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The Chinese Miracle,  
A Modern Day Industrial  
Revolution

*Loretta Napoleoni*

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# The Chinese Miracle, A Modern Day Industrial Revolution

By Loretta Napoleoni<sup>1</sup>

## Resumen

En los últimos años, el debate sobre el milagro económico chino ha sido intenso. La crítica en general ha superado la adulación, lo que confirma lo difícil que es para los occidentales separar la economía china de la ideología comunista. Una forma moderna de acercarse a la rápida modernización de China es trazar un análisis paralelo con la Revolución Industrial y volver a examinar de cerca las políticas de Deng Xiaoping implementadas después de la muerte de Mao con el fin de desencadenar una revolución similar. De hecho, como veremos en este artículo, las similitudes entre China a finales del siglo 20 e Inglaterra a finales del siglo 17 son muchas. La economía china esta, por tanto, no tan lejos del capitalismo occidental.

**Palabras clave:** ideología comunista, capitalismo occidental, modernización de China, Revolución Industrial

## 摘要：

近年来，关于中国经济奇迹的争论一直非常活跃。总体上批评胜过了赞扬，这表明西方人很难将中国经济学与共产主义意识形态相分离。一个探讨中国快速现代化的现代方式就是要与工业革命相比较，并进一步重温在毛泽东逝世后邓小平为引发类似革命所采取的政策。事实上，我们将在本文中看到，20世纪末期的中国和17世纪末的英格兰相似之处颇多。因此，中国经济学与西方资本主义二者之间并非很遥远。

**关键词：**共产主义意识形态 西方资本主义 中国现代化 工业革命

## Abstract

In recent years, the debate regarding the Chinese economic miracle has been very much alive. Overall criticism has outweighed praise, confirming how difficult it is for Westerners to separate Chinese economics from communist ideology. A modern way to approach the rapid modernization of China is to draw a parallel with the Industrial Revolution and to closely revisit the policies Deng Xiaoping implemented after the death of Mao in order to trigger a similar revolution. Indeed, as we shall see in this article, the similarities between China at the end of the 20<sup>th</sup> Century and England at the end of the 17<sup>th</sup> Century are many. Chinese economics is, therefore, no so far from Western capitalism.

**Key words:** Communist Ideology, Western Capitalism, Modernization of China, Industrial Revolution

<sup>1</sup> Loretta Napoleoni is an Italian economist, author, journalist and political analyst. She is an expert on the financing of terrorism and is well known internationally for having calculated the size of the terror economy.



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## The Chinese Miracle, A Modern Day Industrial Revolution

In recent years, the debate regarding the Chinese economic miracle has been very much alive. Overall criticism has outweighed praise, confirming how difficult it is for Westerners to separate Chinese economics from communist ideology. A modern way to approach the rapid modernization of China is to draw a parallel with the Industrial Revolution and to closely revisit the policies Deng Xiaoping implemented after the death of Mao in order to trigger a similar revolution. Indeed, as we shall see in this article, the similarities between China at the end of the 20<sup>th</sup> Century and England at the end of the 17<sup>th</sup> Century are many. Chinese economics is, therefore, no so far from Western capitalism.

### Capi-Communism

Although twenty years of Maoism produced an annual growth rate of 4.4 percent and quadrupled China's GDP, at the end of the 1970s the Chinese economy was in chaos. State-owned enterprises had failed to absorb over 100 millions of young people entering the job market every year, and the agricultural sector struggled to feed the population.<sup>3</sup>

Mao's paradoxical legacy was that Chinese socialism threatened to burst under the pressure of poverty and hunger because there were so many Chinese, perhaps too many. In other words: economic growth had been insufficient. Therefore, if the Marxist economic model was to survive, it needed to modernize. The question was: how?

During the same period, in the Eastern Bloc, real socialism had encountered similar limitations and was struggling to keep afloat. Both systems, the Chinese and the Soviet, could not avoid looking westward, to the nations where the postwar economic miracle had brought peace and prosperity. Capitalism seemed to go hand in hand with economic growth. In the following decade, the 1980s, only Chinese communism would develop the intrinsic dynamism necessary to apply some of the principles of capitalism as a cure to the poor socialist growth performance. The doctor who prescribed such radical therapy was Deng Xiaoping.

