, and the two are closely connected. From the very beginning, the Reformers wanted to find ways to connect China's development to the world capitalist system: the *kai-fang* ("opening up") part of the Reform. The only question was how to make the connection, how much to concede, and how fast to proceed. Within Deng's camp, there were those who wanted a strong independent China, who refused to subject their country to the domination of foreign economic powers, and who called for more caution. Therefore, the negotiations for China to join GATT and later the WTO took fifteen difficult years.

Decisions on to how to connect China's economy to the world and at what pace, however, were not entirely up to its own authorities but were made in a specific international context. The capitalist Reform happened to coincide with major changes in the world capitalist system. There were significant external forces that were pushing not only China's capitalist

reform and rapid GDP growth but also its economic integration into the world capitalist system. Among the said external forces, the economic crisis that began in the early 1970s stands out. As the crisis grew increasingly worse in the 1980s and 1990s, global monopoly capital restructured the political and economic order by pushing forward neoliberal reform policies, both in the domestic and international fronts. Initiated in the early 1980s, these policies have had significant effects on the rapid expansion of monopoly capital on a global scale.

The problem of over-capacity in the world's production system appeared in the late 1960s and early 1970s, after almost two decades of continued investment and rapid growth following the end of World War II. Like earlier economic crisis, the post-war crisis beginning in the 1970s required political intervention. British Prime Minister Margaret Thatcher and US President Ronald Reagan led the Western world in an overall restructuring of the post-war political and economic order. In their own countries, they implemented policies that dismantled social welfare programs, imposed strong measures against unions, and restructured the labor market, deregulated industries, and privatized public industries. These neoliberal policies that eliminated barriers to profit making were quickly expanded internationally, which facilitated relocating capital to less developed countries. These closely coordinated policies benefited capital by taking advantage of cheap labor abroad and weakening labor's bargaining power at home.

During the last 20 years of the 20th century, uneven development among the imperialist countries also became more prominent. In the early 1980s, the yearly surplus of around 50 billion USD in Japan's current account mirrored the deficit of the same magnitude in the current account of the United States. Japan needed external markets to compensate for its inadequate domestic demand to give some relief to the pressures of excess capacity in virtually all of its industries. During the 1980s, Japan's economy continued to grow at much higher rates than those of the US and European countries, but its growth rate was sustained by maintaining trade surpluses with other industrial powers. The US economy continued to rely on external savings by importing more than it was exporting. On the other hand, it also continued to provide a market for the world's surplus products. Thus, the fragile balance, or rather the imbalance, of the

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world's capitalist system was maintained by the US spending beyond its means and by borrowing, mostly from Japan.

Japan's economic stagnation began in the early 1990s and lasted for 16 years, reminding many of the 12 years of the Great Depression in the United States and other industrial countries in the 1930s. Japan's long-term stagnation led policy makers to question and doubt their faith in the Keynesian fiscal and monetary policies that were widely practiced during the prosperous post-war years. The Japanese government's massive public works projects and its central bank's zero interest rate policy failed to stimulate its total demand and revive its economy. At the same time the German economy, the strongest industrial power in postwar Europe, also lost its steam. Its unemployment rate soared and persisted at around 10 percent or higher. Nor has the economic performance of the rest of the European Union been that promising.

As global monopoly capital expanded worldwide in the 1980s under the neoliberal restructuring of the world order, the problem of over-capacity then spread from advanced developed countries to many less developed countries. After the crisis in Latin America in the 1980s and the Asian crisis at the end of the 1990s, foreign capital was ready to quickly move into China on a large scale. Those in power in China had already made significant reforms to integrate the country into the world economy. The Asian crisis that began in the summer of 1997 gave the Chinese authorities the final push. Aware of the powerful role of global monopoly capital and the international financial and trade organizations, they realized that if China were to continue its capitalist development, it had little choice but to open itself up. At the same time, China's Reform stalled as GDP growth began to slow in 1997, then further slowed to merely 0.4 percent in 1998, -11.4 percent in 1999, and a mere 1.3 percent in 2000. Chinese authorities conceded to the strong demands of monopoly capital and the imperialist states, and, at the end of 2001, China's accession to the WTO became a reality. Consequently, foreign investment started pouring in and the so-called miracle took off.

As surplus capital hopped from one country to the next, it soon littered these countries with more productive facilities without regard for local needs and long-term sustainability, thus sowing the seeds for potential crisis. As monopoly capital expanded globally, crisis has also spread all over

the world. The so-called Latin American debt crisis and the Asian financial crisis were in fact the crisis of the world capitalist system being shifted from the centers of imperialist power to those less-developed regions.

In the late 1990s, when the Asian crisis began, the problem of over-capacity (which had persisted from the early 1970s) worsened. The automotive industry is a good example of the seriousness of the problem. The *Wall Street Journal* reported on August 25, 1997 that the worldwide capacity of car production reached 70 million vehicles—32 percent more than consumers were buying. A 1998 article in *The Economist* said that Japanese carmakers had the capacity to produce 14 million cars, but far less than half that number could be sold on the domestic market. The same article stated, “Europe is as much plagued by over-capacity as Japan. Car production there is growing by four percent a year but demand by only 1.5 percent.”²³³

The United States is the biggest car market in the world. In 1997, the annual total of car sales in the US was about 15 million, but was not growing. However, both Toyota and Honda had plans to increase their capacity in North America (US and Canada) in the following years by building additional plants and expanding existing ones.²³⁴ Before the collapse of the South Korean economy, Korean car companies (Hyundai, Daewoo, Kia, and Sangyong) built far more cars than were sold on the domestic market. South Korean and Japanese automobile companies were also building factories in India, Indonesia, and Turkey.

When Samsung was just about to launch its new car production (a joint venture with Nissan of Japan), the Korean economy collapsed. Soon after, General Motors (GM) and Ford bought shares in the bankrupt Korean car companies to continue production in Korea and elsewhere. Before Brazil went into crisis in 1998, GM, Volkswagen, Ford and Fiat had invested large sums of money to expand their existing auto productive facilities there, followed by seven new companies also making large investments in Brazil. These new automobile investments in Brazil were excess capacity to begin with; they only exacerbated the problem of overproduction after Brazil fell into crisis.

²³³ *The Economist*, March 21, 1998, p. 71.

²³⁴ *Wall Street Journal*, September 24, 1997, p. A-1.

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The over-capacity problem in the automotive industry extended to other auto-related industries and other non-auto-related industries as well. Therefore, by the late 1990s, global monopoly capital was desperate to find a place to expand. China seemed to be the logical place to go because there was a large industrial base already built and it had a large supply of technical personnel and experienced industrial workers, guaranteeing low wages.

China's new regime had been pushing hard for capitalist Reform since the mid-1980s and had earnestly begun negotiating accession to GATT and then WTO. The Reformers also put in new laws that would give preferential treatment to foreign investors. The brutal repression of student and worker protests in the spring of 1989 showed that Deng's regime would not tolerate any political dissent and would not hesitate to use force to crush dissent when necessary in order to continue the capitalist Reform without any disruption. The regime understood that for the foreign and domestic capitalists to commit their investments, political "stability" was a precondition.

E. Conclusion

One of the purposes of writing this essay is to challenge the myth of a development model propagated by imperialist ideology. This development model says that when monopoly capital enters a less developed country, it brings advanced technology and access to the international market; if the country simply opens up its economy, it can develop its economy quickly, thus lifting many people out of poverty.

This myth continues to exist despite the fact that history, especially in the past two or three decades, has proven that this development model brings misery to the people even during the short span of the economic "boom"—and especially when the "boom" inevitably turns into crisis. At the time of the crisis, monopoly capital, assisted by individual imperialist states and the international financial and trade institutions (the IMF, WB and WTO), force these afflicted countries to accept the Structural Adjustment Programs (SAPs), which in turn cause enormous suffering for the people and subvert the economic sovereignty of these countries. Under the SAPs, developing countries have to pay back several times the amount of money they borrowed and also have to undergo further "liberalization" and deregulation in order to facilitate the entrance and further expansion

sion of global monopoly capital. Then by the time the working people are forced to further tighten their belts to survive in if not to salvage their ruined economy, monopoly capital is already on its way out to occupy more places elsewhere. Despite these undeniable facts, this myth of development persists and has been used by monopoly capital as a weapon to open up more economies.

As this essay has shown, capitalist Reform succeeded in dismantling the class relations of socialist China in spite of resistance from workers and peasants. The Reform has opened China up and welcomed monopoly capital in. During the last eight years, the Reform did achieve high growth rates in exports and in GDP. However, fast GDP growth has not brought better lives for the majority of the Chinese people. Instead, many have suffered unemployment, low wages, loss of land, and loss of benefits. The lives of hundreds of millions of people have deteriorated and become more precarious during the so-called economic miracle. This essay has also shown that the capitalist Reform resulted in many imbalances, both within China's economy and between it and the rest of the world. China has not and will not become a strong capitalist country. Moreover, fast GDP growth has accelerated the depletion of China's natural resources, the shrinking of China's arable land, and the emergence of many serious environmental crises.

During the earlier phases of the Reform, before its real impact was felt, many believed that the Reform would help develop China's productive forces. In the last fifteen years, however, fewer and fewer people still think so while more and more people increasingly question what the Reform has meant to them. Many say the reform of state enterprises only brought unemployment and cuts in pay and benefits. The rural reform merely drove 150 million people to the cities to find work. The reform of the health care system only raised the price of medical care, so people no longer can afford to visit doctors or to buy medicine. The education reform has raised tuition, so people cannot afford to go to school.

The overwhelming majority of Chinese people no longer believe that China is still a socialist country. With the exception of a small minority who have benefited from the Reform, people no longer have trust in the Communist Party to represent and protect their interests. China's current leaders led by Party Chairman Hu Jintao and Premier Wen Jiabao

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are keenly aware of and actually acknowledged some of the overwhelming problems—economic, social, and political—that afflict the country. They recognize the negative impact of capitalist Reform on the majority of the working population, the long-term damaging impact on China's natural resources and environment, and how it has polarized Chinese society. With the numbers and the sizes of protests increasing, they are also keenly aware of the political crisis that they are facing.

Therefore, on the one hand, Hu and Wen have tried to project the image of being benevolent rulers who care about the people. They have proposed a “scientific view” of people-based and environmentally friendly sustainable development, and expressed the desire for China to be a “harmonious society.” At the same time, however, they have pledged to carry the Reform forward as if their avowed newfound view of sustainable economic development is compatible with capitalist reform in the way that it has been carried out. Hu's and Wen's proclamations and promises are far removed from China's reality and cannot be realized.

Developments in China in the past 26 years clearly show that the lofty goals set at the beginning of the Reform have not been accomplished. However, I would like to reiterate that once the Chinese authorities made the decision to develop capitalism, the choices available to them were already rather limited. We can certainly speculate that if Chinese decision-makers followed a different set of policies or had avoided certain mistakes while remaining within the basic framework of the Reform, the outcomes might have been different from what they are now. However, the differences would only be a matter of degree and not be fundamental.

In other words, within today's world capitalist system, any developing country that wants to develop a capitalist economy has to fulfill its role in the world capitalist system as dictated by global monopoly capital. Hundreds of billions of dollars have poured into China because it has provided investors with cheap skilled and unskilled labor, lax environment regulations, favorable tax laws, and a potential market. The cooperation of those in power in China with international monopoly capital is based on their mutual interests. Their cooperation has enabled multinationals to accumulate capital and high-ranked Chinese officials to accumulate wealth, while leaving hundreds of millions of Chinese people behind.

Marx said that capital has to continue destroying the productive forces in order to keep capital accumulation going. History has proved him right: witness the total destruction of productive forces during the Great Depression and subsequently the continuing destruction of productive forces during each economic crisis. In a world of imperialism, however, and especially in the last 30 years as the crisis of capitalism has deepened, the speed of this destruction has accelerated as international monopoly capital spread its excess productive forces all over the world. When more surplus capital is again generated from these investments, capital again needs to implant itself onto other territories to expand. Consequently, the useful life of these productive forces becomes shorter and they have to be destroyed at faster and faster rates to accommodate the need for the capital expansion.

In the process of doing so, vast amounts of natural resources are wasted because these productive facilities, which were excess capacity to begin with, have to be destroyed in a hurry as crises occur at shorter intervals. In the process of building and then phasing out productive facilities, global monopoly capital generates profits. However, in the same process, all the activities in the once booming factory towns, special export zones and seaports grind to a halt as the capital moves on to other locations. Developing countries are thus left with fewer natural resources (for example, over-harvested forests, exhausted water supply, and dwindling oil reserves) and large quantities of industrial waste. When environmentally clean products are exported, the pollutant waste created in producing these goods and the unused productive facilities are left behind, causing irreversible damage to the environment.

This essay showed that China's capitalist Reform has created serious internal imbalances in the Chinese economy and between it and the rest of the world. These imbalances are unavoidable when a less-developed country adopts capitalism in today's world economy dominated by monopoly capital. China's fast GDP growth has depleted its natural resources and damaged its environment, thus making any shift to long-term development in the future much more difficult. Workers and peasants in China have suffered even during the years of high GDP growth. When these imbalances eventually lead to an economic crisis, their suffering will grow worse. Even the fortunes of the "middle class," 15 percent to 20 percent of

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the total population, will decline. Therefore, the rapidly growing protests against plant closures, land-grabbing, wage and benefit cuts, and corrupt and abusive government officials, can only intensify.

HOW SUSTAINABLE IS CHINA'S AGRICULTURE? A CLOSER LOOK AT CHINA'S AGRICULTURE AND PEASANTRY²³⁵

Introduction

One of the most challenging problems in China's agriculture has always been the lack of arable land. China has less than nine percent of the world's arable land, but it has to produce food and other agricultural products for 22 percent of the world's population. On a per capita basis, its arable land is just over one *mu* or 0.0827 hectare (1 *mu* = 0.067 ha), about one third of the world's average. More than 40 percent of the world's peasants work on this land area, making the farm size per household very small, averaging less than 0.2 ha. In some of the more densely populated provinces, each household has less than 0.1 ha. In addition to very limited land, China also has limited water resources: only six percent of the world's water supply and only 25 percent of the world's average on a per capita basis. With a large population to feed and clothe, the limited arable land and scarce water resources place severe constraints on agricultural production. In China, long-term sustainability in agriculture depends on whether arable land and water available to agriculture can be maintained at least at current levels, and whether yields per cultivated area can increase.

Another important factor related to long-term sustainability in agriculture is the allocation of arable land and other agricultural inputs among different kinds of agricultural production. The current debate on this question has been whether China should continue to pursue its past policy of self-sufficiency in food (especially grain), or redirect its scarce land and other resources instead to make products in which it has comparative advantages, while satisfying its food needs through international trade. Yet another important question is how agricultural production can be modernized. The number of people engaged in agriculture can be reduced through modernization, and "surplus" labor can be shifted to other areas of production. The other important dimension of China's agriculture is how different policies affect the wellbeing of its farmers. Nine hundred

²³⁵ This paper was first published online in 2008 on the website of Pesticide Action Network Asia Pacific (PAN AP) and People's Coalition on Food Sovereignty (PCFS).

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million people reside in China's rural areas. Out of the total of 480 million people in the labor force in rural areas, 320 million are engaged in agricultural production.²³⁶

When evaluating China's agricultural policy, we cannot focus only on the short-term outcomes of each policy alternative on agricultural production. Rather, such an assessment should be based on whether and to what extent the policy can address these major questions. Ultimately, the appropriate agricultural policy for China or for any other country has to be based on whether it is sustainable in the long term.

This paper discusses these major questions by comparing and contrasting the policies of two distinctive periods. The first period covers the 30 years between 1949 and 1979. This includes the period of land reform and the agricultural collectivization of 1953-1958 until the commune system was established, and the 20 years of agricultural development under the commune system. The second period covers the time from 1979, when Agricultural Reform began, to the present. These two distinctive periods represent two entirely different models of development. Agricultural development during the commune years will be discussed quite thoroughly in this paper. The reason for the rather lengthy analysis of the first period is that, without that historical background, it is not possible to understand what followed after the Agricultural Reform in 1979.

From 1949 to 1979, China pursued its own socialist model of economic development based on self-reliance, which required central planning and the immediate goal of developing the economy to satisfy people's basic needs, and then gradually raising their standard of living.

A related goal was to reduce the gap between the standards of living of urban residents and those of rural residents, who constituted the overwhelming majority of the population. The short-term goal for agriculture was to achieve self-sufficiency in grain and other agricultural products for consumption and for raw materials needed in industry. The long-term goal was to preserve and improve arable land and to modernize agricultural production. Farmland capital construction included projects like squaring and terracing land, building irrigation and drainage systems, reservoirs and pumping stations. The goal of farmland capital construction was

²³⁶ Tan Shukui, *Gengdi liaohuang* (*Study of Land Abandonment*, in Chinese), Science Publisher, 2004, p. 161.

to achieve high and stable yields per land area. This kind of land work was also necessary for agricultural modernization, which used improved inputs, such as fertilizer and better seed strains, and tractors and other kinds of agricultural machinery. Capital construction and modernization in production not only relieved peasants of their back-breaking work; it also reduced labor needed for agriculture, so more people could work in factories to advance rural industrialization.

All these changed after 1978, when the Agricultural Reform enacted the "Family Responsibility System" and redistributed land, formerly owned collectively, to individual peasant households. The commune system was formally dismantled in 1984. The centralized state purchasing and marketing system, which was responsible for purchasing and distributing grain and major agricultural products, was gradually liberalized. The State reduced its purchases—both the number of bought items as well as the volume of each item bought. Peasants today mostly rely on the market as the main mechanism to regulate their production. Furthermore, China made some major changes in domestic and international trade policies to prepare itself for accession to the World Trade Organization (WTO) in 2001. These new policies have further liberalized agricultural production and marketing and have linked China's economy more tightly to the rest of the world.

These developments in the past 27 years have clearly signaled the change from a model based on self-reliance to a model based on China's comparative advantages in the international economy. In agriculture, it means that China has shifted more of its resources toward the production of labor-intensive products, such as fruits and vegetables for export, while it imports the more land-intensive products, mainly grains and cotton. It is not yet clear whether China has given up self-sufficiency in grain; the government claims that the self-sufficiency rate will be reduced from 100 percent to 95 percent. However, if China is to fulfill its commitments made to the WTO, it is questionable whether 95 percent self-sufficiency can be maintained.

This paper consists of six sections. The first section (Section A) provides the historical background of policies and development priorities in each of the two periods. Section B evaluates the impact of farmland capital construction. Section C assesses the accomplishments in the moderniza-

tion of agricultural production. Section D discusses the issue of self-sufficiency in grain and agricultural trade, and Section E covers the conditions of Chinese peasants. The last section (Section F) discusses the long-term sustainability of China's agricultural development.

A. Recent Historical Background

Land Reform and the Collectivization of Agriculture

Before Liberation in 1949, feudalism in China had existed for more than three thousand years. During this vast historical period, a small number of landlords owned large areas of farmland, while the majority of people were landless peasants. After the 1911 Revolution that overthrew the Qing dynasty, land concentration continued. For example, in 1934, just a decade and half before 1949, landlord households who comprised merely four percent of the total population owned 50 percent of the land, while 70 percent of the peasant households owned only 17 percent of the land.²³⁷ Poor peasants who rented land often had to pay more than half of their income to the landlords.

Land reform, which had begun in the Liberated Areas before 1949 and completed by 1952 gave hundreds of millions of peasants a plot of land for the first time. To resolve the problems of small landholdings and inadequate farm tools, the new government began the process of agricultural collectivization, first encouraging the formation of mutual aid teams, to share tools and labor, then elementary cooperatives, and, after the cooperatives acquired and owned their own tools, advanced cooperatives.²³⁸

When the commune system was established in 1958, communes replaced the *xiang*-level governments in rural China. Each commune was in charge of agricultural production, industrial production, commerce, education and other cultural affairs, the health system, and self-defense militias.

Before the commune system was dissolved in 1978, there were 52,781 communes, 690,000 production brigades, and 4,816,000 produc-

²³⁷ Wu Guobao, "Poverty Reduction in China's Rural Areas and Its Impact on Sustainable Development" in *Study Report on China's Agricultural Village Development* (in Chinese), n.d., p. 179.

²³⁸ William Hinton, *Shenfan: The Continuing Revolution in a Chinese Village*, New York, Random House, 1983, pp. 115-116.

tion teams.²³⁹ That meant on the average each commune had about 13 brigades and each brigade had about seven teams. The average size of the production team came to about 20 to 30 peasant households.

Before the commune system was established, the Unified Purchase and Marketing System had been set up in 1953. This system was in charge of the circulation of the major agricultural output including grains, cotton, oilseeds, and many other products. The State set purchasing quotas and prices for these products, and communes were required to fulfill these quotas at preset prices. The State also received agricultural taxes in grains. The State processed important agricultural products, such as grains and oil, and then sold them to urban and town residents at subsidized prices; it rationed food grain to each household according to the number and age of persons. The system also facilitated the sale of cotton and other raw materials to state-owned factories for processing. Cotton cloth sold to consumers was also rationed and subsidized. In other words, the Unified Purchase and Marketing System used state procurement, which covered all major agricultural products, to manage production and consumption of these products. In using the volumes and prices in state quota purchases and marketing, the State maintained stability in both the volumes and prices of these items. During this period, imports and exports of grains and other agricultural products were merely used to balance domestic production and consumption.²⁴⁰ The policy and goal was to guarantee self-sufficiency and price stability in grains and other agricultural products.

In the two decades after communes were established, China made substantial gains in increasing agricultural production and by the end of the 1970s, China was able to achieve self-sufficiency in food. As stated previously, international trade in grains was merely used to balance the domestic markets. For example, between 1975 and 1977, China imported an average around four million tons of grain per year, a small fraction of its

²³⁹ Chinese Academy of Social Sciences, *China Environment and Development Review*, No. 2 (in Chinese), Environment and Development Study Center, Social Sciences Documentation Publishing House, 2004, p. 36.

²⁴⁰ Exports of agricultural products were mainly to acquire enough foreign exchange for imports of agricultural products.

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total production, while it exported grain and other agricultural products as well.²⁴¹

In addition to attaining production increases, peasants in China also built infrastructure and in preserved and improved the land. The commune system also raised the standard of living and improved the health and education for the vast majority of Chinese peasants.

Deng's Agricultural Reform

In 1979, Deng and his supporters began the Agricultural Reform to break up the communes. By 1984, the State has successfully dismantled the commune system; land and other collective properties were redistributed to individual peasant households.²⁴² In the very beginning of the Reform, the government raised the price of grain and other agricultural products by an average of 25 percent within quota purchases, and by another 50 percent as a bonus above quota purchases. Grain production increased rapidly during the first few years of the Reform, with an increase of 22.5 percent during the five years between 1979 and 1984.²⁴³ From 1984 to 1996, a period of twelve years, grain production increased by only 20.4 percent, then fell from 1999 onwards for four consecutive years, from 392 million tons in 1998 to 322 million tons in 2003.²⁴⁴ The gap between total grain demand and grain production was about 40 million tons a year, most of which came out of the State's grain reserves.

In the early stage of the Reform, the Unified Purchase and Marketing System was maintained, but with its scope reduced. The number of items in this system was reduced to 38 in 1985—only 30 percent of the 1980 level. Since 1985, more products have been taken off the State's procurement list, including pork, fish, poultry, tea, fruits and vegetables. However, by 1997, the government still controlled 44 percent of market-

²⁴¹ Henry J. Groen and James A. Kilpatrick, "China's Agricultural Production" in *Chinese Economy Post-Mao, A Compendium of Papers*, Washington, US Government Printing Office, 1978, p. 640.

²⁴² Land has been leased to the peasants. Peasants have the right to use but are not allowed to sell the land.

²⁴³ The reasons for the first fast increases and then the stagnation and later decreases in grain production will be discussed in Section C.

²⁴⁴ Grain production increased in 2004-2006.

able grains and 100 percent of cotton, tobacco, and silkworm cocoons.²⁴⁵ Wu also explained in the same article how, in 1985, the government tried to replace the mandatory State procurement of grain with a voluntary contract sales system. However, the grain prices offered by the government for voluntary contract sales were too low to acquire enough grain, and mandatory grain purchases had to be restored. Then the State raised retail prices for urban rationed grains by 68 percent in 1991 and by another 45 percent in 1992, closing the gap between government procurement prices and urban retail prices, and reducing the amount of subsidies for urban consumers. Food prices increased sharply at the end of 1993 and the State then shifted its responsibility of maintaining grain market stability to provincial governors, requiring them to maintain balances in grain markets in their provinces.

Other major reforms related to China's accession to WTO will be explained in Section D. These reform measures have already had a major impact on Chinese agriculture and will continue to influence its long-term sustainability.

Increases in Agricultural Output, 1949-1999

Table 4 below shows the output of various agricultural products and the annual rates of increases from 1949 to 1978 and from 1978 to 1999.

There were several reasons for the large increases in grain production during the early phase of the Reform. One obvious reason was, of course, the large increases in purchase price. The purchase prices went up 70.1 percent, 68.6 percent, and 64 percent, for wheat, corn, and rice respectively in the period 1978-1983.²⁴⁶ The other reason was that during these earlier years, the prices of agricultural inputs had not yet gone up, and thus there were large margins between the costs of production and output prices. In addition, agricultural machinery and agricultural infrastructure, bought and built during the commune years, were still functional during these years. Fertilizer plants built in earlier years also increased fertilizer supply.

²⁴⁵ Harry Wu, "Reform in Chinese Agriculture—Trade Implications" in *Briefing Paper Series*, No. 9, Department of Foreign Affairs and Trade, Australia, December 1997, pp. 11-12.

²⁴⁶ Liu Huiyu, *Quanjihua yu Zhongguo Nongye Fazhan (Economic Globalization and China's Agricultural Development*, in Chinese), Sichuan People's Publisher, 2002, p. 170.

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The amount of chemical fertilizer applied between 1978 and 1984 more than doubled, from 8,840,000 tons in 1978 to 17,398,000 tons in 1984.

Then, grain production declined from 1999 for four consecutive years; 2004 was the first year that saw an increase in grain production. Meanwhile, China's imports of corn, soybeans and cotton started to increase rapidly in 2003, and the agricultural trade turned from surplus to deficit that year. More discussion on agricultural production and trade will follow in Section D.

Table 4. Major Agriculture Products, 1949, 1978 and 1999 (in actual quantity and annual % increases)

	1949	1978	1949-1978	1999	1978-1999
<i>Agricultural Products</i>	<i>10,000 tons</i>	<i>10,000 tons</i>	<i>Annual growth %</i>	<i>10,000 tons</i>	<i>Annual growth %</i>
Grain*	11,318	30,477	3.47	50,839	2.47
Cotton	44.40	216.70	5.62	383.10	2.75
Oil-bearing crops	256.40	521.80	2.48	2,601.20	7.95
Sugarcane	264.40	2,111.60	7.43	7,470	6.20
Sugar beet	19.10	270.20	9.57	864	5.69
Flue-cured tobacco	4.30	105.20	11.66	218.50	3.54
Tea	4.10	26.80	6.69	67.60	4.50
Fruit	120	657	6.04	6,237.60	11.31
Meat	220	856.30	4.80	5,960.90	9.68
Aquatic products	45	466	8.39	4,122	10.94

*Grain includes wheat, rice and corn.

Source: Beijing International, <http://www.ebeijing.gov.cn/default.htm>

B. Agricultural Land Preservation and Improvement During the Commune Years

In the years from 1958 to 1978, China pursued its socialist model of self-reliant development. Communes, production brigades, and production teams were in charge of planning and carrying out agricultural production. These units mobilized and organized large numbers of peasants to work on land preservation and improvement projects, namely, farmland capital construction projects. These projects accelerated in the late 1960s and early 1970s, when agricultural production was more stabilized and more labor could be diverted from farm work to construction. Alexander Eckstein, an expert on the Chinese economy, said the following about its farmland capital construction in his paper on "The Chinese Development Model":

More concretely, it indeed means reshaping the geographical features of an area to provide the physical conditions necessary for the application of an appropriate mix of other inputs, labor, machinery, fertilizer, and improved seed strains to bring about high and stable yields. This often requires squaring or terracing the land; at times it involves leveling mountains and transporting the soil manually in baskets for several kilometers to build a huge dam or to cover some areas with topsoil. In many areas, it means constructing underground drainage channels, reservoirs, canals, irrigation channels, pumping stations, and tube wells.^{247, 248}

The American Small-Scale Rural Industry Delegation witnessed a wide range of these farmland capital construction projects when the delegation, consisting of a group of scholars in the field of economics, agricul-

²⁴⁷ Eckstein's original footnote: "These major construction projects have been under way for some times. They could be observed during my visit to China in December 1972. They were given a renewed impetus by the National Conference on Learning from Tachai held in September and October 1975 and were described in some detail in *American Rural Small-scale Industry Delegation, Rural Small-Scale Industry*, Chapter 5, 2-5 and chapter 6, 7."

²⁴⁸ Alexander Eckstein, "The Chinese Development Model" in *Chinese Economy Post-Mao, A Compendium of Papers*, Washington, US Government Printing Office, 1978, p. 8.

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tural sciences, sociology, and history visited China in 1975. The delegation wrote the following:

We saw ample evidence of increasing arable land through reclamation and improvement projects in every area that we visited. In Shansi province, we saw badly eroded mountainous areas, with yellowish wind-deposited loess soils, being reclaimed for good arable land. Impressive progress was made at Hsi-yang County and at the famous Tachai Brigade in reclaiming land through terracing of mountains and filling of gullies and riverbeds... In the nearby Hui County and Hsin-hsiang areas, north of the Yellow River, we came across many land development, irrigation, and water control projects, which have helped to transform sandy and marshy riverbeds into productive agricultural land. In Lin County, North Honan province, we saw the 70-km. long Red Flag Trunk Canal and its 1500-km. long distribution network. Water from the Chang River is brought from neighboring Shanshi province over rugged mountainous terrain to irrigate 40,000 ha. of fertile agricultural land. The canal was built by 40,000 workers and took almost 10 years to complete.²⁴⁹

As indicated by Eckstein, the goal of farmland capital construction was to bring about high and stable yields. Leveling the land made irrigation possible. The whole network of irrigation and drainage systems was built to prevent the devastating impact of drought and floods, so that farm output was not as dependent on the weather as it had been for hundreds of years.

Farmland capital construction projects were organized into different administrative units. Projects that were planned and carried out by the county or higher levels of government were larger in scale and were usually carried out by permanent year-round construction teams. Such projects could involve a few thousand workers and were financed by county, provincial, and/or even the State (central) governments, but the brigades/

²⁴⁹ Dwight Perkins (Chairman, the American Rural Small-Scale Industry Delegation), ed., *Rural Small-Scale Industry in the People's Republic of China*, Berkeley, CA, University of California Press, 1977, p. 122.

communes also shared the cost by providing the year-round construction workers. These workers continued to receive work points from their home units, and in addition, they received a small daily supplement from the county or higher level of government.²⁵⁰ For these larger projects, state financial assistance was indispensable. As the State made significant progress in developing different industries, it was able to increase its investment in agriculture. Investment in agriculture as percent of its total investment also went up from 7.8 percent in 1957 to 12.5 percent in 1978.²⁵¹

At the commune level, projects were often planned and carried out by several communes together, because the benefits of these projects were also shared. Smaller projects were carried out during the slack seasons of farm work. Peasants worked hard on farmland construction projects by extending their workdays to the winter months; the number of days they worked in a year increased from 119 days in the mid-1950s to 250 days in the mid-1970s.²⁵² In addition, the communes and brigades also paid for the material costs of these projects from their accumulation fund, which were savings from their yearly output sales.

Table 2²⁵³ shows that the percentage of irrigated farmland increased from 18.5 percent of the total cultivated areas in 1952 to 24.4 percent in 1957, to 31.8 percent in 1965 and to 45.2 percent in 1979. Even though investment from the State was necessary for the large construction projects, numerous smaller projects were self-financed at the commune level. Moreover, the key to the projects' success was really due to the organization at the brigade and the commune level. According to a group of Chinese agricultural experts, the formation of communes in 1958 "put in place an organizational structure capable of mobilizing large quantity of

²⁵⁰ According to the American Rural Small-Scale Industry Delegation, for the projects they visited the supplement amounted to 2.3 catties (one catty equals 500 g) and 0.40 RMB. See Dwight Perkins, *Rural Small-Scale Industry in the People's Republic of China*, *op. cit.*, pp. 197-198.

²⁵¹ See Table 1 p. 45.

²⁵² Thomas G. Rawski, *Economic Growth and Employment in China*, for the World Bank, New York, Oxford University Press, 1979, pp. 7-8.

²⁵³ See p. 50.

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surplus labor for large-scale projects involving restructuring of farm land and major irrigation works.”²⁵⁴

These tremendous efforts in farmland capital construction did not increase China's arable land; however, land area planted did increase due to the expansion of multiple cropping and inter-cropping. Multiple cropping was done to increase the planting of crops from one to two, or from two to three (sometimes to four) in the growing seasons. Inter-cropping was the practice of planting one crop before the other crop was harvested.

Loss of Arable Land, Land Deterioration After the Reform

The efforts to preserve and improve land during the commune years were reversed after the 1979 Agricultural Reform began. Since then, large areas of farmland have been lost and continue to be lost to industrial use, tourism, residential and commercial housing, desertification, and other development projects such as highway construction. In more recent years, many peasants have also abandoned their lands, because it has become increasingly difficult to earn a living by cultivating a small plot, when the price of inputs continues to rise while the price of output either stagnates or drops. Moreover, environment pollution and natural disasters such as floods and droughts have affected large areas, seriously affecting agriculture.

There is no report on exact land loss figures since the Reform. From various estimates gathered, the following numbers are close approximates. Between 1981 and 1985, the yearly loss of arable land averaged about 5-7 million *mu*, or between 335,000 and 469,000 hectares. (1 *mu* = 0.067 hectare) By 1987, yearly land loss increased to about eight million *mu*, or 536,000 hectares. Not much was reported about land loss in the 1990s, but it is certain that there was an upward trend based on a 2004 report, which says: “According to incomplete statistics, the yearly land loss in recent years averaged about 10 million *mu* per year [670,000 hectares].”²⁵⁵ At least two authors confirmed that land loss in 2002 and 2003 accelerated and reached 25 million *mu* (1,694,000 hectares) in 2002 and 38

²⁵⁴ Dwight Perkins, *Rural Small-Scale Industry in the People's Republic of China*, *op. cit.*, p. 204.

²⁵⁵ Li Xiaoyun, Zuo Ting, and Ye Jingzhong, eds., “Poverty and Relief Situation in China's Villages” in *Status of Rural China, 2003-2004* (in Chinese), Social Science Academic Press, 2004, p. 287.

million mu (2,546,000 hectares) in 2003, or from 5.4 to 7.6 times that of the average yearly land loss in the first half of the 1980s.^{256, 257, 258} The rate at which land loss has accelerated is alarming; in 2003 it reached two percent of total arable land.²⁵⁹ Worldwatch gave a lower estimate for the amount of land loss in the years since the 1979 Reform: half-million hectares each year, or about one-third of one percent. The total land loss over a period of 25 years amounted to seven percent of the total agricultural land. The Worldwatch estimate fails to show the upward trend in more recent years.²⁶⁰

In addition to the loss of arable land, the fertility of land has also deteriorated according to Lu Xueyi because of increased use of chemical fertilizer and decreased use of organic fertilizer. From 1976 to 1987, land area that used organic fertilizer decreased by 60 percent.²⁶¹ Yang and others were also concerned about the overuse of agricultural chemicals. They said the use of pesticides and herbicides has been increasing 10 percent annually in more recent years. They also stated that due to overuse of chemical fertilizer, its marginal productivity has turned negative. An article put out by Index-China in 2008 confirmed the overuse of chemical fertilizer, reporting that its consumption has quadrupled since 1978.²⁶² The impact of applying such large quantities of chemicals has caused not only deterioration in land quality, but also serious damage to the environment. Moreover, more chemical residuals have been found in many different kinds of food. All of these factors negatively affect the long-term sustainability of China's agriculture.

Lu also noted that since 1980, there has been loss of irrigated land. Before 1980, the increase of irrigated land area had ranged from eight to

²⁵⁶ Ibid., p. 288.

²⁵⁷ Tan Shukui, *Gengdi Liaohuang*, *op. cit.*, p. 152.

²⁵⁸ <http://news.sina.com.cn/c/2003-03-08/142767323s.shtml>.

²⁵⁹ The total area of arable land for 2002 and 2003 given by both authors was 1,889 million *mu* and 1,851 million *mu*.

²⁶⁰ Worldwatch Institute, *State of the World, 2006 Special Issue: China and India*, W. W. Norton & Company, 2006, p. 15.

²⁶¹ Lu Xueyi, *The Study of the Three Related Agricultural Problems – Agriculture, Rural Villages, and the Peasants* (in Chinese), Social Science Literature Publisher, 2002, pp. 5-6.

²⁶² "Changes for the future," index-china.com. Accessed February 26, 2012. <http://index-china.com/main/business/challenge.php>.

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10 million *mu* a year. But after 1980, no additional irrigation systems were built, and old systems began to malfunction due to lack of maintenance. Irrigated land area has since continued to decrease. Lu further stated that aside from loss of arable land, there has also been the loss of more than 100 million *mu* of natural forest, one billion *mu* of pasture land, and increasing desertification.²⁶³

As Section F will describe, China has suffered a serious problem of water shortage due to the high growth of industrial production and urbanization. Increasing water use for industry and for urban residents diverted water from agriculture and rural residents. Water shortage has already had serious effects on agricultural production, and has kept many rural residents from improving their standard of living. In addition, there have also been flooding and other natural disasters that have affected agriculture. Confronting these problems will determine whether China can achieve long-term sustainability in agriculture.

After the communes were dismantled in 1984, all the previous farmland capital construction projects stopped. In the past, the communes and brigades used their accumulation funds for land improvement projects; but after the *xiang* (township-level) government replaced the commune and the *cun* (village) replaced the brigade as the new administrative unit, their functions changed. Collective-owned enterprises, which were important sources of income for brigades and communes, were first contracted to individuals and then later privatized. From the mid-1980s to the early 1990s, these enterprises flourished and the new owners got very rich and became the first group of “10,000 RMB households” (in total assets) in China, building themselves big mansions. The first five years of the Reform also saw incomes of peasant households increase due to the higher purchase prices paid to the peasants during the early years of the Reform. Many of them used their increased incomes to build houses, making China's rural villages look prosperous during those years. While agricultural surpluses were used to build new houses, basic infrastructure such as irrigation and drainage systems, land improvement projects, and agricultural machinery began to deteriorate. Moreover, when the State increased the purchase prices for agricultural products, it drastically reduced its invest-

²⁶³ Lu Xueyi, *The Study of the Three Related Agricultural Problems*, *op. cit.*, pp. 5-6.

ment in agriculture. In addition, as the communes began to fold up, the social welfare system under the commune, such as health care, education, and subsidies to the poorer households also disintegrated. More details on the conditions of the peasants will follow in Section E.

C. Modernization of Agricultural Production

Agricultural Production During the Commune Period

Modernization of agricultural production and farmland capital construction went hand-in-hand. If peasants had not worked so hard to prepare the land, it would not have been possible to use agricultural machineries such as tractors, power tillers, harvesters, seeders, and transplanters; nor would it have been possible to transform irrigation technology from buckets carried on poles to electric-powered irrigation stations.

The development strategy of the worker-peasant alliance was one of the most important reasons for the achievements in agricultural modernization during the commune years. Any country in the initial stages of industrialization must rely on agricultural surpluses for the initial investment in industries.

Under the worker-peasant alliance development strategy during the first 30 years of the People's Republic, the State implemented policies that gradually reduced the burden imposed on the agricultural sector. As the industrial sector grew, the State also replenished the agricultural sector with modern inputs. Table 2²⁶⁴ shows that between 1957 and 1978, agricultural taxes as percent of total state revenue decreased, while investment in agriculture as percent of total state investment increased. Moreover, state expenditures on agriculture increased as percent of total state expenditure, and the terms of trade for the agricultural sector became more favorable. In addition the State sold agricultural machinery and other inputs for agriculture to the communes and production brigades at increasingly lower prices, allowing the different levels of rural production units to mechanize production. And as the peasants worked extensively on farmland capital construction and other land improvement projects, the communes and production brigades were able to use resources from their accumulation funds and shifted labor from agricultural work to build for their future.

²⁶⁴ See p. 50.

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Apart from large agricultural instruments, simple machines were also used to replace human labor in milling and threshing. For example, a commune-owned and -run rice mill replaced pounding rice by hand and reduced the number of man-hours needed to process one ton of rice from 400 to only 10.²⁶⁵

Rural Industrialization and Rural Employment

Rural industrialization was part of the effort to modernize agricultural production. The Great Leap Forward in 1958 was launched to give a big push to China's rural industrialization, although many projects and workshops started during the Great Leap Forward could not be sustained. One reason why the attempt to industrialize China's countryside at that particular time did not succeed was that many of the projects had been carried out with great haste. Another reason was the crop failures during the 1959-1961 period, or the three so-called Three Difficult Years, when China suffered both drought and floods. It should be noted here that the Great Leap Forward has been demonized and blamed by those who favored the de-collectivization of agriculture. A group of Chinese "scholars" has spent considerable effort, some their entire academic career, to "document" the number of deaths during those years. It is true that mistakes were made; certain areas suffered from starvation and malnutrition, and many people did die. However, the 30-50 million deaths claimed by these "scholars" are grossly overstated and totally inaccurate.²⁶⁶

By the mid-1960's, however, agricultural production began to increase rapidly, while many of the workshops and small factories that had been shut down were revived and began to flourish. Initially there were five types of small-scale rural industries: fertilizer, cement, small iron and steel, agricultural machinery, and power stations. As agricultural production adopted more modern inputs, nearby factories formed a good support

²⁶⁵ Alexander Eckstein, "The Chinese Development Model," *op. cit.*, 1978, p. 89.

