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DEVELOPMENTALISM IN CHINA

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GLOBALIZATION AND THE TRANSITION FROM NEOLIBERAL CAPITALISM TO STATE DEVELOPMENTALISM IN CHINA

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Several decades ago, researchers tended to characterize China as moving toward a neoliberal economy, as evidenced by the processes of decollectivization, marketization, fiscal decentralization, privatization and corporatization of state enterprises, commodification of human services, and the rise of labor protests. However, this paper argues that China's recent transformation since the mid-1990s has shown its departure from neoliberalism; due to recent policy changes and structural transformations, China's latest developmental pattern is closer to that of the East Asian developmental state than to the neoliberal state. China has strong state machinery with a high degree of autonomy and strong capacity to carry out its goals. It intervenes in the economy through developmental planning, deficit investment, export promotion, and strategic industrialization. It is also highly nationalistic and authoritarian, suppressing labor protests and limiting popular struggles. In addition, its industrialization drive has greatly benefited from an influx of capital during the critical phase of its development. This paper presents the distinctive features of Chinese state developmentalism and explains how this model is different from that of neoliberalism. It traces the transition from neoliberalism to state developmentalism in China over the past two decades and discusses the future trajectory of state developmentalism and its implications for the global capitalist economy.

During the Cold War era, China was generally seen by the Left in the West as a model of revolutionary socialism. The Left was especially attracted to the Maoist policies of public ownership, egalitarianism, mass mobilization, militant anti-imperialism and the rejection of a reformist road to socialism (Halliday, 1976). Nevertheless, in the late 1970s, when the advanced capitalist states lowered their hostility toward communist China and welcomed China back to the world economy, China replaced Maoist policies with 'market socialism'. Since the late 1970s China's economic development has stunned the world. The country has become one of the world largest exporters of manufactured goods and sites for transnational investments, while purportedly lifting hundreds of millions out of poverty.

In the West, the Left is divided on how to interpret China's recent transformation at the turn of the twenty-first century. Some see China's market socialism offer tremendous opportunities for achieving growth and poverty reduction, and welcome China's regional and global emergence as it could serve as a counter-weight to U.S.-driven neoliberal and militarized capitalism (Silver and Arrighi, 2000). Others denounce China's recent transformation as moving toward a neoliberal economy which contains the seeds for the re-emergence of a foreign capitalist-dominated state (Petras, 2006; Burkett and Hart Landsberg, 2005).

This paper argues that China's recent transformation actually is closer to the East Asian developmental state model than to the Western neoliberal model. In this paper I will first present the distinctive features of Chinese state developmentalism and explain how this model is different from that of neoliberalism. Following this, I will trace the transition from neoliberalism to state developmentalism in China over the past two decades. Finally, I will discuss the future trajectory of state developmentalism and its implication for the global economy.

Neoliberal Capitalism

Up to the early 2000s, the Chinese state had been faithfully carrying out the policies of neoliberalism in its globalization drive (Harvey, 2005). Since the Chinese economy was completely dominated by the state in the Maoist period, the aim of the post-Mao reforms was to liberate the market from the state in order to speed up capital accumulation. Thus, the Chinese state set up institutional frameworks to guarantee private property rights, to promote free markets, and free trade, with the hope that the Chinese economy could be invigorated and compete successfully in the global economy.

It is with the above neoliberal mindset that the Chinese state carried out the following policies over the past several decades:

- *Decollectivization and Proletarianization of peasants.* Agricultural communes were dismantled in favor of an individualized 'personal responsibility system'. Township and village enterprises were created out of the former commune assets, and these became centers of entrepreneurialism, flexible labor practices, and open market competition. At the same time, the loss of collective social rights in the countryside meant the peasants had to face burdensome user charges for schools, medical care, and the like. Forced to seek work elsewhere after the end of collectivism, rural migrants flooded—illegally and without the right of residency—into the cities to form an immense labor reserve (a 'floating population' of indeterminate legal status). China is now in the midst of the largest mass migration the world has ever seen. This rural 'floating

population' is vulnerable to super-exploitation and puts downward pressure on the wages of urban workers (Pun, 1999).

