Sweeping privatisation — where is it taking China?

Wednesday 4 July 2007, by CHENG Eva (Date first published: 12 April 1998).

This talk was presented to the Asia Pacific Solidarity Conference, April 10-13, 1998 by *Green Left Weekly* journalist Eva Cheng.

In recent years, many countries have been trying to denationalise a significant portion of their public assets. Imperialist countries have been doing that, so have Russia, China and a number of Third World countries. With the currency collapses and the near collapse of some Asian economies since last July, that process was much speeded up in Asia. All these countries seemed to be doing the same thing, but in fact these privatisation processes were driven by different forces and will lead to very different political results.

Just to highlight the fundamental process, the specifics of individual countries will not be dealt with here. In broad terms, many imperialist governments privatise the public sector for fiscal reasons. They liquidated longer- term assets for immediate cash to plug the hole left by too much spending in excess of revenue. They also tried to please their capitalists by passing over to them lucrative assets and more strategic control of the economy.

In the Third World, fiscal shortfall is also a driving force behind denationalisation. But the biggest push came from their imperialist creditors (banks) helped by international organisations under their control — such as the World Bank, the IMF, the Asian Development Bank and the World Trade Organisation.

These Third World governments sold lucrative public assets to foreign capitalists, to facilitate their control of their economies, to turn these economies more into an outlet for the imperialists' capital and a market for their technology and goods. In Asia in recent months, their main attention has turned to Thailand, Indonesia and South Korea.

In these two camps — the imperialist countries and the Third World — privatisation changes nothing of the fundamental nature of their capitalist systems. It merely shifted the control of some productive assets from the state to the capitalists. Certainly, the structural dependency of Third World economies on the imperialist centre, a product of the colonial era, will not be changed by privatisation. In many cases, this dependency has increased.

But denationalisation has a totally different political meaning in countries like Russia and China where capitalist property relations and social order had been overturned. In these two countries, denationalisation was part of a broader scheme to dismantle the planned economy, to disintegrate the production for social needs, in order to restore the production for profits, to restore the rule of capital owners. In both cases, privatisation was part of a process of capitalist restoration, consciously pushed along by their ruling bureaucracies.

There is one difference between the two — Russia and China. While the Russian bureaucrats have openly given up communist or socialist objectives, however distorted and badly implemented they have been, the Chinese bureaucrats still try to market hard socialist rhetoric. Such posturing have contributed to the confusion on the nature of the social transformation that has been taking place in China.