²⁶⁶ The overestimated number of death was based on an inaccurate population figure in 1957, which was projected from the population figure in 1953. These "scholars" also assumed normal birth rate (30 percent) in 1960 and 1961 to estimate the population of 1961. However, the actual birth rates for both years were below 30 percent and it was 20.86 percent in 1960 and 18.92 percent in 1961. For convincing arguments made by Mobo Gao to dispute the overestimation of the number of deaths, see: Mobo Gao, *The Battle for China's Past: Mao and the Cultural Revolution*, London and Ann Arbor, MI, Pluto Press, 2008, pp. 126-128.

system. These industries used locally available materials, which in the case of products like cement, saved high transportation costs. Factories provided timely services for repair and maintenance of their products, such as agricultural machinery. When peasants set up these industries, it was done mainly by trial and error, until they eventually succeeded. With the development of these industries, a whole new crop of technical personnel was created. Therefore, from the original five types of industries, rural industrialization expanded to processing food and other agricultural products, manufacturing bicycles and other light industrial products, textile and machinery for textile industries, and a variety of other industrial products.

According to the rural Small-Scale Industrial Delegation that visited China in 1975, the country's farm machinery manufacturing industry at the time was going through a rather dynamic period, and both the products and the production process were undergoing rapid changes and upgrades. As a result, the State shifted the production of less complex machines to factories owned and operated by communes and production brigades. As observed by the Delegation, these workshops "are progressively tackling more challenging production problems."²⁶⁷ The Delegation also concluded that rural industrialization had accomplished other objectives, such as reducing the pace of urbanization, limiting the need to depend on foreign technology, and reducing the gap in social and economic status between urban and rural, industrial and agricultural sectors. Additionally, the Delegation also concluded that such development had helped spread technical capabilities throughout the rural population.²⁶⁸ Therefore, the Great Leap Forward had challenged the peasants to industrialize; the peasants not only met the challenge but also did exceedingly well.

According to Eckstein, China in the 1950s still had remnants of open unemployment in cities and underemployment in the rural areas, especially during the winter months when agricultural work was slack. In his article, he said that the rapid expansion in industry, transport and other sectors resolved the unemployment in cities, while farmland capital construction work absorbed the underemployed in rural areas. Eckstein also said that the Great Leap forward was the first systematic, conscious, all-

²⁶⁷ Dwight Perkins, *Rural Small-Scale Industry in the People's Republic of China*, *op. cit.*, p. 119.

²⁶⁸ *Ibid.*, p. 116.

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out campaign to use labor (an abundant factor) to create capital (a scarce factor). He went on to say that although it failed due to many errors in planning and implementation, the Great Leap Forward concept as a development strategy was well suited to China given its factor endowments, namely, abundant labor and scarce capital.²⁶⁹

By the mid-1970s, there was little sign of either unemployment or underemployment in China's rural areas. As previously mentioned, the number of days peasants worked during a year on the average increased from 119 days in the mid-1950s to 250 days in the mid-1970s.²⁷⁰ The Small-scale Industry Delegation found that there was no fear among the peasants that agricultural mechanization might create unemployment. Instead, they consistently found that "the Chinese look at mechanization as an effective tool to improve labor productivity and to release labor for more productive employment."²⁷¹ In fact, by the mid-1970s, there were labor shortages in many rural areas, and factories had to be closed during the busy planting and harvesting seasons so that workers could work in the field.

Advances in Agricultural Technology

Another aspect of agricultural modernization was the improvement in seed strains. After the commune system was established, the communes and the central government set up as many as 40,000 agricultural technological expansion and improvement stations.²⁷² These stations, covering the whole rural area as a vast network, greatly improved the level of technology for agricultural production.²⁷³

According to an agricultural specialist, Thomas B. Wiens, China was able to rapidly improve its seed strains due to the cooperation of these stations that were located in different climate zones:

²⁶⁹ Alexander Eckstein, "The Chinese Development Model," *op. cit.*, p. 88.

²⁷⁰ Thomas G. Rawski, *Economic Growth and Employment in China*, *op. cit.*, pp. 7-8.

²⁷¹ Dwight Perkins, *Rural Small-Scale Industry in the People's Republic of China*, *op. cit.*, p. 118.

²⁷² These stations operated at the county, commune, brigade, and team levels.

²⁷³ Wu Guobao, "Poverty Reduction in China's Rural Areas and Its Impact on Sustainable Development" in *Study Report on China's Agricultural Village Development* (in Chinese), n.d., p. 181.

The extraordinary speed with which hybrid rice went from breeding to full-scale production is the most spectacular example yet of a facility, which gives China several years' edge over other countries in the rapidity with which plant breeding results can be applied. In most breeding programs outside the tropics, the time lag between first cross and large-scale production was and is eight to 10 years. This lag is dictated by the need in conventional breeding for six or seven generations of crossing and selection work to stabilize the characteristics of hybrid seed, then evaluate it in field trials, and finally multiply the seed, publicize and persuade farmers to accept it. The Chinese have organized a selection system permitting up to three generations per year, usually including one in the province of origin, another in Nan-chang (Kiangsi province), and a third on tropical Hainan Island... Moreover, through the creation of the "four-level research network" (the levels being county, commune, brigade and team), China has evolved a system permitting simultaneous stabilization, selection to local adaptability, evaluation and seed multiplication in the shortest possible time.²⁷⁴

In the 20 years under the commune system, China was able to modernize its agricultural production through farmland capital construction projects, large-scale mechanization, and the worker-peasant alliance strategy of development.

Deng's Agricultural Reform and the Great Leap Backward

As stated earlier, the State began the Reform with large increases in the purchase prices of grains, resulting in a rapid rise in peasant incomes. At the same time, however, the State cut levels of spending on agriculture. From 1979 to 1981, the State decreased its share of agricultural capital construction investment as a percentage of its total investment from 11.6

²⁷⁴ Thomas B. Wiens, "The Evolution of Policy and Capabilities in China's Agricultural Technology" in *Chinese Economy Post-Mao, A Compendium of Papers*, Washington, US Government Printing Office, 1978, p. 680.

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percent to only 6.8 percent.^{275, 276} Yang and his co-authors also showed the gradual decline of state investment in agriculture during the two decades after the Reform. According to their paper, from the 1950s through the 1970s, China had built large-scale irrigation projects and very evidently improved the conditions for agricultural production. Citing statistics, the paper noted that capital construction gradually declined in more recent years. From the Second Five-year Plan to the Fifth Five-year Plan (covering the period 1961-1980), state spending on agricultural capital construction was 11.3 percent, 10.7 percent, 9.8 percent and 10.5 percent of its total capital construction expenditures, respectively. But the figure dropped for the Sixth, Seventh, and Eighth Five-Year Plans (covering the period 1981-1995) to 6.2 percent, 3.2 percent and 3.0 percent, respectively. According to Yang et al., this much lower level of funding led to the malfunction of one-third of the 84,000 reservoirs built during the earlier period.²⁷⁷

After the communes were dismantled, the responsibility of agricultural production returned to the individual peasant household. Higher purchase prices increased peasants' short-term income but the State rapidly decreased its expenditures on capital construction, which had (and continues to have) a disastrous long-term impact on agricultural development. Also, with the collapse of the three-tiered ownership system under the communes, the functions of planning for the future (by setting aside accumulation funds for investment), carrying out production, and organizing labor for capital construction work all fell apart. Before the Reform, much of the accumulation funds resulted in communes and brigades owning factories. But as these factories were privatized after the Reform, many individuals got rich quickly, reinvesting their wealth in their businesses and spending their money to build mansions and to indulge in lavish lifestyles. Individual peasants also used their increased income from high-

²⁷⁵ The State also drastically reduced its investment in industries that produced farm machinery, chemical fertilizer, and pesticides, from the annual average rate of 2,439 million RMB during the 1976-78 period to only 1,645 million RMB in 1979, while the share of investment in industries that produced agricultural inputs decrease from 11.1 percent of the total to 6.6 percent of the total. Dwight Perkins and Shahid Yusuf, *Rural Development in China*, World Bank Publication, Baltimore, Johns Hopkins University Press, 1984, p. 15.

²⁷⁶ *Ibid.*, p. 14.

²⁷⁷ Yang Lanju, et al., "The Problems of China's Sustainability in Agriculture and the Remedial Policies," in Chinese, *Jingji Luntan (Economic Forum)*, 10, p. 75.

er-priced farm products to build houses. Therefore, as state investment in agriculture dwindled, practically no private investment took its place. The Agricultural Reform thus helped divert agricultural surpluses—from investing for the future to raising peasants' current consumption. In other words, short-term prosperity in China's rural areas existed at the same time that the long-term foundation of agriculture began to deteriorate.

All the favorable conditions for modernizing agriculture during the commune years disappeared after the Reform. During the last 15 to 20 years, with China's GDP growing very rapidly at the annual average of at least 10 percent, the country actually grappled with a problem of over-investment, amounting to more than 30 percent of its GDP. China has invested heavily in many different kinds of infrastructure in and around cities, such as highways, large commercial and residential buildings, airports, tourist spots, shopping malls, and sometimes entirely new cities like Pudong near Shanghai. Many of these new infrastructure facilities are currently under-utilized. Yet during the same period, China neglected investment in infrastructure related to agricultural production. The government cut its investment in agriculture and agriculture-related industries, while the private sector has shown little interest in investing in agricultural infrastructure because of the long-term nature of such investments and the low expected rate of return.

Lu Xueyi, an agricultural specialist, confirmed the problem of lack of investment and de-mechanization in China's agriculture as observed by Yang et al. Between 1980 and 1986, Lu said, machine-farmed land decreased by 11.1 percent. After the initial period following the Agricultural Reform, he added, irrigation and drainage systems and other land work began to fall apart due to lack of maintenance. Moreover, no large-sized reservoirs had been built since 1980. Lu also noted the decline in organic content in agricultural land.²⁷⁸ Agricultural machinery bought earlier by production brigades and by communes gradually broke down with age, while individual peasant households didn't have money to invest in new ones.

Moreover, in some areas such as the Yangtze Delta, where the population density has always been high, land was divided into small strips

²⁷⁸ Lu Xueyi, *The Study of the Three Related Agricultural Problems*, *op. cit.*, p. 5.

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during the Reform and leased to individual peasant households, then further subdivided as the population grew. The result was tiny strips of land that could no longer be cultivated by large-scale agricultural machinery. Peasants went back to old ways of farming, each with simple farm tools, as they had done before collectivization.

The Chinese government eventually realized the serious consequences of the lack of agricultural investment, and has tried to increase agricultural loans through financial institutions. Between 2001 and 2005, agricultural loans doubled.²⁷⁹ However, most of these were small short-term loans of less than 1,000 USD, with the lending institutions unsure of how the loans were used.²⁸⁰ It does not seem likely that small short-term loans would be used to finance long-term capital and infrastructure investment.

Chinese agriculture will continue to deteriorate because it desperately needs more investment. The central government has promised more investment in the 11th Five-Year Plan (2006-2010) to modernize agricultural production and to revitalize rural villages. However, the impact of this increase on agriculture and rural areas has yet to be evaluated during the implementation period of the next few years.

The modernization of agriculture during the commune years came to a halt when the Reform redistributed land to individual peasant households and the State reduced its investment in agriculture. As stated above, individual peasants lack the ability and incentive to invest in large agricultural machinery. Moreover, with the collapse of the communes, labor could no longer be organized—as it had been by the former brigades and communes—to work on intensive and extensive land improvement projects. This partially explains the large numbers of unemployed and under-employed peasants in the countryside and later their migration to cities to find work.

Small-scale farming that relies mainly on physical labor means low labor productivity and low peasant income. Since work on land improve-

²⁷⁹ Agricultural share of all loans stayed between 6-7 percent during 2000 and 2005.

²⁸⁰ Fred Gale and Robert Collender, "New directions in China's Agricultural Lending," US Dept. of Agriculture Economic Research Service, WRS-06-01, January 2006. https://www.ers.usda.gov/webdocs/outlooks/40453/29559_wrs0601_002.pdf?v=5541.1, pp. 7-8.

ment projects stopped, peasants resorted to applying large quantities of chemicals in order to increase the land yield. However, this short-term solution by the peasants has reached its limit and has already damaged the quality of the land, causing more problems in the long term. After initial increases, peasant income in recent years has been squeezed by unstable and frequently falling output prices and rising input prices, and higher taxes and fees. Yet the markets for China's agricultural output will be further affected by imports from abroad. Many rural families have a hard time making ends meet and must rely on money sent home by family members working as migrants in cities. Recent efforts made by the central government to raise purchase prices and cut taxes will help to a certain degree, but these measures will not solve the problems of small-scale farming: low labor productivity and lack of long-term investment to modernize agriculture.

D. Food Security and Grain Self-Sufficiency vs. Comparative Advantages Through Foreign Trade

Self-Sufficiency in Food

During the commune years, with the exception of 1959-1961, China achieved food security and self-sufficiency in grain. From the Chinese government's perspective at that time, a food policy tied up to foreign trade would expose the country to the risk of sudden trade embargoes, thus rendering it vulnerable to foreign pressure.²⁸¹ The development model in the socialist period regarded food as a crucial people's need, not as a commodity. Therefore, a stable and increasing food supply was given one of the highest priorities in economic planning.

Table 4 demonstrates the large increases in various agricultural products that provided both urban and rural residents with adequate food supply and raw material for clothing during the pre-Reform years. With the exception of some very poor communes, most people's lives in rural China improved immensely. Great strides in improving land fertility increased grain yields per *mu* of land. Since the total area of arable land stayed about the same or even decreased slightly, the increase in grain output came entirely from the increases in grain yield. Newly built irrigation and

²⁸¹ Alexander Eckstein, "The Chinese Development Model," *op. cit.*, p. 80.

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drainage systems during the commune years made it possible for peasants, for the first time, to look forward to a future where their crops would no longer have to depend so much on the weather. Mechanization made it possible for many peasants to be finally free from much of the most back-breaking work in the fields.

More Agricultural Policy Changes Towards China's Accession to the WTO

The Agricultural Reform in 1979 fundamentally changed the direction of China's agricultural development. Until the mid-1990s, however, the Chinese government still maintained its policy on food self-sufficiency.

Meanwhile, during the 1990s, earnest negotiations were underway for China to join the WTO. Before the Reform, the State controlled the production and distribution of agricultural products, as well as international trade. Those controls were gradually liberalized throughout the 1980s. For China's WTO accession, however, further policy changes became necessary in both domestic agriculture and international trade in agricultural products.

The conditions regarding agriculture that were set for China's accession to the WTO are in three broad categories: market access; limits on domestic support for agricultural producers; and limits on subsidies for agricultural exports. China was also required to eliminate its existing technical barriers to the import of several important agricultural products. The provisions on market access include tariff reduction and minimum-access opportunities under a tariff-rate quota system.²⁸²

Market access provisions include lowering the average statutory tariff rate and setting up a tariff-rate quota system. The tariff-rate quota system is a way to eliminate all non-tariff trade barriers, such as import quotas and import licenses. It works this way: the importing countries set low tariff rates on the agreed minimum quantity (quota) for each of their imported agricultural products, called quota tariffs. For imports above this quota, higher tariff rates can be set. The quota at low tariff rates would provide market access for exporting countries and the high tariff rates for above the quota would serve as a protective measure for the importing country. The

²⁸² Nicholas R. Lardy, *Integrating China into the Global Economy*, Washington D.C., Brookings Institution Press, 2002, p. 75.

higher the quota and the lower the tariff rates set for within and above this quota, the more accessible the market is.

China agreed to reduce its average statutory tariff rate for agricultural products from 22 percent to 15 percent by January 2004. This rate is much lower than those for other large developing economies. The rates for Argentina, Brazil, India and Indonesia are 30.9 percent, 27.0 percent, 32.4 percent and 36.9 percent respectively. China also set a much lower rate for its most sensitive product, wheat, than what Japan set for its most sensitive product, rice. Moreover, China agreed to bind all tariffs at the new low statutory rates, meaning not to raise these rates in the future, while other countries only agreed to bind some of their tariffs at rates much above the statutory rates.²⁸³

China not only agreed to extremely low quota tariff rates for many agricultural products: one percent for wheat, corn, rice, and cotton, and nine percent for soybean oil. It also set high initial quotas through 2004 for these products, and these initial quotas were to be increased after 2004 (2006 for soybean oil). The final quotas for these items were also set very high, several times those of 1998 actual import levels; the increases are 4.3 times for soybean oil and cotton, six times for wheat, 20 times for rice, and 29 times for corn. Moreover, even though the above-quota tariff rates were set much higher than the within-quota tariff, they are still much lower compared to the corresponding rates set by developed countries. The above-quota rates that China set in 2004 were 65 percent, 51 percent, and 43 percent for wheat, corn, and rice, respectively. In contrast, above-quota tariffs for developed countries are: 150 percent for European Union wheat and 200 percent for US sugar. For dairy products, the US and Canada set the above-quota tariff rate at 250 percent and the EU set it at 500 percent. Japan set its above-quota tariff for both wheat and rice at 350 percent.²⁸⁴ In short, China has pursued a much more open agricultural trade policy compared to those of other large developing countries as well as developed countries.

As far as domestic support for agricultural producers is concerned, China does not have the financial ability to even give subsidies at the level allowed by the WTO. In a newly released *Review of Agricultural Policy*

²⁸³ Ibid., p. 79.

²⁸⁴ Ibid., pp. 77-79.

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report, member-countries of the Organization for Economic Co-operation and Development (OECD) admitted that China's farm support was less protected than most OECD countries. The average support and subsidies the Chinese government provided farmers in 2000-2003 was around six percent of the farmers' income, while the support and subsidies provided by the governments of the US, EU, and OECD, were 20 percent, 34 percent, and 31 percent of their farmers' income, respectively. The Japanese government's farmer support and subsidies equaled 55 percent of the farmers' income in 2002-2003.²⁸⁵

China also agreed not to subsidize its agricultural exports and to terminate the technical barriers for its importation of several important agricultural products.

The policy reform commitments by China's government for its accession to the WTO have already had a strong impact on its agriculture currently; the future impact is expected to be even more profound.

The sharp drop in China's grain production between 1999 and 2003 was the impetus for the government's emergency increase in the agriculture budget. The government used an additional 3 billion USD in 2004 for a 25 percent increase to support the price for wheat and rice and for improving agricultural infrastructure.²⁸⁶ Grain production went up both in 2004 and 2005, reaching the output level of 1998. Further increases are expected in 2006, although the grain output for 2006 was recently adjusted downward, because the two-month summer drought affected 15 percent of China's grain-producing farmland.²⁸⁷

Issues Around Self-Sufficiency in Food and Agricultural Trade

Before China joined the WTO in 2001, some Chinese scholars and economists advocated the benefits of membership. This was expressed in an article by Yu-he Chen and two others:

²⁸⁵ The data are from the OECD's "Review of Agricultural Policies: China 2005" posted November 14, 2005 and available at http://www.oecd-ilibrary.org/agriculture-and-food/oecd-review-of-agricultural-policies_1990004x.

²⁸⁶ Earth Policy Institute, "Eco-Economy Update," March 10, 2004, earthpolicy.org/Updates/Update36.html.

²⁸⁷ Cited in a report in *Asian Times*, China Business, December 23, 2006.

With access to the WTO, China enjoys the multilateral and stable most-favored nation with 134 WTO membership countries. China enjoys any agreement set by any two-membership countries. All these will give us the spacious market to export our agricultural products.²⁸⁸

In essence, they advocated using trade as a vehicle to achieve better utilization of resources by importing grains from land-rich countries and exporting agricultural products that are labor-intensive, such as fruit, vegetable, flower, drug material, fishery products, and meat.

Another author, Hui-yu Liu argued that "grain security" and "grain self-sufficiency" are two different concepts. In other words, a country can supposedly achieve "grain security" without having to rely on its own grain production. Liu said that producing all the grain China needs is against the law of comparative advantage and inconsistent with the meaning of "grain security." She then continued to say that China's total exports of goods increased from 9.75 billion USD in 1978 to 183.8 billion USD in 1998, averaging an annual increase of 17.2 percent and exceeding the export growth rate of all Asian countries during the same period. China had thus been able to accumulate 140 billion USD in foreign exchange. She anticipated that after China's accession to the WTO, the US and other Western countries were going to eliminate quotas for exports of textiles and other labor-intensive products from China, thus anticipating its further export growth. Her conclusion was that it was groundless to worry about China's ability to pay for its food imports.

There has been discussion in other countries regarding issues of China's self-sufficiency in food and agricultural trade. Ilan B. Solot raised the "conflicting nature of the main components of the Chinese government's agricultural policy," namely, "(a) food security and grain self-sufficiency, (b) raising farmers' income, and (c) trade liberalization and integration with world market."

Solot correctly pointed out that food security and grain self-sufficiency were achieved in the past by four important mechanisms imple-

²⁸⁸ Chen Yuhe, Qin Suping and Li Chunhua, "WTO and Agricultural E-Commerce," presented at the 3rd Asian Conference for Information Technology in Agriculture, 26-28 October 2002, Beijing, China. Accessed February 26, 2012, www.jsai.or.jp/afita/afita-conf/2002/part8/p555.pdf, p. 1.

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mented by the Chinese government. These mechanisms were state trading, tariffs and value-added tax, import and export licensing, and foreign trade management. However, since the Agricultural Reform began in the late 1970s, these mechanisms were gradually phased out; with trade liberalization under the WTO, all of these mechanisms have been eliminated. Solot also saw that as farmers' crop options depend more and more on market mechanisms, the government faces the challenge of figuring out the right mix of relative support prices to achieve food security and higher farmer incomes at the same time.²⁸⁹

Even though China still insists that food security and 95 percent grain self-sufficiency are the goals of its agricultural policy, and the government spends a big sum to maintain significant amounts of stored grain, it is difficult to see how maintaining adequate food storage helps achieve food security in the long run. During the four years of declining grain production (1999-2003), the gap between grain consumption and production almost exhausted all the stored grains. It does not seem reasonable to assume that China can possibly achieve both its goal of food security and its desire to be integrated into the world food market in the long run.

China's Recent Experiences in Agricultural Trade

A 2004 news report by the *People's Daily* online said that although in 2002 China still had a surplus in agricultural trade, in 2003 the value of agricultural exports increased 36.9 percent while the value of agricultural imports went up 61.5 percent, resulting in a deficit. With further opening up of the Chinese market in 2003, the report said, foreign soybeans, cotton and other agricultural products began to "launch a massive offensive." In 2003, China imported 20.74 million tons of soybeans valued at 6.42 billion USD—an increase of 83.3 percent in volume and an increase of 120 percent in value. The volume of soybean imports that year exceeded domestic production. Cotton imports also went up sharply in 2003 to a total of 870,000 tons valued at 1.17 billion USD, up 390 percent in volume and 530 percent in value from 2002. Cotton exporters completely used up the quota allowed for lower tariff. China's corn imports were insignificant in the 10 years before 2005; it imported several thousand tons of

²⁸⁹ Iian B. Solot, "The Current Agricultural Policy Trilemma" in *Perspectives*, Volume 7, No. 1, March 2006, pp. 38-40.

corn but exported 6-8 million tons of corn to South Korea and Japan. In 2005, however, the Chinese Ministry of Agriculture approved the importation of transgenic corn from the US, changing the situation dramatically. It is predicted that within a number of years, China will become a net corn-importing country. China also imported 5.41 million tons of edible vegetable oil worth 2.58 billion USD in 2003, up 69.9 percent in volume and 96.9 percent in value from the year before. The report also indicated that due to natural disasters in some countries, the prices of these imported products rose significantly.²⁹⁰

While China's import of food especially grains has been surging, its food exports have met increasing barriers from advanced countries. According to news report in the summer of 2006, Ministry of Commerce figures showed that every year, 90 percent of China's agricultural products and food exporters suffer from trade barriers set up by other countries, with annual losses amounting to 9 billion USD. Agricultural products affected by trade barriers have now extended from vegetables, fruits, tea, and honey to animal and aquatic products. The technological trade barrier has become the biggest obstacle to the export of Chinese agricultural products.²⁹¹

To give some examples of such barriers: According to a *People's Daily* online news report, in May 2003, Japan banned the import of all Chinese poultry products, claiming that bird flu virus was detected in duck meat imports from China. This caused China's export of frozen chicken to drop sharply and its agricultural exports to Japan to decrease 22.5 percent that year. Then in July of the same year, Japan put into practice the Seeding Amendment Act, which stipulates that organizations or individuals reproducing and selling protected seeding will be penalized. Since many Japanese companies have contracted Chinese agricultural enterprises to cultivate onion, spinach, ginger, and garlic from what might have been protected seeds, these products may become targets of the Japanese law.²⁹²

²⁹⁰ The average prices for the imported soybeans, vegetable oil, cotton and natural rubber rose 20 percent, 16.1 percent, 29.7 percent and 33.1 percent respectively over the last year. These price increases resulted in an additional 1.78 USD billion of imports. Data is from *People's Daily* online, June 15, 2004 and *Chinanews*, NEWSGD.com, Beijing, August 21, 2006.

²⁹¹ *Chinanews*, NEWSGD.com, Beijing, August 21, 2006.

²⁹² *People's Daily* online, June 15, 2004.

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The *People's Daily* article concluded that China now faces two basic conditions. The first is that its small-scale traditional agriculture cannot compete with foreign modern agriculture. The second is that it has to face unfair competition, because developed countries use high subsidies and other measures to protect their agriculture. Neither of these two conditions is likely to change in the near future. The article further stated:

In its extensive and important commitments made during negotiations on China's WTO membership, Beijing neither gave its agriculture high amount of support and export subsidy as the developed countries did, nor did it impose high tariff to protect its own agriculture as the developing members did.

Therefore, the report concluded, the challenges facing China's agriculture would exist for a long time.²⁹³

As more and more people gradually understood the negative impact of WTO membership on China's agriculture, Eisenburger and Patel noted that many scholars have conceded that the WTO required China to commit to open its market at a pace greater and faster than it did in the case of other developing countries. The two authors thus posed the question: "One might ask what China received in exchange for a radical opening of its agricultural sector." Then they quoted the candid response by the US Secretary of Agriculture, Dan Glickman, to this question: "Absolutely nothing." The reason for China's not getting anything in return for joining the WTO was that before it had joined, every country except the US had already granted the country permanent Most Favored Nation (MFN) status, which is the biggest benefit a WTO member can receive. Moreover, the US had also granted China the MFN status on an annually renewable basis for more than 15 consecutive years.²⁹⁴

In addition to the importation of food and other agricultural products, China has also imported large quantities of agricultural chemicals in recent years, including chemical fertilizer and pesticides. According to

²⁹³ Ibid.

²⁹⁴ Maximilian Eisenburger and Raj Patel, "Agricultural Liberalization in China: Curbing the State and Creating Cheap Labor," *Policy Brief No. 9*, September 2003, Food First/Institute for Food and Development Policy.

information provided by the US Commercial Service, China has become one of the biggest agro-chemical consumers and importers in the world; in 2004, the US supplied 27 percent of China's fertilizer imports and 22 percent of its pesticide imports. (In the last several years, the US has become the number one pesticide exporter to China.) Upon China's accession to the WTO, tariffs for fertilizer imports dropped from 11 percent to six percent, and the import tariff for volumes within the quota is only four percent. Moreover, after the five-year transition period, the state-controlled trading system will be dismantled while foreign firms will gain the right not only to export but also to market fertilizer. The trend thus shows that China will not only become more dependent on imported food, but will also become more dependent on the import of agricultural chemicals.

It is not difficult to see that those who advocate for China's use of international trade to achieve comparative advantage in agriculture have a rather unrealistic expectation of the benefits of joining the WTO. Nevertheless, China's problems in international trade in the past five years have gradually brought a different view of reality for those who formerly believed in so-called free trade.

E. The Conditions of Chinese Peasants

Peasant Income and Other Benefits During the Commune Years

During the period from 1957 to 1978 (with the exception of the three difficult years, 1959-1961), peasant incomes rose steadily, and the income gap between rural and urban residents also narrowed. From figures provided by the Ministry of Agriculture and the State Statistical Bureau, Perkins and Yusuf calculated that during the commune years, income per laborer in rural areas on the average increased faster than the income per worker in urban areas. As a result, the income ratios between urban workers and peasants narrowed from 5.5:1 in 1957 to 3.5:1 in 1975, and then to 2.9:1 in 1979. The authors explained that the income gap narrowed despite the fact that the ratio of value added per capita rose much faster in the industrial sector than the agricultural sector from a ratio of 4:1 to 8:1. Therefore, rural incomes were rising in step with agricultural production,

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while during these same years, urban workers were receiving a smaller and smaller share of the value added in the industrial sector.^{295, 296}

Moreover, due to the commune system's income distribution, peasants' cash income was only a small part of their total income, which would include income in-kind, so cash income was only one among many measures to indicate the peasants' welfare.²⁹⁷ During the commune years, after deductions to the State, for the cost of production, and grain quota for its members, production teams set up accumulation funds for investment purposes and also welfare funds, which provided heavily subsidized education and medical care. The rest of whatever income remained they then distributed to the members according to a work-point system.

Peasant women benefited from the work-point system, because for the first time the work they contributed was explicitly accounted for. The income they brought home from the work points they earned raised their status in the family. Even though women earned fewer work points for a day's labor, the average differential in male and female work points was gradually reduced and in some places was eliminated. Practices to reduce gender inequality during the socialist period were big steps forward.²⁹⁸

Commune members paid a fee to join the cooperative medical system. For a family of five, the fee amounted to about 7.5 RMB a year. From its welfare fund, the production team contributed between 0.1 and one Yuan per member to the commune's health fund. For every visit to the brigade health clinic, there was a registration fee of 0.05 to 0.1 RMB and

²⁹⁵ Source of statistics: Ministry of Agriculture, *Zhongguo Nongye Nianjian*, 1980, pp. 41, 347; *Zhongguo Jingji Nianjian*, 1981, V3, 7; *Zhongguo Jingji Nianjian*, 1982, VIII-3; and State Statistical Bureau, *Statistical Yearbook of China, 1981* (Hong Kong Economic Information Agency, 1982), pp. 135, 199, 302, 434-36.

²⁹⁶ Dwight Perkins and Shahid Yusuf, *Rural Development in China*, *op. cit.*, p. 125.

²⁹⁷ In a similar way wages for workers in State enterprises only indicated part of their total compensation. Workers during the socialist period received subsidized housing, utilities, medical care, education and many other benefits.

²⁹⁸ In 1965 for a full day's work, women received on the average two-third of what men received but by 1973 women received, on the average, nine-tenth of what men received. (Dwight Perkins, *Rural Small-Scale Industry in the People's Republic of China*, *op. cit.*, p. 231) The justification for the differential treatment was that men's work usually required more strength. (See also Pao-yu Ching, "The Impact of Technological Changes on Women in Rural China, 1958-1978," presented at the Symposium on Women held in August 1988 in Tokyo, Japan. *Proceedings of the '88 Tokyo Symposium on Women*, December 1988, pp. 426-437.)

a small amount for the medicine dispensed. For serious illnesses treated at the commune or county hospitals through surgery or some other sophisticated treatment, the patient paid about 10 RMB to cover half of the cost while the commune paid the other half from its health fund. The overwhelming majority of rural residents were able to afford such payment.²⁹⁹

With advancements in the healthcare system after Liberation, the number of hospital in rural areas increased almost four times from 1949 to 1957, then more than four times again from 1957 to 1965, and almost another four times from 1965 to 1978, thus reducing the number of rural population per hospital bed from 24,201 in 1949 to 693 in 1978—a 35-time reduction.

Education in rural China after Liberation also improved exponentially. Before 1949, an estimated 20 to 40 percent of the population was literate, living almost exclusively in cities. After communes were established, each commune built, on average, fifteen primary schools. As a result, by 1958, there were 86 million children, or 67 percent of the relevant age group, enrolled in elementary schools,^{300, 301} and by 1976, the figure reached 95 percent in rural areas.^{302, 303}

The faster pace of income increases in rural areas versus those in the urban areas and the improvement of rural residents' lives in other aspects, especially in health and education, from the late 1950s to the late 1970s meant that after the initial period of development, the agricultural sector was not continuously drained of its surpluses. And with the solid worker-peasant alliance, the burden on the agricultural sector gradually decreased, and the communes were able to invest more of their surpluses in agricultural production and in rural industrialization so the rural population was able to gradually raise its standard of living.

²⁹⁹ Dwight Perkins and Shahid Yusuf, *Rural Development in China, op. cit.*, p. 141.

³⁰⁰ For rural school-age children, the secondary school enrollment was perhaps only 10 percent. *Ibid.*, p. 173.

³⁰¹ Jan S. Prybyla, *The Chinese Economy: Problems and Policies*, Columbia, University of South Carolina Press, 1978.

³⁰² J. Sigurdson, "Technology and science: Some issues in China's modernization" in *Chinese Economy Post-Mao, A Compendium of Papers*, Washington, US Government Printing Office, 1978, p. 505.

³⁰³ John Gardner and Wilt Lukas Idema, "China's Educational Revolution" in *Authority, Participation, and Cultural Change in China*, Cambridge, Cambridge University Press, 1973, p. 226.

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Loss of Peasants' Income and Benefits After the Agricultural Reform

After the Agricultural Reform, the average income of Chinese peasants rapidly rose at the annual rate of 15.5 percent during the initial phase (1979-1984), largely due to the substantial increases in the State's purchase prices as stated in Section A. From 1985 to 1988, annual income growth became more moderate, with the growth rate reduced to 5.1 percent, and then further dropped to just 1.7 percent for the period 1989-1991. Peasants' income again rose rapidly from 1992 to 1996, because the State increased anew the purchase prices for agricultural commodities. Then from 1997 to 1999, agricultural commodity production was steady but market prices declined. Lu calculated that the average grain price (for rice, wheat, and corn) fell from 1.0355 RMB/*jin* in 1996 to 0.7075 RMB/*jin* in 1999 (one *jin* equals one-half kilogram, or 500 grams). Peasant incomes as a whole during the same period dropped by about 32 percent.³⁰⁴ Then, for four consecutive years after 1999, crop production decreased; the downward trend was not reversed until 2004.

Environmentalist Lester Brown, who has paid close attention to China's grain production, attributed the sharp production decline to the decrease in grain-harvested areas from 90 million hectares in 1998 to 76 million hectares in 2003,³⁰⁵ among other reasons. He neglected to say, however, that among the important factors pushing farmers to abandon their lands were the continuing increases in farm input prices from the early 1990s and the sharp drop in government grain purchase prices in 1998 and 1999.³⁰⁶

Currently, 320 million peasants still rely on farming as their main or partial source of income and are having a difficult time making ends meet. Since the end of the 1990s, many peasants have lost or abandoned their

³⁰⁴ Lu Xueyi, "The Peasants Are Suffering, the Villages Are Very Poor" in *Dushu (Reading)*, January 2001 issue (translated into English), 2001.

³⁰⁵ Brown explained the reasons for the decrease: "Several trends are converging to reduce the grain area, including the loss of irrigation water, desert expansion, the conversion of cropland to non-farm uses, the shift to higher-value crops and a decline in double-cropping." To show the significance of the 70-million-ton decrease in grain production between 1998 and 2003, he said that that decrease was more than the total yearly grain harvest of Canada. Earth Policy Institute, "Eco-Economy Update," March 10, 2004, earthpolicy.org/Updates/Update36.html.

³⁰⁶ Tan Shukui, *Gengdi Liaohuang, op. cit.*, pp. 101-102.

land and many more also suffered from natural disasters, which also have become more frequent in recent years.

A large and growing number of peasants are migrating to cities to work, sending home whatever they can from their low wages so their families can subsist. The current number of migrant workers is estimated at about 150 million. According to Bai, as the problem of unemployment grows worse, and as more peasants lose their land—40 million peasants lost their land in 2004—the number of migrant workers is expected to increase by another 106-108 million between 2001 and 2010.³⁰⁷

Younger males leave home usually to find construction work in cities, leaving women behind to shoulder the heavy farm work and to care for the young and the aged. Many younger couples also migrate together to work in cities, entrusting their children to the care of their grandmothers. Young women also leave home to work in the exporting industries in the coastal areas, earning low wages in dangerous factories and often suffering abuse from employers. In central China, a fairly large number of rural young women have gone to work as domestic helpers for wealthy families in large cities. About 40 percent of the total migrant workers are female, and the figure is on the rise.³⁰⁸

Migrant workers suffer the worst types of exploitation and have the least protection of any kind. They do not have any health insurance and thus rarely receive medical care when they are sick or injured. They suffer the highest rate of work-related injuries. As large numbers of able-bodied young men and women leave home, the burden of work on the remaining members—usually women—increases. Statistics indicate that women already account for more than 60 percent of the total agricultural labor force, and produce 60 percent of the agricultural output. In a survey of the rural labor force in Sichuan Province, women workers engaged in agricultural and other production accounted for 69.6 percent of the total.^{309, 310} Moreover, discrimination against women has persisted, and gender

³⁰⁷ Bai Jingfu, "The Main Contradiction of Our Country's Economic Growth During the 11th Five-Year Plan," *op. cit.*, Point 10.

³⁰⁸ Li Xiaoyun, Zuo Ting, and Ye Jingzhong, eds., "Poverty and Relief Situation in China's Villages" in *Status of Rural China, 2003-2004* (in Chinese), Social Science Academic Press, 2004, p. 276.

³⁰⁹ *Ibid.*, pp. 275-276.

³¹⁰ The survey was conducted in seven counties near Luzhou City in Sichuan.

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inequality has increased since the Reform. For example, when a family has both a daughter and a son, there is pressure on the daughter to join the labor force at a much younger age and start bringing money home, so her brother can continue his schooling.

Another big burden on the peasants is legally and illegally levied taxes and many different kinds of fees charged by local governments, which have gradually increased since 1985. According to Lu, the actual burden in some areas could be as high as 15-20 percent of peasants' gross income. In addition, the poorer an area is, the higher the proportion of people dependent on agriculture as their main source of income, and the higher the burden these peasants have to bear. Thus, in central and western China, where the main source of income comes from agriculture, the burden of taxes and fees further lowers peasants' real income.³¹¹

Taxed beyond their limits, peasants suffer from brutal tactics used by many local officials in rural China to collect taxes and fees. Journalists Chen Guidi and Wu Chuntao investigated and reported on many shocking cases in Anhui Province.³¹² Government officials also use brute force to evict peasants from their lands, without just, or sometimes any, compensation, so that seized lands could be converted to industrial or commercial purposes. Peasant protests against land seizure have rapidly proliferated in recent years.³¹³

Lu attributed the low level of peasant consumption to their stagnant income. He said that while the peasantry comprises 70 percent of China's population, they are only able to buy 30 percent of the total goods. Low peasant incomes also mean that their savings are only 19 percent of the nation's total savings.³¹⁴ When the income of peasants, who are the vast majority of the population, is not improving, there is little hope for China's domestic market to expand.

After the breakup of the commune system, the cooperative medical system and rural education services also collapsed. The loss of health, edu-

³¹¹ Lu Xueyi, "The Peasants Are Suffering, the Villages Are Very Poor," *op. cit.*

³¹² Chen Guidi and Wu Chuntao, *Zhong Guo Nongmin Diaocha Baogao* (*Chinese Peasants Investigation Report*, in Chinese), People's Literature Publisher, 2003.

³¹³ The reported number of protest involving more than one hundred people increased nationwide from 74,000 in 2004 to 97,000 in 2005.

³¹⁴ Chen Guidi and Wu Chuntao, *Zhong Guo Nongmin Diaocha Baogao*, *op. cit.*

cation and other benefits severely affected the welfare of the peasants. With funding from the State on education either stopped or severely cut, many schoolteachers in rural areas have not been paid and some schoolhouses are falling apart.³¹⁵ According to the *Status of Rural China, 2003-2004*, peasants' participation rates in any kind of insurance are very low. In 2002, the participation rate for the rural population in old age insurance was only 7.7 percent. What is worse, only 1.4 percent of the insured actually received old age pension. The percentage of people who received a minimum living expense relief was only 0.5 percent.³¹⁶ Among rural residents, only about five percent participate in cooperative health insurance. Of the 170 million people affected by natural disasters in 2002, only 9.4 million, or about five percent, received any kind of disaster relief.³¹⁷

Without preventive medicine, infectious diseases that were eliminated in the 1950s have returned with a vengeance.³¹⁸ Women have suffered even more severely due to the lack of preventive care. Several health surveys in Hebei Province showed high incidences of diseases related to female reproductive systems among rural women. In some areas, for example Zhangbei County, as many as 30-40 percent of all women suffered from such diseases. Many of these women never had check-ups and ignored obvious symptoms, because they could not afford to pay enormous health care bills. Then, as their illness advanced, they often gave up on any treatment altogether.³¹⁹ The poor health of rural women is not limited to isolated counties in one or two provinces but is widespread.

Newer infectious diseases such as HIV/AIDS and SARS have caused suffering for tens of million people, both from the disease itself, and also from the government's denials, cover-ups, and the low priority placed on

³¹⁵ There are some prosperous villages that have funded their own schools and also rich private individuals who have built schools as charity.

³¹⁶ It is a form of welfare relief—a small cash payment to help the extreme poor. The amount is about 130 RMB for city and town residents. The amount allotted to rural residents is unknown.

³¹⁷ Li Xiaoyun, Zuo Ting, and Ye Jingzhong, eds., "Poverty and Relief Situation in China's Villages" in *Status of Rural China, 2003-2004* (in Chinese), Social Science Academic Press, 2004, p. 64.