- *Marketization* policy to restore/expand the market. A new labor market was introduced to the Chinese economy in the late 1980s, creating a flexible labor force that is responsive to the ups and downs of the market. After a labor market was set up, the state enterprises were no longer required to provide life-long employment and job security to their workers, and were given the autonomy to hire and fire workers in the name of enhancing productivity and efficiency as called upon by neoliberalism.
- *Fiscal Decentralization and the weakening of the central state.* In the mid-1980s provincial, municipality, county, and township governments were subject to a bottom-up revenue-sharing system that required localities to submit only a portion of the revenues to the upper level, and then they were allowed to retain all, or at least most, of the remainder. This fiscal decentralization policy made local states become independent fiscal entities that had the unprecedented right to use the revenue they retained. As a result, fiscal decentralization had considerably weakened the central state's extractive capacity. The Chinese state was unable to control the extra-budgetary funds of the local governments, and its relative share of tax revenues had decreased to the extent that the Central state has lost effective control over China's economic life (Wang and Hu, 2001; Oi 1992).
- *Opening up and spatial differentiation.* The combination of decentralization and opening up has led to a very uneven pattern of spatial development in China, with rapid economic growth taking place mostly along the eastern coastal subregions. These subregions were characterized by an '*extrovert*' economy, i.e., their economies were driven by foreign direct investment and export-led industrialization, and their economic growth relied upon their integration with the global commodity chains. For example, with regard to the commodity chain of athletic shoes, the 1990s observed the trend that transnationals (such as Nike and Reebok) moved their factories from their subcontractors in Taiwan to Guangdong and Fujian. Most of the raw materials were shipped from Taiwan, and the shoe factories in Guangdong were run by Taiwanese resident managers (Chen, 2005).
- *Privatization and corporatization* policy to cut the size of the state sector and to increase the size of the private sector. In the 1990s the state owned enterprises (SOEs) were undergoing corporatization, so they were no longer dependent on the state for funding, and they had to operate independently in the market. After corporatization,

the SOEs were asked to run like an independent private profit-making enterprise and to go bankrupt if they were losing money (So, 2006).

- *Commodification of human services.* Whereas the Maoist state provided human services (like housing, health care, welfare, education, pension, etc.) on need based and free of charge to all citizens, the post-reform state treated human services as a commodity to be distributed to people on market principles. Beneficiaries now were to pay a part of the costs for services in most welfare fields. Such changes occurred in social insurance (pension, medical care and the newly created unemployment insurance), higher education, and many personal services (Guan, 2000).
- *Deepening of liberalization.* Petras (2006) points out that China joining the World Trade Organization (WTO) is likely to lead to a further dismantling of the state sector, a dismantling of trade barriers and removal of subsidies, the savaging of the countryside, the near unquestioning orientation toward the export market strategy, and consolidation of foreign production as the leading force in the Chinese economy (see also Hart-Landsberg and Burkett, 2004).

Through the above processes of decollectivization and proletarianization, marketization, fiscal decentralization, opening up and spatial differentiation, privatization and corporatization of state enterprises, commodification of human services, and the deepening of liberalization, China was moving toward the 'neoliberal' capitalist model. On the one hand, the state was being downsized, state capacity was being weakened, and the state's role in the economy significantly reduced, and the state was downloading its welfare and human services to the market and society. On the other hand, the private sector and the various (labor, capital, and finance) markets were expanding rapidly.

Like other neoliberal states, China suffered considerable cost during her march toward neoliberal capitalism, including rising unemployment, economic insecurity, class polarization, intensified exploitation, declining health and education, exploding government debt, and unstable prices. Thus, Martin Hart-Landsberg and Paul Burkett have pointed out that China's market reforms 'have led not to socialist renewal but rather to full-fledged capitalist restoration, including growing foreign economic domination. The progressive community in the West is wrong to celebrate China as an economic success story' (2004: 9).

