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The Short March to Capitalism

Old Buddhist temples, rural underdevelopment and extreme poverty on the one hand, skyscrapers, high-tech and world champion in exports on the other: during the past 40 years, China has surged forward to catch up with the industrialized nations. **Tobias ten Brink** at the **Max Planck Institute for the Study of Societies** in Cologne is researching the causes of this economic boom, as well as the factors that could lead to the destabilization of the Chinese success model.

TEXT **BIRGIT FENZEL**

When Chinese premier Wen Jiabao and 13 of his ministers visited Germany in mid-June this year, the press was hot on his heels. Newspapers reported almost daily on the status of Sino-German relations – albeit rarely without some mention of human rights abuses and crimes against the environment in China.

So far, so good, says researcher Tobias ten Brink, given that such circumstances do indeed exist in China's one-party state. "But when the German media criticize employment conditions in China or present the country's hunger for raw materials as a threat, while forgetting to mention that Western businesses in particular are largely responsible, that's very one-sided," the political scientist explains.

Without foreign direct investment, the about-face from Mao to market economy would scarcely have been so successful. In the course of globalization, many Western industries have recognized the opportunity and invested in China. Since then, huge numbers of mainland production plants have served as cheap workbenches at which workers are paid a pittance to assemble products on behalf of European, American and Far Eastern companies. "Many Chinese exports at present are "Chinese" only in the sense that they are assembled in China. This means that the bulk of the profits are pocketed by multinational groups rather than local producers or suppliers," says Tobias ten Brink.

Nevertheless, the multinationals have not been the only ones to capitalize on this development. The investments and tax revenues have enabled

Apparent contrast:
A memorial to Mao stands
between two Western
economic symbols.
China's rapid development
is uniting many extremes.

» In just 40 years, China has become a driving force in the global economy. Not only have the Chinese since become world-champion exporters, but they are continuing to extend their lead.

the People's Republic to catch up rapidly. In just 40 years, China has become a driving force in the global economy. Not only have the Chinese since become world-champion exporters, but they are continuing to extend their lead. The spectrum of goods from the Far East ranges from toys, bicycles, shoes and domestic appliances to digital cameras, computers, cell phones and automobiles.

SUCCESS THANKS TO FAVORABLE CONSTELLATIONS

Economic experts agree that low wage costs are not the sole reason for the substantial increase in foreign direct in-

vestment. "China's success is largely contingent on factors that have not been influenced by the Chinese ruling elite, but that are based, instead, on favorable global economic and Far Eastern constellations," says ten Brink.

The fuse was lit, for instance, as economic development stagnated in the traditional centers of capitalism. "The Chinese looked good because the rest were shabby in comparison," explains the researcher, describing the situation in the 1990s when Western investors had pockets full of money and did not rightly know where to invest it. "In those days, there was a dearth of investment opportunities with too much available capital and too few worth-

while ways to invest it, which is why the investment rate in Europe, North America and Japan was so low." Regardless of the risks that prevailed 20 years ago, investors were attracted by the promise of better profits in China's fast developing economy.

CHINA'S ADVANTAGE OF UNDERDEVELOPMENT

From the very beginning, the main business took the form of exports to the traditional centers of capitalism. It is this that distinguishes China from, say, the US, where, since the 1990s, growth in gross domestic product has owed far more to credit-fueled consumption than to investment.

China's ascent, on the other hand, according to Tobias ten Brink, has been driven by precisely the opposite forces: "The boom was based on unparalleled levels of investment and a comparatively low rate of consumption." In addition, China discovered the advantage of underdevelopment and made the transition from the cheap workbench of the Western industrial countries to a serious competitor with products of its own.

The market-leading computer manufacturer Lenovo, which has lured customers away from the likes of Dell and Apple, is just one example of how China has succeeded in catching up by adapting existing technologies and processes. "Even though the Chinese may appear to be very good at it, that doesn't mean they are the only ones to get ahead by copying," says the Max Planck researcher. "We find the same thing in

Tobias ten Brink of the Max Planck Institute for the Study of Societies is investigating how, in just 40 years, China has risen from a developing country to become the world's second-largest economy.



Photo: MPI for the Study of Societies



Functioning infrastructure: The state in China is not just responsible for administration and legislation, it also creates some of the important bases of the economy.

the history of virtually every developing and emerging country – German companies did the same at the end of the 19th century.”