³¹⁸ Nationally, 900,000 people have been infected by schistosomiasis and an estimated 30 million are now at risk. *New York Times*, February 23, 2005.

³¹⁹ Li Xiaoyun, Zuo Ting, and Ye Jingzhong, eds., "Poverty and Relief Situation in China's Villages," *op. cit.*, p. 281.

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public health at all levels. If the deadly bird flu ever hits rural China, peasants would be defenseless against it.

Moreover, people in rural areas have suffered disproportionately from diseases caused by environment pollution. The shortage of water, which has increasingly worsened, has impacted the rural residents more seriously than urban residents. More discussion about this will follow in the next section.

In the almost 30 years after the Agricultural Reform, as income distribution has become more unequal, income gaps between urban residents and rural residents and among residents in different regions have also widened. According to UN statistics, the income share of the lowest 20 percent of China's population was only 4.7 percent, while the income share of the highest 20 percent was about 50 percent. According to Bai Jingfu, the vice-chair of a Research Center in the State Council,³²⁰ the income ratio between the 20 percent highest income group and the lowest 20 percent income group in Jiangsu province, where the city of Shanghai is located, is 10.7:1.³²¹ This figure helps show the urban-rural divide, because the overwhelming majority of the top 20 percent are likely to live in Jiangsu's prosperous eastern coastal cities while the bottom 20 percent are scattered around the countryside.

Peasants suffer from unstable and stagnant income and loss of health care and education benefits. The security they once had during the commune years is gone. The majority of peasants have indeed found themselves back in the "bad old days" before the revolution.

F. Long-Term Sustainability of China's Agriculture

As it was stated previously, China has always had extremely scarce arable land and scarce water resources compared to the size of its population. In Section B, we saw that since the Agricultural Reform in 1979 and the collapse of the commune system in 1984, past efforts in land preservation and improvement have ceased, and infrastructure for irrigation and drainage that had helped maintain a balance between agricultural produc-

³²⁰ The Research Center belongs to a State Council Committee. This Committee supervises and manages state assets.

³²¹ Bai Jingfu, "The Main Contradiction of Our Country's Economic Growth During the 11th Five-Year Plan," *op. cit.*, Point 6.

tion and other land uses as well as the natural environment has deteriorated. This development has critically diminished the long-term sustainability of China's agriculture. Furthermore, since the Agricultural Reform is part of the overall Reform that China's new leadership launched in 1979, evaluating the long-term sustainability of China's agriculture means we also need to analyze the rest of China's economy and thus understand how it has impacted agricultural production, the rural villages and the peasantry. In the sub-section below, the impact of the export-led growth will be examined first. The subsequent discussions will then focus on the future impact of resource shortages and environmental pollution on the long-term sustainability of agriculture.

Export-Led Growth Leads to Rapid Depletion of Natural Resources

China is a large but resource-poor country. An important component of its Reform is to open up China and to pursue an export-led economic growth strategy. As China's exports expanded rapidly in the 1980s and then accelerated since the late 1990s, the problems of scarce resources have become much more serious. Exporting large volumes of industrial products at an accelerated speed is the most important factor responsible for the rapid depletion of China's scarce natural resources and the problem of environmental pollution. Additionally, higher levels of consumption—including the purchase of automobiles by the richest 15-20 percent of the Chinese population (they number more than 200 million and only a small fraction of them live in rural areas)—have also contributed to the depletion of natural resources and environmental problems.

Among China's scarce resources, as discussed earlier, land and water are highest on the scarcity list. The country's water resources have always been scarce. The average water available per person is now only 2,200 cubic meters, about a quarter of the world's average. According to the Ministry of Water Resources, the water consumption of factories and urban residents increased from 25 percent of the total consumption in 1998 to 34 percent of the total in 2004.³²² Currently, water shortage is approaching crisis levels.

In addition to land and water, however, energy has also become extremely scarce, and the rapid GDP growth has intensified the problem.

³²² Data from Bloomberg.com, February 22, 2006.

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State Council researcher Bai Jingfu had warned about the problem of rapid increases in energy consumption.³²³ He noted that with the rate of export growth accelerating since the late 1990s, the country's oil consumption increased 100 percent from 1990 to 2001. By 2005, China's oil consumption surpassed that of Japan and became the largest oil consumer in the world after the US. China's domestic oil production no longer enough meets its demand causing oil imports to double, from 1998 to 2003, and increase another 40 percent in the first half of 2004.³²⁴ Of China's 300 million tons of crude oil consumption in 2005, 123 million tons or nearly half was imported.³²⁵

Enormous volumes of water and energy are fed into industries that produce large quantities of industrial goods for export. Factories built for export production have occupied large areas of land formerly used for agriculture. Furthermore, water and energy shortages have been aggravated by inefficient uses of these resources. The Chinese Ministry of Water Resources pointed out that since China only recycles 20-30 percent of its industrial water, water consumption per industrial output is five to ten times higher than that of the industrialized countries.³²⁶ The same problem of inefficiency exists in the case of energy usage. According to Bai's report, for every dollar of GDP increase, China uses 4.3 times the energy than that of the US, 7.7 times that of Germany and France, and 11.5 times that of Japan.

As discussed earlier, massive industrial and urban development has taken increasingly large tracts of arable land away from agriculture. The development strategy of the last two decades only intensified resource scarcity and threatened China's long-term food security. Therefore, the Economic Reform that began in 1979 may have generated high GDP growth rates in the short term by accelerating the growth of export production, but by adopting such a strategy, it has rapidly depleted its scarce resources. The growing shortages of water, agricultural land, and energy have already had a negative impact on agricultural production, rural villages, and the

³²³ Bai Jingfu, "The Main Contradiction of Our Country's Economic Growth During the 11th Five-Year Plan," *op. cit.*, Point 5.

³²⁴ Data from *Time Asia*, October 18, 2004.

³²⁵ As late as 1992 China still exported oil.

³²⁶ Data from Bloomberg.com, February 22, 2006.

peasantry. These shortages, on top of the deterioration of agricultural infrastructure, will eventually make agriculture unsustainable in the long term.

The Environmental Crisis

The long-term outlook for water in China is grim. Projections show that residential demand for water will increase by over 100 billion tons from 1995 to 2030, and industrial water demand by over 200 billion tons.³²⁷ The expanding industrial and residential water consumption means water supply for agriculture will have to be further squeezed. Moreover, water distribution is very uneven; shortages in some regions like the Northwestern provinces are most acute and could only get much worse in the future.

Consider the Yellow River, the country's second largest river, which had provided water for people and agriculture in central China for thousands of years. Today, heavy water consumption upstream has exhausted the river's water supply and is causing water shortages for the 170 million people living in this region. Water shortage has already begun to affect grain production, an important economic sector in this region; the effects will worsen in the future.

Not only is river water dwindling, especially in Central and Northwest China. The country is also losing groundwater rapidly from overuse. In many cities, the groundwater level is approaching dangerously low levels, like in Beijing where the groundwater table has been dropping 1.5 to two meters every year. Of China's 617 cities, 300 faced water shortages in the late 1990s, and the situation has continued to deteriorate.³²⁸

Environmental pollution became a serious problem as early as the 1980s and has deteriorated at a faster pace since the mid-1990s. Environmental experts in China give different estimates of production losses due to environmental disasters, but the World Bank has acknowledged the environmental crisis and estimates that 8-12 percent of the country's annual production was lost in recent years due to the crisis.³²⁹

Water pollution has brought tremendous loss to agricultural production and has caused serious illnesses among people in affected areas,

³²⁷ News release from Worldwatch Institute, April 22, 1998.

³²⁸ *Ibid.*

³²⁹ Bai Jingfu, "The Main Contradiction of Our Country's Economic Growth During the 11th Five-Year Plan," *op. cit.*, Point 5.

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mostly peasants in rural areas. The state-run *People's Daily* reported in 2005 that in Liukuaizhuang, a village of 6,000 people near the city of Tianjin, water pollution drove up the cancer rate to 25 times that of the national average in 2004. In addition, a chemical plant accident that contaminated the Songhua River and caught the attention of international media caused tremendous damage to peasants in the affected areas. Another horrific incident in 2005 polluted the Yangtze River, China's longest river, after a zinc smelter spilled cadmium into the water, a toxic metal that can cause neurological disorders and cancer.

While these large-scale accidents sent shock waves around the nation and the world, the impact of smaller-scale but constant dumping of industrial wastes into rivers and ground, and the excessive use of chemical fertilizer, pesticides and herbicides in agriculture as well, are even more devastating. Worldwatch reported that when water quality was monitored at 412 sites along seven Chinese rivers in 2004, water in 58 percent of the sites was found too dirty for human consumption.³³⁰

Also according to Worldwatch, 16 of the 20 cities with the most polluted air worldwide are in China. The State Environmental Protection Administration estimated that some 200 Chinese cities fall short of World Health Organization standards on airborne particulates, which cause many respiratory diseases. Other kinds of air pollution such as sandstorms are just as serious, as indicated by the rapid increases in respiratory diseases. Last spring, Beijing and other northern cities were hit by one of the largest sandstorms in recorded history from the Mongolian desert. Since the fast advance of desertification of over 2,000 square kilometers a year, sandstorms have become increasingly worse, affecting cities in Korea, Japan and even as far as Taiwan. Coal burning has also filled the air with sulfur dioxide above many Chinese cities, resulting in some of the worst acid rain events worldwide. Worldwatch further estimated that 30 percent of China's cropland is now suffering from acidification, which damages not only farms but also forests and human health.³³¹

Even if China can immediately stop its environmental deterioration, it will need a tremendous effort to clean up the environment and restore

³³⁰ Worldwatch Institute, *State of the World, 2006 Special Issue: China and India*, *op. cit.*, p. 7.

³³¹ *Ibid.*

ecological balance. Long-term sustainable development cannot even begin until substantial work is done on reversing the environmental deterioration.

Heavy Peasant Burdens Are Not Sustainable

China's peasantry has been heavily burdened during the 20-plus years since the Reform began in 1979. Quite a few rural residents did get very rich, but their wealth came mostly from commercial activities, not from working on the land. The 320 million peasants, who still work to produce crops and other farm output, are doing poorly. The fact that some 150 million peasants have left for work in cities shows that their families need the extra earnings to survive. Peasant households that receive money from family members working in cities are usually much better off. This fact is significant because it means that Chinese agriculture can no longer support its peasants.

Most peasants live poorly, lack any access to preventive healthcare, and cannot afford medical treatment—yet they have to live in an increasingly polluted environment. Many of them suffer from water shortages that are likely to get worse. The government has not offered any long-term solution to the problems of the Chinese peasantry. In other words, the overall condition of the Chinese peasantry, just like China's agricultural land, natural resources, and environment, is not sustainable in the long-term.

G. Conclusion

China, a large but resource-poor and environmentally fragile country, has very limited arable land and resources with which to support a large population. Throughout its long history, the Chinese people have suffered many natural disasters such as flooding and drought. The reason for agricultural collectivization was the understanding that Chinese people have to pool their efforts to collectively resolve the problem of scarce natural resources and fragile environments. The development strategy during the socialist period was that of all-sided development: China's rural areas had to develop together with urban areas; improving the peasants' health, education and general living conditions had to be achieved as much as possible, together with that of the workers and other urban dwellers. Based on

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the worker-peasant alliance, China before the Reform went a long way in advancing agricultural production and modernization by preserving and improving the land and the environment. That model of development was proven to be sustainable in the long term.

The Agricultural Reform that began in 1979 hastily abandoned the development model of the previous decades. The overall Economic Reform of the past 20-plus years pursued the strategy of using high-volume manufacturing exports to boost the GDP growth rate. This strategy used up enormous quantities of land, water, energy and other resources, has caused serious water, air, and ground pollution, and has meanwhile unduly deprived agriculture of these resources. Moreover, the agricultural sector has also been deprived of the investment needed to update and build new infrastructure. As agricultural production returned to individual households, collective labor could no longer be organized to do farmland capital construction work. The significant gains in modernizing agricultural production made in the previous decades could no longer continue after the land's division into small family plots. China's small-scale family farming is inefficient in terms of land and labor productivity. When considered with all the other factors stated in the last section of this paper, China's agriculture after the Reform has been proven to be unsustainable in the long term. With foreign countries gradually taking over a larger share of the food market, the Chinese people are left to cope with a vulnerable food supply.³³²

³³² Author's note: this paper was completed in early 2007. Therefore, it does not include more recent developments including the abolition of agricultural taxes, the new government initiative of building new socialist villages, or the impact of higher grain prices in the world market on China's food supply.

HAS CAPITALIST REFORM DEVELOPED CHINA'S TECHNOLOGY AND PRODUCTIVE FORCES?³³³

with Hsin-Hsing Cheng

One of the most important justifications the Reformers made for China's capitalist Reform in 1979 was that the Reform (*gaige*, capitalist reform) and Opening Up (*kaifang*, linking up with the international economy) would speed up the development of productive forces. One of the most important aspects of faster development of productive forces, according to the Reformers, was to acquire advanced technology from the West once China's economy could be opened and linked with the rest of the global economy. The Reformers charged that China did not make much progress in technology during the socialist era, because it had isolated itself from the advanced Western countries, which possessed superior technology.

The Reform's most important strategy for acquiring high-level technology has been to offer foreign multinationals China's vast market as an incentive for their direct investment in the country. The Reformers thought that foreign corporations who relocate their production to China would bring advanced technology to use in their operations. China would thus be able to acquire the technology transferred. The other strategy has been to import sophisticated technology from Western countries. The Reformers believe that once China upgrades its technology then it will be able to compete with the foreign multinationals in both the domestic and international market.

It has been almost 30 years since the Reform began and at least two decades after the Reform transformed China's basic relations of production from socialist to capitalist. China began to accept foreign direct investment in the 1980s and allowed more foreign investment to pour in during

³³³ Hsin-Hsing Chen, Associate Professor at Shi-shin University, co-authored this paper. We received a grant from the Graduate Institute of Building and Planning, Taiwan University, which made it possible for us to take a closer look at China's automobile industry. The authors think it is not meaningful to focus on the automobile industry alone without a broader perspective. The finished paper includes other relevant issues for less developed countries in terms of technological improvement and development. The paper was previously published in *Journals*, Institute of Political Economy, Quezon City (Philippines), February 2009.

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the 1990s. By the time China became a member of the World Trade Organization (WTO) in 2001, it had swept away all barriers that would prevent it from full integration into the world capitalist system. China became the most favorable place for foreign multinationals to invest, to produce goods, to sell these goods in the domestic market, and to export them. China's exports grew at astonishing rates—above 20 percent annually until recently, or a 500 percent increase in real term between 1992 and 2005. This high export growth rate was the main reason for equally impressive GDP growth rates during this period. According to one estimate 5.7 percent (or 3/5) of the 9.7 percent GDP growth in 2004 was due to the increase in exports.³³⁴ How should we interpret the impressive growth in China's exports and GDP in terms of development of productive forces and improvement in technology?

This paper answers the questions regarding changes in technology during the 20-plus years of China's capitalist Reform in the following four sections:

Section A presents some superficial observations that seem to support the view that China's capitalist Reform has achieved the goal of acquiring more advanced technology and also the goal of developing productive forces.

Section B will point out the technological bottlenecks experienced in China's industries in general and in its automobile industry in particular. China's lack of progress in advancing its technology will also be examined from the content of its large volumes of exporting goods. We would then argue that despite all its efforts, the Reform has failed to upgrade China's technology in any significant way.

Section C will briefly summarize reasons given by Chinese academics and government officials for the failure of adopting advanced technology from abroad. Then we will add our own explanations for the failure.

In the last section, we will examine how the capitalist Reform has affected China's development of productive forces, and end with a brief conclusion.

³³⁴ See Bai Jingfu, "The Main Contradiction of Our Country's Economic Growth During the 11th Five-Year Plan" (in Chinese), <http://theory.people.com.cn>, n.d., Point 2.

A. Superficial Observations About "Great Progress"

A quick survey of China's economy can easily lead to the conclusion that the country has made great progress in developing its productive forces and has made significant progress in upgrading its technology. China is not merely the world's largest steel and cell phone producer; it has also built modern automobile factories that are turning out better quality passenger cars than in the past. In addition, its exports have moved from low-tech products like garments, toys, and shoes, to high-tech products such as machinery and electronic products, including computers (parts and components), high-quality steel, and automobile parts.

News from the Ministry of Commerce says that in 2006, the volume of China's imports and exports of machinery and electronic products amounted to US\$977.17 billion with the volume of China's exports of machinery and electronic products reaching US\$549.42 billion, ranking the No. 3 in the world, and the volume of China's imports of machinery and electronic products reaching US\$427.76 billion, ranking the No. 2 in the world.³³⁵

As a result, China achieved third place worldwide in exporting these products, after the United States and Germany.

A quick survey also shows that spending on research and development has increased significantly in China. A report by the Organization for Economic Cooperation and Development (OECD) indicated that the country's expenditure on research and development (R&D) increased to 60 billion USD in 2001, ranked third after the United States and Japan whose investments amounted to 282 and 104 billion USD respectively. China's spending on R&D in 2001 accounted for 1.1 percent of its gross domestic product that year, almost double the 0.6 percent in 1996.³³⁶ The report also said that about 40 percent of China's expenditure in R&D

³³⁵ News report, March 12, 2007, <http://www.chinaeconomic.net>, no longer accessible online.

³³⁶ It was predicted in 2005 that by 2006 China would overtake Japan in R&D spending.

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in 2001 was from the government and the other 60 percent came from domestic and foreign enterprises.³³⁷

One of the ways the Chinese government spends its R&D is to give grants to well-known universities for research and development. Its institutes of higher learning conduct research and train highly qualified scientists and engineers ready to enter into fast expanding high-tech businesses. The foreign multinationals have not only expanded R&D spending in their business operations; in increasing numbers, high-tech multinationals have set up research and development centers in China. IBM and Microsoft established research institutes in China in the late 1990s, while German industrial conglomerate Siemens AG launched a new research facility in 2006, one of its two largest research bases outside of Germany. In 2005 Siemens filed more than 1,000 patents, one of the largest numbers of patent filings in China.³³⁸

Apart from US and European multinationals, other countries are joining the rush to establish such centers. For example, the South Korean LC Electronics set up a research and development center in Beijing in 2002, the largest outside South Korea. This center hired a few hundred Chinese engineers and other technical personnel and was expected to expand to 1,600 people by 2005.³³⁹ A *New York Times* article in its September 13, 2004 issue indicated that with the coming of these multinational-created R&D centers, estimated by Chinese officials to be growing at 200 per year, China has become a new “hotbed of research.”

B. Evidence of Failure in Advancing Technology

The questions that need to be addressed are: To what extent foreign investment has brought their advanced technology to China? How much has China learned from such technology transfers? How much has R&D spending by the Chinese government and by foreign and domestic businesses, including these R&D centers, helped China develop its technology?

³³⁷ Data from “China rises to third in research, development spending,” economic news brief from the Embassy of the People's Republic of China in the United States, November 2, 2003. <http://www.china-embassy.org/eng/jjmy/b/t39936.htm>

³³⁸ Data from *China Daily*, October 31, 2006.

³³⁹ Industrial Economics Study Center, *China's Industrial Development Report*, China's Academy of Social Sciences, Economic Management Publisher, 2003, p. 232.

Currently, some academics and government officials in China, including those closely related to the Reform, have admitted that the Reform's strategy of using the domestic market to attract foreign technology has not been successful, and that all efforts to attract foreign investment have failed to upgrade the country's technology. They have presented evidence contradicting the claim that China has significantly advanced its technology in the Reform era. Moreover, the World Bank's recent study on China's exports has also revealed that its fast-growing exports of machinery and electronic products have been mainly due to the increase in its processing trade, which is simply assembling imported intermediate inputs then exporting the outputs. In other words, the high technology and skill content of machinery and electronic products being exported come mainly from imported components. The evidence of failure is presented below.

1. A General Survey

There are several major technological bottlenecks in China's manufacturing industries, which are signs of weakness in its technology. One bottleneck is in the machine-building industry. Despite being third-ranked worldwide in exporting machinery, China's machine-building technology has not made much progress in the past three decades. As it produces more sophisticated goods, it also becomes increasingly dependent on imported machinery. According to the *China's Industrial Development Report, 2003*, the utilization rate of China's domestic machinery industry was only 50 percent of its capacity; the country has to import many kinds of specialized equipment, precision machines, and other skill-intensive machinery. For example, China has to import over 80 percent of the machinery and equipment needed for synthetic fabric production and 70 percent of the machinery and equipment, including digital lathes for its petrochemical and passenger car industries.³⁴⁰

The other major weakness in China's technology is that it must import not just machinery and equipment but also parts and components for its industrial production. The same 2003 report said that even though China is the world's largest steel producer, it must import certain crucial components of steel. For example, its self-sufficiency rate for a certain kind of sheet steel is only 65 percent; its self-sufficiency rate is even lower for

³⁴⁰ Ibid., p. 28.

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stainless steel—only 15 percent—which means that China has to import 85 percent of materials needed to produce stainless steel. The report also said that even though China is capable of producing many high-end consumer durables, it has to import many intermediary products and specific materials for the production of these consumer durables. It has large capacities to produce electronic products, such as refrigerators, freezers, washing machines, microwave stoves, and air-conditioners, so that large multinationals (Whirlpool, GE, Sony, Siemens, and LG) have contracted Chinese firms to produce these products with imported parts and components. In 2002, China imported 6.1 million compressors for air-conditioners, 5.2 million compressors for refrigerators, and 25 million magnetrons for microwave stoves. Since Chinese manufacturing firms have not been able to produce these components, multinationals such as Toshiba, Matsushita, Sanyo, and Hitachi have seized the opportunity by setting up their own businesses to produce these critical components to replace the imports.³⁴¹

This weakness means that China has not been able to build a technological base needed for domestic innovation. Despite its large spending on technology imports, totaling 75 billion USD between 1999 and 2003, Chinese manufacturing companies are not able to engage in independent product development and product design in order to establish their own brand names for their products. These firms have to continue their production under foreign brand names.

2. The Automobile Industry

The Reformers' ambitious plan for the automobile industry was to expand passenger car production. China's passenger car technology at the time of the Reform was very much behind, because during the socialist era the emphasis of the automobile industry was on producing trucks for transporting goods and large buses for public transportation; very little investment was made to produce passenger cars. The First Auto Works (FAW) established in 1953 with the help from the Soviet Union produced medium-weight and heavyweight trucks. The foundation of truck production was laid in the 1960s and 1970s, so in 2002 FAW was able to produce 200,000 of these two types of trucks, becoming the number one producer of trucks in the world. There were very few passenger cars produced before

³⁴¹ *Ibid.*, p. 230.

the Reform. Hongqi, the most well-known luxury passenger car, also produced by FAW, served as limousines for government guests and high-level officials.

The rapid expansion of China's passenger car production came in the 1990s, later than other export-oriented industries, but its rate of growth has been as impressive. In 1990 China's passenger-car production took off, then doubled between 1991 and 1992, and for the rest of the 1990s grew at an annual rate of 27 percent.³⁴² Total car production reached 2.3 million units in 2004, then went up to nearly eight million in 2007 (*Annual Report on Automotive Industry in China* 2008).

The Chinese government regarded the automobile industry as the engine of growth for the rest of the economy, and by 2006 the industry's total production accounted for 15 percent of the total value of manufacturing.³⁴³ Reformers recognized that the key to developing passenger car production was advanced technology. The passenger car industry is a good example of the strategy of using the domestic market in exchange for foreign technology: the government would offer foreign firms the opportunity to invest, produce and sell cars in China; in return, the investors would bring their advanced manufacturing technology into the country.

There were three major Chinese automobile enterprises at the onset of the Reform—the First Auto Works (FAW) in Changchun, the Beijing Automobile Industry Corporation (BAIC), and the Shanghai Automotive Industry Corporation (SAIC). In 1984, BAIC formed a joint venture with American Motors Corporation—the Beijing Jeep—to produce a utility vehicle. (American Motors Corporation later became Chrysler and then Daimler Chrysler.) In the same year, SAIC joined up with VW to form Shanghai Volkswagen, also to produce passenger cars. Around the same time, other Chinese automobile companies also licensed technology from foreign automobile companies.

The first two automobile joint ventures between Chinese and foreign automobile companies were formed in the mid-1980s. During the 1990s, more foreign investment poured into China's passenger car indus-

³⁴² Kelly Sims Gallagher, "Foreign Technology in China's Automobile Industry: Implications for Energy, Economic Development, and Environment" in *China Environment Series*, Issue 6, 2003, p. 9.

³⁴³ *Annual Report on Automotive Industry in China*, 2008.

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try and all major international automobile corporations formed joint ventures with China's car companies. By the early 2000s, the total investment from both foreign and domestic sources totaled almost 60 billion USD.³⁴⁴

In the late 1970s, BAIC produced the BJ212 (now named BJ2020) utility vehicle with technology given to China by the Soviet Union in the 1950s. The plan was for the Beijing Jeep to continue producing the old model for a while and then AMC would upgrade it with its Jeep Cherokee XJ model. However, instead of transferring Jeep Cherokee technology, AMC and then Chrysler just sold the kits of full Cherokee engines to Beijing Jeep, which in turn assembled these kits into the old BJ212 to become the new BJ2020. Beijing Jeep continued to sell BJ2020 with no modifications except the Cherokee engine kits, which were never updated after they were first introduced. Since for many years the sale of BJ2020 exceeded the Cherokee sales in the US, AMC and then Chrysler made large profits from selling the Cherokee kits to China.³⁴⁵ As far as the Shanghai VW was concerned, Volkswagen imported its technology to produce the passenger car, Santana, but little technology or knowhow was transferred to SAIC.

Gallagher said that despite this “flurry of activity” in the 1980s, China had not acquired much knowledge from foreign car companies; she believed that the foreign companies selected what technology would be transferred and how to transfer them without teaching their Chinese partners anything significant.³⁴⁶

The Chinese government belatedly realized that the two early automobile joint ventures were operating in a protected environment (through China's import quota and high tariff), and they made two different lines of automobile so there was no real competition between them. Also, there was no specific requirement for technology transfer in the joint venture contracts. This realization prompted the Chinese government to establish some guidelines regarding technology transfer for foreign car companies in the 1994 Industrial Policy for the Automobile Industry.

³⁴⁴ CATARC (China Automotive Research and Technology Center) and China Association of Automobile Manufacturing, 2002.

³⁴⁵ Jim Mann, *Beijing Jeep: A Case Study of Western Business in China* (2nd ed.), Boulder, Colorado, Westview Press, 1977.

³⁴⁶ Kelly Sims Gallagher, “Foreign Technology in China's Automobile Industry: Implications for Energy, Economic Development, and Environment,” *op. cit.*, p. 8.

Has Capitalist Reform Developed China's Productive Forces?

One of the guidelines was for automobile joint ventures to buy more of the parts and components they used from local suppliers. If these supplies were not available in China, the joint ventures would have to ask their suppliers to relocate to the country or train local suppliers to produce them. The joint ventures would then be able to localize their production by reaching the levels of local content as mandated. At the start the local content would be 40 percent, increase to 60 percent by the second year, and then 80 percent by the third year.

The 1994 policy also required each joint venture to set up a research and development office for upgrading its products and for the company to have the capacity to attain the international technological levels of the 1990s. The policy made it clear that since the foreign carmakers had the privilege to operate in the protected market, they had to follow explicit guidelines for technology transfers. The policy also aimed to consolidate the automobile companies into the so-called Big Three and Mini Three, because dozens of automobile companies were operating at too small a scale to realize the benefits of mass production.

However, there was no time for the Reformers to carry through the guidelines stipulated in the 1994 industrial policy; when China joined the WTO in 2001, it was no longer allowed to enforce any of the guidelines. Currently, the country's automobile joint ventures are making better cars with improved technology transferred from the foreign car companies, but the Chinese partners are not learning much from these transfers. China's automobile industry has encountered the same bottlenecks as other industries. All the joint ventures use imported machinery and equipment from the respective automobile companies in the developed countries and also continue to import certain parts, components, and material. For example, the Honda plant in Guangzhou had to import from Japan 90 percent of the steel for the Accord sedans and Odyssey minivans it produced. To cite another example, the Asimco Brake assembly factory makes the brakes for various cars built and sold in China by GM, Ford, Peugeot and others; to do so, the factory simply assembles imported parts for brakes.³⁴⁷

The 1994 policy's attempt to consolidate small automobile companies into larger ones also failed. By 2003, dozens of car companies

³⁴⁷ *The New York Times*, November 2, 2003.

remained. Only Shanghai-VW and FAW-VW reached an annual production volume of 250,000 cars, while as many as 17 car companies produced below 50,000 cars each.

One exception to the rule is a small, fully Chinese-owned car company named Chery. The small firm has been able to acquire technologies and improve on them without following the same route as the larger joint ventures. Chery's success has caused quite a bit of excitement in China's passenger car industry, with some seeing it as an example for others to follow to achieve independence. However, in the meantime, the joint ventures controlled by foreign car companies have held tightly to the lion's share of the market—mainly China's domestic market, which has been growing rapidly.

Speaking at China's Science and Humanity Forum in Hong Kong, Vice Chair of the Ministry of Science and Technology Liu Yanhua, admitted the fallacy behind the belief that technology would be forthcoming if China opened its market, adding that this notion was naïve and self-deceptive. The strategy totally failed. After China opened up the automobile market, 90 percent of this market is now occupied by foreign multinationals. China's automobile industry has not only been unable to acquire new technology, it has discarded the technology it used to possess and has become totally dependent on foreign multinationals.³⁴⁸

3. Examining Technological Change From China's Trade Data

China's import and export information can help us understand the gap between the appearance of the country making great progress in technology and the reality that efforts made in technology transfers during the Reform era have failed rather miserably.

As mentioned earlier, China in 2006 was the number three exporter of machinery and electronic products in the world. In that same year, China imported 428 billion USD in machinery and electronic products, making it the number two importer in the world for such products. The reason behind such impressive figures is that China's processing trade has been the mainstay for imports and exports of machinery and electronic products. The processing trade, which exports products made by assem-

³⁴⁸ Xinhua online news for November 30, 2005, http://news.xinhuanet.com/fortune/2005-11/30/content_3855583.htm.

bling imported intermediate inputs, grew faster than China's total trade, and its share in the total trade increased from 47 percent in 1992 to 54 percent in 2005.³⁴⁹

"The Anatomy of China's Export Growth," a recent World Bank paper by Amiti and Freund, shed some light on the question of China's technology by examining information on its trade.³⁵⁰ The study noted that China's exports in real terms increased 500 percent between 1992 and 2005; the structure of the exports also changed dramatically. During this period, the shares in more sophisticated products, such as machinery and electronic products, increased, and the shares in agriculture and apparel decreased. Looking at this part of their findings alone, it appears that China made significant improvement in its technology because it was able to shift its exports to products that required a higher level of technology.

However, upon closer examination of China's exports, Amiti and Freund found that the reason for the faster growth in machinery exports (one of the most significant factors in the shift from less to more sophisticated products) was mainly due to the faster growth of the processing trade as defined above. For the processing trade, the skill content of imported inputs, machinery and/or intermediate products from the United States, Japan and other developed countries is higher. Therefore, when these imported products are re-exported after processing work is done in China, they also have higher skill content. When the authors separated China's exports into the processing trade and the non-processing trade, they discovered the skill content of China's processing trade, 54 percent of the total, improved but the skill content of the non-processing, manufacturing trade remained unchanged. In other words, for 46 percent of the manufacturing trade, there was no change in skill content.

The authors of the World Bank paper then referred to a study by Dean, Fung, and Wang, in which the authors concluded that imported inputs accounted for 52-76 percent of the value of China's processing

³⁴⁹ https://web.archive.org/web/20070316055650/http://en.ce.cn:80/Insight/200703/12/t20070312_10667815.shtml.

³⁵⁰ Mary Amiti and Caroline Freund, "The Anatomy of China's Export Growth" (*Policy Research Working Paper 4628*, May 2008), The World Bank, Development Research Group, 2008.

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exports.³⁵¹ Therefore, there was still 24-48 percent value-added in China, which could mean that the skill content also became more intensive in this value-added portion. We think it is reasonable to argue that this is the case. It is entirely possible, even very likely, that workers and engineers who work in different processing industries have acquired more technical knowledge and are also better trained to do the assembling work. Therefore, higher-skilled workers and even engineers could actually replace low-wage and low-skilled workers, resulting in better quality products for these processing industries.

In other words, processing work in China and the imported intermediate goods together have upgraded the skill content of the processing trade. However, this does not change the basic nature of this type of production: process manufacturing is still process manufacturing. As time goes on, China could import improved machinery, better parts and components, and also improve processing work. However, from this work China will not learn product design, how to produce its own machinery, or build its own brands. There is little chance for China to move away from its current role as a processing center for the multinationals. In fact, the trend only shows that China's exports have become more concentrated in the processing trade, from under 50 percent in 1992 to over 50 percent in 2005.

Most, if not all, of government expenditures on research and development and the foreign exchange spent on technology imports, plus the R&D centers set up by multinationals have not enhanced China's technological development. Rather, they have been largely spent only to make China do better processing work. The increasing share of the processing trade in fact points out the same technological bottlenecks shown earlier. Despite large increases in manufacturing output and exports, China is dependent on imported machinery, key components, parts, and certain specific material.

Therefore, we can conclude that although China has shifted its exports from low-skill industries to higher-skill industries and has become a major player in exporting machinery and electronic products, such changes are

³⁵¹ Judith Dean, K. C. Fung and Zhi Wang, Web Appendix A: "The Domestic Value Added of Chinese Exports" (accompanying paper for *How Changes in the Value of the Chinese Currency Affect US Imports*), US Congressional Budget Office, 2008.

due to the growing share of processing trade. Clearly, the Reform's plan of acquiring better technology by welcoming foreign investment has failed.

Such failure means that China pays a price. Amiti and Freund found that the average prices of goods exported from China to the US fell by an average of 1.5 percent per year between 1997 and 2005, while the average prices of similar goods from the rest of the world to the US actually increased 0.4 percent per year.³⁵²

Moreover, the foreign-owned multinationals have been receiving larger shares of China's export revenues because they control a larger share of the processing exports. According to George J. Gilboy in a *Foreign Affairs* article published in 2004, China's exports of industrial machinery grew twentyfold in real terms over the past decade, reaching 83 billion USD in 2003.³⁵³ The share of those exports produced by foreign-owned enterprises grew from 35 to 79 percent. Gilboy also wrote that between 1993 and 2003, China's exports of computer equipment increased from 716 million to 41 billion USD, with the share of foreign-owned enterprises increasing from 74 to 92 percent. While China's electronics and telecom exports grew sevenfold since 1993 to 89 billion in USD 2003, the share of foreign-owned enterprises increased from 45 percent to 74 percent over the same period. He added that this pattern repeats itself in almost every advanced industrial sector in China.³⁵⁴ This means that the advanced technology contained in these products belongs to the multinationals, not to the domestic economy.

Foreign technology transfers not only have failed to eliminate bottlenecks in China's economy, but they actually foster over-dependence on imported technology, and have, therefore, been one cause of these bottlenecks.

C. Reasons for Failure in Technological Advancement

The Industrial Development Report, 2003 said that one of the reasons for China's failure to acquire advanced technology through foreign investment was that the foreign multinationals intend to maintain a gap

³⁵² The average prices were based on a weighted price index.

³⁵³ George J. Gilboy, "The Myth Behind China's Miracle" in *Foreign Affairs*, July/August 2004.

³⁵⁴ *Ibid.*

between the most advanced technology that they possess and apply in production in their home countries and the technology they use in the less developed countries where they set up subsidiaries. They place tight controls over their most advanced technology to stay competitive in the international market, thus keeping an upper hand in negotiating investment contracts with the less developed countries. For the advanced technology these multinationals bring to their operations in China, the report said they keep this technology from spreading to their Chinese partners or to other Chinese firms in the same industry.

It is, however, even more important to understand how the multinationals use the so-called “trade-related aspects of intellectual property rights” (TRIPS) to permanently maintain their technological superiority. Provisions in the WTO's TRIPS Agreement were actually drafted by large US and European multinationals in the fields of pharmaceutical products, computers (both hardware and software), and music and other entertainment, then handed over to their respective governments for negotiation. One significance of putting TRIPS in the WTO was that it forced all less developed countries to adopt the rules on legal protection of patents, including the length of protection adopted in developed countries. The other significance of TRIPS is that it expanded the scope of patentable “inventions” to include more and more knowledge, techniques, and production processes, which were regarded as public goods before, but are now privatized as intellectual properties. The TRIPS regime imposes these new rules on WTO members on how knowledge can be legally disseminated.

Under the TRIPS regime, even if Chinese workers, technicians, engineers and scientists learn from engaging in production or in research and development (in a foreign or joint-venture firm, or in a multinational-run R&D center), they are not allowed to take this knowledge and use it to set up their own production processes. The R&D centers set up by Microsoft and other multinationals are protected by TRIPS to ensure that the results of their innovation can benefit only these multinationals.

After Microsoft set up its R&D center, it successfully employed a large pool of highly qualified university graduates with Masters or Ph.D. degrees to work on product development and design. Speaking at the first anniversary celebration of Microsoft Research (MSR) China in November

1999, the managing director of the center, Kai-fu Lee, said that the key ingredient for success was “a staff of brilliant minds.” Microsoft was able to staff MSR China by selecting 100 of the best-qualified researchers from 2,000 applicants. One of those selected was researcher Jin Li, who was said to be “the best engineering student ever to have graduated from the prestigious Tsinghua University.”³⁵⁵ These R&D centers set up by Microsoft, IBM and Siemens, now joined by many more centers set up by other firms, have drained China's scientists and engineers away from working on developing China's core technologies. The TRIPS regime assures that Chinese brain power harnessed by these foreign-controlled R&D centers will not benefit China's domestic firms, because all knowledge and skills developed in these centers are their private property.

Apart from attracting foreign investment in the hopes of acquiring new technology, the Reform policies also promote purchasing foreign technology from abroad. However, according to Bai Jingfu, spending on imported technology also failed to produce results because the funds available for disseminating the technology thus acquired were grossly inadequate. For example, Bai said, China spent 75 billion USD between 1999 and 2003 to import foreign technology but spent very little in disseminating the technology to domestic industries. He said that for each dollar worth of technology imports, South Korea spends five to eight dollars towards absorbing and disseminating such technology into its domestic economy; in comparison, China spent as little as seven cents on dissemination for each dollar on imported technology.³⁵⁶

The lack of Chinese government spending to disseminate imported technology, as pointed out by Bai, is actually the result of the lack of a nationally coordinated policy on utilizing imported foreign technology. Japan in the 1960s and South Korea in the 1980s had national policies on technology advancement, which prioritized what technology to import at a particular stage of development and how to disseminate and integrate such technology into their domestic industries. China's capitalist Reform abandoned a broad range of planning at the level of the central government, including a plan for technological improvement.

³⁵⁵ Microsoft Press Pass, Information for Journalists, November 4, 1999.

³⁵⁶ Bai Jingfu, “The Main Contradiction of Our Country's Economic Growth During the 11th Five-Year Plan,” *op. cit.*, Point 8.

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Without a centralized plan, provincial governments or even city governments have been free to negotiate contracts with foreign multinationals independently. Provincial and city officials have been either ignorant about the kinds of technology they need to import, or they see little incentive in selecting different technologies that would benefit the country as a whole. Governors are praised and promoted when they attract foreign investment that brings in technology, regardless of the kind of technology. There is better understanding at the national level of the specific types of technology needed by China, such as the many technological bottlenecks pointed out by the Industrial Economy Research Institute of the Social Science Academy, which publishes the annual *China's Industrial Development Report*. However, without a national industrial plan for advancing technology, adopting foreign technology has proceeded in an ad hoc manner, resulting in ineffective utilization of whatever technology has been imported.

Moreover, without an overall national technology plan, Chinese firms have been focusing mainly on their short-term returns. According to Gilboy, Chinese firms tend to import foreign manufacturing equipment, sometimes in complete sets of assembly lines, instead of licensing technologies and knowhow. He reported that in the 1980s and 1990s, China spent 80 percent of technology imports on hardware and only the remaining 20 percent on licensing, knowhow services, and consulting.³⁵⁷ Gilboy also pointed out the problems of China's research and development centers. A 2003 World Bank report found that these centers tend to focus on their own financing gain, so instead of diffusing the result of their research, they choose to mass-produce and sell the products of their research.³⁵⁸

All the explanations given for the Reform's failure in technological advancement are premised on the possibilities for a less developed country to improve its technology by relying on foreign monopoly capital in the world of intensified imperialist globalization—if only the government could carry out better policies. We believe this assumption is false. As a

³⁵⁷ Chang'An licensed technology from Suzuki in 1983 and Tianjin Automotive Industry Corporation licensed technology from Daihatsu in 1986. Kelly Sims Gallagher, "Foreign Technology in China's Automobile Industry: Implications for Energy, Economic Development, and Environment," *op. cit.*, p. 8.

³⁵⁸ George J. Gilboy, "The Myth Behind China's Miracle," *op. cit.*, pp. 13-16.

latecomer, South Korea has done better in advancing its technology. However, if South Korea had not exerted serious efforts in technology improvement in the 1980s, it would have been too late to accomplish anything a decade later. In other words, in the 1980s South Korea still had a tiny space to develop several of its major industries. By the time the Asian economic crisis arrived in the late 1990s, stronger American multinationals were ready to buy up as many Korean firms as possible. By then South Korean monopolies were a little better equipped to defend themselves.