Deng, who took over the reins of China after the death of Mao, was an astute and pragmatic politician; already at the beginning of the 1970s he had sensed that foreign capital represented the only hope for the survival of Chinese socialism. He also understood that, to attract it, China had to offer something special in exchange: cheap labor.

On paper, this approach, which eventually gave birth to a hybrid economic system, capi-communism, seemed paradoxical: to create in China the conditions which would enable foreign industrialists to exploit Chinese workers. "The economic reforms served to consolidate the single-party system," confirms Zhao Ziyang, general secretary of the Chinese Communist party from 1987 to 1989, describing the aims of the "open door" policy that Deng launched to attract foreign capitals.<sup>4</sup>

Even more absurd sounded the justification of this carefully tailored strategy, that the only way to save the socialist system was to apply in communist China the most basic capitalist principle: exploitation of resources. But economic history is full of paradoxes— and this one worked.

Deng's plan succeeded, one must add, also because of exceptional international circumstances: delocalization had made offshoring and out-sourcing much easier and profitable. Thus, foreign industrialists could easily move their factories to China and drive down both the labor and manufacturing costs of products sold in the rich West. Profits rose in consequence. Thus began the race to the East.

Globalization was, for the Chinese miracle, the equivalent of the invention of the spinning jenny for the Industrial Revolution, a watershed. And as it happened in England two centuries before, initially the biggest winner was capital, which in China was of foreign origin. From 1995 to 2003, Chinese exports increased from 121 to 365 billion dollars, of which more than 65 percent came from the Chinese subsidiaries of foreign companies. Foreign businesses, which included big names such as Apple computers, therefore, drove the tremendous growth of the "Made in China". And the profits ended up swelling the GDP of rich nations.<sup>5</sup>

2 Martin Jacques, *When China Rules the World* (London: Allen Lane, 2009), 98.

3 Lijia Zhang, *Socialism is Great* (New York: Anchor Books, 2009), 7.

4 Zhao Ziyang, *Prisoner of the State* (London: Simon & Schuster, 2009), 247.

5 Stephen Roach, *How Global Labor Arbitrage Will Shape the World Economy* (Global Agenda, 2005).

## Dismantling the Collective Farms

In the eighteenth and nineteenth centuries, a combination of factors - not just the invention of the spinning jenny – created a new balance of trade which projected England at the center of a new industrial world. These factors were: the advent of the steam engine and the Enclosure Acts, which forced thousands of farmers to abandon their fields and seek work in the factories. At the end of the twentieth century, an analogous cocktail of extraordinary events revolutionized the global manufacturing system, putting China at the core of a new globalized industrial world. The ingredients were: the crisis of the Chinese agrarian economy - which forced China's government to introduce internal labor mobility in the country, in turn giving rise to large-scale migration; the international deregulation - which after the fall of the Berlin Wall liberalized world markets; and a long period of low oil prices - which during the 1990's lowered the cost of transporting goods. It is the first of these phenomena that interests us here.

In 1958, the Chinese government had established a registry that divided citizens into urban and rural residents. This status was permanent; that is, it was forbidden to move between countryside and city or vice versa. The division reflected the so called "Maoist economic order", in the country, production was centered on the collective farms; in the city, on state-owned industry; and was very rigid: the two systems run parallel and never crossed.

Built along Marxist-Leninist lines, the Mao paradigm failed to lift China from the poverty into which it had plunged during the colonization of the preceding century. Mao had come to power following a century of profound negative growth. In 1820, Chinese GDP per capita was equivalent to 600 dollars; in 1870, it had dropped to 530; in 1950, a year after the Revolution, it was 439 dollars, barely 70 percent of the 1820 figure. It's no surprise then that the Chinese refer to the preceding 120 years as the "century of humiliation."<sup>6</sup>

Although after the revolution, in the 1950s, Maoist economic policy did boost GDP, communism, and in particular collective farming, lacked the incentives necessary to make the great leap and lift China out of the subsistence economy in which it had been stuck since colonization. By the end of the 1970s the situation had degenerated and agricultural and industrial production could not any longer even provide per a sustenance economy.

