

Introduction: China's Rise in the Global Economy

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The first decade of the twenty-first century has already confirmed the significance of China's emergence in the world economy. In 2009 China passed the United States as the world's largest car market (by number of vehicles sold), and in the second quarter of 2010 it passed Japan to become the world's second largest economy. Even assuming some slowing in its growth rate, China can be expected to pass the United States as the world's largest economy well before 2030. Although consumption accounts for only about 35 percent of China's GDP, real wages have been rising. Workers' compensation rose by an average of more than 9 percent a year from 2002 to 2006, and by over 11 percent in urban areas; migrant worker real wages rose by 17.3 percent in 2009.¹ A combination of rising worker militancy and growing labor shortages—especially as the share of 15 to 29 year olds in the population falls sharply after 2011—suggest that real wage gains are likely to continue. Meanwhile, a Chinese middle class has risen from virtually zero in 1978 to about 300 million at present, with some 500 million likely to be part of this group within a few years.

China's rapid economic growth began with the fundamental policy shift in December 1978, when the Central Committee of the Communist Party decided to integrate the Chinese economy into the world capitalist system and to take the first tentative steps toward a market economy. In the mid-1990s, the conversion to a definitively capitalist system was accelerated with the ending of lifetime employment, the massive firing of state-owned enterprise (SOE) employees, and the ending of planned allocation of resources (in the first half of the reform period, SOEs had to produce a certain amount of their output according to central plans, but could pursue maximum profitability with their remaining capacity). The entire reform period benefited from the economic development that occurred during the Maoist period (1949–1976), marked by labor-intensive capital accumulation in the countryside, the establishment of a broad array of industries, and a substantial increase in average levels of educational attainment.

In the process of becoming the workshop of the world, however, a broad array of problems emerged both within China and in its relations with the rest of the world. A floating population of perhaps 130 million people, people moving away from their homes in the countryside to seek work in construction sites, urban factories, and elsewhere, may constitute the largest internal migration in history. These migrants have been subject to harsh working conditions, the withholding of earned wages, and discrimination in housing and the education of their children. Other problems associated with the rapid industrialization that China has experienced include the generation of alarming levels of pollution, ranging from unhealthy air to seriously polluted waterways. In addition, China has passed the United States as the world's major emitter of greenhouse gases (although on a per capita basis the United States remains a far larger contributor to global climate change). China's ongoing scarcity of clean water will be intensified as the melting of the Himalayan glaciers that feed China's major river systems proceeds over the course of the twenty-first century, accompanied by ongoing industrialization and rising population.

The contradictions embodied in China's rapid development are also expressed in the increasingly unequal income distribution. On the one hand, real incomes have risen markedly over the last thirty years, while poverty has decreased by 400–600 million depending on the standard used.

¹*The Economist* 7/31/10: 49.

Despite recent gains, on the other hand, wages have not kept pace with economic growth—which has averaged some 9.5 percent in real terms since reform began—with many of the social benefit programs in health care, retirement pensions, and other areas from the Maoist period dismantled or drastically cut back as well. To help sort out some of the core issues posed by China's emergence, this special issue of the *Review of Radical Political Economics* presents four articles examining the rise of China from a variety of radical perspectives.

In "Making Sense of China's Economic Transformation," Dic Lo and Yu Zhang call on insights afforded by Marxian, post-Keynesian, and Schumpeterian theories to clarify the dynamics and developmental implications of China's economic transformation. China was able to grow rapidly in the 1980s and '90s—in contrast to sluggish economic growth in much of the developing world—despite following policies at odds with the Washington Consensus, which prescribed limiting the role of the state and maximizing that of the market. Lo and Zhang find that the demand conditions for rapid growth in the first half of the reform period (1981-92) rested on a "higher-than-average degree of egalitarianism in income distribution," that made possible the emergence of a mass market for consumer durables, facilitating the absorption of labor from the countryside even while industrial productivity rose. In the second half of the reform period, 1993-2007, capital deepening and large-scale importation of foreign technology contributed to much faster productivity growth, with growing exports and infrastructure spending sustaining demand despite growing inequality in income distribution. And at various points during this latter period, even before the global financial crisis emerged in 2008, the Chinese government turned to market-supplanting policies rather than the period's overall pro-market thrust to sustain rapid economic growth.

In "The Dependence of China's Economic Growth on Exports and Investment," Andong Zhu and David Kotz focus on the problems created by the increasing reliance of China on exports and investment to sustain rapid economic growth. Based especially on a huge trade imbalance with the United States and European Union, China has amassed the world's largest foreign exchange holdings, in excess of two trillion dollars. Together with exceptionally high levels of fixed investment, exports have been the main driver of China's economic growth over the past decade. These factors, however, cannot be relied upon to sustain China's exceptional growth performance in the future. First of all, China faces pressure from its Western trading partners to allow its currency to appreciate and is likely to face increasing trade barriers if it fails to comply to some extent. Second, even without rising currency values, China's exports are likely to remain under pressure from the sluggish economic recovery in the West following the financial crisis; this sluggish performance is likely to extend over a considerable period, as consumers seek to rebuild their savings, governments are under pressure to cut their deficits, and firms remain hesitant to invest in the face of global uncertainties. Finally, investment in directly productive activities ultimately requires rising consumption for justification, and export markets at least are likely to remain subdued. Zhu and Kotz argue, therefore, that a shift in growth strategy is mandatory if rapid development is to be sustained.