Another important factor cited by Tobias ten Brink in China’s unparalleled economic growth is the prominent interventionist role played by the state: “This, in particular, is what makes China so exciting for me, in that the typical distinction made in the social sciences between economics and poli-

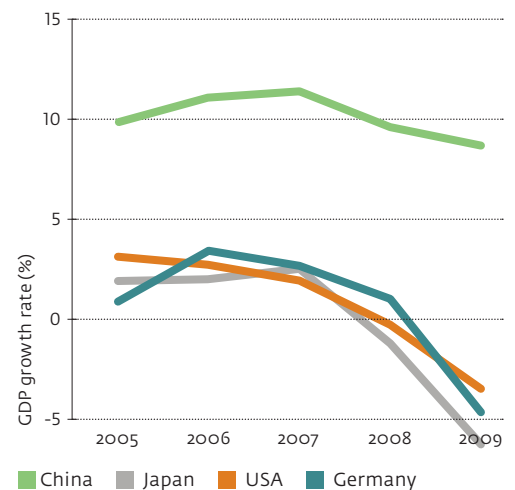
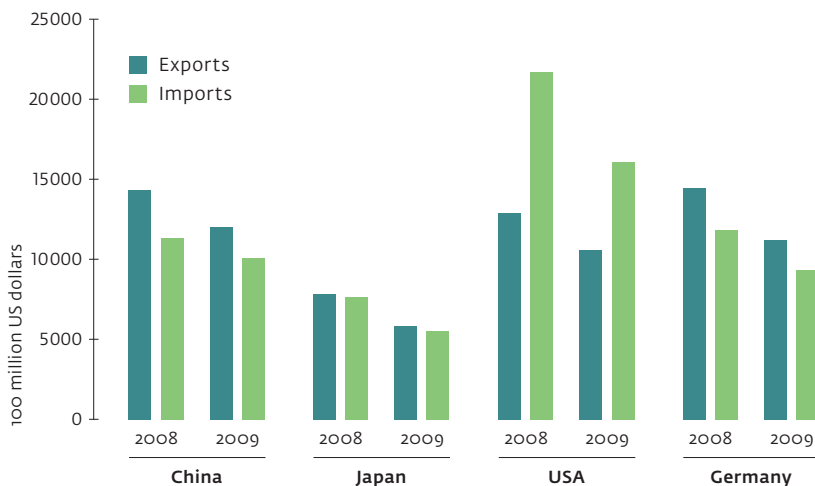
tics is even less prevalent than in liberal market economies.” This particular feature also makes the country an interesting subject for comparative political economists.

THE STATE CREATES THE BASES FOR CAPITAL FLOW

In China, central government plays a decisive role in that, over and beyond its administrative and legislative func-

tions, it creates the bases for the flow of capital – for example by providing a functioning transport, energy and communications infrastructure.

In addition, the state not only controls important industrial enterprises, but it also has a hand in the financial transactions and investments undertaken by major banks. Tobias ten Brink cites the huge economic stimulus programs that were set in motion during the global economic crisis as an exam-



All of the figures point upwards: China is playing in the same league as the great industrial nations and has already overtaken Japan (left). The People’s Republic is now also a leader in GDP. Its growth was less sharply curbed by the global economic crisis than that of other nations (right).

» Growth in the People's Republic was probably the single most important factor in preventing the global economy from falling still further.

ple of the “substantial economic policy freedom” that Beijing enjoys as a result of its control of the purse strings.

ANCHOR OF THE GLOBAL ECONOMY

When, during the global economic crisis of 2008/2009, the Chinese economy, too, began to falter, the government initiated the world's largest economic stimulus package relative to GDP, worth the equivalent of around 460 billion euros. This not only saved the domestic economy from collapse, ten Brink believes. “At the time, China proved to be the sheet anchor of the global economy. Growth in the People's Republic was probably the single most important factor in preventing the global economy from falling still further.”

Because this state interventionism, coupled with a marked spirit of liberal market enterprise, was oriented more toward macroeconomic parameters than toward the needs of the population, in ten Brink's view, the system is not what the Chinese Communist Party imagined when it decreed a socialist market economy to be the official line: “It's rather the case that a new version of capitalism has emerged in China, a form of state capitalism driven by competition that combines some extremely heterogeneous production regimes, types of enterprise and government policies. The growth this model has achieved should cause every defender of the free market to fall silent.”