Different Chinese officials have said: private business is a necessary component in the primary stage of socialism to complement and foster the development of productive forces''. This statement can be true, but on one vital condition – that the state is working to strengthen the socialist property form and social relations, in particular, as an integral part of it, it is trying to put into practice genuine workers' democracy. But that's not the case in China and that's where the problem lies. No matter how many times the Beijing bureaucracy vowed and swore that they were defending the socialist order in China, if you critically assess their policies – their social, economic and political implications – it will reveal a very different story. With state power in hand, the bureaucracy can affect the future of the socialist order in China. They are by no means a homogenous group, and although it was acting primarily for its own interests, the Beijing bureaucracy had been defending the socialist property form and social relations in China since the 1949 Revolution. After 1949, a significant section of private properties in China was left untouched until the mid-1950s, ie. before a big push on collectivisation. But this existence of some private properties during the few years between 1949 and the mid-1950s did not invalidate the socialist nature of the state power in China. That state power was born out of a socialist revolution and was working to defend and extend the socialist order in China. This process of socialist construction went on despite it was suffering from serious distortions under the Stalinist regime headed by Mao. The key problem in China was that workers' democracy was never truly practised. In addition, there were a continuous stream of brutal and extensive purges which only formally stopped after Mao died in 1976. They devastated the Chinese workers, and has shaken the aspirations for and confidence in socialism among many of the workers. But in and of themselves, denationalisations – including those that have been taking place in China since Deng Xiaoping came to power in 1978 – are neither the ultimate nor decisive measure of capitalist restoration. If there were consistent moves to implement workers' democracy and to defend China's socialist order, the privatisation of some state assets, on its own, does not automatically mean capitalism is being restored. In fact, the development of productive forces is crucial to the achievement of socialism in its ultimate sense, which can't be reached without material abundance. A degree of private ownership and material rewards can help a socialist regime to acquire or retain some skills, buy it some breathing space, to help stabilising a new socialist order. But the use of private capital or not must not be mechanically ruled in or ruled out. It is a tactical question to be judged in a particular situation, on its own merits, taking into consideration, among other things, the balance of class forces, within a country and internationally. Also, whether a post-capitalist order is taking a qualitative leap back to capitalism is not measured or triggered by some simple quantitative limits. That is, judged by some quantitative measure, before you reach a magical number or level, a country is still socialist, but beyond that, it's capitalism. If only life was that simple! Yet the Chinese bureaucracy has been marketing exactly that – the mechanical proposition that such a limit does exist. They said China is still socialist because the state still owns more than 50% of the economy. Under that logic, a country is socialist if the state owns 51% of the productive assets, and capitalist if the state owns only up to 49%. Beijing did not say what assets are included in this measurement, how do you measure them and on whose judgement – the state's or the market's? What if a state firm's liabilities – say due to its social obligations to its workers – far exceed its assets, is it now a piece of junk? Yes, for a capitalist because it's insolvent. Not so from the socialist point of view if the firm forms part of a broader economic network assigned to play different socially useful roles. But once divorced from such a broader scheme, deprived of credit and other resources support, and being forced on it to make a profit as its biggest reason for existence, then such a firm will more and more face a hard choice: either to sack a lot of its workers – dump other provisions to them – or to die, liquidate. There is an important question: if the state power owns a majority of these assets in the economy, does it make the economic system more socialist? If compared mechanically and out of their social and political contexts, products produced by advanced capitalist economies are inherently more competitive than products produced by socialist economies. Why? The unit cost of capitalist products is often lower because they produced based on the super-exploitation of labour, the devastation of the environment, and was produced by more advanced technology and powerful machines. But can socialist economies be totally on their own – not trading with capitalist economies at all? So long as there's a need for imports, for example for crucial materials or equipment, there's a need for hard currencies and the need to export to earn such hard currencies. And therefore, in direct competition with capitalist producers in those product lines, and suffer a price disadvantage. With capitalist production being re-introduced in China in a big way, especially those supported by foreign capital and technology, the capitalists' competitive advantage is posing an increasing threat to socialist production. This situation is made decisively worse by the state power which is acting less and less to safeguard and enhance the planned economy. Because such institutional support is decreasing, the planned sector is becoming a smaller and weaker part of the Chinese economy. Also, within the so-called state sector, many firms – especially the biggest and most efficient ones – have been partially privatised, through stock market floats. Foreign capital owns a minority share in most cases, but that's often enough for these foreign owners to influence, if not determine, the key decisions of a firm. On the whole, the state sector suffers critically because it's no longer part of a functioning centrally planned economy which was guided by social priorities. Instead, most state firms are marginalised into stand alone operations. Previous support in the form of state credit and other supplies was drying up, and profit-making has increasingly become its sole purpose of production. In this new game, the welfare for workers has become an unwanted luxury. If not already fired, many workers in state firms have long been made redundant, paid a tiny fraction of their normal wage, or nothing at all. China's labour minister even said recently that up to half of state sector workers should be sacked before these firms can operate normally again. Operate normally again, may be, but in a totally different game. Privatisation also took the form of new production started by foreign capital. Under earlier requirements, they had to have a Chinese partner and couldn't own more than half of the joint venture. But that's changed. Many foreign investors have increased their control. These joint ventures are full-fledged capitalist operations, mostly of low-tech labour-intensive production. But they also include very efficient facilities supported by some of the most powerful imperialist firms in the world. If allowed to sell freely in China, which they are not yet allowed to do, the foreign-funded firms can easily out-compete the state sector. On top of that, local capitalists are also forming in China. There are three main categories: the so-called individual business (but covers all private operations which employ up to seven workers); private enterprises (which covers all the other bigger legally recognised capitalist operations); and, thirdly, those firms that arewearing the red cap' ' — meaning capitalist businesses under the disguise of public ownership.