Deng decided to change Mao's economic order starting from the countryside. Between 1979 and 1981 he dismantled the collective farms, the old warhorse of Maoism. Farmers were permitted to raise pigs and poultry privately. It was the first step toward the institution of private property. Immediately afterward, Chinese farmers started to rent small plots of land and to cultivate what they wanted to, i.e. products that they would then sell directly at the markets.<sup>7</sup>

Everybody welcomed these changes, which shattered in only two years one of the cornerstones of Maoism: the collective farms. No one bent down to gather the shards; even the ultra-conservative wing of the Party was happy with the results obtained.

The dismantling of collective farms, in fact, had triggered an increase in agricultural production, making more goods available in a country plagued by chronic food shortages.<sup>8</sup> It was at this point in time that the mobility of labor entered the scene. Deng allowed Farmers to travel between villages and towns to sell their crops. Soon it became possible to work outside of one's own village. And for those unfortunate enough to have been born in the countryside, a new series of opportunities opened up - they could become *mangliu* or migrant workers and sell their labor in factories owned by foreign capitalists.

Labor migrations changed China's future, just as centuries ago the Enclosures had radically transformed England's.

<sup>6</sup> Jacques, *When China Rules the World*, 98.

<sup>7</sup> *Ibid.*, 10.

<sup>8</sup> Jasper Becker, *Hungry Ghosts* (New York: Henry Holt and Company, 1998).

## Market Marxism

While collective farming was being dismantled, Deng introduced a series of reforms to modernize the industrial sector. In 1978 he created the first Special Economic Zone in Shenzhen to attract foreign investors. Here the rules of production imposed by Chinese communism, and therefore also by state-owned enterprise, melted away, leaving space for a capitalist-style industrial system, with considerable incentives for outside entrepreneurs. Among them an endless supply of cheap labor originating from the Chinese rural reality. Thus the migrant workers became the backbone of Deng's industrial reforms.<sup>9</sup>

In the initial phase, migrations were tightly regulated. In the early 1980s, anyone wishing to try their luck in the Special Economic Zones had to apply for a permit in their own village and specify the destination. It was only in the second half of the 1980s that the situation changed, making it easier and easier for migrants to move and obtain authorizations. Thus a new season began: in 1990, there were already six million Chinese migrants; in 2003, when the government abolished the temporary identity cards, the numbers grew further; in 2008 there were over 200 million laborers on the move. Few people realized that what the world has witnessed in the last three decades is the largest migration in human history.<sup>10</sup>

Naturally Deng had to fight to implement all these reforms. The violent debate inside the Chinese communist party about the creation of the first Special Economic Zone in Shenzhen, well illustrates the tension between futurists (Deng's supporters) and dogmatists (those who remained bound to Marxism-Leninism).<sup>11</sup>

Thought there was plenty of cheap labor available, Shenzhen lacked the infrastructure needed to conduct this experiment in "market Marxism," the state did not have the money to finance its construction. So Deng proposed an alternative: license the land to foreign industrialists and use these proceeds to fund the creation of the necessary infrastructures.

The dogmatic wing violently opposed the idea using the example of Macao. Licensed to Portugal in the sixteenth century as a place for fishermen to dry out their nets, the island was transformed into a Portuguese colony. It's one thing to reduce one's labor force to a commodity, another to "mortgage" the land, even if only for a limited period: this was the main opposition's message. It took Deng months to put down the revolts inside the CCP and to defend himself against those who called for his resignation. The opposition was as intense on the Right, among the conservatives, as on the Left, among the Marxist-Leninists. The idea to lease Chinese land was equally shocking to both.

In the end, as often happens in China, common sense prevailed; given that the country lacked the economic and financial muscle to modernize on its own, there was no alternative but to make use of foreign capital. Thus the land was licensed to foreigners.<sup>12</sup>

Of course, the experiment remains strictly limited to the Special Economic Zones. In 1987 an American of Chinese origin, Ling Tung Yen, asked to rent for twenty or thirty years the uninhabited zone of Pudong in Shanghai, the current financial center of the city. The offer was extremely generous and the project ambitious, but the Party refused. In *Prisoner of the State*, Zhao makes the comment that if Ling Tung Yen had had his way, Pudong would have been developed fifteen years earlier. But China had no intention of rushing.