This does not, however, mean that there are no risks of destabilization. “The extremely high dependence on the world market entails some substantial risks,” says ten Brink, citing one of the greatest hazards that could bring the Chinese dragon crashing down to



earth. The negative effects of this dependence made themselves felt in the years 2008 and 2009, when Chinese exports fell by a quarter as a result of the global crisis and the end of the consumer boom in the OECD member states.

MILLIONS OF PEOPLE LOST THEIR JOBS

“In the electronics and textile industries, which produce mainly for the world market, but also in other sectors, the number of layoffs ran into the millions. On top of that, the credit squeeze meant that there were fewer financial resources available for foreign investment in China,” explains Tobias ten Brink.

The obvious idea of ending the dependence of the Chinese economy on the global market by stimulating do-

mestic demand presents the government with another problem. “To do so, wages would have to rise considerably, and the social security systems would have to be massively expanded. This, in turn – in the view of a large element of the ruling elite – would eliminate China's principal competitive advantages in the shape of low labor costs and taxes.”

The scientist sees a further problem in the political system itself. Despite the stubbornly persistent impression of China as a unitary state under the total top-down control of the communist party, the image in reality is very different. Describing the reality in China, which resembles not so much a strict dictatorship as a fragmented party state, he explains: “The very fact that there are 22 provinces, five autono-



China may be a unitary state, but local authorities play a large role. What's more, the government of this vast country is divided into five levels, rendering control down to the last detail practically impossible. The photo left shows a meeting of the "Chinese People's Political Consultative Conference."

mous regions and four cities with provincial status all coexisting side by side means that the picture on the ground is fairly disparate."

Moreover, the division of government into five hierarchical levels makes it impossible to exercise control down to the last detail. Local government officials and representatives of the various authorities play a correspondingly large role. On the basis of ten Brink's observations, they do not restrict themselves merely to administrative duties, but also participate in the economic life of their region. "In practice, they are not just supportive, but they also assume economic activities and develop competencies similar to those of an entrepreneur," as the researcher discovered on his visits to the country.

"The relationship between party, state and entrepreneurs of all kinds is very close," says ten Brink. "Around 90 percent of the 20,000 wealthiest Chinese have strong, frequently family-based relations with high-ranking government or party functionaries." The varied alliances between parties are also supported by bribery and corruption, with regional economic subsidies in center field. One result has been, for example, the emergence of lively competition between city governments attempting to attract a maximum of subsidies and investors for their region.

However, there is a downside to this internal Chinese competition between locations. "There's evidence of overinvestment and duplication of investment resulting from this anarchic rivalry," Tobias ten Brink reports. Speculative

real estate market bubbles are threatening to burst, while an increasing number of loans are proving to be unrecoverable. "This could provoke a financial crisis, which the State Council, the Finance Ministry, the Central Bank and other political organs, such as the Huijin state fund, must try to overcome."

ECONOMY AT RISK THROUGH SOCIAL INEQUALITIES

Should the global economy not recover to the extent expected, the entire system is in imminent danger. The government in Beijing has recognized this fact, and has been attempting for some time to reduce lending levels. However, in accordance with the laws of physics, the Chinese locomotive has a long braking distance. >



The huge social inequalities in this, the world's most populous country could also prove to be a wrench in the works. Measured by GDP, China has overtaken Japan as the world's second-largest economy. However, given that income differentials play no part in its calculation, GDP alone tells us nothing about the distribution of prosperity within the country. "According to recent estimates, 0.4 percent of households hold over 70 percent of the wealth. Wages as a proportion of GDP have fallen from 53 percent in 1992 to around 40 percent in 2006," says ten Brink.

Thus, in China, there are a comparatively small number of people from the economic and political elites ranged against millions of ordinary workers. Many of the latter are low-paid migrant workers wandering in search of work. For decades, they formed the backbone of Chinese economic development, silently laboring on assembly lines, making goods for the West for a pittance in wages.