In the late 1990s, when China was still negotiating to join the WTO, Western and Japanese multinationals were ready to launch their offensive moves. When China first negotiated with the General Agreement on Tariff and Trade (GATT, the world trade body preceding the WTO), it was unwilling to give up many of critical measures protecting its economy. Consequently, the negotiations lasted 15 years. The Chinese government's decision to finally accept the tough conditions for its WTO accession was a sign that it had conceded failure in the attempt to develop an independent automobile industry as well as other industries. By 2001, the Chinese government either decided that the benefits from joining the WTO outweighed the cost, or it realized that the conditions for China's WTO entry were not going to improve. So the Chinese government welcomed foreign investment by granting duty-free status to the multinational imports of machinery, equipment, components and parts. China thus acquired new technology that remained almost totally under the multinationals' control.

China joined the WTO only seven years after the 1994 Industrial Policy for the Automobile Industry, but it brought drastic changes to the automobile industry as well as other industries. It's uncertain whether the 1994 Industrial Policy could have actually transferred any new technology to domestic businesses, but the WTO stipulations for China's automobile industry eliminate any possibility for foreign technology transfer.

The conditions the WTO imposed on China's automobile industry were to:

- Abolish its automobile import quota by 2005;
- Reduce import duties on automobiles from 80 to 100 percent at the time of joining to 25 percent by July 1, 2006;

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- Reduce import duties on automobile components from 35 percent at the time of joining to 10 percent by July 1, 2006;
- Remove any restrictions on trading rights (import and export) and on distribution (wholesale, retail, maintenance and repair, transportation) over a period of three years;
- Phase out restrictions on production policies (type, category, model) on automobiles produced in joint ventures within two years of accession;
- Abolish compulsory formation of joint ventures in engine production and instead permit wholly foreign ownership;
- Increase the value for joint ventures that are subject to approval from 30 million to 150 million USD within two years of accession.

These conditions imposed on China's automobile industry and similar impositions on other Chinese industries have ensured that any attempt to develop the national economy independent of foreign monopoly capital will fail.

As we have shown, China has not made any significant technological progress in the past 30 years of capitalist Reform. It is very important to realize that capitalist Reform destroyed the system of technology development and dissemination successfully implemented during the socialist era. The Reform has turned China into a large manufacturing processing center for foreign multinationals. As such, it must import technology needed to compete with other countries in the international market.

D. Has Capitalist Reform Developed China's Productive Forces?

It is true that fast growth in exports and GDP during the past three decades meant many new factories in China's coastal areas and in some large cities. However, that is only the well-publicized aspect of the Reform, while the fact that it actually destroyed productive forces on a large scale has been hidden.

As mentioned earlier, China is now importing over 80 percent of the machinery and equipment needed to produce synthetic fabric. It com-

pletely restructured its textile industry from producing clothing for its population to mainly focusing on the export market. In the process, the Reform phased out the older capital equipment of nearly the entire textile industry and closed down many previously well-known textile enterprises in central China. Many textile factories were shuttered and tens of thousands of workers lost their jobs, while the textile industry became dependent on export markets and imported technology, both of which are tightly controlled by international monopoly capital.

The textile industry is only one of many examples where older machinery and equipment were destroyed in the industrial sector. Every time a domestic business changes ownership to foreign-owned or joint-venture, the older machinery and equipment are routinely discarded. In wholly foreign-owned or joint-venture firms, the foreign investors usually need only to contribute machinery and equipment to count as their (or their shares of) investment. This imported machinery and equipment is often being phased out in their home countries.

During the restructuring phase of the Reform in the early 1990s, several hundred or even over a thousand factories in the many large and medium-sized cities all over China were closed down, laying off tens of thousands or even hundreds of thousands of industrial workers. The situation in these cities is in stark contrast to the often-reported massive building of export-processing factories in the coastal provinces. On the one hand, the industrial workers idled by factory closures had to find odd jobs in the informal sector, barely earning enough to subsist. On the other hand, new factories or renovated old factories are using imported new capital-intensive technology. This demonstrates the irrational consequences of importing technology that is not appropriate for development in a less developed country. Moreover, while technology is replacing labor in the restructured factories, another trend has taken place—de-mechanization in many areas of production in urban areas.

For example, many of the modern mechanized slaughtering plants built during the socialist era are no longer in operation. Animal slaughtering and meat processing have gone back to the traditional inefficient way. There are also cases of unemployed workers and their families doing assembly work by hand in their homes. News reports praise this as a good way for families to earn some income, but it is yet another example of

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de-mechanization, because these unemployed workers used to work in machine-operated modern plants. Small peddlers are now using human-or animal-pulled carts for transporting goods, while in the socialist period trucks did most of the hauling of goods in urban areas. The rich have replaced their bicycles with passenger cars, while the poor resort to the most primitive means of transport. On the surface, China's cities congested by cars seem to reflect modernization, but a second look tells you another story.

The destruction of productive forces is also seen in the de-mechanization of China's agricultural production under the Reform, with devastating effects on agriculture. Before the Reform dissolved the communes, China's agricultural production had achieved a significant level of mechanization. According to Thomas G. Rawski,³⁵⁹ from 1957-58 to 1977-78 farm machinery raised to a significant degree the mechanization of China's agricultural production. Rawski said that three types of farm equipment alone—irrigation and drainage machinery, tractors, and power tillers—provided Chinese peasants with mechanical power a little larger than the 0.69 horsepower per hectare of cultivated land available to Japanese farmers from all types of power machinery in 1955. However, if all types of machinery were included, China at the end of 1970s was not far from reaching the level of mechanization achieved by Japan in the early 1960s. According to Rawski, the stock of agricultural machinery and equipment increased at rapid rates during the 20 years between the late 1950s to the late 1970s. The stock of irrigation and drainage equipment, tractors (in horsepower), and power tillers increased at annual rates of 25 percent, 20 percent, and 50 percent, respectively.³⁶⁰

Since the commune system was dissolved in 1984, small farm households have been unable to buy new tractors or any other modern farm tools. Some farms are now too small to use tractors and power tillers.

³⁵⁹ Thomas Rawski was sent by the World Bank to China to study whether the claim made by the Reform that China's economy suffered ten years of disasters during the Cultural Revolution. Rawski's book was published in 1979 just as China's new regime was ready to embark on the Reform. According to Rawski, not only the economy did not suffer any setbacks during the Cultural Revolution, the economy was marching forward and made great achievements.

³⁶⁰ Thomas G. Rawski, *Economic Growth and Employment in China*, for the World Bank, New York, Oxford University Press, 1979, p. 83.

The electric-operated irrigation systems also fell apart from lack of maintenance. The de-mechanization of agricultural production and cessation of infrastructure building in the countryside have been the main reasons for the rise in rural unemployment and under-employment over the last 20-plus years. The lack of job opportunities has forced peasants to migrate to cities, swelling the number of migrant workers in cities from a few million to 100 million, and then to the current 150-200 million.

A recent report indicated that one of the three biggest barriers to agricultural production is the shortage of labor. The other two are the high price of inputs and the backward agricultural infrastructure. The report said that without enough labor, even if peasants could afford to buy fertilizer, many of them have no way to transport it or to apply it to their land.³⁶¹ This example shows the impact of the destruction of productive forces on China's agricultural production.

After the Reformers dismantled the communes, small-scale rural factories were privatized. They flourished for a short period of time and produced the first group of "ten-thousand yuan households" in the rural areas in the mid-1980s. However, within a brief period of about five years, the majority of these small-scale enterprises went bankrupt, because with small amounts of capital and a lower level of technology they could not compete with large enterprises that were equipped with bigger capital and newer technology. As the Reform began to take hold, inferior technology, though still useful, was driven out of the market and discarded, wasting scarce capital resources and causing workers to lose gainful employment. That was another reason for the peasant migration.

Moreover, with this de-mechanization in both urban and rural areas, workers and peasants have lost the technical skills they acquired and used during the socialist era. Scientific knowledge and technical skills possessed by workers and peasants were critical to the development of productive forces during the socialist era. Now this knowledge and skills are possessed by the intellectual elites, a great number of them working either directly for the multinational corporations or in their research centers. They are working at the frontiers of science and technology, but the results of their research will be patented by foreign corporations.

³⁶¹ *Jingji Cankao Bao (Economic Information Daily)*, March 26, 2008.

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The tremendous number of exporting factories built during the Reform era should be considered the development of productive forces. However, even before the current global economic crisis arrived, many of these factories were losing their contracts with the multinationals already in the process of relocating their operations to India, Vietnam and other lower-cost areas. The current wave of global crisis has already hit China hard; large numbers of factories producing toys, furniture, clothing, machinery, and electronic products have already closed and laid off large numbers of workers. It seems certain that many of these businesses will not survive the crisis. As a result, the machinery, equipment, and factory buildings acquired only a decade or two ago will be abandoned. What is happening in China is exactly what happened in Southeast Asian countries during the crisis of the late 1990s when less developed countries saw their valuable productive forces and scarce resources disappear once their strategies to serve as manufacturing process centers of the multinationals failed.

At the start of this paper, we asked the question of whether China's capitalist Reform was able to develop its technology and productive forces. Our answer is a resounding no.

To conclude, in the words of George J. Gilboy:

China's own choices along the road to global economic integration have reinforced trends that favor the continued industrial and technological preeminence of the United States and other advanced industrialized democracies.... But reforms have also favored foreign investment, which has allowed foreign firms to claim the lion's share of China's industrial exports and secure strong positions in its domestic markets.... Chinese firms continue to rely heavily on imported foreign technology and components—severely limiting the country's ability to wield technological or trading power for unilateral gains.³⁶²

In other words, having China as part of the global economy only reinforced its dependence on foreign technology and investment and therefore restricted the ability of the most populated country in the world

³⁶² George J. Gilboy, "The Myth Behind China's Miracle," *op. cit.*

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to become an industrial and technological threat to the advanced capitalist countries.

PART IV
Chinese Society From
Socialism to Capitalism

MAO'S LEGACY IN CHINA'S CURRENT DEVELOPMENT³⁶³

A worker said, "This is not socialism with Chinese characteristics, as Deng Xiaoping said. What we have here is capitalism with Chinese characteristics."

A peasant said, "When Chairman Mao warned us about the restoration of capitalism, we really did not understand what he was talking about. Now we do."

An old revolutionary said, "We have the responsibility to tell young people today the true history of socialist China. Young revolutionaries today can use our backs as the stepping stone as they charge forward."

Mao said, "The revolutionary path has many twists and turns, but the future is always bright."

When the worker, the peasant, and the old revolutionary said these words—real quotes from real people—they fully recognized that Deng Xiaoping's Reform had turned lives of the Chinese people upside down. They said these words, because after more than 20 years of bitter struggle, they were defeated in the battle against the Reformers and lost the China they built with their hard work.

Although the workers and peasants did not succeed in their fight against the brutal attacks that came with the capitalist Reform, through their struggle they gained a deeper understanding of the teachings of Mao Zedong. Older workers' and peasants' love and respect for Mao have grown stronger. While most intellectuals were pretty confused during the early decades of the Reform, many of them began questioning the Reform since the early 1990s, and their criticisms have grown stronger and louder in the last few years. Many intellectuals, young and old, have also begun refuting the many lies spread by the current regime about what happened during the period of socialist construction and the Cultural Revolution.

³⁶³ In its original form, this paper was delivered at the meeting of "The Significance and Relevance of the Anti-Revisionist Struggle and the Great Proletarian Cultural Revolution" in The Hague, the Netherlands, on May 1, 2007. It included a section on Mao's socialist development and on Mao's leadership in struggles against revisionism that led to the Great Proletarian Cultural Revolution, which has been edited to avoid repetition.

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If one chooses to look only superficially at Chinese society, it seems that capitalist Reform has successfully erased the socialist transformation in the 30 years before the Reform, and that the bourgeoisie's seizure of power is complete and irreversible. If that were the case, one would have to wonder, as many pessimists do, whether history has indeed come to an end. However, a closer look at Chinese society tells us a completely different story; its contradictions have intensified and daily protests against Reform policies have reached the point where those in authority can no longer ignore them. As Reform policies fail in one area after another, the regime has been urgently strategizing new ways to push the Reform forward. While more and more people take their grievances to the streets in daily protests, China's President Hu Jintao has called for a "harmonious society" as he and other top leaders realize the Reform has created a series of crises, and that Chinese society is anything but harmonious.

When Deng and his supporters began their 1979 Reform, they denounced all the major achievements made during the socialist period, especially the Cultural Revolution. They fervently tried to prove that China's economy stagnated during the socialist period and that the ten-year Cultural Revolution was an economic, political, and social calamity. Interestingly, to this day, the Reformers have never been able to publicly denounce Mao. They still try to cover up their capitalist Reform as "socialism with Chinese characteristics" in order to claim the legitimacy of the Chinese Communist Party and seek shelter under it. These party and state bureaucrats recognize the prestige and admiration enjoyed by Mao among the broad masses, so they put him up on a pedestal while denouncing everything he represents.

Mao's portrait still hangs in the most prominent place in Tiananmen Square and in all public offices, factories and schools. Workers and peasants show their love and respect for Mao by hanging his portrait in their homes. Recently, more and more people, including some lower level government officials, have been wearing Mao buttons to show their allegiance to Mao. Taxi drivers hang Mao's photo on their rearview mirrors as good luck charms. The more recent trend of wearing Mao buttons seems to be more political, indicating that people want to show that they are taking a pro-Mao stand. In addition, revolutionary songs and films, including those from Cultural Revolution period have also become popular.

So what is exactly Mao's legacy? Why do people continue to express their love and respect for him today, after two and half decades of Reform? Why are many people re-reading Marx, Lenin, and Mao to search for answers to questions about China's future? Why are more and more people discussing and evaluating the Cultural Revolution despite strong pressure from above to suppress it? In other words, how has Mao's legacy shaped the current struggle in China?

Mao's legacy is rooted in the great theoretical and strategic contributions he made during his lifetime. In addition to Mao's theoretical and strategic contributions that led China and its people to the 1949 Liberation, he also made great contributions in two broad areas during the 30 years of socialist construction.

The first involves Mao's theory underlying a new and distinctive model of socialist development for an underdeveloped country like China after its new-democratic revolution won nationwide victory and led to the establishment of the People's Republic. As Chairman of the Chinese Communist Party, he successfully guided this model of development from 1949 to 1976.

During its first 20-plus years, the People's Republic of China developed its productive forces based on self-reliance with the goal of satisfying people's needs and maintaining its national security against imperialism. This goal only became possible when proletarian politics were put in command to pursue socialist development. In the 1949-1976 period, which covers the whole socialist period, China's economic development was closely linked to political struggles based on the dictatorship of the proletariat in strong and close alliance with the peasantry. Mao's model of socialist development assured the people their necessities of life, improved their standard of living, and protected China's national security. This development model freed the Chinese people from foreign domination, which had subjected them to over a hundred years of war and plunder.

Mao's second great contribution was his continuous and steadfast struggle against modern revisionism both internationally and domestically, which eventually led to the Great Proletarian Cultural Revolution in 1966.

Domestically from the mid-1950s onward, Mao led the struggle against those within the Communist Party of China (CPC) who relentlessly tried to divert China's development to the capitalist path. Inter-

nationally, Mao led the long anti-revisionist struggle against the Soviet Union, starting in 1956 after the 20th Congress of the Communist Party of the Soviet Union (CPSU). The principles that defined Mao's leadership in these struggles on both fronts continue to provide guidance for revolutionaries in today's struggle both inside and outside China.

The following discussion will focus on the struggles inside China for the past 27 years, and on how Mao's legacy has influenced current-day anti-revisionist struggles in the country. The discussion will be based on his great contributions—both broadly and specifically. However, in order to better understand Mao's contributions and legacy in today's China, we need to briefly summarize how capitalist Reform has dismantled his model of development.

A. Capitalist Reform Dismantles Mao's Development Model

1. Economic Reform Privatizes State Enterprises, Labor Reform Creates an Army of the Unemployed

Deng Xiaoping began the capitalist Reform at the conclusion of the Third Plenary Session of the CPC's 11th Congress in December 1978 by rallying support for his attacks on the fundamentals of Mao's model of development. He aimed to change class relations in Chinese society by dissolving proletarian leadership and the strong and close alliance between the workers and peasants. Labor reform in state-owned enterprises began in the early 1980s, with the goal of turning labor power into a commodity by eliminating the permanent employment status of workers in state enterprises and rescinding workers' rights, including their right to strike.³⁶⁴ As part of the Economic Reform in state enterprises, new factory managers were given increasing autonomy to run the factories, including the power to hire and fire workers and to replace permanent workers with temporary workers to maximize profits. Thus, even before privatization, these enterprises, although still state-owned, already lost their socialist character.

Throughout the 1980s, workers in "state" enterprises opposed the Reformers' efforts to degrade their permanent employment status, but their resistance eventually failed. In the early 1990s, China's employment structure underwent thorough and drastic changes. The new management

³⁶⁴ Workers' right to strike was removed from the Constitution.

in these enterprises got rid of workers' permanent employment status and began to lay off large numbers of workers.

Labor Reform and Economic Reform in state enterprises went hand-in-hand. As workers lost their permanent employment status, management gained full authority over the enterprises. In the early 1990s, the Reform first transformed the nominally state-owned enterprises into profit-seeking corporations, then openly privatized them by selling assets to private individuals. Urban collectives were privatized as well. The remaining workers in these enterprises lost their permanent employment status and all the decision-making powers they once wielded. Many of them suffered lower real wages and loss of benefits, while management hired and fired at will. In other words, formerly empowered workers turned into powerless wage labor in the true sense, with their continued employment solely based on how the management chose to run the enterprises to maximize profits.

According to my research, as these workers were laid off, they took whatever odd jobs they could to support themselves and their families. Many of them lived on or below subsistence income levels. Some of them work as small vendors selling food or other low-cost items on the street. Many others are hired as temporary workers for a few hours or a few days at a time. Temporary and casual jobs pay below subsistence-level wages, which usually amount to about less than half of the lowest paid regular workers in the formal sector. Successful food peddlers earn higher incomes, but they need initial capital and may have to pay exorbitant rent for a small space to do business. They also take big risks and are at the mercy of local officials and police looking for bribes or scapegoats.

I found very high unemployment rates in some major cities. For example, cities in the northeast, where China's heavy industries were once located, saw unemployment rates skyrocket as a great number of former state enterprises closed down and large numbers of workers were permanently laid off. The unemployment rates there remain high today. The same is true for the unemployment rates in the cities of Henan, Sichuan, Anhui, and other provinces in central China. If those who work in the informal sector count as unemployed, unemployment rates in the cities of northeast and central China are as high as 40 to 50 percent. People in these cities reported that more than 60 to 70 percent of the workers in former

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state enterprises have been laid off either through forced early retirement or by being transitioned into the informal sector.

Enterprises have also been able to cut wages and benefits for the workers who were not laid off by restructuring. Despite high GDP growth rates, wages are pretty much unchanged. Workers in large profitable enterprises in large cities earn the highest wages—around 1,500 to 2,000 RMB a month (1 USD is eight RMB) with some benefits—but they comprise only a small portion of the total workforce. Workers in smaller enterprises, including those in export industries in coastal cities earn much less—about 600-1,000 RMB a month with no benefits. Workers in cities in northeast and central China, where the rates of unemployment are highest, earn about 600-800 RMB a month with few or no benefits. Workers in the informal sector in these cities are only paid 300-400 RMB a month.

2. Rural Reform Breaks Up Communes, Pushes Rural China to “Great Leap Backward”

Implementers of the Rural Reform took several steps to break up the communes and by the late 1980s, peasants’ lives became poorer and more precarious, especially those whose main income depended on cash crops. As the government further liberalized the agricultural market, crop prices fluctuated while prices of agricultural inputs continued to rise. Today, many of the 320 million peasants whose main livelihood relies on cash crops suffer low and unstable income, with little hope for a better future. As many as 150 million peasants have been forced to leave home and live in urban slums and work in dangerous and dirty jobs.

3. Health, Education, Housing Reforms Deny Basic Rights of Workers and Peasants

On top of the Labor Reform that essentially threw tens of millions of workers out onto the street and the Rural Reform that drove more than 150 million peasants from their home to cities, other so-called reforms in health care and education have also affected the overwhelming majority of people in China.

After the Reform, workers and peasants lost their protection from illness. Most working people no longer have any preventive health care, and when they get sick cannot afford to seek medical attention. The whole

network of preventive health care, built during the socialist period and which successfully improved the health and wellbeing of the people, was discarded. The majority of urban and town residents no longer have health insurance, since almost all former workers of state factories lost their health care benefits when they were laid off. The commune-based cooperative health care system collapsed when the commune system was dismantled; former commune members lost their health and other benefits that had carried them through hard times.

After 20-plus years of Reform, China's health care system is in crisis. Even a top Chinese government thinktank recently admitted that the Health Care Reform started in the early 1980s was a failure. The "free-market" approach to health care resulted in skyrocketing costs of doctors' visits, medicine, and hospitalization for serious illnesses, which most people could no longer afford.

Workers and peasants lost their health insurance at the time they needed it most, as they are increasingly subjected to hazardous and toxic working conditions. Many high-tech firms relocated to China to take advantage of its workers' low wages and also to sidestep regulations in their home countries limiting workplace exposure to toxic materials.

For example, hundreds of thousands of young workers, mostly women, have flocked to the Pearl River Delta, and in the last few years to the city of Kunshan near Shanghai, to work in factories that assemble computers and other electronic products for the world's major tech companies. They work long hours with little or no protection from exposure to high toxin levels. A large number of villages have documented high incidences of cancer due to water and ground pollution. Chinese workers are also employed to extract toxic metals from hazardous electronic waste exported by the United States.³⁶⁵

Even the West's mainstream press has taken notice of the large numbers of coal miner deaths in mine accidents in China, which is now known to host the deadliest mines in the world. According to an online report on China.org.cn, 6,434 coal miners died in accidents in 2003 alone. With China producing 1.7 billion tons of coal, the report calculated that four

³⁶⁵ The United States has refused to adopt the international rules of the 1994 Basel Convention, which banned exportation of hazardous waste from developed countries to poor countries.

miners died for every million tons of coal produced. In contrast, the fatality rate (per million tons of coal) for Russian miners was 0.34; for other developed countries, the rate was 0.4 or about one tenth of China's fatality rate.

The Reform in education has deprived tens of millions of people of their right to education and has further polarized Chinese society. While there are now more opportunities for the city-based elite to get education and training that lead to highly paid careers, the cost of education has increased so much that it is increasingly difficult for people to send their children to high school, much less university. Many young people from poorer families have to drop out of school in order to work and help support their families. The gender bias for education is now very significant. Young women give up school for work to support their brother to go to school. Parents and female siblings often work hard to support a son through university, which typically costs between 40,000 to 50,000 RMB by the time he graduates.

After the collapse of the communes, the rural education system also fell apart. The welfare fund, which supported elementary and secondary schools in the countryside, is gone. Support from the central government, which had paid for building schoolhouses and teachers' salaries, has also stopped. Even back in the early 1990s, many village schoolhouses were badly in need of repair. Many teachers continued to teach even when they did not get paid for many months until schools in many villages closed down.

As the capitalist Reform in China deepened in the 1990s and expanded into other areas, such as health care, education and housing, more and more people began to understand the meaning and consequences of the Reform. In addition to the major Reforms cited above, workers and peasants have also been subjected to many abuses by local government authorities and corrupt police. These lower-level authorities play a critical role by helping to evict city residents from their homes and peasants from their land for development projects. There have also been countless cases of local officials in the countryside illegally forcing peasants to pay extremely high taxes and fees. Many peasants who refuse to comply suffer physical violence including cases of death. However, corruption and abuse of power go far beyond local levels, all the way to the very center

of political power. Party bureaucrats who collaborate closely with the new rising bourgeoisie and foreign capitalists fill their own personal pockets by robbing public property.

The bleak reality faced by workers and peasants in today's China has enraged a great number of people, including progressive intellectuals. People inevitably look back and compare present-day China with its socialist past. In the last few years, some have begun to look at Mao's model of development with a new understanding.

B. Value of Mao's Legacy to China's People in Their Current Struggle

The current regime has made a great effort to denounce China's socialist past. They grossly distort facts by saying that China did not develop its productive forces during the first 20-plus years of the People's Republic. They falsely claim that the Cultural Revolution ruined the economy and resulted in ten years of stagnation. For a few years after the Reform began, many believed these false claims, especially intellectuals. However, as the Reform's failures began to show in many major areas, many people came to examine it critically. A bleak reality alone would have meant little, however, if people did not have a past with which they could compare their current lives.

1. Mao's Legacy and Workers in China

The majority of the older generation of workers and those now retired, voluntarily or forcibly, would tell anyone who cares to listen about how good their lives were in the socialist past. They say that even though their wages were not high, they only had to pay a few RMB for housing and utilities and had free medical care that could also cover their families for a small fee. Food in factory cafeterias was cheap, and they paid low prices for rationed food, clothing, and other supplies. Childcare and education were practically free.³⁶⁶ When they retired, their monthly pension equaled 80 percent of their former wages, with full medical and other benefits. And most importantly, this older generation of workers says that they had no worries.

³⁶⁶ Parents paid for the food their children ate at daycare.

I once visited a retired worker and his family. The retired worker suffered from a serious intestinal ailment that caused him severe abdominal pain. When he went to see the doctor, he spent all his money on the many tests the hospital ran to diagnose his problem. In the end he had no money left to buy the medicine he needed to get well and went home untreated. When he recalled the good life he and his family had when they first moved into their new apartment, he became choked up with emotion. At the time of my visit, both of his sons were unemployed; his wife was also laid off when she was near retirement age, but received no pension. The family of four had to survive on his small monthly pension, but the rent and utilities kept going up. His health continued to deteriorate, but he had no money for treatment. Tens of millions of laid-off and retired workers and their families suffer similar predicaments.

Workers fought hard against the changes, as their rights were stripped one by one. When in the mid-1980s Reformers instituted piece wage rates and the bonus system to reward “hard work,” workers recognized this strategy because they recalled past struggles against material incentives. They knew that working for piece-wages and bonuses would increase the pace and intensity of work, while material incentives would foster divisions amongst the workers. They refused to take the bribe and simply divided the bonuses equally. As long as the workers were able to resist, Deng and other Reformers could not replace the culture of cooperation with the culture of competition by simply issuing decrees and passing laws from above. This is only one example of how Mao’s legacy played a key role in workers’ resistance.

However, the Reformers relentlessly pushed to destroy the permanent employment system. When met with workers’ resistance, they moved to close large numbers of former state factories. In the Northeast cities where the heavy industries were once located, the Reformers closed down 70 to 80 percent of the factories. Similar large-scale factory closures also hit many smaller cities in central China. As mentioned earlier, tens of millions joined the reserve army of the unemployed by 2005. Massive lay-offs were an important tactic to destroy the workers’ permanent employment status and successfully turn labor power into a commodity.

In addition to all the suffering, injuries, and deaths endured by Chinese workers in the workplace and in daily life together with their families,

they are also abused by government officials, especially by local bureaucrats and police all over China's cities who have direct authority over the people and who are mostly corrupt. They are the ones who evict urban residents from their homes and close down the factories. Large-scale protests over land and home evictions, land takeovers without adequate compensation, plant closures, unpaid wages, exorbitant tax collection, corruption, and other injustices have spread. According to officially published data, more than four million Chinese participated in the 970,000 protests were recorded in 2005, in addition to large numbers of unreported ones.

Human dignity and the dignity of work were among Mao's legacies, and they cannot be easily erased. Workers took pride in their work and skills during the socialist period, so their sense of loss is so much more than just the loss in wages and benefits. In 2005, a short story appeared about a worker who lost his job at the factory where he spent the best years of his life.³⁶⁷ The author described the pride this model worker had in the past, when he contributed his skillful work to improve the efficiency of a piece of sophisticated machine in the factory. Later when the Reform came, he led his fellow workers in their fight against the closing of their factory. Then those in authority planted a rumor that he was collaborating with them. To prove his innocence to his fellow workers, he committed suicide beside the machinery he so dearly loved. After the story was published, it was widely circulated online and struck a painful chord among many people, not only because they related to the story's hero but also because they recognized the stark contrast between workers' status in society in the socialist past and at present.

2. Mao's Legacy and Peasants in China

China's socialist development between 1958 and 1978 modernized agricultural production, with peasants working long hours throughout the year to build agricultural infrastructure, paving the way for long-term future development. With the exception of some very poor communes, peoples' lives in most of rural China improved immensely in all the basic sectors of food, shelter, health, and education.

As the Rural Reform proceeded to dismantle the commune system, after a brief period of earning higher incomes due to higher prices for

³⁶⁷ The title of the short story is *Na Er*, by Cao Zhenglu.

their crops, peasants began to realize what happened. As part of the rural reform, many rural enterprises such as industrial workshops and pig and poultry farms were contracted to individuals who had close connections with the new *xiang* (county) governments that replaced the communes and the *cun* (village) governments that replaced the production brigades.

In the meantime, the communes' demise in 1984 meant that the peasants not only lost all the securities of life gained in the previous 20 years, but also stopped investing into their future. No wonder peasants remarked: "We had worked so hard for 30 years and just overnight we are back to the pre-Liberation days."

Quite a few agricultural specialists in China have spoken openly about the "san-nong" problems, or the three problems related to agriculture: agricultural production, rural villages, and peasants. Central to these is the loss of peasant control over their land. The massive loss of farmland to industrial and commercial uses has accelerated in the past few years. Total land loss throughout the 20-plus years of Reform is estimated to be at least seven percent of arable land. Valuable irrigated lands were also degraded as irrigation systems built during the commune years deteriorated. There is also the problem of decreased machine-farmed land as agricultural instruments become obsolete. In addition, more than 100 million *mu* (1 *mu* equals 0.067 hectare) of natural forest and one billion *mu* of grassland were lost, contributing to a very significant increase in desertification. Moreover, the fertility of the land decreased due to overuse of chemical fertilizer.^{368, 369}

Like workers, peasants have suffered the same if not worse abuse from government officials. As mentioned earlier, local government officials at the county, *xiang*, and village levels collect exorbitant taxes from the peasants, who are subjected to physical abuse, leading to injuries and even death if they fail to pay.³⁷⁰

³⁶⁸ Lu Xueyi, *The Study of the Three Related Agricultural Problems – Agriculture, Rural Villages, and the Peasants* (in Chinese), Social Science Literature Publisher, 2002.

³⁶⁹ Pao-yu Ching, "From Which Side Are We Evaluating the Cultural Revolution and the Capitalist Reform?" in *China and Socialism and Its Comments*, published in Chinese by *Critique and Transformation*, 2006.

³⁷⁰ Two journalists, Chen Guidi and Wu Chuntao, published *A Report on the Survey of Chinese Peasants* in 2004. In this report Chen and Wu gave detailed accounts of how peasants were abused by local government officials in their enforcement of tax collection.

3. *Mao's Legacy and Intellectuals in China*

Many intellectuals had high hopes for the Reform when it first began. Some of them believed in the magical powers of the market and joined the call to free the economy from political intervention. Some key reformers took a cue from the then-growing popularity of neoliberalism and invited some ultra-conservative economists from abroad, such as Milton Friedman, to give lecture tours in major Chinese universities. Neoliberal influences also came from large numbers of bourgeois Chinese economists returning with PhDs from well-known US universities. They took up teaching and research positions in leading academic institutions and began to spread the “free market” gospel. However, the disastrous failures of Reform in one area after another in the past decade have become clear—to the dismay of those who had great hopes for its success.

Intellectuals have seen that throughout the Reform process, high-level government officials robbed public funds and became filthy rich. The new capitalist class, which is so closely connected to those in power—often the children of high-level Party and government bureaucrats went into business for themselves—used its political clout to grab public assets and land. The new rich also speculated in real estate and built gigantic commercial developments, which only made them richer. With medical care converted into a high-priced commodity, hospitals have been turned into profit-maximizing enterprises.

As Chinese society became increasingly polarized, many intellectuals including former neoliberals have had a significant change of heart; more and more of them have criticized the various Reform policies, with voices growing stronger in recent years. Free market advocates have lost their credibility. Many intellectuals have also been alarmed with the foreign multinationals' massive invasion of the Chinese market. The regime often explained the opening up of the local market as a trade-off to get advanced Western technology. But more and more people realized this strategy didn't work, and China has instead lost its previous technological gains in many of its strategic industries.

The government quickly banned the book. Chen Guidi and Wu Chuntao, *Zhong Guo Nongmin Diaocha Baogao* (*Chinese Peasants Investigation Report*, in Chinese), People's Literature Publisher, 2003.

Many but not all of these intellectuals who are now critical of the Reform see themselves as the “new Left” as opposed to the “old Left,” whom they consider dogmatic. The “new Left” intellectuals see many problems spawned by the Reform, such as increasing inequality, rampant corruption, and the nation’s loss of independence from foreign powers. They have begun to question the pursuit of high GDP growth rates as the sole objective of economic development, and many of them have made the connection between high GDP growth and increasing environmental deterioration.

The “new Left” intellectuals have been able to criticize the Reform systematically and with an increasingly stronger voice. However, they have not successfully attacked the root of the problem. In other words, they have not yet identified capitalism as the root cause of the problems they criticize. Therefore, many of them are still hopeful that the government will listen and act on their suggestions, such as allowing more democracy, cleaning up the corruption, and taking a tougher stand against foreign interests. However, since the contradictions in Chinese society can only grow in scope and in depth, these intellectuals are bound to continue developing their views over time.

4. Mao’s Legacy in China’s Current Struggle

Under Mao’s leadership, the Chinese people grasped the importance of human dignity and developed a strong sense of justice. In contrast, the capitalist Reform since 1978 has been going against the socialist values left over from earlier decades and has propagated its own set of values, such as “to get rich is glorious,” and “let a few get rich first,” claiming that they will promote economic progress. The masses do not easily buy this capitalist set of values, however, having suffered multiple losses of employment, income, medical care, pensions and other benefits. Although they have realized that China has become a dog-eat-dog society where the powerful take advantage of the weak and the disfranchised, they have not totally lost their strong sense of human dignity and justice. In fact, these values remain inherent and grow in importance for those who struggle to right the wrongs in Chinese society.

In 2004, a demonstration of 100,000 retired workers was organized in front of the City Hall of a major city in central China. The demonstra-

tors demanded higher subsidies for fuel and transportation. When their chief representative went in to meet the mayor, he exclaimed: "We worked hard so you could go to school. Now you are sitting in your office drawing thousands of RMB a month, while we don't have enough money to heat our homes. You tell me how this can be fair." The mayor, unable to respond, promised to meet the retired workers' demands.³⁷¹ The workers were only asking what they regarded as rightfully theirs, and the mayor was forced to recognize the truth in their arguments.

Another valuable Maoist legacy is giving importance to self-reliance and national independence. During the socialist period, Chinese people took great pride in their self-reliant efforts in economic development and in pulling themselves out of poverty. After a long period of foreign subjugation and struggle for national Liberation, the Chinese people learned to prize national independence even more in the face of foreign powers using every opportunity to sabotage the young socialist country. They also clearly understood that national independence meant that China must not be dependent economically on other countries.

Therefore, increasing number of people now question the Reform policy on trade and foreign investment, especially after China made numerous concessions to join the WTO in the end of 2001. Many people saw foreign investment as a threat to China's economic independence and were alarmed at the impact on the country's food security when the agricultural market was liberalized to allow increased food imports. An increasing number of people also realized that promoting high GDP growth rates by expanding exports using cheap labor is not a viable strategy for China's development.

National independence as a hotly debated issue will continue as foreign multinationals make further inroads into the Chinese market, especially in the wide range of service industries, such as banking, insurance, other finance-related activities, real estate, retailing, consulting, health care, education, and more. China's heavy dependence on foreign markets for its manufactures will generate more protectionist action by many foreign powers to block Chinese imports, which in turn will cause people to strongly oppose such actions. Moreover, as China's economy will also

³⁷¹ I have no knowledge whether the mayor kept his promise.

suffer when the global economic crisis further deepens, the Chinese people are bound to increasingly blame the current government for opening up the country so widely to accommodate foreign interests.

The Great Proletarian Cultural Revolution of 1966-1976, which debated many major issues regarding China's development in the framework of the struggle between the socialist and capitalist roads, comprises Mao's most important legacy. After Deng seized power, tens of thousands of Mao's supporters who were active during the Cultural Revolution were jailed for a decade or more. In recent years, many of the Cultural Revolution's active participants from all walks of life have begun to record their own experiences and form their own interpretation of various events during those ten years from 1966 to 1976. It is most interesting that members of the two opposing factions within the Cultural Revolution, the "Rebels" and the "Conservatives" as they were then called, came to an understanding of their past disagreements and are now united in recognizing that Mao was right.

Many "Conservatives" who were criticized and attacked by the "Rebels" now say to their former opponents, "You were right. I was wrong." The "Rebels" also admitted the many mistakes they made, including how they treated the "Conservatives." Both groups now understand that they were not enemies, and that some high-level officials strongly opposed to Mao were responsible for stirring up many of the factional fights. People from all walks of life are now writing the real history of the Cultural Revolution and this text will undoubtedly serve future struggles in China. More and more Chinese intellectuals have begun to grasp the real meaning of this most important historical event. The "new Left" are not quite there yet, but there is no doubt that if they are serious about changing Chinese society, they will have to eventually identify the root cause. They are fortunate, because there is such a wealth of materials for them to study and learn.

To conclude, Mao's legacy in today's China is based on the two great contributions he made after the establishment of the People's Republic, in addition to his leadership in the new-democratic revolution that won in 1949: his theory that underpins a distinctive model of socialist development for an underdeveloped country like China, and his continuous and steadfast struggle against modern revisionism both internationally and domestically, which eventually led to the Great Proletarian Cultural Rev-

olution in 1966. His theory and practice of anti-revisionist struggle are now guiding the Chinese people in their current bitter struggles against the modern revisionists. In this struggle, the history of socialist China has proven to be a powerful weapon.

HOLDING UP HALF THE SKY, NO MORE

From Socialism to Capitalism: the Downward Spiral of Chinese Women's Status³⁷²

China celebrated the 60th anniversary of the founding of the People's Republic on October 1, 2009. During the first 30 years of the Republic, women in China liberated themselves from the shackles of feudalism and rose at astonishing speed together with their fellow male workers and peasants. However, since 1979 when the current regime started the capitalist Reform, women's status has fallen just as drastically as that of their fellow male workers and peasants—only, in general, women have suffered even more than men. This paper will focus on the great leap forward of Chinese women during socialism and their fast degradation since capitalist restoration started in earnest in 1979.

When we inquire into the economic, social, political, and cultural status of Chinese women in the past 60 years, we need to examine all the changes in Chinese society since 1949—especially how the revolution empowered the workers and peasants to make decisions on moving the world forward and changing their own lives. Then, starting in 1979, capitalist Reform reversed all the progress workers and peasants made during the previous 30 years. The status of women, closely linked to the status of peasants and workers who are the majority of the Chinese population, changed accordingly.

Chinese Women Under Feudalism

Before the 1949 nationwide victory of the new-democratic revolution, the majority of peasants in China lived extremely poor and oppressed lives. The landlords, who comprised less than 10 percent of the rural population, owned over 65 percent of the land. The poor and lower-middle

³⁷² This paper in its original version was delivered at the Second International Feminist Congress in Buenos Aires, Argentina on May 22, 2010. It is being republished here with slight revisions. An accompanying paper written by Ma Shexiang, which contains an extensive interview of Shen Jilan, was also presented at the Buenos Aires congress. Ma's interview, which follows immediately after this essay, complements this essay well by depicting the changes in the status of women in China in the last sixty years.

peasants and agricultural laborers together accounted for more than 70 percent of all peasants who owned no or very little land and had to rent from the landlords. Landlords exacted over half of what the peasants produced as rent. In years of poor harvest, natural disasters, or emergencies (such as illness in the family), peasants still had to pay the same amount of grain rent. If they could not pay, they had to take out loans—often from their own landlords—at exorbitant interest.

When they defaulted on their debts, peasants often sold their daughters to the landlords as maids, many of who were very poorly treated and abused. If a landlord wanted to take a peasant's wife as his concubine, in most cases the husband dared not protest for fear of severe reprisal. Some peasant mothers had to leave their newborn babies to serve as wet nurses for other babies in rich urban households. In the 1930s, each of these women earned about one silver dollar a month, which was urgently needed to keep her family from starvation.

In the south, peasant women often worked in the fields while northern peasant women rarely did. But even those women who did no farm work labored in their household work, such as taking care of the children and the elderly, preparing food (including gathering fuel, fetching water, husking, grinding and polishing grain), sewing clothes, and making shoes. Sometimes they also engaged in sideline occupations such as basket-weaving and other handicraft work.

Despite the peasant woman's hard work inside and outside the household, she had no rights and little voice in making decisions that affected her life. Among upper-middle and rich peasants who owned some land, women could not own or inherit any land or any other properties. A young woman had to obey her father's choice of arranged marriage; after marrying into her husband's household, she had to endure the often harsh and unreasonable treatment by her mother-in-law especially if she failed to bear male children. As a rule, widows were not allowed to remarry.

Their sisters in the urban areas, the majority of whom were poor, did not fare much better. Only in big cities were there some types of factory work available to women, such as textile or food processing. Woman workers had to toil long hours at their jobs, yet received lower wages than male workers. Other poor women worked as maids for rich families or as

street vendors selling food or other small items. Many poor women were sold into prostitution.

Before Liberation, practically no medical care was available to the poor. In the 1930s, China's crude death rate was 27 per 1,000, and the infant mortality rate was 156 per 1,000 births for the country as a whole and possibly as high as 200 per 1,000 for the peasant population. Approximately one third of children died before the age of five. For the peasant population, life expectancy at birth was less than 30.³⁷³

The impact of poor health and lack of medical care was worse for women than for men, since pregnancies and childbirths lacking medical help often ruin women's health irreversibly. The high infant mortality rates led families to want more children so that at least some, especially at least one male child, might survive to fulfill his expected role of carrying the family's name and providing for his aging parents. Women, on the other hand, took care of sick children, sickly adults, and elderly in the family. Poor health conditions thus placed a severe burden on women.