Despite the fierce opposition, Deng's vision of the future and policy was accepted because ultimately he was able to change the Party and restructured it according to new principles. One could say that he set in motion an ideological earthquake in the minds of CCP members.

These radical changes took place because in the 1980s the ruling Chinese class had embraced the economic problems of communism, a remarkable behavior especially in view of the inertia of the Soviet Nomenclature. Chinese men and women born during the century of foreign humiliation, who had seen the country rise again after the shameful experience of colonialism thanks to Marxism, people as Deng who had been ousted from power during the Cultural Revolution, reinvented themselves using as a tool the principles of the market economy. The party even accepted Deng's suggestion, that they should study the example of the Asian Tigers: Singapore, Hong Kong, South Korea and Taiwan, this latter China archenemy.

9 Sang Ye, *China Candid: The People on the People's Republic* (Berkeley: University of California Press, 2006), 38.

10 Leslie T. Chang, *Factory Girls* (New York: Picador, 2009), 12..

11 By the "Left" of the party one generally refers to the faction that continues to draw inspiration from Mao and his policies; by the "Right," the faction that is more open and favorable to reforms. See Willy Lam's article "Power Struggle Behind Revival of Maoism," published in *Asia Times*, November 24, 2009 (available at <http://www.atimes.com/atimes/China/KK24Ad01.html>).

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This might not seem like much, but we should ask ourselves what Western democracy today would be willing, for the good of the country, to so completely question itself; what government would have the courage to distance itself politically to such an extent, not just from a precedent of the same political stripe, but from its core beliefs and principles. When Deng proposed abolishing the collective farms, the cornerstone of Maoism, and renting out Chinese land to foreigners, this is precisely what he did.

## The Chinese Diaspora Returns Home

Winning the party support was hard, equally difficult was to attract foreign capital to a communist country. At the end of the 1970s, Mao still casted a shadow over every sector of the economy and the wounds of the Cultural Revolution remained open. What's more, China was a mystery for the West, which remained unsure of where or how to situate it in terms of the bipolarity of the Cold War. Nixon and Kissinger's 1972 diplomatic opening notwithstanding, the country was still a source of fear, and no one felt up to doing business with the Maoists.

Thus, the first investors to venture into the Special Economic Zones came from Taiwan, from Hong Kong, from South Korea. They were Chinese and foreign at the same time. They belonged to the country's diaspora, but their story was very different from that of the laborers they used. They were not communists; they knew the capitalist system and what kind of products the Western market preferred. For them, the role that China would play in international commerce was that of producing, at rock-bottom prices, the goods that Western consumers sought to buy on a daily basis. In their eyes, the army of Chinese laborers that they "employed" had neither name nor identity; they represented, rather, only one of the means of production, a slightly revised and updated version of the proletariat described by Marx.

At the beginning of the 1990s, a worker in a Meteor<sup>13</sup> factory explained the situation in the following manner to the Sinologist Pun Ngai, who had succeeded in passing herself off as a migrant worker:

We're not treated as people, can't you understand that? We're like dogs, we never quit. When a supervisor asks you to do something you have to do it, it doesn't matter where you are or what you're doing . . . Who cares about us? We're nobody, we're only merchandise.<sup>14</sup>

Many industrialists from the Chinese diaspora considered Deng's opening to capitalism the sign of communism's defeat, and assumed an arrogant attitude toward local authorities as well as to the workers. "The communists destroyed the country's economy and now they turn to us; this time it would be better if they listen to what we have to say." This was how a Taiwanese entrepreneur commented at the beginning of the 1990s on his presence in Shenzhen.<sup>15</sup> Hence the brazenness with which they violated the rules of labor legislation was born also and above all from the conviction that Chinese communism won't last, undermined as it is by an incapacity to manage the economy.