In response to the above neoliberal policies, the Chinese working class has become restless. *China Labour Bulletin* reports that 'almost every week in Hong Kong and mainland China, newspapers bring reports of some kind of labor action: a demonstration demanding pensions; a railway line being blocked by angry, unpaid workers; or collective legal action

against illegal employer behavior such as body searches or forced overtime' (2002: 1). According to the official statistics, in 1998 there were 6,767 collective actions (usually strikes or go-slows with a minimum of three people taking part) involving 251,268 people. This represented an increase in collective actions of 900 percent from the 1990s. In 2000, this figure further jumped to 8,247 collective actions involving 259,445 workers (*China Labour Bulletin*, 2002: 2). Given such widespread labor protests, it is no wonder that the Chinese government has identified the labor problem as the biggest threat to social and political stability (So, 2007).

Departure from Neoliberalism

Even though neoliberalism has been a global trend since the 1970s, David Harvey points to the 'uneven geographical development of neoliberalism' and 'the complex ways in which political forces, historical traditions, and existing institutional arrangements all shaped why and how the process of neoliberalization actually occurred' (2005: 13). Although the Chinese case fits nicely with the neoliberal description in its early stage of market reforms, China's latest development since the mid 1990s has shown its departure from neoliberalism.

First, in contrast to the image of a weakened state in the neoliberal literature, the Chinese state has considerably strengthened its managerial and fiscal capacity since the 1990s. A new 'cadre responsibility system' is instituted by the central party-state to strengthen its control over the evaluation and monitoring of local leaders. County party secretaries and township heads sign performance contracts, pledge to attain certain targets laid down by higher levels, and are held personally responsible for attaining those targets. There are different contracts for different fields, such as industrial development, agricultural development, tax collection, family planning, and social order. The Chinese party-state has the capacity to be selective, i.e., to implement its priority policies, to control the appointment of its key local leaders, and to target strategically important areas. Thus Maria Edin argues that 'state capacity, defined here as the capacity to control and monitor lower-level agents, has increased in China, and that the Chinese Communist Party is capable of greater institutional adaptability that it is usually given credit for' (2003: 36).

In addition, the state has strengthened its fiscal capacity. The central party-state introduced a 'Tax Sharing Scheme' (TSS) in 1994 to redress the centre-local imbalance in fiscal matters (Yep, 2007). The TSS is aimed at improving the center's control over the economy by increasing 'two ratios'—the share of budgetary revenue in GDP and the central share in total budgetary revenue. It seems that the TSS did succeed in raising the 'two ratios' (Loo and Chow, 2006), thus helping to arrest the decline of

fiscal foundation of the center and increase the extractive capacity of the central party-state. Zheng (2004: 118-119) argues that the TSS has shifted fiscal power from the provinces to the center, so 'now, it is the provinces that rely on the central government for revenue.'

Second, in contrast to the neoliberal doctrine's calling for less intervention, the Chinese state has intervened more into the economy. It has engaged in debt-financed investments in huge mega-projects to transform physical infrastructures. Astonishing rates of urbanization (no fewer than forty-two cities have expanded beyond the 1 million population mark since 1992) have required huge investments of fixed capital. New subway systems and highways are being built in major cities, and 8,500 miles of new railroad are proposed to link the interior to the economically dynamic coastal zone. China is also trying to build an interstate highway system more extensive than America's in just fifteen years, while practically every large city is building or has just completed a big new airport. These mega-projects have the potential to absorb surpluses of capital and labor for several years to come (Harvey, 2005: 132). It is these massive debt-financing infrastructural and fixed-capital formation projects that make the Chinese state depart from the neoliberal orthodoxy and act like a Keynesian state.