INJUSTICES PROVOKE RESISTANCE

But now the locomotive is no longer running so smoothly. People are hitting the streets with ever greater frequency to let off steam and to protest prevailing injustices. In Tobias ten Brink's view, the awakening of resistance goes hand in hand with a behavioral change at the grassroots level in society. "Migrant workers are settling in the cities and developing social aspirations," he says. "During the wave of strikes in Guangdong province in the summer of 2010, there were aggressive demands for better pay; the striking workers held meetings and elected their own delegates." The government is evidently



Social contrasts: The distribution of wealth in the People's Republic is severely uneven. Migrant workers are seen here eating outside the containers they live in. Better accommodation, as in the houses in the background, is beyond their reach (top). Worse off still are these migrant women, sleeping in the waste paper they previously collected.

» Even if China were to achieve the goal of 4 percent inflation in the current year by the skin of its teeth, Tobias ten Brink does not see this as the end of the Chinese success story.

aware of the risk of destabilization resulting from such tendencies. However, its reactions illustrate the deep dilemma in which it finds itself.

Caught between public promises to increase consumption and expand the social security system to satisfy the growing aspirations of the working population on the one hand and the continuing belief in the competitive advantages of low wages on the other, the government's approach to crisis management oscillates between firm-but-fair authoritarianism and disorganized despotism.

It responds to pressure by exerting counter pressure, but also with laws and real programs designed, for example, to raise the minimum wage and expand social infrastructures. "According to official figures, 20 percent of the economic stimulus package valued at the equivalent of 460 billion euros has been invested for such purposes," adds ten Brink. Government maintains that the money has been used to pursue social security programs based on Western models. In Tobias ten Brink's opinion, these efforts to create a social partnership founded on a balance of interests "pay more than just lip service" to the state's ideal of a harmonious society.

Then again, such measures do not go far enough. "They were insufficient either to stem the wave of protests or to guarantee a stronger domestic market." The scientist also doubts whether the regulations that raise the minimum wage will be universally implemented in the provinces. Against this background, he considers it "less than likely" that social injustices will be checked.

Above all, however, there is a lack of any functioning workers' representation. Where such a thing even exists on

the factory floor, the representatives of the state trade unions are more likely to act as "co-managers and organizers of leisure activities" than as upholders of workers' interests. Their close ties to the party state in any case impede any independent trade union work. Higher minimum wages have also caused major foreign businesses to transfer parts of their production to provinces in the interior in order to profit from the lower labor costs they find there.

Even if China were to achieve the goal of 4 percent inflation in the current year by the skin of its teeth, the end of the Chinese success story may not yet be in sight. "Growth in China, as in other economies, follows a cyclical course," explains ten Brink. It is entirely normal that periods of high GDP growth should be interspersed with periods of lower growth.

NO CAPITALISM WITHOUT CRISES

"Nevertheless, the dangers are real," ten Brink emphasizes. "Just as many favorable circumstances combined to dynamize the economy, there are also downsides that could trigger the opposite effect." The factors that have powered the Chinese economic miracle could, in the end, prove to be centrifugal forces that send it off at a tangent. Besides the dependence on exports and fluctuations in the global market, Tobias ten Brink sees social injustices as a particular source of risk.

All in all, he believes that China is by no means a unique exception: "The argument that China is China and, as such, cannot be compared with anywhere else is a myth." Accordingly, he regards it as an important part of his task as a political scientist to seek comparisons with other manifestations of

capitalism. He is not just interested in exciting details; he is also looking for evidence that the universal features of capitalist modernization can be identified in China. This would once again prove that there can be no capitalism without crises and social contradictions. "That is equally true of the new Chinese capitalism." ◀

GLOSSARY

OECD

The Organization for Economic Cooperation and Development has a membership of 34 states. The objectives of the OECD, founded in 1961 with headquarters in Paris, include contributing to optimum economic development, higher employment and a rising standard of living in member states and developing countries and expanding world trade on a multilateral basis.

Socialist market economy

The official term used by the leadership of the Chinese communist party to express its doctrine that the People's Republic, with the aid of a partial relaxation of the market, is in a transitional stage on the way to becoming a fully developed socialist society. Accordingly, the market is merely an instrument in the development of the national economy and is kept under control by the party state.

Comparative political economics

Comparative political economics is concerned with the interactions between the economy, politics and society in different countries and regions. In order to achieve a better understanding of the causes, forms and mechanisms of the change that is taking place in economic institutions under conditions of increasing internationalization, this discipline studies the role of national politics and other social institutions in the creation of diverse manifestations of capitalism.