Before Liberation, China's literacy rate was very low, at somewhere between 20 and 40 percent.³⁷⁴ The literacy rate among peasants was lower, and among peasant women was even lower. Peasant women, who comprise the overwhelming majority of women in China, were illiterate before Liberation and had little knowledge of what was going on beyond their family and their village. They were kept ignorant and obedient so they would not question such inhumane practices as foot-binding. Young women in the countryside (and in cities too) had to undergo the excruciating pain of having certain bones in their feet broken so their toes could be tucked under their feet and bound into tiny tight-fitting shoes, thus practically crippling them for the rest of their lives. Most Chinese women simply accepted this cruel ordeal as their fate for being women.

After the 1911 Revolution that overthrew the Qing dynasty, some of the worst kinds of ill treatment of women, such as foot-binding and arranged marriages, were outlawed (although still practiced in many areas). However, the long tradition of feudalism and Confucian teachings that

³⁷³ Dwight Perkins and Shahid Yusuf, *Rural Development in China*, World Bank Publication, Baltimore, Johns Hopkins University Press, 1984, pp. 133-134.

³⁷⁴ The criteria of literacy varied from knowing 1,500 Chinese characters to over 3,000 or more characters. See *ibid.*, p. 164.

debased the worth of women continued. Western ideas of modern womanhood had a very limited impact because only wealthy urban families could send their daughters to high school or universities.

Before Liberation, a small number of university-educated women made their mark in science and literature, but the majority of women who were able to enter into higher education were there not to succeed on their own, but to marry someone with similar or higher economic, social, and political status.

Socialist Revolution and Women's Liberation

Before their final victory in 1949, the Chinese Communists had already established liberated areas or base areas of different sizes in many parts of China's countryside. The work to organize women began earlier in these areas. Committees under the Poor Peasant Association organized women to improve their lives and to encourage them to contribute to the war effort. Literacy campaigns taught women to read and write. Women supported the people's army by sewing clothes and making shoes for revolutionary soldiers. Some women, though not in great number, did political work and later became political leaders. Others even joined the people's army and became guerrilla fighters.

In the old revolutionary base in Jiangxi, Party-led government authorities enacted the Marriage Regulations of 1931 and Marriage Laws of 1934 to deal with marriage, divorce and other family matters. Modeled after the Soviet Union's statutes, these Regulations and Laws of the Jiangxi period declared marriage to be a free association between a man and a woman without the interference of other parties; it also allowed divorce based on mutual agreement.³⁷⁵ Then, upon the proclamation of the People's Republic, the new Marriage Law was passed in 1950. This law abolished arranged marriage, banned paying money or goods for a wife, and outlawed polygamy, concubinage, and child marriage. The law also guaranteed the right of divorce to both the wife and the husband, and prohibited any interference in the remarriage of widows.

The Liberation of women from the worst feudal and patriarchal abuses and constraints was closely related to the Liberation of the laboring

³⁷⁵ Delia Davin, "Woman-Work" in *Women and the Party in Revolutionary China*, Oxford, Clarendon Press, 1976, p. 28.

masses. After 1949, numerous social changes were achieved by mobilizing the masses. During the Land Reform, for example, landless peasants were encouraged to talk about their bitter past and speak against their oppressors. In the Land Reform mass movement, peasants began to realize that they possessed the power to make changes—“turning things over” or “turning things upside down” (*fanshen* in Chinese), and so did peasant women.³⁷⁶

The massive campaign to eradicate illiteracy meant setting up classes in the countryside and cities and teaching ordinary peasants and workers to read and write. These literacy classes were especially instrumental in the Liberation of women, because once women learned to read and write, they started to read newspapers, documents, and other printed matter, share information among themselves, and communicate with the outside world. Their surroundings expanded from the former narrow focus on their own families to a much broadened perspective of their own communities, the nation as a whole, and even the world. Classes organized to eradicate illiteracy later evolved into political study groups, where they learned and discussed national and international news and debated government policies.

In mass campaigns for better health and eradication of infectious diseases, the masses of people were urged to actively participate in improving personal hygiene, cleaning up their living environment, and propagating knowledge on the causes of different infectious diseases and their prevention. The outcome of such campaigns and the allocation of more resources toward better health were astounding. As people’s diets improved, tremendous progress was attained in improving people’s health. In just a decade and a half after Liberation, China was able to eradicate most of the infectious diseases that had plagued its population for centuries. Before the revolution, the outbreaks of these diseases and malnutrition had been the main reasons for China’s high infant mortality rates and short lifespan.

In the 1950s, as China’s industrialization took off and factories of both heavy and light industries sprouted up, both male and female industrial workers grew in number and their status rose to high levels. In urban areas where most factories were state-owned, both male and female workers received adequate wages, equal pay for equal work, and lifelong job

³⁷⁶ See William Hinton’s book *Fanshen* on land reform in Longbow village.

and benefit guarantees from the State. Although wages of factory workers were not high, their costs of living were kept low due to very low rent and utility costs in housing provided by the factories, and free and low-cost medical care for workers and their families. Childcare and education were also free except for minor charges for food provided by the schools. Moreover, women workers received additional benefits due to pregnancies and childbirth. These included reassignment to lighter work during pregnancy, 56 days paid maternity leave, and longer breaks for new mothers to nurse their newborns in nearby factory nurseries. Workers also had the option to eat at the factory canteens, which only charged the cost of food without the cost of its preparation.

Women workers retired at the age of 50 and men retired at the age of 55, with pensions that equaled 70 percent of their wages plus full benefits.

After Land Reform, the collectivization of agriculture in the mid-1950s was another important step forward in raising the status of women. During the stage of advanced cooperatives, all land and other productive tools were collectively owned by the cooperatives. Individual households no longer had control over the means of production. At the same time, women began to earn work points and participate in production in a more organized fashion. As a result, the material base for patriarchy (male domination), a persistent legacy of many centuries of feudalism, greatly diminished.

In most parts of China's countryside, however, only after the communes were formed were the work points earned by women recorded in their own names instead of the name of their families. This meant that women were treated as individual workers in the production teams and they, not their families, received the cash or grain they earned from the accumulated work points. That was the first time peasant women could show the worth of their productive work. With the cash and grain they took home, their status within their families went up almost immediately. Women also made gains in their struggles for equal pay for equal work, although men still earned more work points for a day's work than women, since more points were assigned to a day's work that required heavier physical labor traditionally assigned to men.³⁷⁷ Gradually, when machines began

³⁷⁷ Women did struggle and win equal pay for equal work in some villages. See Addendum by Shexiang Ma on Xigou Village.

to replace human labor, the required physical strength to perform different tasks lessened, thus helping narrow the gaps in work points between men and women.

However, biases remained favoring men over women in settling who would receive training for driving tractors or for other technical skills. This was because, in most communes, the production teams were the units of accounting. If a woman was to receive the training, when she married a man from another team, the benefits of the training would go with her to the other team. Here we see how positive changes in the relations of production and women's relationship to the means of production improved their economic, social, and even political status. We also see that unless these new relations of production continued to develop and the accounting units of agricultural production enlarged, further advancement in the status of rural women would encounter difficulties.

Women's participation in agricultural work was made easier when the burden of housework was reduced. Production brigades had machine-run grain processing stations that reduced women's work in food preparation. Women gathered in sewing stations and used its machines to sew their clothes instead of hand sewing; more ready-made clothes and shoes were also available. There were also childcare facilities where women could leave their young children.

The status of Chinese women after Liberation rose in parallel with other indicators of the workers' and peasants' overall health and welfare. Even though China was still a poor country by the end of the 1970s, its health and welfare indicators surpassed those of other countries such as India, Pakistan, and Haiti, which had comparable levels of GNP per capita. The infant mortality rate decreased from 156 to 56 per 1,000 live births and life expectancy at birth doubled to 64 years of age. Children enrolled in elementary school reached 92 percent and the adult literacy rate reached 66 percent.³⁷⁸ Women benefited tremendously from acquiring better health and raising healthy children.

Many Chinese women were chosen as model peasants and model workers, because of their enthusiasm, dedication, capability, skills, and leadership in their work. During the socialist era, women and men took

³⁷⁸ Ruth and Victor W. Sidel, *The Health of China*, Boston, Beacon Press, 1982, pp. 92-93.

IV — Chinese Society From Socialism to Capitalism

great pride in their work, and model workers and model peasants were recognized with pride as “iron men” and “iron women.”

Despite the great strides made during the first 15 years of the People’s Republic, much remained to be changed. By the mid-1960s, China was still at a crossroads between socialism and capitalism. There were many unresolved issues in Chinese society, including gender-related issues.

One of the most important issues was whether China could sustain its collective agriculture. Liu Shaoqi, the main capitalist roader within the Party, advocated for the return of land and productive tools to individual households and for individual peasants to sign contracts with the State for how much to produce and how much to sell to the State. Liu and his supporters including Deng Xiaoping, also tried to take away the permanent employment status of workers in state enterprises.

The Cultural Revolution led by Mao Zedong that began in 1966 was able to stop many of the capitalist projects Liu and his supporters were trying to implement at the time. Had there been no Cultural Revolution, the shift to capitalism that began in 1979 would have occurred more than ten years earlier. As millions of young women and men rose up to expose the capitalist roaders within the Party during the Cultural Revolution, new art, including cinema portrayed women as leaders and heroes, signifying a further rise in the status of Chinese women. Eventually, the Cultural Revolution could not prevent China’s turnover to capitalism, but its many legacies strengthened the possibility for workers and peasants to continue their struggle for socialism.

From 1958 until 1978, China was able to modernize its industry and agriculture and improve the lives of the great majority of its people. Millions of men and women joined hands as workers to build a complete industrial system that supplied consumer goods for both urban and rural residents, transportation and communication systems, as well as industrial outputs beneficial to agriculture. In the many communes that arose from 1958, hundreds of millions of Chinese peasants, both women and men, spent worked tremendous hours to improve and conserve the land and build infrastructure.³⁷⁹ Their hard work and China’s socialist development policy changed the whole landscape of China’s countryside and modern-

³⁷⁹ See “The Worker-Peasant Alliance As a Strategy for Rural Development in China,” p. 37.

ized its agricultural production. Such changes could not but have a tremendous impact on rural women.

In the 30 years from 1949 to 1979, the status of Chinese women ascended rapidly. The most important reasons were the 1949 nationwide victory of the new-democratic revolution led by the Chinese Communist Party, which liberated the people from the oppression of a semi-feudal and semi-colonial society; and the ensuing socialist construction; as well as anti-imperialist and anti-revisionist struggles, also led by the CCP.

Under party leadership, China's workers and peasants together changed the world around them, turned the old feudal order on its head, and in the process also transformed themselves, their relationships with nature and with one another, including gender relationships between men and women. Moreover, the CCP consciously and consistently pushed policies and sustained efforts aimed at equality between women and men. This was based on the firm belief that a society could not be liberated from the shackles of old ideas and old practices without the Liberation of women. In other words, in a new socialist society, women's emancipation must proceed together with continuing class struggle for full emancipation from all forms of oppression.

The Degeneration of Women's Status Since the Reform

China's capitalist Reform that began in 1979 consists of two integrated components—*gaige* (“reform”) and *kaifang* (“opening up”). What the two catchwords meant was that China would develop local capitalism and at the same time it would link its economy closely to the world capitalist system.

The Reformers' goals for China's industry were to turn state-owned enterprises into profit-making corporations and then privatize them and turn their workers into wage labor with diminished rights. In the early 1980s, the State gave factory managers the autonomy to run the factories exactly along such lines,³⁸⁰ against which workers fought a losing battle. In the early 1990s, the Reformers overhauled China's employment structure, laying off large numbers of workers; by 2005 the number of workers employed in the former State enterprises had shrunk to less than half of

³⁸⁰ Workers' right to strike was taken out of the Constitution.

the number when the Reform began.³⁸¹ The tens of millions of laid-off workers became a large reserve army of the unemployed, seeking odd jobs in the informal sector, subsisting on poverty-level wages, and generally leading precarious lives.

Next, the Reformers dismantled the commune system in 1984, redistributing the land and productive tools to individual farm households and urging these households to sign separate contracts with State. As the 1990s started, many of these rural households floundered, pushing hundreds of millions of young peasants to seek work in the cities. Many young women serve as maids in rich households or as service workers in restaurants and hotels, and many others have flocked to the Pearl River Delta and to Kunshan near Shanghai, to work in factories that assemble computers and other electronic products. These young workers are forced to work 13 to 14 hours a day and are exposed to highly toxic materials that damage the liver and lungs, such as solvents containing benzene and trichloroethylene.

The status of workers and peasants, both female and male, has fallen to previously unimaginably low levels. Moreover, women in the past 30 years have suffered even more than their male counterparts. As in pre-Liberation years, large numbers of young women from the rural villages are recruited ostensibly to work in city restaurants and hotels but are eventually forced into prostitution. Other young women are directly kidnapped or sold. The tradition of favoring male offspring is back in full force, in the futile hope that they can serve as their parents' social security in their old age. Chinese media exploits women by portraying them as commodities. The Federation of Women, now in the hands of women from the new elite ruling the country, raises no objection to the commodification of women. It is now more concerned about the status of professional women than with the welfare of woman workers and peasants.

To conclude, the status of women in China after 60 years has come to a full circle—ascending rapidly in the era of socialism and then descending just as quickly under capitalist restoration. This inevitably leads us back to the interlocking demand for women's Liberation and for the Liberation of

³⁸¹ People in cities in Henan, Sichuan, and Anhui and other provinces in Central and Northeast China, the industrial bases of China, reported that more than 60 percent to 70 percent of the workers in former state-owned industries were laid off.

workers and peasants as a whole. This Liberation can only come when we successfully struggle for socialism.

ADDENDUM TO “HOLDING UP HALF THE SKY, NO MORE”

The Changing Status of Chinese Peasant Women

Historian Ma Shexiang interviews Shen Jilan on changes in the social status of women in Xigou Village, Shanxi Province in the past 60 years.³⁸²

A Brief Introduction to Xigou Village and Delegate Shen Jilan

Xigou is a village located in the Taihang Mountains of Shanxi Province. It was a revolutionary base in the war against the Japanese and against the Kuomintang. Xigou organized mutual-aid teams even before the founding of the People's Republic of China. When the Jinxing (Gold Star) the agriculture, forest, and animal husbandry cooperative, was founded in 1950 in Xigou Village, Pingshun County, Shanxi Province, it was one of the first cooperatives established in China.

Ma: China celebrated the 60th anniversary of the founding of the People's Republic in October 2009. In 1947, when you were 18 years old, you got married and moved to Xigou. In 1951 you became the Vice-Chair of the later famous Jinxing Cooperative. Three years later in 1954 you were elected as a delegate of the First National People's Congress. At that time what were your feelings and what impacted you the most?

Shen: I was 25 years old when I was elected as a delegate to the First National People's Congress. Recently, I just turned 80. Before Liberation,

³⁸² This interview was conducted by Ma Shexiang, a researcher at Wuhan Academy of Social Science. Ma is a well-known historian who has published 12 books, including one on Mao's second visit to Jinggang Mountain in 1965 as a prelude to the Cultural Revolution. Her oral history project on the agricultural cooperative movement will be published as another book. Ma's research for this project brought her to Xigou Village, where she met Shen Jilan, a woman from the village and is the only delegate who has served from the First to the Eleventh National People's Congress. Through this interview we can gain a better understanding of how the status of peasant women has changed in a small village in the mountainous region of Shanxi Province over the last 60 years. This interview, which I translated into English, was also presented at the Second International Feminist Congress in Buenos Aires, Argentina on May 22, 2010.

a woman like me, who lived in a small village in a mountainous region along with tens of millions of women in the laboring class, never had a chance to go to school. In Xigou Village, there was not one single woman who knew how to read. In 1952, Pingshun County organized a group of literary people to come to the countryside to teach people how to read and write. Two male teachers came to our village and a female teacher named Zhang Gaimiao went to Wujing District. They were all unpaid volunteers. (In 1972 Zhang Gaimiao became the Chief of the Public Safety Bureau of Pingshun County. In 1982 she became the Vice Executive of Pingshun County, the first woman ever to hold that position.) During the illiteracy eradication campaign, we formed a small team of four or five people and gathered every night to study under an oil lamp. We called our team “Learning under lamp-light.” We memorized characters and learned to read newspapers. At that time in Xigou all men and women under 40 years old joined the literacy classes. That was how I laid the foundation of my education.

All over China, so many people learned how to read newspapers by attending those kinds of classes. In the 1950s, the women model workers in our county were all products of those classes. By the 1960s, however, all women model workers had formal education. That was because after Liberation there were many campaigns aimed at establishing equality between women and men. Young girls started going to school and received elementary school and lower-middle school education, because the tuition was very low. After they graduated, they engaged in agricultural production and many were selected to be model workers. During Mao’s time our county had several scores of women selected to be model workers at all different levels—national, provincial, district, and county.

What we were doing—walking out of our own villages, crossing provinces and meeting people, was unimaginable for peasant women before the revolution. We became public figures. Take me as an example: if not for the Communist Party, I would have stayed, like many women of earlier generations, in this mountainous gully, limited to the kitchen and without much of a chance to see the outside world. The reason I could become a delegate to the People’s Congress was because the Communist Party placed great value on agriculture and on villages like Xigou. If there had not been socialism and the collectivization of agriculture, it would

have been impossible for me, a member of the cooperative, to be discovered, trained, and eventually become a delegate of the People’s Congress.

Ma: You are right. It was after the founding of New China that the Communist Party opened up the spiritual world of a vast number of peasants, especially peasant women, through the illiteracy eradication campaign. At the same time the social status of massive numbers of women was raised through women’s participation in production. I heard about the work you did in the early 1950s from my oral history work in Xigou and also from reading historical records, leading women in Xigou in the struggle for equal pay for equal work. It had a great impact nationally. Can you elaborate how the struggle started and how it succeeded?

Shen: Yes, of course. Xigou is located in the old revolutionary base in the Taihang Mountains. As an old revolutionary base, we started organizing mutual-aid teams and cooperatives earlier than the rest of the country. In 1943, Li Shunda, a veteran party member, led us to organize the first model mutual-aid team in China. At that time I still lived in my home village—Nandi Village. In 1946, I married Zhang Hailiang, who was a revolutionary soldier, and moved to Xigou. Xigou founded the first elementary cooperative in December 1951. We held the election by placing a bowl behind the back of each member up for election, and everyone voted by putting a bean in the bowl of the person they wanted. Li Shunda got the most beans and was elected the head. I got the second highest number and was the vice-head.

We had 22 male productive members and 24 potential female productive members in our cooperative. We had to mobilize the female members to work in the field in order to accomplish the enormous amount of work to be done including planting and harvesting, work to improve the land, and any other work to increase production. If women had not joined production, it would not have been possible for us to accomplish all the work. My responsibility was to mobilize women to join production work. However, for thousands of years, young women in Xigou followed the saying “Good women stay home”—that their work should be limited to three areas: the kitchen, the bed, and the grain processing area.

I was not very successful in my recruiting work, but I never considered that the unequal pay between women and men was one of the barriers

in my unsuccessful work in recruiting women. When I went to one family, the woman complained that whether it was in the mutual-aid team or the cooperative, women always only earned five points for their work while men earned ten. She said that she could do better by staying home making shoes. I went to another family, and the woman there said, "My work-points are recorded together with my husband's in the book, so the record does not show how much work I actually did." The women told me that if Xigou cooperative was ahead of others in having women join production, women should earn the same work-points as men.

At that time Li Shunda was part of the Chinese peasants' delegation visiting the Soviet Union, so I went to the Party Branch Office and reported to Song Jinshan about the women's request. Song said that the request was reasonable and the Party Branch Office should support the women. However, an obvious problem was that men were physically stronger and were also better skilled. How could equal pay for equal work be accomplished? I made a suggestion to have some male members who had skills come and teach the women, and that women should be allowed to join the skill training classes. The Party Branch selected Lu Guilan, some others, and me to join the county skill training session.

When we got back, it was just in time to work in the wheat fields. Work needed to be done to thin the wheat and get rid of weeds in the fields. The cooperative allocated 35 *mu* (about 2.33 hectares) of the wheat fields for women to be in charge. After some campaigning, seven women expressed willingness to join but we needed more, so I went to Li Erniu's house. Li did not usually come to meetings, but it just so happened that Erniu was unhappy that day and complained that her husband was not treating her well. I said to her that if she started working, she could earn work-points and bring home grain, and her husband would change his attitude towards her. Erniu thought about it for a while and agreed. The next day, she took her plow and came to work. The same day, other members elected her to be the model worker of the team. Around the time we ate our supper, the village broadcasting station announced the news, and it shook the whole village. The third day I had 19 women follow me into the wheat fields, and we finished the work in three days.

The cooperative then quickly mobilized older women to form a team to take care of the younger children, so the women did not have to worry

about them. These women concentrated on their work and were able to raise their skill level very fast. By this time even the ones who strongly opposed equal pay for equal work were convinced that women should earn the same work-points as men. After that, both male and female members of the cooperative worked together in the fields. They went home together and shared the cooking—one raised the fire and the other cooked. The relationship between husbands and wives improved a great deal. The status of women cooperative members went up. An amendment was added to the Xigou Cooperative regulations: “Women would have five days off each month during their menstruation” and received two menstrual pads each month.

The cooperative also began a new method of delivering babies. I was assigned to be the person responsible to implement the new method of childbirth. We also campaigned to improve the nutrition of newborns. In the past, babies of several months were only fed thin rice soup. An egg was added to the rice soup and the babies grew stronger. With better food supplements, women could reduce the amount of nursing time each day and return to work. Same pay for same work raised both the economic and the social status for women in Xigou, thus helping women and men in our big mountain gully improve the equality between them. What we did also encouraged the national campaign for equal pay for equal work. In the collective era during the last century, women in Xigou were all willing to work in the fields. They had a good time working together laughing and talking. They were so much happier than working in isolation in their own kitchens. You know Ma Junzhao—she’s four years older than I and is still alive. She used to work every day in the fields, and she was so full of energy, always singing happily while she worked.

Ma: Before Xigou was able to implement equal pay and equal work, had other cooperatives already adopted the practice?

Shen: According to the reporters and leaders in agriculture, no other cooperatives had done it before Xigou. Women participated in production work in the early stages of the famous model cooperative in the Wugong Village, Rauyang County, Hebei Province. But women there did not receive the same pay for the same work as men. The main reason was that women could not do the same work as men. They accepted that kind of distribu-

tion and did not raise any questions. Our village was the old revolutionary base, so we had earlier education on the equality between women and men. With the support of the Party Branch, we went ahead and involved ourselves in the struggle for equal pay for equal work.

Ma: When was the first time that Xigou's accomplishment in the equal pay for equal work was publicized outside of your village?

Shen: We participated in a conference in Changzhi County on agricultural mutual aid and cooperatives in early December 1952. Li Ling, Party Secretary of Pingshun County, encouraged me to give a talk on this topic at the conference. I had never spoken in public and was quite scared. Then I thought I would just give a factual report and it was going to be all right. I asked Party Secretary Li to leave the room, because I did not want to be embarrassed before him if I were to do a bad presentation. Li smiled at me and left the room. I looked at all these unfamiliar faces and told myself not to be scared. Everything just came out, and I told them the whole story how Xigou struggled to achieve equal pay for equal work. After I finished the whole audience clapped loudly. A few days later a journalist came to our village to do more investigation.

On January 25, 1953, the *People's Daily* had a long report entitled "Work Means Liberation and Achievement Can Only Come from Struggle—the Story of Xigou Women Fighting for Equal Pay for Equal Work." Lan Tuan, a woman reporter, wrote the piece. Then woman organizations began their discussion on this topic nationally. On April 15, 1954, I participated in the Second National Women's Conference. Not too long after that, I joined other Chinese woman delegates to participate in the International Women's Conference in Denmark. I received such honor for just being a woman cooperative member from a mountainous gully, but the political significance did not belong to me as an individual; it had everything to do with the times we lived in.

Ma: It was indeed very significant for a peasant woman to become a delegate to the National and then attend the International Women's Conference. Could you tell us more concretely how it happened?

Shen: The majority of the delegates to the Second National Women's Conference in 1953 were workers and peasants. They were all working-class

women like me. In the middle of this conference [on April 22], 35 delegates were elected to attend the International Women’s Conference in Denmark. During the Second National Women’s Conference, I also gave a report on how we achieved equal pay for equal work in Xigou. I was elected as one of the 35 delegates, because I represented the agricultural cooperatives. I was also elected to be one of the 125 representatives of the Standing Committee of the Second National Women’s Conference. Soon afterwards I joined the other Chinese woman delegates and left for Denmark via the Soviet Union, the German Democratic Republic, Poland, and arrived in the capital of Denmark, Copenhagen, on June 4.

The six-day conference started on June 5 and ended on June 10. There were 1,865 delegates from over 70 countries. But women delegates of the Democratic People’s Republic of Korea, The Democratic Republic of Vietnam, and Malaysia, who were fighting courageously for their country’s independence and world peace could not attend, because the government of Denmark refused to issue them visas. All the delegates were angry and we together sent our protests to the Denmark government.

Woman delegates at the Conference exchanged gifts. A famous Japanese painter gave the conference one of her paintings of a dove, representing peace. Gifts from Greece and Turkey were handicrafts made by patriotic women prisoners. Chinese delegates gave every delegate a silk scarf with the logo, “Women of the World Unite” embroidered on the scarf. The delegates were so happy; they held and kissed the scarves. We were back in Beijing on July 4.

Ma: You received so many honors in those years. You were then elected a delegate to the First National People’s Congress. Were there many women elected to be delegates to the First National People’s Congress?

Shen: Not many. As far as I can remember the First National People’s Congress had the least numbers of women delegates. Among the 26 delegates from Shanxi Province, only four were women. One was Hu Wenxiu, mother of Liu Hulan. [Liu Hulan was a young Communist who died at the age of 15 as a martyr fighting the Kuomintang.] Then there was the famous singer Guo Lanying. There was a woman cadre from the old revolutionary base in Linfen named Li Hui and me. I shared a room with Hu Wenxiu, and from the first night of our arrival, she talked about her

wish to meet Chairman Mao. Both Hu and I met the Chairman when the Congress was in session and were both so elated. After our meeting with Chairman, Mao Hu cried all night talking to her daughter, who sacrificed her life for the revolution. She told her daughter, “I met Chairman Mao today and the Chairman said that he remembered you, and he saluted to you and all of our revolutionary martyrs. The delegates to the Congress all remembered you. You received a big honor today and your mother did too.” When Hu met the other delegates the next day, her eyes were red from crying the night before, yet she was so happy. Her smile touched everyone.

Ma: You participated in the National People's Congress so many times. Who were the grassroots level delegates that impressed you most?

Shen: Many grassroots level woman delegates impressed me. There was the young woman intellectual delegate Xing Yanzi who had gone to the countryside to work. She was a delegate to the Third Congress in 1964. Mao invited her to lunch during the session. Then there was Xing Yulan. She started working in agriculture after she graduated from elementary school and was elected the head of her cooperative at the age of 15, the youngest ever in the nation. When she was 30 years old, she became the Party Secretary of Lingxi County in Hebei Province. She was the one who called for all cadres to go down to the fields to make improvement in agriculture. She was a delegate to the Fourth and Fifth Congress. When she was young she also served as vice-head of an advanced cooperative. There was also Li Suwen, who was a delegate to the Fourth Congress and was elected the Vice Executive Director of the National People's Congress. Li was very down-to-earth; she was not at all arrogant. I heard that after the [1979] Reform she became the vice-head of a factory and has done good work. These woman delegates from the grassroots level happily returned to lead production when they were needed. I have the same experience.

Ma: I heard you were elected the Chair of the Women's Federation in Shanxi Province. Is that right?

Shen: Yes. It was in 1973 in the middle of the Cultural Revolution, shortly after the Tenth Party Congress of the Chinese Communist Party. One day when I was working in the fields, I received a notice with a red chop (seal)

of the Shanxi Branch of the Chinese Communist Party. I was asked to participate in the committee that was preparing for the founding of Shanxi Women’s Federation and also to become the head of that Federation after it was founded. I made a decision at that time; I believed that since I was elected as a model worker, I should stay in production. Also, since I was the Xigou delegate to the People’s Congress, I wanted to stay in Xigou. After I became the head of the Shanxi Federation of Women, I immediately talked to Shanxi’s Party representative and registered my requests. I wanted to forgo my salary as the head of the Federation, and I wanted my official residence to remain in Xigou. I did not want my rank to be reassessed, nor did I want a special car. The Party representative agreed with me and said Shanxi Province was following the directive of the Central Committee on cultivating cadres who continued working in their production posts. I think that was the reason that during the Fourth National People’s Congress there was a group of woman delegates who had continued their work in production. I was elected a model worker, and I did not want to work in other leadership positions. I chose to come back to Xigou and continue to work in the fields and continue to do what a model worker should do.

Ma: After the Reform, has there been an increase in the number of peasant woman delegates from the grassroots level, or has the number of peasant women delegates actually decreased?

Shen: The number has decreased. There are very few peasant woman delegates, and for that reason I have continued to serve. There are very few agricultural collectives left now. For the few villages that still have collectives, things are different from what they were during Mao Zedong’s era. The emphasis is no longer placed on production, nor is there any encouragement given to peasants to become model workers. In the past, many woman delegates were selected from woman model workers. Most delegates were from the grassroots level. Currently, most of the delegates to the People’s Congress came from the leadership level. They became someone with a leadership position first and then were elected as delegates to the People’s Congress. This is the opposite of what was done in the past. In the past the delegates came from model workers elected among workers and peasants.

As far as Xigou is concerned, the status of peasants has gone down. Our collectives were broken up and land is contracted to individual families. Each family has a small plot of land, and it is impossible to achieve an overall rational division of labor. Men in many families have left to work in cities, and women are left behind to work in the fields. Some young women have also left, leaving the elderly and young children at home. There is no longer anything like equal pay for equal work. Under the current circumstances, it is not possible for women to improve their status. Take for example the 84-year-old Ma Junzhao I mentioned earlier. She has one daughter and two sons. During the collective era, members of her whole family were model workers. Her husband was a model worker in raising farm animals. She was a veteran Party member. Her daughter and sons were all very active in the collectives. There were reports about her family in the newspapers. However, after the collective was broken up, her daughter and daughters-in-law returned to the traditional women's role of working around the house. Sometimes they do some work on their own land, but they lost the spirit we had in the past. Ma Junzhao joined the Party before Liberation, and as an old Party member, she receives less than 100 RMB [less than USD15] a month. She lives alone and is not living well. Her daughters-in-laws are not doing well either. They live isolated from others and have a very narrow focus outlook on life. Ma's grandchildren now have less education than her children. Ma's son graduated from high school, but her grandchildren only went as far as junior high school. Girls in many families now only go as far as elementary school. We no longer have high schools in Xigou. Anyone who wants to attend high school has to go to the nearby county or town. The expense of going to school in another county or town is very high and few can afford it. If this continues, how is it possible for peasant women to improve their status?

Ma: I have traveled to other villages in recent years, including Xiaogan Village and Xiaojing village in Anhui Province. Both of these villages are known as models of the family responsibility system after the Reform, where land was divided up and distributed to individual families. There I also found that young girls are quitting school. Peasants now seem to believe that education no longer serves any purpose. This kind of thinking seems to have a negative

impact on the status of women in China's countryside and will also have a negative impact on developing a balanced society.

Shen: Yes. Due to various reasons, after the Reform there has not been a single woman in our village to receive a university education. This is very regrettable. There are some women who work for the government. But we don't even have a fully accredited teacher. Zhang Shuying, the daughter-in-law of old Party member Li Caifa has been a teacher in a private school in the next district for twenty-some years, but she still has not been recognized as a fully accredited teacher. We do have many young women who now work either here or in cities, but few of them can get anywhere. On the contrary, many of these young women who go away often are injured or become sick. There was this famous cooperative member in Xigou named Ma Haixing. His daughter-in-law, Song Renjiao is a Party member. Ma's children were all honest and down-to-earth peasants. Ma's grandson, Ma Yongqing [Song's son] joined the military and came home after a few years. He then left home and worked as a laborer and he met this young woman from Henan while he was away working. They later got married. However, his wife was later discovered to have hepatitis B. They found this out when she was examined during her pregnancy. The baby was born but they have not had money to treat her illness, so Song Renjiao [Ma's mother] is now taking care of the baby.

If we look beyond Xigou at the nation as a whole, there is no longer a system or a mechanism designed to promote ordinary workers and peasants, so they can become future leaders. During Mao's time Xigou often recommended young women to become workers and to join the People's Army. In the past, school was not expensive and peasants could afford to send their daughters to school. As long as they worked hard and learned diligently, young women had many ideals and many hopes. The social status of women in Mao's time was totally different from the status of young woman workers today. In the past, young peasant women lived in a society that valued ordinary working-class women and men, and it had a mechanism to promote ordinary women. I was the product of that system in Mao's era.

Ma: *During the last few People's Congresses, have there still been some outstanding women delegates from the countryside?*

Shen: Guo Fenglian from Dazhai is still a delegate. She is still the Brigade Party Secretary and served on the Standing Committee of the National People's Congress. We still have frequent contacts. In addition to meeting each other at the People's Congress, she came to Xigou a few times, and I also visited Dazhai many times. Guo Fenglian did not have many years of schooling. She only graduated from elementary school, but she has gained a lot of experience and wisdom from engaging in production for such a long time. She is very capable. She writes beautiful calligraphy and can give a report that lasts several hours without any notes. She is very articulate and is a gifted leader.

Dazhai is doing well. Unlike Xigou, they maintained the collective economy so their agricultural production is mechanized, and they have also managed their enterprises collectively. The difference between the rich and the poor is not too big in Dazhai. Those "iron girls" [model workers], of course, are all old now. They are still active in community affairs. They also pay a lot of attention to cultivating women leaders. Women manage many of the village enterprises. During last year's Wenchuan earthquake in Sichuan Province, two Dazhai woman representatives went to Wenchuan and made a donation of 480,000 RMB [about 70,000 USD]. We don't have many villages like Dazhai in China any more, where women still have equal status as men. The social status of women is dependent on their economic status. When agriculture returned to small household operation, women could no longer participate in production like when the economy was collective. In a collective economy, the division of labor between women and men was complementary. The collective economy in Dazhai has a lot to do with the higher status of women there.

***Ma:** Could you tell us the characteristics of woman delegates of the current People's Congress as compared to the past?*

Shen: The woman delegates today are much younger and much more educated. There is no other woman delegate like myself who was once illiterate. Guo Fenglian is not highly educated either. She only has a grade school education, but from her participation in practice she has become so capable. The rest of the delegates all have college education or higher. There are now more and more woman delegates from private enterprises. As far as I can remember, only the First and the Second Congress had delegates elected from the national bourgeoisie. A national bourgeois-

sie representative, Rong Yiren, was a delegate to the First National People’s Congress. He was praised for donating his factory to the government. [Ma’s note: The Central government insisted on paying him for the factory.] Some important progressive members of the national bourgeoisie also participated in the Third Congress but they represented part of the coalition the central government formed. There were not that many women among the national bourgeoisie. It is different now; woman delegates from private enterprises continue to increase.

Ma: You have been a delegate to the National People’s Congress for more than half a century. Your case is singular in China, and I think there are very few cases like yours worldwide. What do you consider to be the successes in your life?

Shen: For me, personally, there have not been such things as successes or failures. From the first day I joined the Chinese Communist Party, what I wanted for my life has been the same as what the Party needs. I understand talking like this now sounds old-fashioned, but that is what I truly believe, and I have followed it in deeds accordingly. The Party and the land in Xigou gave me everything. What I did was to seriously fulfill what the Party asked of me, and that was to become a highly conscious communist who represents the peasants. If there is anything I can personally conclude from my life, it is: “We need to remember the truth: being modest keeps us progressive and being arrogant sets us back.” This was what Chairman Mao taught every Communist Party member and every person in China.

PART V
Conclusion

CONTINUING CLASS STRUGGLE IN CHINA SIXTY-TWO YEARS AFTER THE REVOLUTION

China celebrated the sixtieth anniversary of the founding of the People's Republic on October 1, 2009. For this occasion, the Chinese government spent lavishly on many festivities including a long procession of parades in front of Tiananmen Square to show off its military might and economic prosperity. There were parades of military hardware; military men and women marching in Army, Navy, and Air Force uniforms; civilians marching with displays that showed China's prosperous economy and its people's good lives. Then the Shanghai Expo opened in May 2010. Like the 2008 Beijing Olympics, these events tried to convey the message that the world should take notice: China has arrived and it was the Reform that had made all of it possible. However, if we look a little deeper, it is not difficult to see just beneath the surface numerous serious contradictions afflicting a divided nation. In fact, the Chinese Communist Party (CCP) is going through a crisis on a scale it has never experienced since the founding of the People's Republic.

When Mao Zedong declared the birth of a new China on October 1, 1949, revolutionaries around the world celebrated with the Chinese people the possibility of building a new society where people would be free of domination and oppression from both within and without. The socialist construction that followed Liberation inspired many revolutionaries, especially those in the poor and oppressed nations. In 1956, the CCP shook revolutionaries in many parts of the world when it dared to challenge the revisionists of the Communist Party of the Soviet Union. Then in 1966, China took a step further in leading the anti-revisionist struggle by launching the Great Proletarian Cultural Revolution to combat the revisionists within the CCP. The intense anti-revisionist struggle during the Cultural Revolution over the following ten years exposed the revisionists (capitalist roaders) within the CCP and the capitalist projects they had tried to implement. Although the struggle between the revolutionary line and the revisionist line was at times confusing, chaotic, and even violent, it demonstrated clearly that if socialist revolution were to proceed, the

struggle against revisionism would be unavoidable and continuing revolution necessary. The Cultural Revolution also showed the content, form, and strategy of such an anti-revisionist struggle in a country going through socialist transition.

The revolutionary line was defeated after Mao's death in 1976, when the capitalist roaders in the CCP seized political power and began their capitalist Reform. Over 30 years have passed since then. What does the reality of China today tell us about its future? China is the only country that went through a protracted struggle against modern revisionism after liberating itself from imperialism and feudalism and turning socialist. After the capitalist roaders took power and pushed through with the Reform in the last three decades, how does China's proletariat and its close ally, the peasantry, see the contrast between socialist development and capitalist development? Workers who experienced socialism are now old and most of them have retired (many were actually forced into retirement)—would they be able to share the experiences of their struggle with the younger generation of workers, 150 million of whom are migrants from the countryside working in construction and export industries? After some 30 years of capitalist development, has China turned into another imperialist power? Most importantly, what is China's role in future struggles against imperialism and for national Liberation and socialism?

An accurate assessment of China's past and current development can shed some light on its future course of development. In writing the articles in this collection, I tried my best to provide analyses of China's past and present. I intend to spend most of this concluding essay to bring developments in China up to date. An understanding of the country's current development will help us foresee its future role in the struggles against imperialism and for national Liberation and socialism. As far as I can see, China's future role in advancing socialism will depend on the extent to which its people, especially the workers and peasants, grasp the fundamental differences between capitalism and socialism and are willing and able to struggle against capitalism and for socialism. China underwent nearly 30 years of socialism, including ten years (1966-1976) of the fiercest struggle against revisionism. Have these experiences of the Chinese people made their revolutionary struggles different from struggles in other countries that have not had these experiences? From what the Chinese people have

learned from their concrete experiences and from Mao's revolutionary theory and practice, will they continue the revolution toward socialism? The answer to these questions rely on studies and debates by revolutionaries both inside and outside the country who assess and analyze China's development of the past six decades in its entirety. My hope is that I have done my small part by putting together this collection of articles, including this concluding essay.

A. Updating China's Latest Post-Reform Development In the Economic Sphere

Has China Reached the Limit of Export-Led Economic Growth?

As I wrote in previous essays, the Reform that began in 1979 in China consists of two major interconnected components: one is the capitalist reform of its domestic economy, and the other is opening it up and connecting it to the rest of the capitalist world. After 30 years of Reform, the Chinese government accomplished those goals. Most observers would say that capitalism has turned China into an economic powerhouse. Statistics seem to support their claim. In the past decade, both China's exports and GDP grew at double-digit rates and have continued to grow since 2008 at rates much higher than those of most other countries, despite the Great Recession. China now has the second largest GDP, next only to the US, and is the major trading partner of the US, EU, Japan, and many other countries. China also has the second largest foreign direct investments next to the US. More than 450 of Fortune 500 largest multinational corporations have investments in the country.

However, the Reformers themselves have admitted belatedly that China has reached the limit of using exports to spur economic growth. Relentlessly exporting larger and larger volumes of goods just to keep GDP growing has depleted China's natural resources and devastated its environment. The unsustainable conditions of its natural resources and environment are not projected for some scenario in the distant future but are occurring right now. The "opening-up" component of the Reform, which was first implemented in the early 1980s and speeded up after China joined the World Trade Organization at the end of 2001, has led to the country's current predicament.

The current crisis of resource depletion and environmental devastation has forced many intellectuals in China, including some government officials, to reexamine the Reform policies of the past three decades. The export-led growth strategy for development resulted in China concentrating on types of export production that require low-skill, intensive labor, consume much energy, and are highly polluting. Exporting large volumes of textiles, clothing, footwear, toys, electronic products, and more lately, information technology (IT) products, and machinery, has meant using up precious, scarce resources such as land and water. While from half to three quarters of these China-produced goods are being exported, the pollutants left behind have caused lasting damage to its ground, water, and air.

All industrial production causes pollution. However, China bears 100 percent of the resulting pollutants while its people consume only a fraction of the goods it manufactures. The large volume of high energy-consuming exports has turned China from an oil-exporting to an oil-importing country as recently as 1995. Now it is the second largest oil-importing country in the world, behind the US. Also, China must use coal as a major energy source, thus aggravating environmental pollution.