Naturally, these entrepreneurs preached and practiced a coarse brand of capitalism, forbidden in their own countries, hearkening back to the cruelties of the Industrial Revolution. Thus, visiting Shenzhen during the 1980's and 1990's was like traveling back in time, an economic *déjà vu*. A canopy of smog covered the Pearl River delta, the tropical region of Guangdong, where the factories spewed poison into the air night and day. The foreign-owned factory-dormitories swallowed up hundreds of millions of farmers, like their English ancestors. They lived there in what were often described as disastrous hygienic conditions, working an average of twelve hours a day.

Off-shoring and out-sourcing to China ensured that the barbaric practices in use in the factories of South Korea, Hong Kong, and Taiwan in the 1960s and 1970s, and since abolished through modern labor legislation in these countries, would in the next two decades be transplanted to China.<sup>16</sup> We will find them again in the following decades in Vietnam and Indonesia, wherever the industrial production of globalized capitalism has delocalized in the meantime, pursuing lower and lower wages and more permissive legislation.

This was the price that the Chinese leadership and the migrant workers willingly paid to modernize. One key question to ask is: like their English ancestors Chinese migrants were or were not conscious to being exploited? And the other question is: did the average Western worker realized that the Chinese competition reduced its bargaining power at home?

13 Pun Ngai has changed the name of the factory in order not to put the workers at risk.

14 Pun Ngai, *Made in China* (Hong Kong: Duke, 2005), 23–24.

15 Chan, *China's Workers under Assault*, 117.

16 Workers' Magazine, All-China Federation of Trade Unions, 1993..

## Chinese Class Consciousness

In the twentieth century, foreign businessmen, very similar to the early capitalists which Marx had described one hundred years earlier, landed in China. They flocked to the country to rip the benefits of the absence of labor and industrial legislations. That explains why, in 1994, when Beijing approved a new labor law which obliged businesses to draw up individual and collective contracts very few foreign industrialists respected it. Cheap labor was synonymous of total exploitation.

The world did not realize the extent of this phenomenon until more than a decade after. The 14 suicides that took place in 2010 at the Taiwanese owned Foxconn factory, which produces for Dell, Apple, Cisco and Intel, shocked the world. The youngest worker was just 17 years old and the oldest one 28. What drove these people to end lives that had just begun? According to several sources, conditions in the factories resembled those of a labor camp.

Exploitation took place with the complicity of local Chinese authorities, in the 1980s and 1990s they were set to attract as much foreign capital as possible and took precious little action against those who broke the labor laws on a daily basis. A combination of corruption, ignorance, and laissez-faire policies served to keep foreign industrialists above the law. Thus a Chinese journalist described the deal struck between the authorities and the foreign industrialists: “A business transaction made on the backs of the workers and concluded in the name of national economic development.”<sup>17</sup>

This terminology sums up perfectly the reciprocal relationship that, at the dawn of China’s economic miracle, connected the communist system to foreign capital.

The exploitation of Chinese labor had also a huge impact upon Western workers. In the 1990s and during much of the first decade of the twenty-first century, China was globalized capitalism’s ‘promised land’ where cost of labor was a fraction of what it was in the West. Soon to compete Western workers were forced to lower their wages. The consequences of this race-to-the-bottom wage competition, as economists have defined it, were disastrous for factory workers throughout the global village. As delocalization transformed the minimum wage earned in any part of the globe into a kind of international yardstick. Stephen Roach, an economist with Morgan Stanley, christened this phenomenon “global labor arbitrage,” whereby companies move production from one country to another according to the cost of labor.<sup>18</sup>

This phenomenon is still taking place. In the late 2000s many businesses moved from China to Vietnam and Laos, where the wages are more competitive. Nevertheless, since the Chinese possess a professionalism and work ethic that is rare, and which foreign entrepreneurs do not want to give up, attempts have been made to take advantage of this even after offshoring and outsourcing from China. Thus during the last five years China became the center of the global assembly line, with components produced at lower cost in neighboring countries and assembled in Chinese factories.<sup>19</sup>

Many foreign industrialists even exported Chinese professionalism into Asian markets. A gem-setter from Panyu, in the Shenzhen zone, where twenty years ago the Indian jewel industry had relocated from Hong Kong, admitted that he trained several Indians in the craft at the request of his employer. These men then returned to their native country to work for the company of this same entrepreneur, who in 2009 closed the Chinese operation because it was too costly.<sup>20</sup>

Once again, Stephen Roach explains how the race-to-the-bottom wage competition has given birth to a peculiar situation wherein workers and communities located on the opposite sides of the earth compete against each other without realizing it.<sup>21</sup> What is missing here is what Marx would have called a “global class consciousness.”