Third, in contrast to the neoliberal doctrine which calls for the dismantling of the welfare state, the Chinese state has recently presented a new policy of 'building a new socialist countryside' and a 'harmonious society' in 2006 (Saich, 2007). The above policy is significant because it could signal a change of ideological orientation of the Chinese state (Kahn, 2006). Whereas the pre-2006 Chinese state adopted a neoliberal orientation, it is now moving toward a more balanced one between economic growth and social development. While market reforms would continue, this new policy indicates that the state would play a more active role in moderating the negative impacts of marketization. In the new policy, the state will need to include 'the people and environment' in its developmental plan, and not just focus narrowly on GNP indicators and economic growth.

Thus the new policy advocates a transfer of resources from the state to strengthen the fiscal foundation of the countryside. Not only was the agricultural tax abolished to help relieve the burden on farmers, but the state increased its rural expenditure by 15 percent (to \$15 billion) to bankroll guaranteed minimum living allowances for farmers, and an 87 percent hike (to \$4 billion) for the health-care budget (Liu, 2007). These policies indicate a massive infusion of funding from the state onto the peasants and rural areas. In addition, there is a de-commodification of human services. Rural residents would no longer have to pay many miscellaneous charges levied by schools; fees at primary schools will be

abolished as part of a nationwide campaign to eliminate them in the countryside for the first nine years of education. The state will also increase the subsidies for rural health cooperatives that will be available in 80 percent of the rural counties by 2008. For now, rural residents have to pay market rates at the villages' private clinics and most of them do not even have medical insurance and spend more than 80 percent of their cash on health care (Liu, 2007). Furthermore, the new policy is aimed at reducing social inequality, especially the widening gap between the countryside and the city. Thus, pensions are to be made available for everyone, not just those enjoying a privileged status as registered urban residents. Over the past two years, the state has also been promoting the spread of Minimum Living Standard Assistance for the rural population. This is potentially a highly significant development, opening up for the first time the real possibility of instituting a social safety net that covers the whole of the population, whether urban or rural (*The Economists*, 2006; Hussain, 2005).

Fourth, in contrast to the assumption that China is trapped in labor-intensive, low-tech, sweatshop export production, China has recently modernized its educational system, upgraded its science and research capabilities, and participated in high-tech production. From the 1990s on, foreign corporations began to transfer a significant amount of their research and development activity into China. Microsoft, Oracle, Motorola, Siemens, IBM, and Intel have all set up research laboratories in China because of its 'growing importance and sophistication as a market for technology' and 'its large reservoir of skilled but inexperienced scientists, and its consumers, still relatively poor but growing richer and eager for new technology' (Buckley, 2004: C1 and C4). During the 1990s China began to move up the value-added ladder of production and to compete with South Korea, Japan, Taiwan, and Singapore in spheres such as electronics and machine tools.

Fifth, whereas neoliberalism is seen as a project to restore/expand the power of the capitalist class, the capitalist class in China remained weak and dependent on the state for survival. Despite the rapid growth of the private sector, the private sector has not severed its ties to the state sector. Instead, the private sector has numerous linkages with the state sector in terms of interlocking personnel and ownership. Many collective enterprises are owned and run by capitalists, while many private enterprises are spined-off state properties owned and run by state managers or their kin. This fusion makes it very difficult to distinguish what is owned by the state, by the collective, and the capitalists in the private sector because the boundaries of their property relations are often blurred. In China, the capitalist class has responded to the challenges of globalization and the growing intensity of class conflict through

reinventing themselves as nationalist entrepreneurs and through political incorporation into the state (So, 2003). Indeed, there is so much interpenetration that the Chinese Communist Party finally in 2001 accepted 'progressive' people from the private sector into its own ranks.