As I neared completion of this essay, I came across a report by a task force sponsored by the US-based Council on Foreign Relations.³⁸³ Although the interest of the Task Force is in how China's development affects its relationship with the US, I found the Task Force Report surprisingly accurate and realistic in its assessment of the Chinese economy. The Report used information from sources sometimes different from mine, but we reached the same conclusions on the current state of China's economy, the damage to its environment, and the resource shortages it now faces. I will quote some of its data below.

As I noted in previous essays, China has only nine percent of the world's arable land, while it has more than 22 percent of the world's population. Using limited land to feed a huge population has always been one of the biggest challenges of Chinese agriculture. The export-led growth strategy of development has meant taking away more and more land from agriculture for industrial use. Land has also been converted into tourist attractions, highways, urban commercial and residential buildings, and

³⁸³ US Council on Foreign Relations, *US-China Relations: An Affirmative Agenda, a Responsible Course. Report of an Independent Task Force*, CFR Press, April 2007.

industrial parks for export industries. As I stated previously, a conservative estimate of land loss during the first 25 years of Reform up to mid-2000 was around seven percent of the total area of arable land. Since then, the rate of land loss has accelerated, possibly reaching an annual rate of two percent. Accurate figures on land loss are hard to find, but the current trend of expanded urbanization can only mean that the loss of arable land has continued, if not accelerated.

Moreover, agricultural land has been lost not only to non-agricultural development but also to pollution. One example is the experience of Suzhou and Wuxi (an area south of Shanghai) that began developing its IT export industries in the late 1990s. This area, which had been known for having the most fertile agricultural land and the most suitable weather for agriculture, is now severely polluted.

In terms of water resources, China has only nine percent of the world's total fresh water supply. On a per capita basis, China's access to fresh water amounts to merely 25 percent of the world's average; it is one of the 13 countries that have the lowest per capita water supply. As of now, agriculture still uses over 60 percent of the country's water, but there is increasing pressure to squeeze more and more water away from agriculture into industrial and residential uses. Cities' groundwater has also been dropping, which not only aggravates the water shortage but also lowers water quality and increases the risk of earthquakes and landslides,³⁸⁴ and accelerates desertification in the northwest.

The China Task Force Report gave a candid and accurate assessment of China's capitalist development in the past 30 years. It said:

China has chosen short-term economic development over environmental preservation, and as a result, air and water quality have been compromised. Cheap cashmere on the shelves of American department stores means hillsides denuded of grass in Inner Mongolia. China is losing roughly 1,700 square miles of formerly productive agricultural land annually to desertification. The Chinese State Environmental Protection Administration (CSEPA) acknowledges that environmen-

³⁸⁴ "China's Water Shortage to Hit Danger Limit in 2030" in *People's Daily* Online. http://en.people.cn/200111/16/eng20011116_84668.shtml.

tal degradation costs China eight percent to 13 percent of its annual GDP—the push for growth is not succeeding as well as it might were China’s policies more balanced. Water shortages alone cost \$42 billion per year in lost industrial and agricultural output, according to Chinese government estimates.

Like the problem of land loss, much of the water shortage has also been caused by pollution. It is commonly known that three-quarters of China’s major rivers are polluted; with more than one-quarter of all major rivers so severely polluted, their waters can no longer be used for any purpose. Air is also polluted in China. The majority of the world’s most polluted cities are in China. The World Health Organization (WHO) estimates that air pollution is responsible for premature deaths of some 400,000 Chinese people every year.³⁸⁵

The seriousness of problems involving depleted natural resources and increasing environmental pollution has already been discussed in papers written in earlier years. Since then, however, these problems were not only not corrected but have also continued to worsen. On February 9, 2009, *Chinadaily.com* reported, “With combined pressures from rising water demand and limited supplies, combined with serious water pollution, China is faced with mounting challenges for supplying safe, clean water for the 1.3 billion residents, as well as maintaining sustainable development.” In the countryside, one out of three people does not have clean drinking water. This is indeed an indictment of China’s development strategy of the past three decades, and an admission that this strategy has indeed reached and overstepped its limits.

As more and more people experience the terrible consequences of environmental pollution, they have tried to identify the source of their suffering. The “2010 Report on the Investigation of Heavy Metal Pollution in the Production Chain of the IT Industry,” jointly published by 34 environmental organizations, caught the media’s attention. The Report described severe cases in the Zhu River delta area in Guangdong Province where the production of IT goods has been concentrated. There, large quantities of

³⁸⁵ Daniel S. Greenbaum and Robert O’Keefe, “China’s Environmental Health Challenges” in *Frontiers in Ecology and the Environment*, September 2006.

heavy metals were found in untreated factory wastewater, which have been polluting the ground, the rice fields, the river, and the seashores. In their selected samplings, environmental groups found copper, zinc, iron and nickel in the wastewater in levels that were in several cases, hundreds of times and even 5,000 times over allowable limits. The report noted that China—the processing center for IT products, producing around half of the world's computers, cell phones and digital cameras—has consequently borne the burden of the heavy pollution, especially heavy metal pollution.

The Zhu River is the source of water supply for 47 million people in more than 10 large and medium-size cities in the region. It is not hard to imagine that the drinking water and the vegetables that rely on this water are also contaminated. A scientific investigation team organized by students of the Life Science School of Zhongshan University took samples of five kinds of leafy vegetables from a local market. They found out that one sample out of five was slightly contaminated and the other four were heavily contaminated. There are reports of severe pollution in villages where the incidence of cancer among residents has reached hundreds of times the national average. People all over China have become very concerned about the safety of the food they eat, the water they drink, and the medicine they take—focusing mostly on food and water contamination from pollution.³⁸⁶ Their voices of concern and protest have reached a point where they can no longer be ignored by authorities.

In terms of the effects on resource depletion and environmental devastation, the export-led economic growth reached its limits long ago. If this approach to economic growth were to continue for a few more years, we can only expect the Chinese people to become more dependent on food imports, to experience more widespread food and water contamination, and to suffer more cases of ill health and premature death from toxins in the water they drink, the food they eat, and the air they breathe.

As far as food imports are concerned, it is unlikely for China to maintain 95 percent self-sufficiency in food. The concession on food imports that China made for its accession to the World Trade Organization began to take effect in 2004. Its corn and soybean imports have risen

³⁸⁶ Additionally, they are also concerned over the safety of processed foods and over consuming food grains and soybean oil planted with genetically modified seeds bought from Monsanto.

rapidly since then. Corn imports increased to 1.3 million tons in 2010—a 30-fold increase from 2008; the latest projection is that it will increase further to nine million tons in 2011-2012.³⁸⁷ Until 1995, China was a net soybean exporter; then soybean imports increased tenfold from 1996 to 2006, and the growth has continued. Now over 60 percent of its soybean consumption comes from imports. China has also increased its imports of wheat, cotton and rice. In 2010, it surpassed Mexico as the second largest market for US agricultural exports.

Polarization and Inadequate Domestic Market

The 30 year Reform has resulted in a very polarized society. China's Gini Index increased from 0.24 in 1985, before the Reform had any real impact on income distribution, to 0.47 in 2004. By that year, China's Gini Index was higher than that of India, Indonesia, Iran, Egypt, and many other countries. In 2005 Chinese Premier Wen Jiabao spoke on the problem of polarization, saying that the unequal distribution of income and wealth was endangering Chinese society and could no longer be tolerated. However, in the five years since then, little had changed in government policy that would either reduce the inequality or effectively alleviate serious problems caused by polarization. Additionally, until more recently the price of housing continued to increase rapidly to a level that is unreachable by the majority of Chinese people. In the past two years, and especially from the second half of 2010 to the first several months of 2011, the prices of other basic necessities like food, medicine and utilities have gone up at faster rates, thus putting more pressure on low- and middle-income households. Yet at the same time, car sales in China jumped from 5.7 million in 2005 to approximately 17 million in 2010. These are all indications that Chinese society has become even more polarized in the past five years.

Glaring inequality is everywhere in today's China. In the cities, it is common to see construction workers who migrated from the countryside sleeping in tents temporarily set up on construction sites. Just a few yards from these tents are newly finished high-rises where well-dressed urbanites eat and shop in expensive restaurants and stores. A meal in one such restaurant could be more than a whole month's pay for a construction worker. A wine importer in Beijing told me that his business was booming

³⁸⁷ *Wall Street Journal*, January 21, 2011 and *Money Watch*, February 7, 2011.

and that China was the biggest customer of the world's most expensive wine, which costs several thousand dollars a bottle. At the same time, one out of three rural residents in China now cannot afford clean drinking water. The China Task Force Report wrote:

In a nation that once prided itself on egalitarianism, more than three hundred thousand millionaires now control some \$530 billion in assets. Coastal provinces have income levels ten times that of China's poorest province, and the urban-rural income ratio is more than three to one.

In March 2011 when both the National People's Congress (NPC) and the Chinese People's Political Consultative Conference (CPPCC) were in session, a Hurun Report (Webpage for China's Business Leaders) noted that the richest 70 delegates from both bodies had a combined wealth of about 75 billion USD, compared with 4.8 billion USD for the wealthiest 70 members of the US Congress.³⁸⁸

In addition to the lack of affordable housing, the problem of inequality has been exacerbated by the lack of basic medical care, low-cost public education, old age pensions, and other basic services for the majority of China's population. The Reform not only put tens of millions of workers literally out on the streets; it also turned housing, medical services and education into commodities that can only be bought by a segment of the population whose incomes are high enough. People use Mao's expression of the "three big mountains oppressing Chinese people" but instead of feudalism, imperialism and bureaucratic capitalism, now the three new big mountains oppressing Chinese people are housing reform, health care reform and education reform. A writer named Wenyan has added three more big mountains: lack of employment, lack of old age pensions, and the pressure of inflation. It is not hard to see that these new mountains have originated from the Reform that was put in place by a bureaucratic government to accommodate imperialism.

The government has not been able to expand the domestic market, because the low level of domestic demand is the direct result of Reform

³⁸⁸ "China's 2011 National People's Congress (NPC): Fine-tuning the economy with an eye on social stability," APCO Worldwide. <https://www.yumpu.com/en/document/read/1904132/chinas-2011-national-peoples-congress-npc-apco-worldwide>.

policies implemented in the 1980s and 1990s. The push for bigger exports at increasingly faster rates has meant that the government must keep worker wages and benefits low, further squeeze farm household income, and ignore worsening environmental pollution and depletion of land and water resources. The total consumption of the Chinese people as a percentage of GDP has continued to decline in the past 20 years. In previous essays I stated that consumption was merely 44 percent of total GDP but the percentage has further decreased to 35 percent in the beginning of 2011.

In the 12th Five-Year-Plan (2010-2015), the government plans to increase China's domestic consumption from the current level of 35 percent to 40 percent of GDP by 2015, by raising the minimum wage and reducing the personal income tax on the low- to middle-income households, and by increasing spending on health care and low-cost housing.³⁸⁹ Wen Jiabao's report to the NPC admitted that raising the consumption level would be a difficult task. Forty percent is still a very low rate compared with other economies whose consumer spending amounts to around 65 percent to 70 percent of GDP. A society with such skewed income distribution can only mean low levels of consumer demand. Therefore, growth in GDP and in employment has to be heavily dependent on high rates of growth in investment and high rates of growth in exports. The imbalances within the Chinese economy that I explained in previous essays have not been corrected. In fact, they have only worsened since the 2008 crisis.

The inequity and lack of fairness of the capitalist Reform have caused great concern and frustration among the Chinese people. Moreover, exported economic growth has resulted not only in gross inequalities among the Chinese people, including the increasing inequality between urban and rural dwellers, but also inequality among different regions of China. The inequity also involves China as a country that is poor in land and water resources but produces large quantities of goods—most of them not for its own people but for much wealthier people in resource-rich countries. Thus, exporting ever-increasing quantities of goods have contributed to resource depletion and environmental devastation to the point of being unsustainable. Meanwhile, from its ever-increasing exports, China has

³⁸⁹ Ibid.

accumulated more foreign exchange surplus, most of which is foreign debt (US government bonds) sitting in China's central bank. This large surplus, accumulated from sacrificing the welfare of the Chinese people and at the expense of resources depletion and environmental devastation, cannot be used in any way to compensate for the losses China has endured as a country. The accumulated surpluses of China and the accumulated deficits of the US are two sides of the same coin. Such imbalance is only one of the manifestations of the global crisis of the capitalist system.

An anonymous author wrote a short paper posted online on December 29, 2010 explaining the unfair situation faced by China within the global economic system. He posted "ten ridiculous questions" and asked mainstream economists to explain. His first question: "Why does China as the world's largest creditor not have money for our own construction but has to use favorable treatment to attract foreign investment?" The figures he quoted are very revealing. He said that foreign countries owed China a combined total of 1.2 trillion USD (of which more than 800 billion USD is US government debt).

The main task of provincial and city governments is to attract more foreign investment. Accumulated foreign investments in China totaled more than 880 billion USD at the end of 2008, while the total foreign-owned assets reached 2.1 trillion USD by the end of 2007. The baffling situation is that over a trillion dollars owed to China by foreign countries is earning low interest in US government bonds (some of which had been lost to subprime mortgages), at the same time foreign investments have taken over many of China's domestic businesses and are earning high rates of profits. The article continues by noting that in recent years, the Chinese government has granted foreign exporters tax rebates amounting to 500 billion RMB (83 billion USD) each year. The rebates are in fact subsidies to foreign consumers for the lower prices they pay for Chinese products.

Meanwhile, the workers and peasants who produce these export goods struggle to make ends meet without any help from the government. The inequality among different classes in China and the related injustice suffered by China at the hands of imperialist countries (now recognized by many) have directly resulted from the "Reform" and "Opening Up" policies and fuel anger and frustration in Chinese society.

Is China Trapped at the Low End of the International Division of Labor?

China's exports have moved from traditional products—such as clothing, footwear, toys and household items that require lower skills and technology—to products that involve higher levels of technology. The changes in China's exports have thus created the image that the country has moved up the ladder in the international division of labor. However, I explained in previous essays, most of China's electronic and machinery exports have been due to its processing trade, i.e., assembling intermediate parts and components imported from abroad into products, which are then exported.

In the last few years, the percentage of processing trade has increased from less than half of total trade to over half of the total trade. Moreover, since multinational corporations controlled 60 percent of China's exports and over 80 percent of exports of electronic products and machinery, they have substantial control over the prices of both imported parts and components and the final export products, as well over commercial channels both inside China and after the products leave China's shores.

In "Where are the Profits?"³⁹⁰ a reporter from Hong Kong analyzing the reason for the low price of Chinese companies' stocks said that business in China has always been about three things: "volume, volume and more volume." However, increases in sheer volume in 2010 did not bring more profits. In the first half of 2010, sales of Chinese companies increased 42 percent compared to the same period in 2009 and sales increased a predicted 23 percent in the second half of 2010 compared to the last half of 2009. Yet profits have been on a "protracted slide that shows no sign of stabilizing." One major reason for these companies' low profits has been their role in the processing trade. In other words, they have no control over the prices of imported components they use or the prices of final products sold on international market.

The fact that more than half of China's trade continues to be processing trade—and this share seems to be on the rise—is an indication that it is having difficulty getting out of the lower end of the international division of labor. In processing trade, the multinational corporations, not the subcontracting Chinese firms, decide which parts of the final goods

³⁹⁰ *The Economist*, December 11-17, 2010, p. 78.

are to be processed in-country; this determines China's de facto share in the final selling price. The final export products bear the multinationals' brand names, not those of the Chinese subcontractors. It is worth noting that among China's imports in 2009, the highest value for one single category was for computer chips, at 120 billion USD. Imported oil took second place at 90 billion USD, while third-placed iron ore totaled 50 billion USD. Liquid crystal displays (LCD) for large-screen televisions took fourth place at 40 billion USD. Both the oil and iron ore imports are used to produce large quantities of exports, while imported computer chips and LCD screens are clearly part of the processing trade. On the opinion page of the *Wall Street Journal* in January 2011, some figures on the Apple's iPhone are quite revealing. The wholesale price of each iPhone is 178.96 USD in the US; China's share, earned for assembling each phone from imported components and parts, is 6.50 USD.³⁹¹

To escape the current trap of exporting large volumes of low value-added products and bearing the heavy cost of resource depletion and severe pollution, the Chinese government must either develop more advanced technologies to reduce the control of foreign corporations and move up the ladder in the international division of labor, or develop a bigger domestic market to reduce its export dependence. A larger domestic market would absorb China's large capacity to produce goods without seriously bringing down the economy. However, Reform policies of the past 30 years have restricted China's domestic demand, making it much more difficult to reduce its export dependence. As stated earlier, the most that China hopes to accomplish is to bring consumption as percentage of GDP from the current 35 percent to 40 percent by 2015.

With regard to advancing China's technology, I explained in earlier essay the reasons China has difficulties to adopt foreign technology, as well as the government's own admission of its failure to acquire better technology from foreign corporations by offering them a Chinese market in exchange. More recently, the Chinese government has repeatedly emphasized the importance of domestic innovation as the only way to advance technology. According to a report on the 12th Five-Year Plan (FYP, 2011-2015) approved by the National People's Congress (NPC) convened

³⁹¹ *Wall Street Journal*, January 11, 2011, p. A10.

in March 2011, the plan includes an initiative of boosting nine Strategic Emerging Industries including the development of alternative energy, biotechnology, information technology, high-end equipment manufacturing and advanced industrial equipment, cars using alternative fuels, advanced materials, and energy-efficient and environmentally friendly technologies. The development of these industries is expected to help transform China's economy from manufacturing to innovation and design.³⁹² The government will use a mix of preferential tax, fiscal and procurement policies to help this initiative, and it expects that central and local governments and private corporations will spend a total of 14 trillion RMB during the FYP with the aim of increasing these Strategic Emerging Industries from the current five percent of GDP to eight percent by 2015 and 15 percent by 2020.³⁹³

In making the announcement in the new Five-Year-Plan, China's State Council has readily admitted that Chinese corporations are weak in these strategic industries. If such a level of investment were to be realized, it would have a significant impact on raising technology in these designated industries to a higher level. However, it will not be easy for China to realize the goals set forth in this plan. The source of funding is expected to come from the central and local governments and also from private corporations. However, the ability of the central government to influence these entities has visibly weakened in recent years. Therefore, it is far from certain that such a high level of investment in technology innovation can actually be generated, especially taking into account the declining profits of China's domestic businesses.

It is unrealistic to assume that Chinese subcontracting firms can reinvent themselves to undertake the role of technological innovation. The other problem is that, currently, global monopoly capital has effective control over these cutting-edge technologies. China has achieved some technological breakthroughs here and there and will make more technological improvements in the decades to come. However, the country still has a

³⁹² The nine industries are biotechnology, new energy, high-end equipment manufacturing, energy conservation and environmental protection, clean-energy vehicles, new materials and next-generation IT.

³⁹³ "China's 2011 National People's Congress (NPC): Fine-tuning the economy with an eye on social stability," *op. cit.*

long way to go in actually wielding effective control over these strategic industries. The investment plan announced does not spell out how the technological innovation is going to take place. It is interesting to note, as the China Task Force Report concluded, that China is unlikely to rival the US or other modern industrialized countries in overall technological innovation in the foreseeable future.

Foreign capital first entered China in the early 1980s, and many Chinese-foreign joint ventures were formed. Until the 1990s, the Reformers thought that if they could limit the foreign shares in these joint ventures, they could prevent foreign capital from taking control. However, even during this phase of joint ventures, these enterprises were often under foreign managers who, in the interest of their own corporations, deliberately neglected the development of Chinese brand-name products and spent large sums of money to develop and promote their own brand names. China joined the WTO at the end of 2001; the rules of WTO became effective by 2004. Since then, foreign capital has received “national treatment,” meaning that foreign investors have to be accorded the same treatment as domestic investors. In a short period of less than a decade, large numbers of former joint ventures in China became 100 percent foreign-owned. In fact, currently 70 percent of total foreign direct investments in the country are currently 100 percent foreign owned. Foreign corporations now have control over many of China’s industries.

According to one report, of the 28 Chinese industries that are open to foreign investment, 21 have fallen under foreign control. This means that foreign capital controls the five largest firms in these industries.³⁹⁴ Among these foreign-controlled industries are pharmaceuticals, soft drinks, beer, bicycles, elevators, cement, glass, rubber and tires, agricultural machinery, agricultural product processing, retail, and delivery of goods. In the process, many of formerly well-known Chinese brands have disappeared completely from the market. In the soft drink industry, for example, there had been nine famous Chinese brands, but Coca-Cola and PepsiCo took over seven of them. Four foreign firms—DHL, UPS, FEDEX and INT—together took over 90 percent of the delivery service market. Foreign firms have already started investing in urban water and

³⁹⁴ *Economic News*, June 4, 2005.

sewerage projects. It has just been announced that China has opened up its medical care market and will welcome foreign investment in both for-profit and non-profit hospitals. Since the WTO guarantees the free entry of foreign investment in the service industry—including management and legal consulting businesses, real estate, insurance and investment—foreign corporations have lost no time in occupying these fields. Then there are also the entertainment, sports (sporting goods, exercise gyms), education (campuses of well-known foreign universities), and other culturally oriented enterprises as well.

After more than 30 years of capitalist Reform, China is trapped at the low end of the international division of labor. The likelihood of its escaping this trap and moving up the ladder is not all that promising. But the small and stagnated domestic market has made it necessary to seek continued export expansion in order to avoid a severe economic contraction, overcapacity, and increasing unemployment. In the meantime, workers and peasants are deprived of the basic needs of clean water, adequate food, healthcare, housing, and education. Moreover, the depletion of natural resources and environmental disasters are intensifying.

How Has the Global Economic Crisis Affected the Chinese Economy?

The global economic crisis that began in 2007 caused China's exports to decline in the two years that followed. However, its export growth since 2010 has continued, although the rate of growth has declined. Its average annual export growth rate fell from 31 percent in 2010 to 21 percent during the first eleven months of 2011, and its economy still grew by 8.9 percent in the final three months of 2011, compared with growth in the same period in 2010. Both growth rates were still impressively high compared to other countries in the global economy. However, what these figures indicate is that the government's stimulus package of four trillion RMB and the 7.3 trillion RMB increase in bank credits in the first half of 2009 worked well in the short run to stabilize the economy—but the long-term problems of the economy remain unchanged, and the government's stimulus spending has only left the economy even more imbalanced. The reason is that for more than a decade before the global economic crisis, China's high GDP growth was maintained by high rates of export growth and investment to build factories (in order to produce the high volumes

of exporting goods), and by high rates of investment in urban (and rural) housing and commercial buildings. In addition, government investment spending on infrastructure was also very high. As I explained in “An Analysis of China’s Capitalist Reform,”³⁹⁵ China’s GDP growth was fueled by high rates of growth in exports and by high rates of investment in both the public and private sectors, while growth in domestic consumer spending lagged very much behind growth in GDP. By the mid-2000s the problems of overcapacity in many industries were already apparent, yet the domestic consumption as a percentage of GDP shrank further from 44 percent in 2004 to merely 35 percent in 2010.

Earlier in this essay, I mentioned that the National People’s Congress held in March 2011 planned to take measures to increase consumption’s percentage of the GDP from 35 percent to 40 percent by 2015, in order to boost the domestic market. Forty percent is still a very low rate compared with the rate in other economies where consumer spending accounts for 65 percent to 70 percent of the GDP. The government has moderately increased spending on social welfare, but this is far from enough to make a difference in the skewed proportions of the GDP. In fact, the government stimulus package has only intensified the distortion of what Yu Yongding (a professor at the Chinese Academy of Social Sciences) called an investment overdrive. The investment rate as percentage of GDP increased even more from the infrastructure spending of the stimulus package. As a result, total public and private investment amounted to a whopping 50 percent of GDP in 2009. Yu indicated that rebalancing the economy would take a long time, because the government does not want to employ shock therapy.³⁹⁶ Moreover, in addition to the urgent problem of rebalancing the economy, much of the infrastructure construction was completed in such a big hurry, resulting in the poor quality of many of these, as witnessed by the fatal train accident in Wenzhou last July. In the meantime, the economies of the Eurozone are heading toward a recession and the recovery of the US economy has been slow—these tendencies indicating that the growth rates of China’s exports to these economies will continue to decline or even come to a halt.

³⁹⁵ See p. 199.

³⁹⁶ Eastasiaforum.org, January 24, 2012.

An EU consultant group (Roland Berger Strategy Consultants) released a study on China's overcapacity problem, which declared that the government stimulus package and the loose credit pursued by China's central bank have aggravated the problem. Industries such as steel, aluminum, cement, chemical, refining and wind power equipment now all suffer from severe overcapacity.³⁹⁷ The overcapacity in the automobile industry has also become overwhelming, prompting the government to eliminate the tax incentive for new investment. Overcapacity also exists in other consumer goods manufacturing.

The steady rise of the RMB against the dollar since mid-2010 has squeezed the profit margins of exporters further and the pressure to reevaluate the RBM is ongoing. Additionally, even though the inflation caused by easing the money supply back in 2009 has been somewhat slowed, as stated earlier, higher costs of living have fueled the demand for higher wages. Since bank loans were often unavailable to small export manufacturing businesses, they had to borrow from illegal moneylenders at high interest rates. All of these pressures have brought more export manufacturing businesses into bankruptcy. Some bankrupt business owners chose to go into hiding, leaving behind debts and unpaid workers.

In short, not only was the problem of overcapacity caused by private investment and government infrastructure building not corrected, but the government stimulus package in 2009 aggravated the problem. Therefore, although government rescue and its loose monetary policy have kept the economy from slipping into a deep recession in the last two years, the bubble inflated by years of over-building has only grown bigger. It is very likely that before there is enough time to begin correcting China's structural economic problems of overdependence on exports and investment, the economy will plunge into a deeper and prolonged crisis. Unused airports, barely traveled roads, and commercial and residential buildings indicate the worsening of its economic problems in the not too distant future. When that happens, global monopoly capital, which has been dependent on what seemed to be the ever-expanding Chinese economy, will encounter a downward spiral.

³⁹⁷ The Study was released on November 25, 2009 by the European Chamber of Commerce and Roland Berger Strategy Consultants.

In the Social, Political, and Ideological Spheres

Rising Contradictions Between Those Who Have Power and Those Who Have None

Jiang Yong, author of newly published book *Zhongguo Kun Jing* (*China's Predicament*), explains in detail the many difficulties China currently faces. The website *Utopia* publicized the book with this short introduction:

When we carefully examine today's China, we see large and small economic crises, social crises, and environment crises hiding behind what seems to be endless prosperity. Sharp contradictions exist among people, between people and society, and between people and nature as they had never existed before.³⁹⁸

It's true that there are many sharp contradictions among people in Chinese society. The contradictions, however, are mostly between those who possess power—a combination of economic power and political power—and those who do not.

The economic power of the capitalist class—the business owners and managers—is tremendous. They can close down factories and lay off workers with no proper compensation; they seize land for development or for whatever purpose they see fit; they make decisions about workers' wages and benefits; they withhold wages due; they enforce work speed-ups and demand overtime without overtime pay; and they determine the price, safety and quality of consumer products.

These business owners and managers not only wield immense power, they abuse it. However, as much economic power as these business owners and managers have, economic power alone is not enough to push people around without political power. Actually, without political support, these capitalists would not be able to abuse their power to the extent that they have. Therefore, many capitalists buy influence from those who hold political power. In many cases, the two are the same: party and government bureaucrats own and operate businesses. The concentration of power in

³⁹⁸ August-September 2010, www.book.wyxsx.com.

the hands of the capitalists and government bureaucrats is the source of major contradictions in Chinese society today.

Almost anyone in China would agree that corruption is rampant at all levels of government—from central to local, and from city and provincial governments, to different administrative units in the rural areas. These different levels of government have proven totally useless when enforcing rules and regulations on business operations, such as environmental laws limiting the pollutants in wastewater disposal or restricting toxic materials dumped; or laws regulating labor contracts to protect the rights of the workers including agreed-upon wages, medical expenses due to work injuries, and compensation for overtime pay. On the other hand, these regional and local governments are extremely efficient when it comes to collecting taxes, fees, and penalties of various kinds. Government officials have demonstrated extreme brutality when acting illegally on behalf of factory employers, land developers, and mine operators.

The victims in Chinese society today are the broad masses of people, especially workers and peasants. Most workers in export-oriented industries are migrant workers from all over China, who often do not have legal status in the cities where they work. Many export production factories first opened during the 1990s in the coastal cities in Guangdong and Fujian provinces and in the city of Shenzhen. These factories are mostly subcontracting firms owned by overseas Chinese investors from Taiwan, Hong Kong, Singapore, and other Southeast Asian countries. These subcontracting firms produce clothing, footwear, toys, and other household items for export under the brand names of multinationals. Workers in these factories have been given little training and suffer many workplace injuries on a daily basis. Doctors in hospitals in cities where these factories are located report that so many fingers are being severed in workplace accidents that they “collect fingers by the bushel.” A team of college students from Hong Kong and China recently investigated conditions in Dongya, a paper factory in Shenzhen that makes products for Disney, and filed a report in October 2010 on their findings. Workers there were forced to work overtime as long as an extra 3-5 hours a day and as much as 230 additional hours a month, greatly exceeding the 36 hours overtime per month stipulated in their contracts. Dongya also arbitrarily deducted all kinds of fees

from workers' wages. The firm hired many extra workers during the busy season and then fired them a month later without paying their wages.³⁹⁹

In addition to these small subcontracting firms, there are larger factories employing tens of thousands or even hundreds of thousands of workers. For example, Foxconn, a subcontracting firm owned by Taiwan-based Honghai that produces computers and other IT products for Apple, Intel, Dell and other IT multinationals employs 800,000 workers in its various factories in China has just expanded to Henan and Chengdu provinces and Chongqing in Sichuan province. On the surface, these mega-factories look like better places to work than small workshops. However, management in these factories enforce Draconian rules to maximize worker productivity. Foxconn's Shenzhen factory has 420,000 workers, who work long hours without breaks and with forced overtime if they cannot fulfill their daily quota. The pace of work is unrelenting and has resulted in now well-publicized tragedies. Thirteen young workers, who no longer could endure the oppressive work regimen, committed suicide by jumping from high-rise dormitory buildings. Honghai in Taiwan is a large and powerful company, but it nevertheless serves the same function as the small subcontracting clothing businesses. According to an online report, Apple's profit rate is 200 percent, but the subcontracting firm receives two percent for the processing work. Therefore, these contracting firms have to squeeze more out of workers by any means under their control.

Many migrants who work in the service and construction industries are also treated very badly. These young workers are the sons and daughters of peasants who can no longer survive on the meager earnings from their land and must now depend on the money their children send home. Workers in factories located in the interior provinces, including those in the Northwest provinces where China's heavy industries were first built, have suffered from a different kind of mistreatment. In the 1990s, these factories went through rounds of restructuring that laid off tens of millions of workers. The restructuring included shutting down the factories or selling them off to private investors. Workers who built these factories and worked there for many decades were kicked out without benefits or pension.

³⁹⁹ Disney college audit team. Accessed July 30, 2011 at <http://disneyxiao zu.blog.163.com/blog/static/13339329420109142221116/>.

Nowadays, Chinese workers and peasants live harsh lives, not only because they are deprived of many basic necessities but also because of the abuses and brutalities they suffer from their bosses, the police, and other government authorities. One case in Chengdu in Fall 2010 shows how construction workers suffered terribly from the extreme abuse of power by a construction contractor and the police.⁴⁰⁰ A private construction firm was contracted to rebuild houses damaged by the 2008 Sichuan earthquake. In the construction business, as a rule, workers receive their full pay only after the project is completed. During the months that construction is in progress, workers usually receive some subsistence money, given on a weekly or monthly basis. Workers on the Chengdu construction project had also been promised weekly living allowances while the work was going on. When they did not receive the money as promised, several of them went to the courtyard of the construction office to demand payment. The company was prepared to deal with the workers; it hired thugs who ended up stabbing one worker to death and wounding another. Other workers followed the injured workers to the hospital. After one of the victims died, they took the body to the courtyard. Later they held a memorial service with the worker's family. Early the next morning, when only a few people were present at the funeral wake, a police car came, quickly snatched the body, and drove away. The motive was obviously to conceal the crime that implicated the contractor. This kind of extreme abuse and violence by private employers with the cooperation of the police and local government officials—sometimes including violence committed by the police and government officials themselves—is commonplace.

Peasants suffer similar abuses in the countryside. In recent years, there have been many large-scale enclosure movements through the so-called urbanization of the countryside; land grabbing and evictions have increased at unprecedented speed. Any resistance on the part of peasants and urban dwellers has been brutally suppressed. Since “regulations” prohibited confiscation of farmland, developers (with the aid of local authorities) deliberately destroyed almost-harvestable wheat by pouring cement over the fields. Peasants were thus deprived of the last bit of income they would otherwise have obtained. The enclosure movements are widespread.

⁴⁰⁰ This incident was not reported in the media. It came from an eyewitness who wrote in the readers' comments space in a letter supporting Zhao Dongmin.

Many urban dwellers have been evicted even though their houses were only built a few years back in residential areas designated according to the city's plan. City authorities simply draw up various plans for developers and bulldoze people's houses without adequate compensation.

The mistreatment of ordinary people, like the cases of cementing wheat fields and demolishing urban houses, is often vicious, leaving victims very bitter and angry. These incidents are arbitrary yet predictable. Taxi drivers complain that policemen pick holidays to impose fines on them, knowing that on such days taxis will have more passengers and drivers can thus earn a few extra RMB. A 50 RMB fine wipes out any extra money a taxi driver might earn, and then some. I was once riding a taxi when the police stopped the driver, even though he did not violate any traffic regulation. The police confiscated his license to ensure that he would have to pay the fine. Another time I saw an elderly couple in Beijing with a truckload of watermelons; the police stopped them on a trumped-up "violation" and slapped them with a large fine. When they did not have enough cash to pay the fine, the police took out the truck's battery and confiscated it. Peddlers like this elderly couple and taxi drivers are constantly subject to arbitrary police fines. Policemen even boast that the streets are their "factories" where they collect their bonuses. Since millions were laid off from former state-owned enterprises when they underwent restructuring and privatization, many former workers had to eke out a living in the informal sector, where they routinely suffer abuses in their daily lives from the police and local officials.

Most of these abuses are never reported: there are few places people can go to seek justice, because the court system is just as corrupt. Many, if not most, officials of town and city governments and of different administrative units in the countryside have close connections to the criminal underground, including mafia-type organizations. Criminal activities such as kidnapping, the operation of prostitution rings and gambling houses, trafficking in illegal drugs, and other illegal activities need the cooperation and protection of the police. Ordinary people know all too well that the police can no longer be trusted to uphold and enforce the law against these criminals. The connection between criminal elements in society and legal authorities goes both ways, because the police (and private employers like the contractor cited above) often hire gangsters to do their dirty work. As

far as the masses are concerned, they (criminals and authorities) are all on one side—not the people’s side. When people try to report these abuses to higher-level authorities like the central government, local officials often catch them on the trains to Beijing and confine them or even lock them up in mental hospitals.⁴⁰¹

In the next section, we will see how the abuse of power has angered large numbers of people and how they are fighting back. There are also many courageous individuals, such as lawyers and activists, who have stood up to defend these victims. A labor lawyer named Zhao Dongmin who helped workers fight for their rights was arrested last year for “disturbing the public order.” Zhao has received wide support from workers around the country and large numbers of intellectuals in the Left. His case only shows that the contradictions in Chinese society have heightened.

The Chinese Communist Party Has Split Into Different Factions

These heightened contradictions are reflected in the political sphere. During the last decade or so, more people have realized that the government no longer protects them but actually works against them. Thus, there is a political crisis for those in power. In the last few years, the legitimacy of the Chinese Communist Party has been challenged from both the Right and the Left; the challenges have become more open and vocal. The Right has been pushing for political reform that would fundamentally change China’s Constitution to bring about a Western-style democracy with multiple political parties. That is the movement behind the 08 Charter. One of its leaders is Liu Xiaobo, who was recently awarded the Nobel Peace Prize. On the other hand, people who belong to the Left have rallied to support Mao Zedong Thought. They challenge the authenticity of the CCP and question whether those in power are real or fake communists. In the last few years, there has been evidence that the CCP has split into two or more factions, and the struggles between these factions have become more and more intense.

One obvious faction is the extreme Right. From the very beginning of the Reform, members of this faction have advocated for the neoliberal model of capitalism for China. Although the majority of state-owned

⁴⁰¹ I do not have references to specific incidents. If one pays attention to the news (either in print or online) one will read reports of these abuses of power all the time.

enterprises were privatized, they continue to push for the privatization of the remaining state-owned enterprises, including those that others regard as essential for national security such as the oil industry. The extreme Rightists also advocate the privatization of all land, so it can be bought and sold on the land market. This extreme Rightist faction consists of owners of private corporations; according to the survey conducted by the National Federation of Industry and Commerce in 2004, one third of private capitalists are Communist Party members.⁴⁰²

This Rightist faction also includes many US-and European-educated academics, controls a number of media outlets, and has its own spokespersons. Even though the government has put Liu Xiaobo in jail, it has tolerated spokespersons of this faction, such as Yuan Tengfei, Xing Ziliang, Mao Yushi, and Yu Jie among others, who have openly attacked the Communist Party and Mao, and have denied all accomplishments of the socialist period. They advocate for Western democracy and a neoliberal model of capitalism, including more opening up of China's economy to foreign capital. (As I was editing this essay, the Utopia website collected more than 50,000 signatures on a letter sent to the National People's Congress charging Mao Yushi and Xing Ziling for their attacks against Chairman Mao and the CCP.)

Members of this faction within the Party are the beneficiaries of the capitalist Reform. They made their fortunes not only from taking over former state-owned enterprises but also from making economic deals with foreign multinationals. They have accumulated tremendous wealth with help from those with political power, but now resent having to continue to play the Party charade in exchange for political privileges. They demand political reform to match economic reform. Their political ambition was first exposed in 2006, when the secret Xishan conference was made public. Only a small, close-knit group attended the conference and spoke openly about their political reform agenda, which included a multi-party system, Western-style democracy, and a military free from the CCP's control. They did not realize that their conversations were recorded until these were later

⁴⁰² For a detailed analysis on the relationship between the Chinese Communist Party and the private capitalists see: Bruce J. Dickson, "Integrating Wealth and Power in China: The Communist Party's Embrace of the Private Sector" in *The China Quarterly*, December 2007, pp. 827-854.

made public online. Since the government continues to tolerate open attacks from these Rightists, it means that they have considerable power and influence within the Party, despite their small number.

The major faction in the CCP consists of those who possess political and military power. Members of this faction hold important positions in the vast network of the Party and government bureaucracies, as well as command positions in the military. This is the most powerful faction, yet currently it has encountered big problems in defending its power. Party members in this faction are close followers of capitalist Reform and many of them have been in key positions in carrying it out. Until recently, the majority of this faction was a close ally of the extreme Right. Had it not been for the support of this major Party faction, the extreme Right could not have achieved the status it has today. In fact, it was Reform of Deng Xiaoping's Reform that broke up the socialist economic base and changed the superstructure and dominant ideology from socialist to capitalist.

The CCP faction in power has a dilemma: on the one hand, it must hold on to the "Communist Party" label in order to be "legitimate"; on the other hand, it must continue the capitalist Reform that has already caused polarization and deep division in society. The opposition from below has put this faction in power in a difficult position when it tries to justify Reform policies that have brought hardship, harm, and despair to the majority of workers and peasants that the Party is supposed to represent. In denying that they are revisionists or capitalist roaders, they have to continue to proclaim that they are upholding the fundamentals of Marxism, Leninism, and Mao Zedong Thought. Moreover, the CCP's Party Charter and the constitution of the People's Republic clearly state that in socialist China, public ownership of the means of production must be dominant and that distribution should be made according to contributed labor. But the reality is that only 30 percent of the enterprises are still state-owned (which is different from public-owned).⁴⁰³ People are keenly aware that the polarization of income and wealth has resulted from a distribution system based on the amount of capital and/or political power one has and not according to the labor one contributes. People also realize that the princi-

⁴⁰³ See "China's Model of Socialist Development, 1949-1978," p. 155, for the difference between state-owned and public-owned enterprises.

ples that the CCP claims to uphold have become empty rhetoric that has nothing to do with reality.

Then there is also a faction on the Left within the CCP. Among those who belong to this Leftist faction are veteran Party members, including old pre-Liberation revolutionaries and younger Party members who joined the Party after 1949. Most of the older members of this group came from poor peasants families, but some belonged to the educated youth when they joined the armed revolution. They fought the Kuomintang and the Japanese, and some fought the US-led interventionist forces during the Korean War. The younger ones in this faction are mostly workers and peasants who joined the Party from the 1950s to the late 1970s, especially during the Cultural Revolution. In addition to those who had once held high positions but are now retired, there are also large numbers of low-ranking members in party branches all over the country.

During the early stage of the Reform, Mao's supporters who had been active during the Cultural Revolution were either jailed or stripped of their power. Most Party members in this Left faction today went along with the Reform because they were not clear about its nature and did not know what capitalism would really be like. Since some in this faction were criticized (sometimes wrongly) during the Cultural Revolution, Deng's call to end class struggle and build a strong China appealed to them. However, after three decades of Reform, large and increasing numbers now see clearly that China has indeed gone on the capitalist path—as Mao had predicted. Many of those who were criticized during the Cultural Revolution now firmly believe that Mao was right to launch it and that continuing revolution is necessary to achieve, first socialism, and then communism.