Offshoring and out-sourcing also acts as a powerful depressive agent in the creation of new jobs in rich countries such as the United States. Why produce in Arizona if it costs less to produce in China or Vietnam? This is the logic of the modern, global industrialist. At its base is a perverse mechanism that, since the fall of the Berlin Wall, has led the globalized economy to structure itself according to an absurd international division of labor: Western companies produce at knockdown prices in the East goods and products that Westerners consume.<sup>22</sup>

The race-to-the-bottom wage competition, and the absence of labor safety and guarantees are aberrations to us in the West, but not for the Chinese. During the last three decades, for the hundreds of millions of migrant workers who moved from the countryside to factories in Shenzhen and other Special Economic Zones, these concepts represent unique opportunity to make money and return home with a capital to invest.

17 *Workers' Magazine*, All-China Federation of Trade Unions, 1993.

18 Stephen Roach, “Globalization’s New Underclass,” Morgan Stanley, March 3, 2006 (available at <http://www.morganstanley.com/views/gef/archive/2006/20060303-Fri.html>).

19 Interview with Wang Tao, UBS economist in Beijing, May 2009.

20 Interview with three Chinese workers from the Hong Kong Confederation of Trade Unions, Hong Kong, May 2009.

21 Stephen Roach, “Globalization’s New Underclass.”

22 Loretta Napoleoni, *Rogue Economics: Capitalism's New Reality* (New York: Seven Stories, 2008), chap. 2.

Thus unlike their English ancestors, Chinese migrant workers were conscious of being exploited, and this is indeed a basic difference between two so apparently similar worlds—Marx’s England and Deng’s China.

## The Asian Tigers

As mentioned China drew inspiration from the success of the Asian Tigers. These are not democratic countries, but societies in which the rule of law is strong. The Asian Tigers figured out how to create a new type of government, the so called development state, in which legitimacy is not connected to democratic elections but to the ability of the leadership to sustain uninterrupted economic growth.<sup>23</sup>

Deng took inspiration from these countries to resolve a key dilemma. At the end of the 1970s, he realized that the class struggle belonged to the past, to Maoism, which had used it as an instrument to redesign national identity. He didn’t know what to make of this weapon; he needed different instruments to redesign China. He choose the tools of the market economy which the Asian Tigers had been successfully using for decades. He was convinced that that was the sole strategy to bring profit back to the center of the economy. This was not an easy task in a communist country.

The hard-to-swallow consequence of this decision was economic inequality, heresy in a communist society. In order to make it more palatable to the Chinese, Deng coined new mottos, diametrically opposed to the Maoist ones: “Let some people get rich first, so they can help others do the same.”

This formula worked well and the Chinese abandoned the class struggle for that of the market, even at the risk of being discriminated against economically; thanks to the profit motive, everyone hoped to be among the first to enrich themselves.

But the success of Deng’s formula rest upon the eagerness of the population to achieve a radical change, one able to destroy the rigidity of the Maoist system, and upon the endemic pragmatism of the Chinese culture. “Planning and market forces are both ways of controlling economic activity,”<sup>24</sup> Deng affirmed in the phrase that sums up his highly pragmatic philosophy. But they are not opposing theories; socialism does not exclude the market economy because “whatever promotes the socialist economy is socialist.”<sup>25</sup> This is the motto that allowed the Chinese Communist Party to survive the disintegration of an ideology defeated with the collapse of the Berlin Wall.

History proved Deng right. Economic theory only provides instruments with which to guide the economy, politics has to use them wisely; the tools of Marxism do not exclude those of the free market, and vice-versa. The error of the USSR was precisely to stick to a dogmatic interpretations of Stalin and Marxism-Leninism, a rigidity then exported everywhere under the banner of the hammer and sickle.