Sixth, whereas neoliberalism perceives the loosening of national boundaries, in China nationalism is taken as a supreme value and the Chinese state will try every means to preserve its national sovereignty. Thus the Chinese state has taken pains to emphasize its national humiliation in the 19th and the first half of the 20th century, is determined to pursue a national reunification project to recover its territory (Hong Kong and Taiwan) lost before the communist revolution, and mobilizes its national sentiments in recent anti-Japanese protests and in international sports.

Finally, whereas neoliberalism perceives the triumph of transnational corporations and the loosening of national barriers to global production, marketing, and finance, in China the barriers erected to foreign portfolio investment effectively limit the powers of international finance capital over the Chinese state. The reluctance to permit forms of financial intermediation other than the state-owned banks—such as stock markets and capital markets—deprives capital of one of its key weapons vis-à-vis state power (Harvey, 2005).

In short, China over the past decade has experienced a pattern of development that is different from neoliberal capitalism. During its initial phase of opening to the world capitalist economy, China did show traces of neoliberal capitalism, such as the dismantling of the welfare state, the weakening of state capacity, the expansion of a market economy and the private sector, a breakdown of national barriers to foreign investment, spatial differentiation and the emergence of labor protests. However, over the past decade China has moved beyond the neoliberal model and is closer to the pattern of state developmentalism in East Asia.

Toward State Developmentalism

Like other developmental states in East Asia, China has a strong state machinery. The Chinese state is highly autonomous in the sense that it is not 'captured' by vested economic interests. The old generation of capitalists was largely destroyed in the Communist Revolution and later in the Cultural Revolution. The nascent capitalist class that has just emerged in the market reforms of the 1980s and 1990s is too weak and too dependent on the state to pose any challenge. In addition, the Chinese state has the capacity to carry out its developmental plans. Since it owns the banks and controls the financial sector, it has powerful policy tools at its disposal which makes the cooperation of indigenous business more likely: access to cheap credit, protection from external competition, and

assisted access to export markets are all levers that the Chinese state can use to ensure business compliance with governmental goals. Since the Chinese corporations have high debt/equity ratio, even the threat of withdrawal of state loans would be serious.

Second, like other developmental states in East Asia, the Chinese state has actively intervened in the economy. The state has become the engine powering capital accumulation. Aside from debt finance and infrastructure construction, the Chinese central state also develops plans for strategic development, decrees prices and regulates the movement of capital, and shares risks and underwrites research and development. At the local level, Jean Oi (1992) coins the term 'local state corporatism' to describe how village, county, municipal, and provincial governments use their political authority single-mindedly to promote local capitalist development. In Zouping, for example, local cadres raised the initial capital for new enterprises and closely supervised and assisted in their subsequent growth. Using their political authority they mobilized capital for investment, arranged and allocated credit, and provided market information and technical expertise well in excess of what was initially present in the locality. In the above process, local governments have taken on many characteristics of a business corporation with local state officials acting as the equivalent of a board of directors.

Third, like other developmental states in East Asia, the Chinese state has actively mobilized the ideology of nationalism and defines itself as carrying out a national project to make China strong and powerful. In the post-reform era, China was experiencing an ideological vacuum since the state could no longer be legitimized by Marxism or communism. Thus, nationalism became the state's only hope to get the support of the Chinese masses. The Chinese state seems to believe that the best response is to build a strong sense of national cohesiveness based on cultural heritage and tradition rather than to develop a nationalism based solely on hostility toward the outside world. Nationalism, however, can cut both ways. The Chinese state knows well that excessive nationalism might not only undercut the Communist Party's ability to rule but also disrupt China's paramount foreign policy objective of creating a long-term peaceful environment for its modernization program. The Chinese state's concern is reflected in its rejection of a more radical nationalism, such as that advocated by the authors of *The China that Can Say No*, as well as in its efforts to control anti-Japanese sentiment. Indeed, China's response to the Japanese provocation over the visit of the shrine was far more restrained than in Taiwan and Hong Kong. The Chinese state's concern that nationalism had to be controlled was also evident in its efforts to restrain anti-Americanism in the aftermath of the NATO bombing of the Chinese embassy in Yugoslavia (Ogden, 2003).