However, the majority of veteran Party members, both old and young (whether in the Central organs or Party branches), with similar backgrounds as those in the Left faction were among Deng's true believers and followers. They either truly believed in the Reform policies or were attracted to its benefits when assigned to important positions to carry out the Reform. Most of them have become very rich and no longer hold on to the ideals of socialism.

The Left faction of the CCP has challenged the Party's power holders on the grounds of going against the fundamentals of Marxism, Leninism, and Mao Zedong Thought. They challenge the Party leadership on policies

that are not based on the CCP Charter or China's Constitution. In the early 1980s and 1990s, a small group of Leftists expressed their opposition in magazines in a rather mild manner, but their opinions were censored and their magazines were shut down. For a long time, those in control of the Party tried to marginalize and ignore the Leftist faction. Members of this group sent several letters to the Central Committee of the Party raising their concerns, but they were unheeded. (These letters were often only circulated underground.) One of the latest letters, sent to Party Secretary General Hu Jintao, members of the Politburo, and delegates to the 17th Party Congress just before the Congress convened in 2007, is most significant. It was signed by 170 prominent people, including some former security chiefs, former and current professors and principals in party schools, former party secretaries in different branches, journalists and editors of newspapers, a former head of the People's Supreme Court, a former provincial party secretary and governor, and many others. The coordinator of this letter was Li Chengrui, former vice-head of the State Statistical Bureau and currently visiting professor at many universities. It is well known that these days the biggest crime a party member can commit is making anti-Party statements and/or engaging in anti-Party activities. But significantly, the signatories of the letter charged, in no uncertain terms, that the Party issued statements and carried out policies that were against its own principles, as stated in the Party Charter.⁴⁰⁴ (The signatories of this letter later grew to 1,700 people.)

In the last few years, it has become more difficult for the CCP to ignore the voices from the Left. As Reform projects failed one after another, more and more people have recognized that the CCP has carried out capitalist Reform while continuing to wear the "Communist Party" label. As contradictions in the society intensify, the CCP is having tremendous difficulty fending off the attacks from both the Right and the Left. The Party faces the real possibility of the extreme Right overthrowing its rule by orchestrating a regime change in an Eastern European-style peaceful "color revolution." At the same time, the Party faces revolts from below. Therefore, the government now spends large sums of money to suppress

⁴⁰⁴ The long letter of the group to the CCP Central Committee was published in *Journals*, Institute of Political Economy, Quezon City (Philippines), January 2008 and posted on the IPE website (www.politiceconomy.info) on March 24, 2009.

any kind of disturbance and unrest. According to a report by *Nanfeng Chuang* (*South Wind Window*), one of the most influential biweekly news-magazines in China, government expenditures on “maintaining order” in 2009 totaled 514 billion RMB, close to the total military spending for the year.⁴⁰⁵

The CCP’s dominant faction has realized that it is not a good strategy to attack both the Right and the Left at the same time. When it is dealing with the Rightist threat, it gives a little more room for the Left to maneuver. The contradictions of Chinese society have reached such a point that the Left has found its voice in labor strikes, peasant resistance to land confiscation, environmental movements, and movements against importing genetically modified seeds. The Left has the support of the masses when it criticizes the state-instituted health reform, education reform, and housing reform. It speaks against corruption, theft of public property, and police brutality and opposes policies that sell off China’s interests to foreign imperialists, and policies that favor the rich at the expense of the poor. The Left has focused its attacks both on the extreme Right and on those holding political power. Many people on the Left have been able to refute the distorted version of socialist China propagated by the Right and to set many historical records straight. They also articulate why China has been on the wrong path since the Reform began. They warn that unless China reverses its course, it is on its way to disaster and that Chinese people will suffer as they have never before.

On many issues, the Left has stood firmly with the masses against those in authority. In the last two to three years, the Left has held bigger and bigger celebrations and memorials on Mao’s birthday as well as on his death anniversary. During these celebrations and memorials, the masses sing revolutionary songs and make speeches. These celebrations and memorials have spread to many cities and towns in many provinces, including remote provinces like Inner Mongolia and Tibet. The masses have become more enthusiastic and their speeches have become bolder.

In Section B, the situation of the Left faction in the Chinese Communist Party will be discussed further, together with the development of the forces on the Left in society at large.

⁴⁰⁵ *Nanfeng Chuang*, July 15, 2010.

B. The Legacy of Mao and Socialism, Chinese People's Political Consciousness and Struggle

Sharp Contradictions in Society, the Development of Left Forces

As we have seen in the last section, contradictions in Chinese society have deepened as it has become more polarized, while corruption and abuses of power in government continue unabated. Authorities have resorted to more repressive measures to keep society from erupting into chaos but have not pressed too hard on the pro-Mao celebrations and gatherings in order to give the masses an outlet for their frustration and anger. They have also somewhat loosened their grip on Leftist criticisms of the Party, because the Left has also launched severe attacks on the extreme Right. As a result, Left-initiated ideological struggles have flourished on many Leftist websites and published materials. Based on the theory of Marxism, Leninism, and Mao Zedong Thought, the Left has written brilliant and merciless analyses of China's current situation and its recent history.

Only a few years ago when I wrote "Mao's Legacy in China's Current Development,"⁴⁰⁶ I said that the rise of the New Left forces in China was very promising, but they had yet to make the connection between what was happening in the country and the overall critique of capitalism as an economic system. Now they have certainly done so. In a recent article, Wang Hui, a Professor at Qinghua University and a well-known New Left scholar, gave an excellent analysis of economic equality and the democratic political system. In the article, he shows how the Reform transformed Chinese society from one of equality to one of extreme inequality. Since the Right has made the "demand for democracy" its first priority, Wang questions how democracy can be achieved in a society so polarized by simply instituting "one person, one vote"—as proposed by the Right. The Left praised how Wang approached the question of democracy. When the Right falsely accused Wang of plagiarism last year, the Left wrote articles to defend him, while Qinghua University completely ignored the plagiarism charge against him.

It is accurate to say that although the Left forces have differences over what strategy to employ in the current struggle, they are united in

⁴⁰⁶ See p. 317.

dealing with the Right. As one author clearly points out, unlike the Left in the West, there is little confusion within the Left in China. If you are on the Left, you are a Maoist. It does not mean that those on the Left have no differences—but their differences are rooted in the different depths of their understanding of Mao's revolutionary theory and practice.

The Most Recent Workers' Struggles

During the last two years, there have been more labor strikes than at any other time since the Reform began; they are also more widely reported in the media, including, of course, the strikes at Honda auto parts plants in the summer of 2010. When the strike first began at the Honda plant in Zhuhai, the local union (a branch of All China Federation of Trade Unions, ACFTU) hired goons to beat up the strike leaders. The Workers Research Website reported the strike and posted a letter signed by 200 scholars and others to support the strikers and condemn the local union. The authorities subsequently shut down the Workers Research Website.⁴⁰⁷ When the Zhuhai strike spread to the company's other plants, Honda finally agreed to settle with the strikers at various locations and raised workers' wages. Some of the workers' demands, such as electing their own representatives, were also met. Later, strikes also spread to other sectors of the economy. Commentaries on these strikes posted on various websites agree that this new generation of migrant workers is different from their parents' generation; when workers of the older generation could no longer stand the pressure and conditions of their jobs, they simply quit and tried to find new ones. However, these young workers today don't see that they could be better off elsewhere, and when there is leadership they choose to stay and fight. Or, some young migrant workers may choose to end their own lives when they feel so desperate and hopeless, like the Foxconn workers who decided to commit suicide.

The Foxconn suicides triggered the sympathy of progressive students from China, Hong Kong and Taiwan. (Foxconn is a subsidiary of Hon Hai in Taiwan.) They formed an investigation team named Students & Scholars Against Corporate Misbehavior (SACOM). On the SACOM website (www.sacom.hk), it was reported that in order to investigate the working

⁴⁰⁷ The Workers Research website has since been reopened as Workers' website, after it had been shut down a few years earlier.

conditions at Foxconn, some students went into its factories, pretending to be job seekers. They continued to monitor workers' conditions after Foxconn moved from Shenzhen to Zhengzhou in Henan province and Chengdu and Chongqing in Sichuan Province. They reported that workers' conditions had not improved, and Foxconn and Apple failed to fulfill their promises. Since Hon Hai Precision Industry Co. Ltd. in Taiwan is the parent company that owns Hon Hai, a team of students worked together with a group of volunteer lawyers to expose Hon Hai in Taiwan. These activists also linked the current struggles of Chinese workers with a decade-old case of women workers in RCA in Taiwan. In the older case, the women workers had been exposed to a poisonous chemical named trichloroethylene (TCE)—just as the Foxconn workers are exposed to the same harmful chemical now.

As I wrote in other essays, the privatization of state-owned enterprises has been a major component of China's capitalist Reform. In the 1990s, hundreds of thousands of factories in older industrial cities all over China started going through rounds of restructuring. The big wave of privatization is currently over; however, those on the Right continue to advocate for privatizing whatever state enterprises are still left.

Therefore, the labor struggles at several steel plants in older industrial cities that are undergoing the current restructuring are significant. These plants built in the 1950s had all been publicly owned before they underwent restructuring in the 1990s. For example, Lingyuan Iron & Steel Group in Liaoning province started laying off workers with its initial restructuring in 1998 and continued the layoffs over the following three years. Some of the laid-off workers were transferred to a "re-employment service center" (which later changed its name to Gangda Labor Services Company) controlled by Lingyuan. These workers signed contracts with Gangda but have continued to work at different plants of Lingyuan Iron & Steel. The arrangement is very much like the outsourcing tactic used by big corporations in the US. When workers' contracts with Lingyuan were terminated, they were given a little compensation, but former managers of the state-owned enterprise all got rich by running the newly privatized company. As more workers were laid off and were being shifted to Gangda, 1,000 workers staged a mass protest in 2002 and sent petitions to the

Ministry of Labor and Social Security and the ACFTU. This case has not yet been resolved.⁴⁰⁸

Then, in July 2009, workers at Tonghua Steel Plant in Changchun, Jilin province staged a large demonstration against Jianlong, the country's biggest private iron and steel investment group, when Jianlong took over Tonghua Steel for the second time. The first time was in 2005 when 40 percent of shares of the state-owned Tonghua Steel were sold to Jianlong by the Jilin provincial government. After the sale of stocks, Tonghua became a joint-stock corporation. Soon after, the management of Jianlong took over key management positions in Tonghua. Then in 2008, the financial crisis hit the steel industry hard. Tonghua lost money that year, and workers' wages were cut to an average of 300 RMB per month, much below the 600-800 subsistence wage level. In March 2009, Jianlong decided to separate its shareholdings, and when this news was announced, Tonghua's workers celebrated with firecrackers. After the losses in the early part of 2009, Tonghua showed a profit in May and workers were determined to work hard to turn the company around. Then in July, Jianlong reacquired a controlling stake in Tonghai when it saw Tonghua was showing a profit. Contrary to the normal procedure, which was to announce the acquisition in a meeting of the staff and workers' representative congress ahead of the deal, the news was announced by the Jilin Provincial State Asset Supervision and Administration Commission after the deal had been made.

Upon the announcement, a number of Tonghua's general managers resigned on the spot. How the deal was made and announced also infuriated the workers. In the early morning after the news was announced, 3,000 workers and their families staged a demonstration in front of the main office carrying signs reading, "Jianlong, get out of Tonghua" and calling for a mass demonstration. The demonstrators proceeded to the metallurgy section of the factory compound and succeeded in blocking the railway lines leading to the blast furnaces. By the early afternoon, they had blocked all railways and shut down all seven blast furnaces. The whole production of Tonghua came to a halt. When Chen, the newly appointed General Manager of Tonghua Steel from Jianlong Group, arrived with a team to talk to middle management and staff representatives about ways

⁴⁰⁸ China Labour Bulletin website, <https://www.clb.org.hk/content/former-steel-workers-battle-industrial-goliath>.

to resume operations, a group of demonstrators rushed in and dragged Chen out of the room into a building and later beat him to death. By early evening, there were almost ten thousand workers gathered; they did not allow government officials to enter the building. At around 9:00 in the evening, Tonghua Steel announced on television that the Jilin provincial government asked Jianlong to withdraw and never to participate in restructuring Tonghua Steel again. This is a rare case in which workers successfully blocked the privatization of their factory. Then, only one month later in August 2009, workers in Linzhou Steel in Henan province were also able to block Fengbao Iron and Steel Company from acquiring their steel enterprise.

In *Notes on The Transformation and Development of the Chinese Working Class During the Past 60 Years*, Zhang Yaozu analyzed the difference between migrant workers' struggles in the newer export manufacturing industries on the East Coast and the struggles of older workers in factories built during the socialist period.⁴⁰⁹ Labor struggles in the export industries focus more on economic issues, such as wages, benefits and working conditions. Workers' struggles in factories built during the socialist period likewise address economic issues, but they also have more to do with political ideology. Since such workers built these factories themselves, they believed the factories belong to them. The anti-privatization workers' struggles in formerly state-owned factories, though rarely successful, are of political significance. These struggles show the political consciousness of workers and the legacy of socialism. Together with struggles in the export manufacturing industry, they show a turning point in workers' struggles against capital in the post-Reform era.

The Political Consciousness of the Left

The arrest and trial of labor activist Zhao Dongmin and the subsequent support he received also clearly show the long-lasting legacy of Mao and socialism and the rising political consciousness of the Left. Zhao, a Communist Party member, received his law degree from a correspondence school of the Communist Party School in Shaanxi. Before his arrest

⁴⁰⁹ See other articles in "Historical Legacies, Global Financial Crisis, and China's Working Class Movement" in Issue 4 of *China Left Review*. <https://intercoll.net/Historical-Legacies-Global-Financial-Crisis-and-China-s-Working-Class-Movement>

in August 2009, he had already worked for many years providing legal services to workers to resolve issues such as unpaid pensions and loss of other benefits when their workplaces were privatized. Zhao also served as the interim coordinator of Mao Zedong Thought Study Group in Xian, Shaanxi until his arrest.

Zhao worked to protect workers' fundamental rights according to China's Constitution, the Party Charter, and union laws and regulations. He investigated cases of enterprises that were sold illegally and of their workers being deprived of benefits that were owed to them. Zhao believed that unions in factories should play a more active role in protecting workers' rights and should make sure that the management did not illegally take advantage of the workers. On two occasions, on June 15 and 25, 2009, Zhao took some workers to visit the Shaanxi Federation of Trade Unions (a branch of ACFTU) and submitted an open letter he drafted on behalf of more than 160 workers, mostly retired and laid-off Shaanxi workers from more than 10 enterprises. The open letter addressed to the Shaanxi Federation of Trade Unions reported the sale of three state-owned restaurants. The price of several restaurants sold by Shaanxi Tourist Group Corporation totaled 680 million RMB which, according to Zhao, was too cheap a price, thus undercutting the interest of the State as well as the restaurant workers.

Then, on August 19, 2009, Zhao was illegally and secretly arrested and detained by local authorities in Shaanxi. More than a year later, on September 25, 2010, the Shaanxi Federation of Trade Unions sued Zhao for "disturbing public order." On the opening day of the trial, several people (from Henan and other provinces) who were holding a demonstration outside the courthouse were quickly taken away. More than 120 police cars and 1,000 policemen were stationed outside the courthouse. Zhao's father and older brother, among a few others, were the only ones allowed into the courthouse. Zhao's 76-year-old father, who had been a Party member for nearly 60 years, wrote a long letter afterwards in which he said that the Federation grossly distorted the facts during the trial. In his letter, Zhao's father also told the sad story of his son's family since the arrest. Zhao's wife fell ill from worrying about him and later died. The Shaanxi authorities refused repeated requests from the family for Zhao's temporary release to see his dying wife. Zhao's two sons, the older son suffering from chronic

headaches and the younger son only three years old, are now without parents.

While waiting for the outcome of the trial to be announced on October 25, many online articles expressed support for Zhao and raised many legitimate questions. They said that Zhao was doing the work that should have been performed by the unions. Instead of thanking Zhao, the union took him to court. Such injustice has angered many people, especially workers. Some people in the legal profession have also spoken out openly against the Shaanxi Federation of Trade Unions and the local authorities, including the police and the court system in Xian, Shaanxi. Next, a support group was formed in Beijing, including several elder Party members and the heads of two well-known Leftist websites (the Utopia Website and the Worker's Research Website⁴¹⁰). Then a group named Yu-Tai initiated mass support for Zhao. Within a short time, support groups from different parts of the country—from Beijing, Shanghai, Guangdong, Shandong, Hunan, Hubei, Guangxi, Ningxia, Hebei, Shanxi, Jilin, cities of Chongqing, Wuhan, Nanchang, Shenzhen, Harbin, Luoyang, Chengzhou and others—were formed and sent in their support letters for Zhao against the Shaanxi authorities. Support poured in from workers and the unemployed.

While all letters of support listed their demands, the letter from the Hunan support group enumerated demands that are quite representative. They are as follows:

1. We ask that comrade Zhao Dongmin be released immediately and the financial loss he suffered be compensated.
2. We ask the local authorities in Shaanxi to apologize to Zhao Dongmin and to the people of our nation as a whole. The local authorities need to admit the mistakes it made and guarantee that no such unreasonable incident will ever occur again.
3. We ask the central government to launch an investigation into the departments and those in charge in the Shaanxi provincial government and to identify and discharge those officials who were responsible.

⁴¹⁰ As mentioned earlier, this website was closed down by the government in the summer for its role in supporting the Honda strike workers.

4. We ask that the Shaanxi Federation of Trade Unions use this opportunity to start its reform. It could serve as an experiment for a national “political reform.” When unions receive their financial support from the workers’ dues, then they would be clear about whom they should be serving. The reform could help unions reach a breakthrough, ending their financial dependence on government.
5. In the spirit of “free association” guaranteed by the Constitution, workers have the right to organize their own unions and elect their own union representatives.

None of these demands were met and Zhao was sentenced to three years imprisonment. A famous lawyer took over his case and filed an appeal. In addition to the letters of support, Zhao’s case inspired analysts who pointed out that it is no longer just an ordinary judicial case. The Shaanxi provincial government acted against the Constitution, and the Party branch there acted against the Party Charter. What the Central government and the Party are going to do with this case will test whether they are real or fake communists. The arrest and recent trial of Zhao generated support from the Left and has further intensified the crisis faced by the CCP. On January 28, 2011, Zhao was suddenly released from prison. While he was still found guilty, the remainder of his three-year prison term is being deferred, probably indefinitely. It is not a total victory for the Left, but it has shown that the Shaanxi authorities backed down under pressure and were forced to compromise.

The work of Zhao Dongmin and his arrest followed by the protests leading to his release all demonstrate the high political consciousness of the Left in China today. Zhao was not just helping workers with issues of unfair treatment; he was defending the properties owned by the State. As mentioned earlier, Zhao was the interim coordinator of Mao Zedong Thought Study Group in Xian. Letters of support sent to Zhao to protest his arrest also showed a high level of political consciousness. The general demands contained in these letters have been sampled above, but a letter from 108 veterans of the 23rd unit of the People’s Liberation Army is worth quoting at length:

Any Chinese person who has a conscience and who stands for justice knows that what has happened to Zhao Dongmin has gone beyond a single incident and it has become something of political significance in today's China. It has become a test case for us to tell whether the Chinese Communist Party is a real Marxist-Leninist Party or a fake one, whether the government is a real people's government or a fake one, whether the Communists are real ones or fake ones and whether those in the government are actually serving the people. How this case will be handled will be the turning point to determine whether the Chinese Communist Party understands that it has been on the wrong path and returns itself to the people or continues to cheat, manipulate, oppress people, and to continuously add more suffering to people, and following the road to be the enemy of the people, and to collaborate with the imperialist powers in their evil deeds. This is a life and death struggle between the two classes, the proletarian class and the bureaucratic class; the two different positions; and the two different futures.

The authors of the letter explain that they are old soldiers who joined the army in the 1970s who were educated and deeply influenced by the teaching of Mao Zedong Thought. They say, "Our love for our country and for our people has deeply settled in our bones." They explain how they have suffered since the Reform began, just like the vast majority of Chinese workers, including those that Comrade Zhao tried to help.

The Left has confronted the CCP on many other hotly debated issues. During memorials for Mao, the masses and their leaders demanded that Yuan Tengfei be stripped of his party membership. Yuan has been openly denouncing the CCP and socialism and viciously attacking Chairman Mao. The Left has also confronted the Central government about importing genetically modified seeds for China's agriculture. In late 2010, a television series was made on the life of Mao Anying, the son of Mao Zedong, who sacrificed his life fighting in the Korean War. This and other pro-Mao films shown on national television are victories for the Left and demonstrate its strength in the arts and cultural field. In early 2011, the

government installed a huge statue of Confucius in Tiananmen Square among the museums and the memorial for martyrs of the Chinese revolution. The Left responded with an outpouring of criticism, charging those in authority of intentionally using Confucius—the symbol of feudalism and slave society—to confuse the masses by negating the ideal of communism. The Left correctly pointed out that the statue of Confucius is not a symbol of Chinese culture as the Right claims, but rather a political symbol. Later in April, the statue of Confucius was quietly moved from the Square to a nearby museum, as quietly as it was installed in the Square three months earlier.

The current strategy of the Left seems to be one of concentrating its attacks both on the ideology of the extreme Right and on the rightist policies of the power holders. The Left has been working very hard to record and interpret China's modern history, the history of CPP and of Chairman Mao, and the history of revolution led by the Chinese Communist Party under Mao. In doing so, the Left forces hope they will be able to organize large segments of the masses and unite as many as possible in reconstructing a revolutionary force. The Left praised the new mayor of Chongqing, Bo Xilai (son of Party veteran Bo Yibo) when he carried out policies intended to lessen the gap between the rich and the poor, and instituted social welfare programs such as low-cost housing. They showed their approval of the selection of Xi Jinping as a possible successor to Hu Jintao and stated that they understand that Bo and Xi would not be able to do anything against the current, because it is not yet possible for anyone in power to go against the current.

The Left in China was defeated more than 30 years ago when the Right seized political power and then began its capitalist Reform. However, from what we can observe, the Left has not faded away. On the contrary, forces on the Left have revived and have been fighting furiously and relentlessly against the Right, which now holds political and economic power. As the contradictions in Chinese society intensify, forces on the Left will be strengthened further. They have fought those in power in every way possible—by engaging in ideological, economic and political struggles. They have published articles and books in print and online. They have held public forums discussing pressing issues. They have formed study groups to discuss Marx, Lenin, and Mao. They have organized students

to learn from workers and to investigate working conditions in factories. They have conducted mass rallies where they delivered speeches and sung revolutionary songs. They have exerted themselves in all possible ways to organize workers in the course of their struggles.

These current experiences are a testimony to the enduring legacy of Mao, the past teachings of the CCP, the long decades of anti-revisionist and anti-imperialist struggles, and the concrete experiences during socialist transition. Through their struggles, people on the Left continue to learn and grow. An old revolutionary recently wrote a paper on the future of the Left. He said:

We, the old revolutionaries, have the responsibility to tell young people today our history, to do everything possible to assist the young revolutionaries including bending down and providing our backs for the young revolutionaries to step on and charge forward.

C. China and the World

In the last section of this concluding essay, I will address a question that has been hotly discussed and debated among revolutionaries around the world today: is China an imperialist country? An analysis of this question becomes important if we do not allow ourselves to mimic the debates in the Western mainstream media by merely focusing our attention on the competition between China and the established imperialist powers. We need to broaden the scope of our discussion to see China's development in our overall struggle in this phase of imperialism.

To put the question of China turning imperialist in its proper theoretical framework, we need to follow Lenin's analysis and theory of imperialism as the highest stage of capitalism, or the stage of monopoly capitalism. We also need to briefly review the current state of modern imperialism after more than a century of development, and place China in that context.

In his book *Imperialism, the Highest Stage of Capitalism*, Lenin enumerated the characteristics of the stage of monopoly capitalism. One of these characteristics was that the advanced capitalist-turned-imperialist countries, instead of just exporting goods, begin to export capital. Lenin's

contribution to our understanding of imperialism is that this export of capital is intrinsic to the development of capitalism itself, when it reaches a specific stage, namely the monopoly stage. Lenin noted that the development of monopoly capitalism itself also went through stages from the embryonic stage, during which the free competitive stage of capitalism came to an end in 1860-1870, to the transitory stage after the 1873 crisis, and finally the complete transformation of capitalism into imperialism at the turn of the new century after the boom at the end of the 19th century and the crisis of 1900-03 that followed.

Imperialism in Its Late and Last Phase

In our analysis of imperialism over the past hundred years or so, we can attempt to examine monopoly capitalism according to the characteristics it manifests in the different phases of its development during the entire period. While the fundamentals of imperialism have remained the same during these different phases, the strategies of monopoly capital were modified, with the help of imperialist states, as capitalism went through recurring and deepening crises. As monopoly capitalism struggled through these crises, it encountered, at the same time, rising anti-imperialist forces from people of different countries around the world. Therefore, the strategies of monopoly capital and its representative states have continued evolving to meet these challenges.

For our current discussion, I suggest that we take a closer look at the current (and late) phase of imperialism, which began in 1980. To begin with, we can briefly summarize the earlier phases before this late phase. In the first half of the 20th century, monopoly capitalism went through a devastating and prolonged crisis: the Great Depression and two world wars. Within the same fifty-year period, the Russian revolution in 1917 and the Chinese revolution in 1949 successfully demonstrated that socialism could succeed in the weakest link of imperialism.

Socialism has offered a new road for the exploited peoples in oppressed nations to take to develop and flourish. At the conclusion of the Second World War, imperialist countries readjusted and modified their strategies based on important lessons learned during the first five decades of the century. These new strategies brought monopoly capitalism more than two decades of unprecedented prosperity, while the US replaced

Great Britain as the leading imperialist power. However, all the factors and measures that helped bring post-war monopoly capitalism to its all-time high in the 1950s and 1960s were not enough to sustain it. When European countries and Japan completed their post-war reconstruction, and when the rebuilding of the US (including infrastructure building, such as the construction of a cross-country interstate highway) came to an end, these advanced capitalist countries again ran into the problem of overcapacity and serious crisis.

The adoption of neoliberal strategies to resolve this serious crisis signified the beginning of the late phase of imperialism. It started with the close cooperation of two heads of imperialist states; Margaret Thatcher, then British prime minister, and Ronald Reagan, then US president, stood out as leading representatives for implementing neoliberal policies at the start of this phase of imperialism. Both responded to the crisis by embarking on government policies and programs to take strong measures against labor, dismantle social welfare programs, deregulate industries and financial institutions, and push forward privatization in their respective countries. They not only took initiatives to implement their domestic neoliberal policies to facilitate capital expansion and profit making, they also instituted internationally concrete programs to achieve the same goal. These programs, later labeled the Washington Consensus, reflected the imperialist consensus to take down all barriers to monopoly capital expansion into countries of the less developed world.

The rapid expansion of monopoly capital into the less developed world helped the imperialist countries shift the burden of the economic crisis from their homelands to those in Latin America, Asia, and Africa. This shift to the less developed world helped lessen the impact of these crises in the imperialist countries, but intensified the suffering of disadvantaged people in the less developed countries. In some countries such as Mexico, repeated crises wiped out all the gains made in the previous decades after World War II. The shifting of the crisis to less developed countries continued for nearly 30 years until the most recent economic crisis. Currently, imperialist countries no longer have the ability to shift all the burden of this severe crisis to the countries they dominate. The US, the EU, and Japan have all suffered from the so-called Great Recession that began in 2008. (In fact, the Japanese economy has been stagnant since the

early 1990s.) This change signals the beginning of a prolonged economic crisis that could bring monopoly capitalism to the point of no return—meaning, to a path of continuous decline from which there is no recovery. Of course, capitalism will not simply disappear no matter how severe the crisis may be. It must be defeated.

It is helpful for our discussion to point out some of the distinct features of late-phase imperialism in the economic sphere. In summary, these are:

One: The imbalances in the global capitalist system during this phase of imperialism have not only become more severe but also a permanent feature. Earlier in this phase, the US ran trade deficits with Japan. Then, not only did US trade deficits increase manyfold, but also extended to other Asian countries. Those deficits reached a mindboggling magnitude with China, and most recently large US deficits have shown up in its trade with Latin American countries, such as Brazil. There is no mechanism within the capitalist system to correct these imbalances, and there is always the potential for them to explode and bring down the US dollar from its pedestal as the international currency. The consequences of such an explosion would be a disaster unprecedented in the one hundred or so years of imperialism. In this late phase of imperialism, tremendous amounts of credit have been extended to the US. The liquidity that comes with this credit extension has fueled economic bubbles, which came one after another, and has become a necessary means to keep world production running far beyond its sustainable level before it finally collapses. The current level of production is unsustainable, especially when we witness that workers in imperialist countries have to endure high levels and longer durations of unemployment, stagnated wages and reduced benefits, and that many of them have lost their homes to bank foreclosures during the current crisis. For people in the less developed countries, only a segment of the population can afford to expand their spending while most people are struggling hard just to survive from one day to the next.

Two: The overcapacity of productive facilities has become even more severe during this late-phase imperialism. In the past decade, internet-based services and digital media have been over-hyped as a vast uncharted territory ripe for capital expansion. But the dotcom bubble came and went, proving that with no real industrial expansion to stand on, these new play-

grounds for venture capitalism will collapse easily after a period of seemingly rapid growth. Overcapacity has spread from imperialist countries to the rest of the world, and to China in particular. In the imperialist countries, especially in the US, overcapacity has also spread from manufacturing to other areas of the economy, such as commerce (the overbuilding of stores and shopping malls), entertainment (the overbuilding of casinos, resorts and exercise gyms), and to areas that were previously operated under the domain of the state, such as the military (the expansion of private security forces and mercenary army), education (the opening of more for-profit schools), and even the legal system (the overbuilding of privately operated prisons under state contract). In this late phase of imperialism, monopoly capital has practically exhausted all of its options for further expansion.⁴¹¹

Three: Although financial speculation has always been present in all phases of imperialism, the lack of investment opportunities in manufacturing has made financial speculation more dominant than ever in this late phase. There is a constant need for financial capital to inflate bubbles and then pop them for short-term profits. The advances made in computer technology further facilitate the operation of financial speculation.

The late Peter Gowan, Professor at London Metropolitan University and a former member of the New Left Review editorial board, believed that in the past two decades, Wall Street deliberately inflated bubbles and then popped them for the purpose of making large profits. He also believed that players in these same financial institutions practiced market manipulation in much smaller-sized “emerging markets.”⁴¹² Examining the period between the 1980s and the first decade of the 21st century, Gowan’s charges appear valid. The most recent financial tsunami caused by Wall Street market manipulation was carried out under the silent approval of the US Federal Reserve Bank and other regulatory agencies, as were many previous financial tsunamis. These financial market manipulations in the much smaller stock and housing markets have brought repeated

⁴¹¹ See Pao-yu Ching, “Challenging the Conventional Wisdom on the Causes and Cures of the Current Economic Crisis” in *Journals*, Institute of Political Economy, Quezon City (Philippines), July 2010.

⁴¹² Peter Gowan, “Crisis in the Heartland” in *New Left Review*, 55, January-February 2009

economic turmoil to countless less developed countries. It is worth noting that major players in financial speculation have become the key “captains” who direct the global economy. Even mainstream documentary films, such as *Enron: The Smartest Guys in the Room* (2005) and *The Inside Job* (2010), tell us that these key “captains” got extremely rich and powerful mainly by cheating and committing fraud. Don’t we need to ask, “How can we trust them with the task of running the economy?” In this late phase of imperialism, the degeneration of the bourgeoisie as a class has also become a permanent feature.

Four: Keynesian expansionary fiscal policy had already been proven ineffective during Japan’s two decades of economic stagnation, when its government repeatedly applied fiscal stimulants to pump up aggregate demand. However, governments in other imperialist countries have no other choice but to continue to rely on fiscal stimulants to rescue their economies. The result of large government deficit spending is the acceleration of the accumulation of debt. Government debt as a percent of GDP in Japan, the US, and the EU countries has continued to climb, thus contributing further to the instability of the global system in this late phase of imperialism. Japan has nearly exhausted its domestic pool of savings and will soon have to borrow from international sources. EU countries, such as Greece, Ireland, Portugal, and possibly Spain, are so deep in debt that repeated debt restructuring is needed to keep them temporarily afloat. There is no long-term solution. Above all, the US is fighting two wars with borrowed money in addition to its over-\$1-trillion rescue package, and it is under pressure to have its government debt downgraded, thus raising the cost of borrowing. Like many other problems in this late phase of imperialism, the problem of mounting government debt has no solution, and the unfolding of its full impact can only drag the world economy down into deeper crisis.

It has become increasingly clear during the late phase of imperialism that capitalism can no longer function to resolve the many economic, social, political and ecological problems that plague nations around the world. The unsustainable ecosystem leading to environmental disasters, the irrational allocation of resources, the unequal distribution of income, and the problems of unemployment, poverty and human misery have been with us, with or without an economic crisis. Developments in the late

phase of imperialism have demonstrated that capitalism is a failed economic system despite its triumphant declaration of final victory 20 years ago. The irreparable cracks of monopoly capitalism have widened, and the system is now closer than ever to the brink of collapse.

Has China Become an Imperialist Country or Could It Become One?

China started its capitalist Reform just as late-phase imperialism was strategizing its new neoliberal offense. In 1978, the capitalist roaders within the Chinese Communist Party led by Deng Xiaoping took control of the Party and the political power of the State and his supporters proceeded to launch his capitalist Reform. It only took a few years for Maoists outside China to recognize that Deng's Reform was capitalist and that it intended to completely reverse China's socialist relations of production, despite the fact that Deng continued to claim that his Reform was "socialism with Chinese characteristics." There really is no longer any question that today's China is a capitalist country.

However, 32 years after China embarked on its capitalist Reform, a disagreement has emerged among the Left outside China (and between the Right and the Left inside China as well) on whether the country has already become an imperialist country. Or if it has not yet become one, there is debate on whether it has the potential to become such an imperialist country. Moreover, in recent years, the mainstream media in the US and elsewhere has portrayed China as a new rising power and therefore, a major potential competitor of other imperialist powers. Some have even suggested that China has the potential to replace the US as the next superpower. The Left outside China needs to have a clarification on the question of whether China has become or has the potential to become an imperialist country, in order to avoid falling into the trap of busying ourselves comparing China with other imperialist powers while losing sight of the bigger picture of our struggles against imperialism in today's world.

There are good reasons for many on the Left in other countries to believe that China has indeed become an imperialist country. One of them is that we witness what China has actually done in many less developed countries. It has not only exported capital to these countries, but has also taken resources from them and has exploited their people in the same way that other imperialist countries have. In other words, China has cer-

tainly behaved like any other imperialist country and, therefore, it is seen as one. It's important to recognize and seriously weigh the fact that Chinese investors in many parts of the world behave the same way that investors from imperialist powers have, exploiting people and robbing them of their resources. In many cases, Chinese investors have also committed other crimes against people in less developed countries where they carry out their business operations. In October 2010, for example, two Chinese supervisors of a Chinese-owned mining company in Zambia shot 13 coal miners during a wage protest. Local prosecutors decided not to pursue a case against the two, indicating the tremendous power Chinese businesses wield over Zambia's government and angering many people there.⁴¹³ In many other cases, Chinese businesses have abused their power as investors to exert their influence. Therefore in our struggle against imperialism, we must oppose China as we oppose all imperialist countries.

We also need to recognize China's successes in building political and economic relationships with the governments of countries from which it acquires its energy and natural resources. The Chinese government has formed alliances with the reactionary governments of these countries and has promised support for these governments' to oppress their people and suppress any revolutionary or popular uprisings. We must thus oppose the Chinese government's negative role in these countries, including the support it has given to the ruling classes there. In opposing the reactionary Chinese ruling class, revolutionaries stand in solidarity with all workers and peasants (including the Chinese).

The second reason for the Left outside of China to conclude that China has already become, or has the potential to become, an imperialist country is that it believes that capitalist Reform has been able to transform China into a strong, independent, capitalist country. Left forces believe that being such a country, the Chinese state exercises monopoly control over its industries and economy and is thus able to defend itself against foreign capital. Unlike many other less developed countries, it can avoid being dominated by international monopoly capital. As they see it, China has been able to develop its productive forces to become another major economic power that has almost, or has already caught up with, other

⁴¹³ *New York Times*, April 4, 2011.

imperialist powers. Since there are obvious signs that the US and other imperialist powers are in decline, some on the Left see China's potential in the near future to become another imperialist power that equals or even surpasses the others.

However, despite Chinese investors behaving just like investors from imperialist countries, I have to conclude that China has not become an imperialist country nor has it the potential to become one.⁴¹⁴ To understand the reasons for this conclusion, one has to follow the analyses made in earlier essays of this book (especially in “An Analysis of China's Capitalist Reform”) and the updates in this concluding essay. I show that, contrary to the belief or perception of the Left in the West, China has not been able to build a strong, independent, capitalist economy to counter the imperialist forces from outside. Nor has it been able to free itself from the domination of Western imperialist powers and Japan.

When the Reform began in 1979 (as I wrote in “An Analysis of China's Capitalist Reform”), some Reform leaders believed that since China had already built a rather strong industrial base, it could use its state-owned industries as defense against global monopoly capital. They also believed that China could make use of foreign capital and foreign technology without subjecting itself to imperialist domination. They thought that China could use its huge market to entice foreign capital, and to negotiate deals to obtain advanced foreign technology in exchange for foreign access to parts of the Chinese market.

In the 1980s and in the beginning of 1990s, there were patriotic voices in China calling on the Reformers to be cautious in dealing with foreign capital. These voices noted that China should not give up its industrial base and should find ways to develop its own capitalism. Thus, the new regime initially wanted to restrict the share of foreign capital in joint ventures and did not want to have businesses that were fully owned by foreign interests. It also wanted to decide its own trade policies by having the freedom to set import duties and import quotas. As a result, negotiations for China to join the GATT and later the WTO did not go smoothly for one and half decades. In hindsight, we realize that at the end of the 20th century, there were both internal and external deterrents that prevented

⁴¹⁴ Since this paper was written, I have changed my conclusions on this question, on which I elaborate in *From Victory to Defeat*, Foreign Languages Press, Paris, 2019.

China from developing capitalism on its own without the domination of international monopoly capital.

Internal and External Deterrents

Internally, although the Reformers were able to force the de-collectivization of agriculture rather easily, they encountered many serious difficulties when taking on the state-owned industries.⁴¹⁵ Then in the 1990s, the Reformers made the decision to launch a full-scale privatization of state-owned industries by closing down many of these factories, transferring them to state bureaucrats to own and run, or selling those to private investors. At that time the Reformers dismantled large numbers of heavy industrial complexes in the Northeast that were built in the 1950s and tens of thousands of light manufacturing factories in cities all over the country, but especially in provinces of central China.

The Reformers made this decision, because they realized that a full-scale privatization was the only way to get rid permanently of millions of workers in these former state-owned industries. They successfully changed the relations of production from socialist to capitalist only when the privatization was near its completion. The former state-owned industries were barriers that had to be removed in order for the Reform to advance: privatization was the necessary outcome.

The “opening up” component of the Reform was complementary to changing the relations of production from socialist to capitalist. China began to grant favorable conditions to welcome foreign investors especially after it joined the WTO at the end of 2001. The Reformers explicitly welcomed foreign corporations, because they would help demonstrate how to run modern (i.e., capitalist) enterprises efficiently. In order to justify this full-scale privatization, propaganda carefully targeted the “inefficiencies” of state-owned factories and promoted the idea that only material incentives and the threat of unemployment could get workers to work harder. The privatization of state-owned industries was a brutal class struggle, and its implementation was necessary for the Reform’s success.

In the process of dismantling state-owned industries, the Reformers also set up the infrastructure needed for the building of new privately owned factories in the coastal areas. Many of these new factories were

⁴¹⁵ See “An Analysis of China’s Capitalist Reform,” p. 199.

foreign-owned and quite a lot of the owners were (and still are) businesses from Hong Kong and Taiwan, which, by the time they came to China, already had many years of experience working as contractors for Western and Japanese multinationals. This setup paved the way for the export-led-growth type of development. These corporations drew new sources of labor supply from China's countryside and thus also served as an important component of Deng's Labor Reform. This framework divided China's workers into two separate groups: workers belonging either to former state-owned factories or new private corporations. Most of the latter group were internal migrants from China's countryside.

In other words, in order for the Reform to proceed successfully, the new regime in China had to relinquish much of the state control it had over its industries. Large-scale privatization and setting up a new environment for private enterprises to flourish were necessary to change the relations of production. At the same time, state control over the economy was drastically weakened.

Another factor indicating that the Reform has not helped China develop into a strong capitalist economy is its lack of a modernized agricultural sector. As discussed in other essays, by the end of the 1970s, after 20 years of development under the commune system, the modernization of agriculture was well on its way. After de-collectivization was completed in 1984, China's agricultural production increased for a brief period and then stagnated. The rate of return in agriculture is too low to attract any private capital. Some large commercial fruit and vegetable farms were built and they are still holding on even though the drop in exports during this global economic crisis has hurt them, but crop-producing farms have been doing poorly.

Many crop-producing farms now just produce enough for their own consumption. For a number of years, there have been reports of farmers abandoning their lands. Since more than 150 million peasants have left their villages for jobs in cities, rural households do not have enough labor to farm the land. Although most of them hire harvesting teams equipped with machines to do the most difficult jobs, the fees they pay are yet another expense to be paid out of the little revenue they receive. A recent report from the *International Herald Leader* (May 23, 2011) said that in 2011, land abandonment had become more significant due to large

increases (30-50 percent) in the prices of agricultural inputs, such as seeds and fertilizer. Low crop prices and high costs of production have squeezed the farming incomes of many peasant households, making land abandonment their only option. As I said in Section A of this essay, the result is that China has become more dependent on food imports. Currently there is little prospect for China to modernize its agriculture and without a modernized agricultural sector, it cannot become a strong, independent, capitalist country. The predicament of Chinese peasants today is not unlike that of most peasants in the less developed world.