In the final section of their essay, Zhu and Kotz suggest that a shift to domestic consumption as the driving force for development will be required. This in turn will require a rise in income for ordinary people and a reduction in income inequality. One method of securing these objectives would be the renationalization of some enterprises or increasing labor market regulation (although the labor shortages and rising militancy noted have already contributed to increasing real wages in recent years). Zhu and Kotz also suggest that lowering the saving ratio could play a major role here. Since much household saving is a public response to inadequate government provisions for health care, housing, education, and social security, public policies to improve the provision of these would make possible increases in household consumption spending. Ultimately, Zhu and Kotz suggest that changes in the growth model along these lines will require a more democratic political, economic, and cultural system.

In “The Chinese Reform Experience: A Critical Assessment,” Martin Hart-Landsberg assesses the Chinese experience much more harshly than do the other essayists. He does not question the rapid growth, but feels that its costs have been unacceptable. Overall, there are four core themes to his essay. First of all, he argues that Chinese policies represent a restoration of capitalism rather than the initiation of a form of market socialism. Regime rhetoric notwithstanding, it is hard to fault this finding as China appears to have established a position well within the confines of state-directed capitalism that Japan pioneered and that remains a hallmark of East Asian development generally.² Hart-Landsberg’s second assertion raises questions about the extent to which the reforms are responsible for China’s exceptional economic performance. Although the reforms have clearly had a major impact, Hart-Landsberg quite properly points to the foundations for growth established during the Maoist period and the contribution of foreign investment, technology, and markets.

A third point raised in Hart-Landsberg’s essay concerns the sharply increasing inequality in income and wealth that has accompanied China’s growth strategy. During the period of China’s economic reform, China has moved from being a country with among the world’s most equal income distribution to one with among the world’s most unequal. While real income growth has accompanied this growing inequality, both in urban areas and in the countryside, serious environmental costs, inadequacies in health care, and various forms of labor exploitation are among the problems that suggest the net benefits of the reform process are significantly lower than simple income gains. Finally, Hart-Landsberg argues that China’s reform reflects the needs of transnational capital rather than those of its own working population. While this assertion is a controversial one among radical political economists, it brings into sharp relief the impact of the capitalist world economy and the ways in which it has interacted with China’s rise.

The final essay in our collection is Chiara Piovani and Minqi Li’s “One Hundred Million Jobs for the Chinese Workers!: Why China’s Current Model of Development is Unsustainable and How a Progressive Economic Program Can Help the Chinese Workers, the Chinese Economy, and China’s Environment.” As our other authors have argued, Piovani and Li find that the current path of Chinese growth, dependent on exports and investment, is not sustainable. The West is in no position to continue to increase its imports of Chinese goods as rapidly as it has over the past fifteen years, the environmental pollution that has resulted from China’s breakneck growth has reached a point where it can no longer be tolerated, and the breaking of the socialist commitment to equality and employment security has led to a rise in social tensions. As Piovani and Li point out, although there were 600 million fewer people living below the poverty line (using the \$1.25 per day income standard) in 2005 than there were in 1978, the income gap between the poorest and richest 10 percent of urban households increased from 3.3 times in 1992 to 7.9 times in 2002 (and is doubtlessly much higher still today), with inequality in China today greater than it is in the United States.

Like Zhu and Kotz, Piovani and Li argue that since the extremely high levels of export and fixed investment growth are unsustainable, China needs to move toward a growth model that relies more heavily on rising domestic consumption. For household and government social spending to rise by the required amount they calculate, some 13-18 percent of GDP, Piovani and Li suggest a large-scale public employment program to provide jobs to 100 million workers at a living wage that they define. Whether or not this particular policy solution is adopted, public policies that provide jobs for the underemployed, raise household income, increase the share of consumption in GDP, increase equality in income distribution, and reduce environmental stresses are clearly in order.

²Hong Kong of course represents an exception, but South Korea, Taiwan, and Singapore are among the countries firmly within this category.

Taken together, *RRPE*'s collection of essays on the Chinese economy serves to highlight both the achievements and contradictions of economic reform in China. As in other branches of economics, there is wide disagreement among radical political economists in their assessment of the economic transformation of China, but a shared concern with sustainability, inclusiveness, equity, social justice, and shared prosperity characterizes all of these essays. And by going beyond mainstream methodologies, *RRPE*'s essays offer new perspectives on China's emergence into the capitalist world economy.

Victor D. Lippit
Riverside, California

For the special issue collective:

Ron Baiman

David Kotz

Mehrene Larudee

Minqi Li

Victor Lippit

Shaienne Osterreich