Fourth, like other developmental states in East Asia, the Chinese state adopts authoritarian policies to discipline labor, suppress labor protests, and to deactivate civil society in order to maintain a favorable environment to attract foreign investment and to facilitate capital accumulation. It seems authoritarianism is unavoidable in export-led industrialization because labor subordination is an important means to cheapen labor and to make the working class docile. Otherwise, the exports of the East Asian developmental states would not be competitive in the world economy, and transnational corporations would not relocate their labor-intensive production to East Asia. It is ironic that the Chinese state, with its tightly organized Leninist party-state machinery, has proven to be very effective in co-opting labor activists, dividing the working class, and silencing labor protests.

Finally, like other developmental states in East Asia, China received an influx of capital during its initial phase of capitalist industrialization. During the Cold War era in the 1950s and 1960s, the massive influx of U.S. aid, loans, and contracts greatly helped East Asian states (South Korea, Taiwan) to solve the problem of initial accumulation and had greatly enhanced their states' capacity to promote developmental policies. The U.S., of course, would not provide similar aid, loans, and contracts to China to assist its developmental program after the fading of the Cold War in the 1980s and 1990s. Fortunately, there was a comparable influx of Chinese diaspora investment to China at the initial phase of transition to provide capital for initial accumulation. Before 1978, Chinese diaspora capitalism thrived in Hong Kong, Taiwan, Singapore, and overseas Chinese communities. After the Chinese state adopted an open door policy for foreign investment, Hong Kong accounted for the bulk of China's foreign investment and foreign trade. In the early 1990s, Hong Kong firms employed over 3 million workers in the Pearl River Delta. By the end of the 1980s, Taiwan became the second largest trading partner and investor for Mainland China. In the 1990s, overseas Chinese entrepreneurs in Southeast Asia have shown a visible interest in conducting trade and investment in China.

In short, China's latest developmental pattern is closer to that of the East Asian developmental state than to the neoliberal state. It has strong state machinery with a high degree of state autonomy and a strong capacity to carry out its goals. It greatly intervenes in the economy through developmental planning, deficit investment, export promotion, and strategic industrialization. It is also highly nationalistic and authoritarian, suppressing labor protests and limiting popular struggles. In addition, its capitalist industrialization has greatly benefited from an influx of capital during the critical phase of original accumulation.

Nevertheless, China's state developmentalism has also shown some significant differences from that of other East Asian states. First, the

Chinese developmental state has exhibited a strong tendency toward entrepreneurship. Although East Asian state officials are promoting the hatching of capitalists, they seldom turn themselves into capitalists and involve in running the corporations. In China, however, not only were state officials asked to be good managers and turned state enterprises into profit-making businesses, but many state officials also informally turned public assets into quasi-public, quasi-private properties, or simply into private companies. As it is well documented in the China field, there is a fuzzy boundary between state enterprises and collective/private enterprises, and it is difficult to draw a clear boundary between state officials and private capitalists in China. Rather, the Chinese characteristic is a hybrid 'state-capitalist' walking on two legs in both the state sector and the private sector.

Second, the Chinese developmental state has exhibited a pattern of local, 'bottom-up' strategy. East Asian developmental states had adopted a centralized policy, and it was their central governments that played the most active role in development. However, in China, due to the legacy of communism, the policy of fiscal decentralization, and the vast territory of China, local officials in provincial, county, and village governments have played a much more active role than their counterparts in East Asian developmental states. Instead of promoting the development of urban industrialization and mega cities, Chinese local state officials have promoted the development of rural industrialization and small and medium cities. In South China, for example, a new 'bottom up' development mechanism is taking shape in which initiatives are made primarily by local states to solicit overseas Chinese and domestic capital, mobilize labor and land resources, and lead the local economy to enter the orbit of the international division of labor and global competition.