## Reading Marx in Beijing

One of the reason why in the West China is still a mystery is because traditionally we have had difficulty distinguishing between Marxism and Bolshevism. Indeed, after the Bolshevik Revolution, all the communist movements and parties absorbed the Leninist doctrine and its application by Stalin. Soon the experience of the USSR became the official interpretation and the empirical test of Marxism. This false identity was consolidated during the long years of the Cold War, when the Soviet fiasco dragged through the mud all the writings of Marx, a doctrine and a philosophy the Russians never fully understood.

Unlike the Soviet Union, the modernization of China closely followed the economic prophecies of Marx. It is in the Chinese experience that we discover the originality and flexibility of his thought. Marx devoted almost his entire production to the analysis of the faults of the capitalist system, and only a very small part to a description of the communist society of the future. The two fundamental passages of the “future Marxist” theory concern the dictatorship of the proletariat and the classless society, whose operation the author could only imagine in the broadest terms. Marx was first and foremost a sociologist and an economist; and after spending his whole life observing the radical economic changes that were redesigning the world in which he lived, only timidly did he venture, almost as a logical conclusion to his economic analysis, into the field of political philosophy. He possessed neither the instruments nor the inclination to compete with Plato; his future vision of the world is, thus, in some ways, merely an outline, not the detailed description of the future society.

23 Manuel Castells, *End of Millennium* (Oxford: Blackwell Publishers, sec. ed. 2000), 270–271. See also Martin Jacques, *When China Rules the World* (London: Allen Lane, 2009).

24 Zhao Ziyang, *Prisoner of the State*, 119.

25 Joseph Fewsmith, *China Since Tiananmen: The Politics of Transition* (New York: Cambridge University Press, 2008), chap. 2.

Lenin and Stalin, on the other hand, were politicians. They observed the reality surrounding them in order to shape it according to a very precise scheme they themselves developed: communism in a single country, Russia. Thus they painted, according to Marx's sketch, the picture of Bolshevik Marxism as the brand of communism. Lenin was no philosopher, and everyone knows what Stalin was.

Mao didn't know what to make of the Bolshevik model. Even though China was, like Russia, fundamentally an agricultural nation, the two nations were radically different. Thus, the Chinese leader took what he needed from Marxist theory, the revolutionary element, that is, the dictatorship of the proletariat that later became a permanent reality. And rereading Marx in Beijing, one is forcefully reminded of how the author had predicted that this form of government could also be oppressive, just as the bourgeois' was. In this instance, it would be the masses rather than the elite who would be exercising tyrannical power. While a step ahead of the capitalist state, a dictatorship of the proletariat is not the final goal.

Let's pause for a moment on this word "dictatorship," chosen by Marx to describe this phase in the evolution of capitalism, and which presupposes the existence of a structure of exploitation. At this point the means of production are in the hands of the people, thus productive activity belongs to the entire population. And yet the state must remain an integral part of the process. Why? Because exploitation continues.

Removing profit from the hands of the capitalists doesn't mean destroying all the discrimination of the capitalist economy. It's true that, as the working class takes possession of the entire cake, rather than just receiving crumbs from the boss, wages become more equal. However, what's missing in this phase is a system of equal opportunity, the freedom of choice that in the neo-liberal system is the soul of private initiative.

Deng's interpretation of Marx took the concept of equal opportunity into account. Marx never talked about abolishing profit; however, he did air the possibility that the state would disappear with the destruction of the economic inequalities that maintained it. A utopia? It certainly was to the Soviets. The Party became the domain of the new elite, those born of the Revolution, a permanent institution becoming ever more authoritarian; an oligarchy analogous to a new aristocracy and certainly not the vehicle for a transition from the dictatorship of the proletariat to a communist society. What arose in the USSR, it is good to recall, was not Marxism, but a totalitarian regime created by Bolshevism.

The utopian classless society has no need of a party to guide it, everything and everyone is in harmony; this image corresponded incredibly well with the vision of Confucius and of his master, emperor Zhu Di. An unattainable prospect, of course, and yet it was this utopia that motivated Deng and made China rally behind him.