Externally, it is obvious that there have been barriers preventing China from developing capitalism on its own. For it to develop a strong capitalist economy independently, it would have to exercise more control over its own economy, and its industries would have to enjoy advantages when competing with foreign multinationals. These advantages would enable China to become a contending power challenging imperialist powers. As it turned out, the Reformers eventually came to realize that the powerful imperialist forces would not allow China to develop capitalism independently. They recognized that the conditions they had insisted upon in joining the international trade organizations (first GATT and then the WTO) prolonged the negotiations and delayed China's admission. By the mid-1990s and especially after the Asian crisis in 1997, the Chinese government understood that the country would not be allowed to join international capitalism without giving up many of the conditions that would enable it to exert significant control over its own economy. China finally backed away from those demands and accepted the terms set by global monopoly capital when it joined the WTO at the end of 2001.

Even before imperialism reached its late phase in the 1980s, revolutionaries in many Latin American countries and in Asian countries foresaw that their countries could not succeed in their attempts to develop capitalism independently. In the earlier decades of the post-WWII period, revolutionaries in these Latin American countries were convinced that their domestic bourgeoisies were too weak to defend their countries against imperialist aggression. They did not believe the strategy of import substitution and nationalization of important industries would actually protect them from foreign domination. Events that followed the 1980s have proven them right: independent capitalist development was indeed not

an option for these countries in the age of imperialism. Through the new neoliberal offensive, major imperialist powers, with the help of international financial and trade organizations, leveraged the foreign debts owed by these countries, successfully forcing them into bankruptcies. These aggressive actions facilitated the takeover of these countries' economies by international monopoly capital. These same aggressive actions taken by the same imperialist powers behind the neoliberal offense were ready when they came to deal with China.

In addition to the neoliberal economic and political strategy, neoliberal ideology has swept the world, including China. The Reformers promoted neoliberal capitalism enthusiastically. How else could we explain why major Chinese universities invited Milton Friedman to give extensive lecturing tours all over the country to peddle his most conservative brand of capitalism? The neoliberals propagated their ideology among Chinese intellectual elites for quite a number of years until the Reform encountered many problems in all arenas and met strong resistance from below.

By the time China joined the WTO, it had opened itself up and taken down nearly all barriers for foreign capital to expand. Even a mainstream economist, Nicholas R. Lardy of the Brookings Institution, admitted: "By the time China entered the WTO it was already perhaps the most open of all developing countries." Admitting China into the WTO quickly expanded foreign investment in the country and accelerated its trade (especially exports) with imperialist countries.

In the decade after China's admission to the WTO, its export and GDP growth took off, reaching double-digit rates. Thus, in this 10-year period, international monopoly capital has been able to transform China's economy to their liking. As I explain in Section A, this "development" has trapped China at the low end of the international division of labor. This means that foreign monopoly capital has been able to take advantage of China's low labor costs, low tax rates, readily available land, plentiful supply of raw materials and energy, modern updated infrastructure, and the freedom to dispose of waste without being burdened by cleanup costs. Moreover, from the very beginning, foreign capital has had its eye on China's vast domestic market. The Reformers used the strategy of bartering China's market with advanced foreign technology, but have admitted that strategy was a total failure. China provided the multinationals a vast

domestic market without obtaining any significant new technology. Its automobile market is bigger than that of any other country, and in 2010 General Motors alone sold more cars in China than it did in the US. At the same time, China is dependent on imported technology of automobile manufacturing. From automobiles to pharmaceuticals, soft drinks to fast foods, delivery business to retail chains, sports equipment to health care, China now provides a huge market for these businesses to grow and occupy. In short, the new regime lost its bargaining power when it negotiated deals with foreign monopoly capital, backed by the imperialist states and international financial and trade organizations.

It is true that China has expanded its trade and investment and competed with imperialists in acquiring energy and other natural resources in many parts of the world. In the last decade or more, it has signed bilateral trade and investment agreements with large numbers of countries all over the world. It now has investments in practically all underdeveloped countries in its quest for energy and raw material. It has also invested in manufacturing in these countries and has tried to expand its economic and political influences not only in Asia, but also in Latin America, the Middle East and Africa. These actions taken by the Chinese government have caused some alarm, yet they have been tolerated by the imperialist center. One important reason is that China must have the energy and other natural resources to continue its current course of “development,” which benefits monopoly capital from imperialist countries. In fact, since large volumes of manufacturing have been shifted to China, the imperialist powers have also conveniently shifted to it the “burden” of acquiring energy and natural resources as well. To cite one example: China transformed from an oil exporter to an oil importer in 1995, and then in a few years became the second largest oil importer next only to the United States. As for China’s investment in manufacturing in these less developed countries, it is not yet big enough to pose any challenge to the imperialist center. Also, these Chinese manufacturing firms are often contractors of Western multinationals. However, imperialist powers may soon find that China’s shares in these markets are too big to be ignored or tolerated.

I have reached the conclusion that China is not an imperialist country. However, it does play a very significant role in the global economy today; what happens in the Chinese economy has a strong impact on

global monopoly capital and on the economies of the imperialist countries. China is now the world's largest producer of more than 170 products, including steel, aluminum, cement, computers and cell phones, among many others. Since China has had a large trade surplus for the last decade, it has become a major exporter of capital. By 2000 China, together with other Asian countries, made less developed countries as a whole net capital exporters to imperialist countries.

China continues to run trade surpluses and thus increases its foreign exchange reserve holdings to reach a total of 3.2 trillion USD. It has become obvious that China is reluctant to buy up more US debt, especially after its downgrade by the Standard & Poor's in August 2011. However, since China has already invested so much in American debt, it has little choice but to buy more, as long as it continues piling up US dollars in foreign reserves. For China, the US as a debtor has become too big to fall. If it were to fall, China as its largest creditor would fall with it. China also holds debt of EU countries, most of them from Germany and France, as a way to diversify risk away from the dollar. China purchased some bonds for bailing out Portugal in September 2011, and there has been external pressure for it to invest more in rescuing the weaker economies in EU, although the government faces strong domestic opposition for such action.

The option for China to use its large reserves to acquire private companies in the US and in EU is still rather limited. Therefore, the large and still increasing foreign debts held by China should not be considered as its economic strength; rather, it is the manifestation of the worsening global imbalances, which has to be corrected someday. On the one hand, China's investment in less developed countries is to acquire resources for the production of its large volumes of exports; on the other hand it is also to find an outlet for its large foreign reserves that it finds difficult to manage.

The imperialist countries have always been able to shift the burden of the capitalist crises to countries they dominate. During this latest and last stage of imperialism, it is obvious that the economic crisis in Latin American countries from the 1980s and the crisis in Asian countries from the late 1990s are both crises of capitalism that were shifted to these countries. The most important causes of the Asian crisis were the shifting of industrial overcapacity mostly from Japan and the rushing of finan-

cial investment—mostly from the US to these countries—which blew up large and unsustainable bubbles and eventually brought the economic collapse. It was after the Asian crisis that the focus of the monopoly capitalists shifted to China and began to build up the overcapacities there. While the worsening of the crisis in China has been temporarily avoided, it will eventually arrive when the overcapacity in many parts of the economy leads to large numbers of bankruptcies. Here we should recognize that China has little power to shift its overcapacity elsewhere as other imperialist countries have done. China and its people have to suffer the brunt of the worsening of the global crisis of capitalism like many less developed countries, and even the weaker economies in the EU.

There has also been talk that China has been modernizing its military by producing additional up-to-date military equipment and also buying more from Russia. There is a perception that China is flexing its military muscles and becoming a threat to its neighbors: South Korea, Japan, India and others. Since both South Korea and Japan have military alliances with the US, does this mean that China is challenging US hegemony in Asia? This, together with the perceived threat of North Korea in northeast Asia, was the justification for the US to launch joint military exercises with South Korea in the Yellow Sea near China's coast and near the border that divides North Korea and South Korea.

Propaganda aside, statistics do not show a Chinese military buildup on the scale portrayed by media. According to the Stockholm International Peace Research Institute, China's overall military spending in 2009 totaled 99 billion USD (in 2008 dollars), while the US spent more than six times that amount for its own military. In terms of GDP, China's military spending is less than half of that of the US and less than its overall spending at the start of the 1990s. The spokesperson of the Research Institute said, "There is not much evidence of an arms race."⁴¹⁶ The same report also said that China's new military capability means extra risk for the US if it were to approach China's coast closer to its borders, and that it also improves China's ability to project power.

However, that is all China's military buildup has amounted to. The report also mentioned that US military spending in Asia is overshadowed

⁴¹⁶ *The Economist*, A Special Report on China's Place in the World, December 4-10, 2010, p. 7.

by its need to cut its budget and its focus on military engagement elsewhere, such as Afghanistan. The military hegemony of the US has been under pressure due to its mounting debt and the overextension of its military power—but that is very different from suggesting that China is a rising military power capable of competing with the US.

As stated earlier, revolutionaries in Latin American countries and elsewhere understand that because of imperialist domination, their countries cannot develop independent capitalism in the same manner as the countries that developed capitalism in the 18th and 19th centuries, namely, the US and Germany. The history of imperialism in theory and from practice shows that there is no longer a path for countries in Asia, Africa, and Latin America to leap from their less developed status to become another imperialist country. Attempts were made by bourgeois economists in imperialist countries to prove the opposite was true. They cited the “newly industrialized countries” (NICs) as examples of countries that were able to link themselves to the international capitalist system and transform themselves into industrialized economic powers. This kind of propaganda might have had some short-term impact in convincing countries that they should join “globalization” for their own good. The clear-minded Left certainly has not been so persuaded and has continued its fight against imperialist “globalization.”

The current regime in China, since it seized power in 1978, has found it convenient to use the NIC argument for continuing its Reform and for giving up its many requisites to join the WTO. US imperialists now use China and India as examples of how countries fast track their development if they simply open their doors and integrate themselves into the global capitalist system. If the Left still believes, as it did before, that a transformation from being a less developed country to becoming a new imperialist power is not possible for any country in the world of imperialism, why does it think that China can be an exception?

The analysis presented above leads me to conclude that for reasons both internal and external, China has not and cannot become an imperialist country. I think we can go one step further to examine the class nature of China’s Reformers. Many would agree that China seems to have a strong State, at least on the surface. However, if that were true, shouldn’t China have a strong capitalist class behind the State? In what sense are we

talking about the existence of a strong capitalist class? Is it in relation to the bourgeoisie behind the existing imperialist states or in relation to the Chinese proletarian class? I think it has to be both.

For people who argue that China has developed a strong capitalist economy and has risen in the ranks to compete with imperialist powers, the question we need to ask is: What are the necessary conditions for such a new capitalist power to become a reality in today's world of imperialism? Clearly, a strong independent capitalist economy would require a strong national bourgeoisie wielding state power. However, in no less developed country today (or at any time during the history of imperialism), including China, has there actually existed a strong national bourgeoisie. The new capitalists in China cannot fulfill the requirements of a strong national bourgeoisie even if they appear or pose as such. As I described above, the Reformers in China realized their own weaknesses and understood that cooperating with foreign capital was a better option for them than putting up any strong resistance. In the earlier discussion on the political situation in China, I showed that there are different factions within the State. As China proceeded with its Reform, the Right and the politically powerful groups pursued their own self-interest, grabbing whatever they could get their hands on. These powerful groups soon realized that cooperating with foreign capital was (and still is) one of the best ways to accumulate wealth. It is actually more appropriate to call these new capitalists in China bureaucratic capitalists instead of a class of new bourgeoisie.

These bureaucratic capitalists in China are not unlike their counterparts in other less developed countries. They lean heavily on international monopoly capital and derive benefits and other advantages from the connections they have with foreign capital. The Chinese government may at times demonstrate a little more independence, because it still has control over some key industries. The Chinese bureaucratic system may also operate more efficiently in facilitating capital accumulation after it takes a big cut. However, like their counterparts in other less developed countries, Chinese bureaucratic capitalists have not demonstrated in any way their ability or will to protect either the people or the land from the exploitation imposed by international monopoly capital. They just join international monopoly capital in dividing the loot. It is rumored that more than one million rich and powerful Chinese have already acquired citizenships in

Western countries. It is common knowledge that the super-rich in China have invested in expensive real estate in many major cities in Europe and the US. They stay in China for as long as they can continue to accumulate wealth but are ready to abandon ship as soon as their privileged positions are threatened.

An Examination of China's Capitalist Reformers

Looking at the bureaucratic capitalists in China a little closer, we see that they face great difficulties in transforming themselves from degenerated Communist Party members into a new rising capitalist class. If they had had the power to do so, they would have abandoned the title of the Chinese Communist Party long ago. As the capitalist Reform has proceeded further and deeper, penetrating all spheres of Chinese society, the bureaucratic capitalists have lost all their legitimacy to hold on to state power as representatives of the working class and are being challenged by both the Left and the Right. The Left has accused them of violating the CCP Charter and the Constitution of the People's Republic, of oppressing the Chinese people, and of selling China's interests to the imperialists—and declare that they are no longer real communists. Rightist elements have demanded changes in China's political structure more in line with its economic reality, so they can participate in it as partners on more equal terms.

The bureaucratic capitalists cannot transform themselves into a new rising bourgeois class with firm control of China's industries to fend off foreign encroachment. This is despite the many major nationalized industries left to them after 30 years of socialism. Compared with bureaucratic capitalists in other less developed countries, they could have enjoyed a head start and an easier task by holding on to this industrial base. However, for the sake of the advancing the Reform, many nationalized industries, with a few exceptions, had to be dismantled for both internal and external reasons.

Another important reason for the bureaucratic capitalists' inability to transform themselves into a new rising capitalist class is the staying power of socialist ideology. The bureaucratic capitalists continue to face great difficulties in establishing their own ideology and culture. They have to borrow their ideology and culture either from the West or from China's

feudal past. Western culture does not have roots in China. Feudal culture, however, has deep roots in China's long feudal past; it is rearing its ugly head once more and is being promoted by the current regime. However, since it was criticized and discredited during socialist times, especially during the Cultural Revolution, it has lost its appeal and is struggling to reestablish itself, since feudalism's economic base was uprooted by Land Reform.

These weaknesses of China's bureaucratic capitalists are the main reasons that China cannot develop into a strong capitalist state that can oppose or rival imperialist states. For the same reasons, the bureaucratic capitalists cannot sustain the power and strength to win their current struggle against the proletarian class and its ally, the peasants.

D. Conclusion

When Lenin wrote *Imperialism, the Highest Stage of Capitalism* in 1916, he was able to show that imperialism was the eve of the socialist revolution. The Russian Revolution in 1917 and the Chinese Revolution in 1949 proved that socialist revolution could be victorious in countries at the weakest link of imperialism. The socialist construction that followed the Russian Revolution until the revisionist forces took over in the late 1950s and the socialist construction that followed the Chinese Revolution until the capitalist roaders took over in 1978 were the strongest anti-imperialist forces, thus also the strongest anti-capitalist forces, that ever existed.

Today, imperialism has reached its late phase and I believe it has also reached *the last phase of the highest stage of capitalism*. In this late phase, monopoly capital and the imperialist states representing it have encountered unprecedented economic, political, and ecological crises in catastrophic proportions. There is no prospect that any of these crises can be resolved within the framework of this late-phase imperialism. However, unless the anti-imperialist forces are strengthened and united in their persistent fight against imperialism in many parts of world, it will not be defeated. On the ideological front, it is more urgent than ever to confront imperialism head-on, with vigor and conviction.

Should the Left continue to be preoccupied with debates on whether China is on its way to becoming a new imperialist power that could overtake the United States, we fall into the trap of narrow narratives set up by

monopoly capitalism and its bourgeois intellectuals. China's current system lacks the ability to overcome the domination of the existing imperialist powers. Also, in the late phase of the last stage of capitalism, monopoly capital and its representative imperialist states—any imperialist state—can no longer carry on their business as usual. This also means that the physical world—the earth itself—has reached its limits in sustaining the destruction brought upon it by the imperialist system. Therefore monopoly capitalism at this late phase no longer has the capacity to let the existing imperialist powers (exemplified by the hegemony of the US and others), or a supposedly new imperialist power like China, carry on their destructive operations to decimate the earth unless we, as human beings, are willing to be buried together with it in its ruins.

That being said, the Left should in no way excuse any imperialist-like behavior of Chinese capitalists, private or state, as expressed in their exploitation of workers, plunder of natural resources, and brutally criminal actions committed against people in the less developed countries. The anti-imperialist forces should publicize these actions and thus expose the true nature of the present Chinese state. I have confidence that those on the Left in China will join the fight against their own ruling system and oppose their government's abuses in other less developed countries.

Left forces in China have found it hard to understand why some Left forces in other countries think China has become a new and rising imperialist power. China's government, in the eyes of the broad masses especially the workers and peasants, has been very weak in dealing with imperialist powers, which is the reason it sold out the interests of the Chinese nation and people. In order to stand firmly behind the struggles of the broad masses of the Chinese people, the Left outside China needs to recognize the extent to which imperialism has exploited the Chinese people. The sufferings endured by Chinese workers and peasants in the past 30 years may have even been more brutal and more severe in some ways than those suffered by some of their counterparts in other less developed countries. The Chinese bureaucratic capitalists have behaved more cowardly toward the imperialist powers and acted more brutally toward Chinese workers and peasants. After 30 years of capitalist Reform, revolutionaries in China believe that returning to socialism is the only way to liberate Chinese workers and peasants and the rest of the Chinese people.

Continuing Class Struggle in China 62 Years After the Revolution

Revolutionaries in other oppressed countries, after going through hundreds of years of colonialism and more than a century of imperialism or neo-colonialism, are of the same belief. Therefore, the struggle against imperialism and the struggle for socialism and national Liberation have become a single struggle that unites people fighting for Liberation. Sixty-two years after Liberation, the lessons and imperatives drawn from China's revolution and continuing class struggles remain as relevant and urgent as ever.

POSTSCRIPT

There have been many changes in China and in the world since I finished the concluding essay of this book in late 2011. In this postscript I will highlight some of the changes that I consider important.

Updates on the Economy

In the concluding essay of this book I explained why China was facing tremendous economic difficulties in spite of its enjoying double-digit GDP growth rates for nearly two decades. The difficulties were and continue to be China's overdependence on exporting low-end products, which has exhausted its resources and severely polluted its environment. This low-end labor-intensive manufacturing has provided jobs for a large portion of the 150 million migrant workers from the countryside, but their wages have been kept low to maintain the export volume. Low wages have meant that China's domestic market remains too small to support GDP growth and employment, and therefore, the over-reliance on exports has continued.

The global economic crisis that began in 2007 had a negative impact on the growth of China's exports in the two years that followed. However, its export growth has continued even though the rate of growth has declined. China's export growth fell from 31% in 2010 to an average annual rate of 21% in the first eleven months of 2011. Its economy still grew by 8.9% in the final three months of 2011 compared with the same period in 2010. Both growth rates are still very impressively high compared to other countries in the global economy. These figures indicate that the government stimulus package of 4 trillion RNB and the 7.3 trillion RNB increase in bank credits in the first half of 2009 have worked well to stabilize the economy in the short run. But the long-term problems of the economy remain unchanged. The government's stimulus spending has merely left the economy more imbalanced. The reason is that for more than a decade before the global economic crisis, China's high GDP growth was maintained by high rates of export growth and investment in building factories (in order to produce the high volumes of export goods), and by high rates of investment in urban (and rural) housing and commercial

buildings. In addition, government spending on infrastructure was also very high. In other words, China's GDP growth was fueled by high levels of export and investment, both in the public and private sectors. Growth in domestic consumer spending greatly lagged behind GDP growth.

In the concluding essay, I stated that the National People's Congress held in March 2011 planned measures to increase consumption from 35% to 40% of GDP by 2015 in order to boost the domestic market. Forty percent is still a very low rate compared with other economies whose consumer spending ranges from 65% to 70% of GDP. The government has moderately increased spending on social welfare, but it is far too small to make a difference in the skewed proportions of the GDP. In fact the government stimulus package has only intensified the distortion of what Yu Yongding (a professor at the Chinese Academy of Social Sciences) called an investment overdrive. The investment rate as percentage of GDP increased even more from the infrastructure spending of the stimulus package. As a result, total public and private investment amounted to a whopping 50% of GDP in 2009. Yu indicated that rebalancing the economy would take a long time, because the government does not want to employ shock therapy. In the meantime, the economies of the Eurozone are heading toward a recession, while the recovery of the US economy has been slow. These tendencies indicate that the growth rates of China's exports to these economies will continue to decline or even come to a halt.

The steady rise of the RMB against the dollar since mid-2010 has further squeezed the profit margins of exporters, resulting in the continued pressure to reevaluate the RMB. Further, while the inflation caused by easing the money supply in 2009 has somewhat slowed, higher costs of living have fueled demand for higher wages. As stated in earlier essays, since bank loans were often unavailable to small export manufacturing businesses, they had to borrow from illegal moneylenders at a very high interest rate. All these pressures have forced more export industries into bankruptcy.

In short, the government rescue package has temporarily kept the economy from slipping into a deep recession. However, it is not at all certain that these rescue measures can avert the collapse of the bubble inflated by years of over-building. It is very likely that the Chinese economy will go into a deeper and more prolonged crisis before it can begin to correct its

overdependence on exports and overinvestment (including infrastructure spending by the government).

Strikes and Protests Continue and Expand

In the meantime, the wave of automotive workers' strikes that began in the spring of 2010 has spread into other sectors of the economy. With some export manufacturing firms moving in the past few years from the coastal areas to interior provinces such as Sichuan and Henan, labor strikes and protests have also spread wider geographically. Workers have struck for higher wages and benefits and for better working conditions. There have also been protests against layoffs due to downsizing, including factory closings, abandonment of businesses by owners, and mergers and acquisitions.

The demand for steel has leveled off as government spending on infrastructure winds down. Many steel companies are operating in the red, and there have been a number of steel workers' strikes. On January 4, 2012, steel workers from Pangang Group Chengdu Steel, a state-owned company in the industrial zone near Chengdu, Sichuan went on strike for three days. As a result, the workers were able to negotiate some moderate wage increases. Many other steelworkers in the coastal areas also went on strike in recent months. In Dongguan, a manufacturing town near Shenzhen, workers of a Taiwanese-owned factory staged a protest, because the owner ran off. Workers in another Taiwanese-owned factory, also in Dongguan, held a street protest against wage cuts and layoffs. The city's police force has been busy breaking up protests and trying to maintain order. Their job to keep down angry workers has become increasingly difficult. In January 2012, workers from the Jiangxi Changhe Automobile Co. went on strike to oppose its merger with its parent Chongqing Changan Automobile Co., which could lead to their losing their jobs. After a four-day strike, the government issued an order to keep Changhe independent.

The working conditions and the treatment of workers at Foxconn factories have been widely reported in the West even by the mainstream media. More recently, since Foxconn speeded up its production of the new version of Apple's iPad, it pushed the workers to further extend their 15- or 16-hour day. Some 200 workers at the Foxconn factory in Wuhan went to the factory rooftop and threatened to jump to their deaths unless their working conditions changed. The mayor of Wuhan had to intervene and

persuade the workers to change their minds. Another Foxconn factory in Chengdu suffered an explosion from accumulated metal dust, causing a fire that killed three workers and injured 15.

As I indicated in my conclusion, the second generation of migrant workers are more ready to stand and fight as compared to their parents. The Chinese Academy of Social Sciences (CASS) recently published a report⁴¹⁷ saying that the strikes in 2011 were better organized and more confrontational as compared with those in 2010. The report also said that strikes in coastal factories now mainly involve second-generation migrants who are more assertive than their parents. Although some factories moved westward to the interior regions, they are still concentrated in large cities, where workers are still migrants from rural areas.

Recent labor strikes and protests seem to show that younger workers consider themselves urban residents, because most of them no longer have a home in the countryside to which they can permanently return. There are fewer opportunities for the younger generation of migrant workers to earn a living in the countryside. Yet most of them do not have legal resident status and are not eligible for benefits enjoyed by their urban counterparts, such as education for their children.

The China Labour Bulletin in Hong Kong also indicated that the upsurge in strikes and protests by workers across China towards end-2011 were better organized. Workers in these struggles showed more determination and were willing to negotiate with the management to resolve issues of higher wages and better working conditions.⁴¹⁸

The struggle of villagers in Wukan, Guangdong in December 2011 stands out as one of the most significant events in China in terms of recent protests. Land disputes in the countryside between villagers and village officials have been frequent in the last several decades. Village officials commonly seize plots of land from the peasants and sell them to real estate developers. People who dared to challenge the corrupt officials usually suffered mental and physical abuse, including imprisonment and death. Many of the unfairly and often brutally treated villagers went to Beijing to petition the central government, but rarely were land disputes resolved

⁴¹⁷ <http://www.cass.cn/file/20100722277072.html>.

⁴¹⁸ https://www.clb.org.hk/sites/default/files/archive/en/share/File/research_reports/unity_is_strength_web.pdf.

in favor of the peasants. As local governments increasingly become dependent on selling illegally seized land as a source of revenue and as a way to enrich officials, peasants in villages across China are fueled with so much anger that they can no longer be contained and suppressed.

In December 2011, villagers in Wukan complained after village officials seized their land and sold it to developers. Electing their own leaders, they started a protest against the officials' illegal actions and declared that they would not give up until they reclaimed their land. The Wukan struggle is significant because the peasants were well-organized, united, and determined in their struggle. On December 21, they agreed to stop the protest when the Guangdong (Provincial) Party leadership intervened in their favor. On January 15, 2012, Lin Zuluang, the protest leader elected by the peasants, was appointed Wukan's new Party chief. In effect, this meant that villagers were able to oust the corrupt officials who seized their land.

Wukan's victory is most significant, because it points to a way for villages to get back land taken illegally and to right the wrongs of local officials. Rather than go to Beijing to petition the central government, they showed that they could win by standing and fighting together at the local level against the corrupt officials. However, more recent news indicates that higher-level authority has repeatedly blocked Wukan's new government from operating smoothly. The struggle in Wukan is far from over.

Ideological and Political Struggles Intensify

There have been fierce ideological struggles both between the Right and the Left and among those who proclaim themselves as Maoists. More intellectuals have come to realize that China is in an economic trap, which resulted from major policies of the Reform. They have also become increasingly frustrated by problems in Chinese society including polarization, lack of basic social welfare, corruption, crime, environmental disasters, and many other ills. They are angry with the government and its inability to resolve these pressing problems and are also resentful for the submissive role they believe that the government has played toward foreign powers.

They have responded strongly to the new military strategy of the United States announced early in 2012 by President Obama—that of shifting its focus to the Pacific and Strait of Hormuz as a counterbalance to China and Iran. Many believe the West has imposed too much influ-

ence over China. They point out that the proposed privatization of 123 large government-owned strategic enterprises is a way to sell more Chinese industries to foreign interests, because domestic private capital does not have the ability to purchase on that large a scale. They are also unhappy that China has been asked to contribute more to rescue debt-ridden European countries, in addition to the 650 billion worth of Euro bonds China has already purchased. Forces on the Left have singled out the pro-Western elements in the government and academia, calling them traitors. Recently (February 2012), a group of well-known people drafted a proposal to the National People's Congress (NPC), asking it to re-institute a law into the Constitution that punishes traitors. The letter states:

In the 1954, the 1975, and the 1978 versions of our Constitution there was a law that specifically stated how traitors of China should be punished. However, this law was eliminated in the 1982 version of the constitution. Since the constitutional amendment in 1982 the Reform and Opening Up has been deepened. In opening up the economic, political, and cultural spheres of Chinese society to foreign countries, shameful deeds of selling China's interests to foreigners were committed by many people. The results are that foreigners now possess controlling interests in some strategic sectors of the economy: finance, information, foreign exchange, petroleum, railroad, automobile, air travel, agriculture, and some strategic resources. Moreover, our land and sea sovereignty have also been violated. Foreign capital now controls important sectors of the national economy. Many enterprises and banks formerly owned by the State were sold cheaply to foreign interests; importation of genetically modified seeds of major crops have been allowed, and that action threatens the very survival of the Chinese people; political propaganda spreading Western universal values has purposely aimed to mislead the kind of political reform that threatens the fundamentals of socialism; culturally decadent and declining Western bourgeois culture has attacked our socialist culture. All these behaviors of selling out our country have meant that we as a nation have

lost our independence, leading us down the road of dependent development. Such development has gravely threatened our national security and the integrity of our sovereignty and the fundamental interest of Chinese people.

The letter petitions the NPC to amend the Constitution to include the law that punishes the traitors of China. Many well-known people on the Left signed the letter and a national campaign for more signatures has begun. It has been reported that tens of thousands of people have also signed the petition.

One of the most significant developments in the last few months on the ideological front has been the split among those intellectuals who consider themselves Maoists. They are those who were referred to as the Left in general. (I referred to them as the Left in the concluding essay.) This split shows there are actually genuine and fundamental differences among the so-called Left. They have profound differences in understanding Mao's theory on revolution and in arriving at the correct strategy for change in China. Through their ideological struggle, the real Left has begun to emerge. Basically, there are two groups of self-proclaimed Maoists.

One Group Is Represented By Writers, Supporters, and Readers of the Utopia Website

I consider supporters and readers of the Utopia website Left-leaning Chinese patriots who are not happy with what has been happening in China since the 1979 Reform. They are critical of all aspects of Chinese society in the post-Reform era, especially of China's relationship with the West—and with the United States in particular. They strongly defend Mao and the socialist era, and most of them approve of the Cultural Revolution.

The three most outspoken authors/lecturers are: Zhang Xueliang, Kong Qingdong, and Han Deqiang. Their thinking on different issues provides us with an understanding of this group. All three basically accuse the bureaucrats in power of corruption and for selling China to foreign interests. They do not see overthrowing the existing Party and State as an alternative, because they believe if that were to happen, foreign powers (especially the United States) would have the opportunity to manipulate the chaotic situation and pursue a “color revolution” of some sort to

establish Western-style democracy. They do not believe that one-person one-vote Western bourgeois democracy will solve China's problems. They target certain Rightists within the government as traitors who are closely connected to foreign interests, and who advocate for Western-style democracy and continuing the Reform through further privatization of farmland and state-owned enterprises. All three are consistent in identifying who is responsible for China's problems. Their basic analyses of China's current situation and strategies to correct it are complementary.

A short summary of each helps deepen our understanding of this group:

On the occasion of celebrating Mao's 118th birthday in December 2011, the Utopia held a four-day event in Beijing, attended by more than a thousand people, many of whom came from other provinces. Zhang Xueliang, a professor at Minzu University, gave a long lecture in which he outlined his basic analysis. He believes that the basic structure of socialism still exists, meaning that both the constitution and the Party charter have been preserved. The problem, as Zhang sees it, is that people who are in charge have betrayed Mao's teachings. Therefore, the strategy should be for the masses to engage in protests to replace some of these traitors. He especially targets those he believes have sold out the country to foreign interests.

Kong Qingdong is a professor at Beijing University, and a popular commentator who regularly appears on TV. Kong has criticized all aspects of government policies, the Rightists, and different aspects of current Chinese society. Kong is a staunch nationalist. He always draws a line between what is Chinese and what is foreign (Western). He calls on people to love their country but does not issue clear statements about the class nature of the State. Kong, like Zhang, points his fingers at a handful of traitors who should take the responsibility for the whole of China's current predicament.

Han Deqiang, a researcher at the Aeronautic University, became known when his book (*Peng Chuang, On a Collision Course*) against China joining the WTO was published in 2000. In his book, Han said that China was not yet ready to compete with Western powers and would suffer defeat if it were to join the WTO. Han was instrumental in forming the Utopia group. He now thinks it is no longer possible for China to return

to what he calls scientific socialism, and that the best the country can do is to develop a more independent capitalism: “socialism with Chinese characteristics” or “capitalism with Chinese characteristics.” He goes as far as saying that Mao was a Chinese nationalist, not a Marxist.

In Zhang’s lecture at the New Year celebration, he came up with a sixteen-character declaration, which has become the motto for the Utopia website group. The declaration reads:

Eliminate corrupt officials and foreign spies
 Rectify the Party and save the country
 Democracy for the masses
 Sharing prosperity and wealth

What the group means by “democracy for the masses” is for the masses to participate in street protests. Zhang believes that street protest with mass participation is a viable way to achieve change. The Utopia group embraces the Chongqing model as one where people share prosperity and wealth, and Bo Xilai, the Party secretary of Chongqing, as the architect of this model. After Bo Xilai became Party secretary, he began cleaning up the corruption in city government and struck a serious blow against Chongqing’s organized criminal elements. He has also implemented social welfare programs for lower-income families, including low-cost housing, healthcare services, and assistance to the poor.

The Utopia group has praised Bo Xilai’s Chongqing program and holds it up as a model for other cities. They also hope Bo will be promoted to an important position in the CCP during its 18th Party Congress to be held in the fall of 2012. The group regards the outcome of internal struggle within the CCP at the top to be the determining factor for China’s future, and they regard Bo and a few others like him as the healthy elements in the Party. After the New Year’s celebration, the Utopia website claimed ownership of the sixteen-character declaration and formally called themselves Maoist Communists.

The Second Group of Writers and Supporters Strongly Differentiate Themselves From the Utopia Group’s Analyses

Those who belong to the Utopia group have often been categorized as reformists, while those who belong to this second group have often

been categorized as revolutionary. Since the spring of 2011, writers of the second group have set up new websites and articulated the differences between them and Utopia's three representatives and its sixteen-character declaration. Writers of the second group, in analyzing the situation in China, clarify that they don't rule out the need and possibilities of pushing for reforms within the existing political structure. However, they believe that the CCP is no longer a party of the proletariat. Rather, they believe that revisionists have taken control of the Party and have transformed it into a party of the bourgeoisie, adding that the basic principles stated in the Party Charter as the foundation of the CCP exist in words only. They believe that there is no possibility for Party to peacefully transform itself back into a party of the proletariat. They also believe that the class nature of the ruling Party determines the class nature of the State. It was the revisionist regime's policies of Reform and Opening Up that led China into its current predicament. Therefore, they believe that a strategy for basic change cannot just single out a few so-called traitors, although some people from this second group joined the Utopia group in writing the aforementioned letter addressed to the People's Congress. This group supports Bo Xilai and the Chongqing model as far as it represents reform within the capitalist system.

Soon after Utopia adopted the 16-character declaration, Chen Ming wrote a paper on January 18, 2012 to celebrate the event. Qing Yuan responded to Chen's paper with a sharp criticism, posted on the *Red China* website on January 21, 2012. Qing asked Chen why Maoist Communists wanted to help ratify a bourgeois party, adding that if you help the bourgeoisie ratify their Party, then it means you are taking the side of the bourgeoisie. Qing also criticized Chen for using terms such as "capitalist roaders" within the CCP, saying that "capitalist roaders" could only be used appropriately when the dictatorship of the proletariat still existed, and becomes meaningless after the bourgeoisie retook power. Qing equates "eliminating corrupt officials and foreign spies" with a commonly used political idiom in China: "rebellious against corrupt officials instead of rebellious against the emperor." Chen, in his article, called on the Party to rally around the masses and the masses to rally around the Party. Qing in turn said it was ridiculous to ask a bourgeois party to rally around the masses and to ask the masses to rally around a party that oppresses them. As for "sharing

prosperity and wealth,” Qing said that such a goal can only be realized in a society based on public ownership, and that it is also ridiculous to ask the CCP to share prosperity and wealth when it has wholeheartedly embraced private ownership. Qing further said that issuing a call to “share prosperity and wealth” while ignoring whether the system is socialist or capitalist is just propaganda to deceive the masses.

The analyses of this second group points out that the principle contradiction in Chinese society today is the contradiction between two classes: the bourgeoisie and the proletariat. They, of course, recognize the contradiction between foreign interests and the interests of Chinese bourgeoisie, as well as the contradiction between foreign interests and those of the Chinese people. However, they regard those contradictions as subordinate to the principle contradiction. The websites belonging to the second group all recognize that at this point, there is a need for a deeper understanding of revolutionary theories of Marx, Lenin, and Mao. They post articles and set up lectures as ways to promote and facilitate their study.

How Should We Evaluate These Two Groups?

Both Zhang and Chen severely criticize the CCP and the masses positively respond to these criticisms. They say that the globalization policies that started at the end of the 1970s by the coalition between the modern revisionists and the neoliberal capitalists have totally failed and are responsible for today’s international economic crisis. They criticize the Reform, the so-called socialism with Chinese characteristics, for causing serious polarization and many other problems, which resulted in the Reformers’ loss of the Chinese people’s support. They say that the Rightists’ proposals to deepen the Reform, or as solutions to problems caused by the Reform, are not workable, and that those in power have thus run out of alternatives. Utopia’s serious criticism of the CCP is the biggest reason why the website gained support from the masses. Zhang is a talented speaker and during his long New Year’s celebration speech, he was repeatedly interrupted by the cheers and clapping from the audience. The Utopia group calls for the healthy elements within the CCP to seize the last chance they have to redirect the Party toward socialism because it has run out of other choices.

However, in Qing's criticism of Zhang and Chen, he insists that there is no chance that the CCP will reverse its revisionist course, and neither is it true that the CCP has exhausted all of its alternatives. Qing claims that the CCP still has the alternative to nationalize more industries and launch a Nazi-style nationalist socialism that can give even more political power to new dictators. A Nazi-style regime would be strongly promoted by fanaticism dressed up in the banner of patriotism and putting all the blame for China's problems on a foreign conspiracy. Qing's point should be well taken, because there is a strong possibility the CCP could choose this alternative as a way of holding on to power.

In the meantime, the two groups are working together to oppose further privatization of more state-owned strategic industries in the fields of energy, petro-chemical, railroad, finance, telecommunication, city governments, education, and healthcare. The Rightists argue that these industries, now protected as a state monopoly, could enhance their efficiency through competition in the marketplace by way of privatization. The opposition argues that there is no private capital large enough in China to acquire these industries, and so privatizing them is tantamount to selling them to foreign capital. In that case, they argue, China would fall even deeper under foreign control. From the petition-signing campaign for the People's Congress to amend the Constitution and the spreading opposition against further privatization, to the larger-scale and more frequent strikes and protests among workers and peasants, the new CPP leadership that will emerge from the 18th Congress will surely face great challenges as the contradictions in Chinese society further intensify. At the same time, experiences from intensified ideological and political struggles are helping Chinese revolutionaries reach maturity and clarify their direction.

The Ousting of Bo Xilai and Its Aftermath

The above was written before a series of events since March 15, leading to Bo Xilai's ouster. Therefore, another update becomes necessary.

The Party's Central Committee, aware of the desperate situation in China, realized that in order to avoid total disaster, some kind of reform is necessary. Thus, five years ago, some Party leaders decided to transfer Bo Xilai from the Northeast, where he was the major of Dalian, to Chongqing to handle the city's terrible organized crime situation. It seemed obvi-

ous that an outsider, who was less connected with different local interest groups, would have a better chance to clean up some of the “black forces” there.

As mayor of Dalian, Bo Xilai demonstrated his ability as a capable and efficient administrator. Under his administration, Dalian became known for its prosperous economy, infrastructure building, and for its wide green spaces in parks and along city blocks.

At this point, after his downfall, many speculate about what kind of person Bo really is, but a few things are clear: he is capable and ambitious, and he did have his eyes on the central Party leadership. Moreover, Bo was keenly aware how the masses hate corrupt government officials and brutal police forces, as well as criminals whom the police rely on to do their dirty work. Bo saw there was room for him to carry out some reforms and to win people’s support from below. He therefore undertook some bold actions to clean up much of the corruption and criminal activity. His security chief Wang Lijun was mainly responsible for the cleanup. In addition, Bo set up social welfare programs, such as low-cost housing, subsidies to the poor, and so on. He also obliged businesses to pay wages due their workers. Moreover, he used the slogan “serve the people” as the code of conduct for Chongqing officials. The city residents welcomed all the reforms Bo was able to implement.

Bo Xilai’s bold actions in Chongqing hurt the interests of a broad range of people. That fact, plus the support he received from the people of Chongqing and from the Leftists in general, alarmed the power elites. There was a public groundswell to spread the Chongqing experience. Bo’s fall from power clearly indicates that even the moderate reforms he was able to achieve were already beyond the Party’s tolerance. The belief of some “Leftists” that some so-called “healthy elements” remained within the CCP turned out to be an illusion.

All the Leftist websites were shut down after March 15, then allowed to reopen after about a week. I understand they were warned to avoid discussing sensitive topics. However, these websites resumed their active criticisms of the Party and the government. More than forty websites were again shut down in early April. The site Redchinacn.net was later reopened, using a server outside China. In the meantime, not only did the Party strip

Bo of all his posts, it also trumped up criminal charges against him and his wife. The couple has more than likely been placed under house arrest.

The Rightists both in and outside of China cheered the Party's ouster of Bo, but they do not want the Party to stop there. They are pushing for further privatization and political reform that would allow a multi-party political system. On the other hand, the Bo Xilai affair has politicized even those who previously did not pay much attention to politics. This incident further exposed the true nature of the current ruling party in China and eliminated any remaining illusions. It is now much harder for the bourgeoisie in power to continue using the "Communist Party" label as a shield to resist both the Left and the Right. The government will have a difficult time putting an end to the ramifications of the way it handled Bo Xilai.

In the meantime, China Labour Bulletin reported that in March 2012, it recorded a total of 38 strikes across the country—the highest number of strikes since it started monitoring strikes in China 15 months ago. In the coming months and years, we can expect intensified political struggles to reflect the growing contradictions in China, as the growth of its economy slows or even becomes stagnated.

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