Third, although the Chinese developmental state has relied on economic growth and nationalism as its bases of legitimacy, it has also paid more attention to egalitarianism than its East Asian counterparts during their industrial take-off. Having gone through the legacy of revolutionary socialism under the Maoist regime, and having a constitution that still claims that workers and peasants are the masters of society, the Chinese state was much more vulnerable to the charges of inequality, poverty, and exploitation than its East Asian counterparts. Thus, the Chinese state had many times backed off from carrying out policies that could lead to mass layoffs and the elimination of the social safety net. In its latest policy in 2006, the Chinese state aims to build a new socialist countryside, abolish agricultural tax, infuse funds to the peasants and the rural areas, and attempt some de-commodification policies that provide free education, subsidized health care, guaranteed minimum living standard, and instituting a safety net that covers the entire population.

Given the fact that China is moving in the direction of a developmental state, we have to answer the following questions in the remainder of this paper: What explains the transition from neoliberalism to state developmentalism in China? And what is the future of state developmentalism in China?

The Transition from Neoliberalism to State Developmentalism

David Harvey (2005: 1) points out that 1978-80 is a turning point in China's social and economic history. In 1978, Deng Xiaoping, the leader of the Chinese Communist Party took the first momentous step towards the liberalization of a communist-ruled economy. The path that Deng defined was to transform China in two decades from a closed backwater to an open center of neoliberal capitalism in the global economy.

By the 1990s, however, China began to feel the pains of a neoliberal economy. First, there was super-exploitation of labor power, particularly of young women migrants from rural areas. Wage levels in China were extremely low, and conditions of labor were not sufficiently regulated, despotic, and exploitative. Moreover, China became one of the world's most unequal societies. Neoliberal market reforms had quickly transformed China into disparities in income among different classes, social strata, and regions, leading rapidly to social polarization. Formal measures of social inequalities, such as Gini coefficient, confirm that China had traveled the path from one of the most equalitarian societies to chronic inequality, all in the span of twenty years (Harvey, 2005: 143). Furthermore, as usually happens in a country going through rapid capitalist industrialization, the failure to pay any attention to the environment is disastrous. In China, 'rivers are highly polluted, water supplies are full of dangerous cancer-inducing chemicals, public health provision is weak (as illustrated by the problems of SARS and the avian flu)' (Harvey, 2005: 174). Edward Friedman also points out that 'China has a ruthless free market, no regulation, no safety standards, no FDA, no CDC, no NIH. It is also the world leader for people dying in industrial accidents, and about 400,000 each year die from drinking the water which is polluted' (2007: 2).

In the 1990s, the above contradictions had led to discontent and social conflict in society, as shown by the increasing call to regulate the market and by the growing numbers of labor protests, public demonstrations, and large-scale social disturbances.

In the light of the above contradictions and discontents, the Chinese Communist party-state had a second thought about its neo-liberal policies since the 1990s. Besides, neoliberalism was increasingly coming under attack and losing its creditability in the global economy. In the East, the 'shock therapy'—which called for the dismantling of the centrally planned economy as soon as possible—not only did not work but also led to the

downfall of the communist states in Eastern Europe. In the West, the anti-globalization movement was greatly empowered by its success in Seattle. In China, the Chinese party-state began in the late 1990s to reverse its neoliberal policies and started to build up a developmental state. The party-state strengthened its fiscal capacity through introducing a new 'Tax Sharing Scheme' to redress the center-local imbalance; it engaged in debt-financing investments in huge mega-projects to transform infrastructures and declared a new policy of 'building a new socialist countryside' to address the issues of poverty and inequality in the rural areas.

Besides, the situation in China was not desperate. The Chinese state was not under any threat of foreign invasion, did not incur any large amount of foreign debt, and faced no immediate threat of facing any rebellion from below. As such, the Chinese state still had the autonomy and capacity to propose and implement various developmental policies 'from above'. For instance, the state could selectively introduce different types of developmental policies, could vary the speed of the market reforms, could expand or limit the space of opening up to transnational capital, and, most importantly, could still have the freedom of adjusting (or even reversing) its policies if they were not working.