Deng decided that the evolution toward the classless society would have to pass through private initiative, a choice that reintroduced economic inequalities into China. At first glance, the road taken seemed to go against the principles of Marxism, and opposition within the Party was fierce. But the new leader reversed the equation: inequality is born from the lack of opportunity. If everyone takes off from the same starting blocks, someone will arrive first and someone last, according to their abilities, but this is not inequality, it is equal opportunity.

Up to this point, it would appear that China was heading for a scenario very similar to that of the West, whose fundamental points of reference were the market and competition. But what is different is the role of politics whose idealistic horizon is the disappearance of the state itself.

Once equal opportunities are guaranteed, the role of the state (that is, the Party) as guarantor of the interests of all against every abuse can as a matter of fact gradually diminish and, who knows, perhaps even disappear. Power can be decentralized to the regions, to the provinces, to the small towns. Here is a specific design, a plan of action, China can work with. And indeed, following the revolutionary phase of the dictatorship of the proletariat, the decentralization of power takes off.

Following this structure, Deng started to reform the state by restructuring China like a multinational corporation: "The central government is the board of directors and local governments are the managers that make it work," explains Liu Kaiming. Managing directors control the economy of their own region and pass on a percentage to the board of directors.

This program involved the progressive abolition of all inefficient state-owned enterprises and the introduction of private initiative. In 1998 in China there were 64,737 state-owned companies, employing a total of 110 million workers. At the end of 2005, the state possessed only 27,477 companies and the number of workers had gone down by 40 percent, to 64 million. In the same period, the number of private businesses rose from 10,667 to 123,820; the number of workers employed in the private sector from 9.7 to 34.5 million.<sup>26</sup>

At the same time, the power of local authorities grew. In 2009 7 percent of the central government's income came from Shenzhen and 12 percent from Guangdong. These numbers alone explain why the SEC local authorities are permitted nearly unlimited freedom, to the point that many of them are transformed into private businesses. Take the example of Blue Village.

Located not far from Shenzhen, the town called Blue Village was born in the aftermath of the Maoist Revolution as a "rural brigade," as the first Chinese collective farms were known. In 1984 the local government established a manufacturing concern and in 1992 the village was transformed into a collective enterprise, a hybrid uniting the principles of socialist collectivism to those of the market economy. The village population became the owners, and thus was born the municipality of the Blue Village. Given that it was, at this point, a business, it asked for and obtained permission to become independent from the central government with regard to the management of foreign capital and trade—and this explains the incentive for the change.

It's easy to understand the frequency, during the 1980s and 1990s, of such metamorphoses in the Special Economic Zones.

And the local authorities were on hand to direct them. The transformation of rural villages into industrial enterprises was part of the country's modernization, which some have termed "local state corporatism."<sup>27</sup>

## Conclusions

The remarkable modernization of China seems intimately linked to the vision of the future of Deng Xiaoping. Although officially China is still a communist country, its modernization took place following a well known script. Capi-communism, a hybrid system where a command economy morphs into a new breed of capitalism by introducing in the equation a profit motive, is emerging as new type of economic system. But it would be wrong to look at the last three decades of reform in China as a separate model from the one studied by the Classical economists. Deng did not reform capitalism, he adapted communism to it. Hence, West capitalism should not look at China as something foreign but as a mutant of itself. This could help us to isolate our mistakes using as a benchmark the success of Chinese innovation.

As we sail in uncharted waters, facing once again the threat of a great depression the key question is what will China do next. So far its remarkable economic performance has prevented a major contraction of the world economy but it is unclear what the new leadership, which will take power at the end of 2012, will do during the next decade. Most likely it will focus more in consolidating economic growth inside China and less on playing a big power abroad. It is unlikely that Chinese money and resources will be used to save Europe from the debt crisis or to replenish IMF funds for such purpose. China may well began carving its own sphere of influence in what regards as the new multi-polar world order. Unlike the England which emerged from the Industrial Revolution, China is not interested in being a modern version of Rule Britannia, China is interested in the welfare of China and nothing else.

27 Jean Oi, "The Role of the Local State in China's Transitional Economy," *The China Quarterly*, 1995; *Rural China Takes off: Institutional Foundations of Economic Reform* (Berkeley: University of California Press, 1999).



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