The asymmetrical power relationship between the state and other classes has also given the state a free hand to try different developmental policies over the past few decades. The capitalist class was too small, too weak, and too dependent on the state to be the agent of historical transformation in China. The capitalist class is politically impotent to capture the state to carry out the neoliberal path of development. Facing growing labor unrest and popular struggle against such abuses as child labor in the coal mines, discrimination against immigrant workers, and environmental degradation, the capitalist class is powerless to stop the policies toward state developmentalism.

Nevertheless, the transition from neoliberalism to state developmentalism took the form of a transition, not the form of a rupture or a revolution. The transition took a fairly long period of time and it was a gradual, adaptive process without a clear blueprint. The reforms have proceeded by trial and error, with frequent mid-course corrections and reversal of policy. In other words, Chinese state developmental policies were not a completed project settled in 'one bang', but an ongoing process with many midcourse adjustments.

Situated in East Asia, China has long been attracted to the developmental state model that has achieved a remarkable postwar economic growth in South Korea, Taiwan, and Japan. Thus Chang Kyung-Sup (2007) points out that there has been a conscious process of learning and transplanting technologies, industrial organization, and state policies among the East Asian states, and China is a leading example of this.

Future Trajectory

If the Chinese experience is characterized by trial and error, mid-course corrections, and reversals of policy, what is the future trajectory of state developmentalism in China? There are several scenarios: return to socialism, return to neoliberalism, and move to imperialism.

First, the Left would be interested to know whether there is any possibility for China to return to socialism. Given the fact that China has moved away from socialism for almost thirty years and its capitalist-oriented economy has firmly institutionalized, it seems highly unlikely that socialism can make a dramatic come back in China. Besides, the Chinese working class and the peasants are still disorganized and are deprived of class organizations to protect their interests.

Second, another scenario is the return to neoliberalism. Harvey (2005) points out that neoliberalism is the project of the capitalist class through which it could exert its hegemony in advanced capitalist countries. Following this line of argument, the capitalist class will not be contended to remain a junior partner of the developmental state forever. As soon as the capitalist class has matured and consolidated its power, it will push forward with its neoliberal project. In South Korea, for example, there was a dismantling of the Korean developmental state when the *chaebols* (big business corporations) were strengthened by their inter-linkages with transnational corporations in the 1990s. This global reach has made the *chaebols* so powerful that they were able to dismantle the Economic Planning Board, set up private non-state financial institutions, and push for financial liberalization (Chiu and So, 1996).

Although at present the Chinese capitalist class is still small and weak, it could grow very fast and become a force to challenge the party-state in a few decades. If this happens, the Chinese capitalist class will probably follow the path of its Korean counterpart: it will no longer be contented to be a junior partner of the developmental state. Instead, it will expand its economic interests and push forward its neoliberal project.

The third scenario is the imperial path. State developmentalism becomes so successful that it greatly empowers China in the world economy. When China expands, it will inevitably run into conflict with other hegemonic states. When this occurs the great powers in the global economy will fight China over control of markets, resources (especially oil), technology, finance, and territory. History tells us that the existing hegemon will always want to hold onto its power and try every means to prevent other states from challenging its position. Unless China can win this battle of hegemonic transition, it will not emerge as the center of capital accumulation in the twenty-first century.

State developmentalism, by drawing upon national symbols and building up a strong state, does provide an impetus toward the above

scenario of the rise of China and Chinese hegemonic struggles in the world economy. While it is too optimistic to say, as Silver and Arrighi (2000: 69) have claimed, that 'China appears to be emerging as the only poor country that has any chance in the foreseeable future of subverting the Western-dominated global hierarchy of wealth', the issues concerning China's success in pursuing state developmentalist policies do require more in-depth analysis because of its global implications.

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