This last category comes mainly from the collective sector which is not part of a centralised, planned economy. The firms in this sector are geared to make profits. They are usually owned by a local administrative unit and, sometimes, part owned by their workers. It's been reported that some private businesses even managed to find ways to register themselves as state-owned firms. With the benefit of such disguise as state-owned or collectively owned, they enjoy easier access to supplies, credits and tax concessions.

Official statistics based on such nominal categories do not capture some of these distortions and important adjustments. But still they provide a useful reference.

Measured by gross value of industrial output, the state sector's share dropped between 1985 and 1995 from 65% to 34%. But all other sectors moved in the other direction: the collective sector increased from 32% to 37%; individual sector (i.e. small capitalist businesses) jumped from 1.8% to 13%; and others (which include all other capitalist enterprises — local or foreign) leaped from 1.2% to 16.6%. These figures do not cover the first five years or so of the capitalist reforms, but the vital picture remains clear: the private sector has grown strong at the serious expense of the state sector.

Bearing in mind the private businesses in disguise which are not captured by these statistics, the true extent of privatisation in China is bigger than what these figures have shown. The restoration of capitalist production and the return of the rule of capital have gone much further than it appeared.

And this process is likely to get stronger. After almost 20 years down this road, despite some temporary set back and holding back, as a result of mass pressure (like in 1989) and conflicts of interests within the bureaucracy, the new leadership under Jiang Zemin and Zhu Rongji have shown no signs of changing this course.

How does the Asian crisis impact on China?

The Asian economic crisis has slowed down the privatisation in China, especially the high profile sales through stock market flotations. The much bleaker export prospect is hitting both the state and private sectors. The huge drop in value of some Asian currencies has made products of these countries cheaper, more attractive than products of their direct competitors. That includes China. To protect China's exports and its vital hard currency earnings, Beijing has been under severe pressure to devalue its currency as well. But top Chinese officials have reassured repeatedly that they were not going to do that.

But they can only stick to this promise at a very high price — much less demand for their products or to sell them at a big discount. But to slash prices to make goods saleable, the cut has to be quite deep to match the big devaluation of a number of Asian currencies. But slashing prices too much can cut into the profits of the manufacturers in China, cutting to the bone, selling at a loss. Even if they decided that on balance, they'll be least worse off to cut prices, going too far, the imperialist countries — led by the US — are ready to teach them a lesson.

They can be charged for dumping and can be punished by being banned from exporting to key imperialist markets, having concessionary trade credits withheld, or their capitalists can be banned from investing in China.

On the other hand, if China does devalue, it runs the danger of destabilising the Asian economies further, hurting the exports of more Asian countries, a scenario the imperialist powers wouldn't like to see and have been pressuring Beijing not to bring it about.

This is a catch-22 for Beijing. A slow down in exports means less productive activities at home and this can make China's already massive unemployment much worse. To contain the problem and to minimise the chance of the resulting threat to social stability, Beijing announced last month that it planned to invest US$1 trillion in the next three years in infrastructural development and other public works. Setting aside whether Beijing can eventually fund this massive scheme, these projects, if implemented, will significantly increase the state sector in the economy.

However, these fiscal injections, on their own, will not help to restore or strengthen the socialist content of the Chinese economy. Since 1949, the Chinese economy was rebuilt on the basis of production to meet social needs with the help of central planning. But that system has been continuously undermined over the last two decades.

The Asian crisis presents only a temporary drag on Beijing's privatisation agenda. A more structural problem comes from the lack of a sufficient market for China's goods. Although the developed capitalist economies are targeting very different markets — more for their capital goods and technology compared to labour-intensive and low-tech productions of the Third World, the imperialists have also been facing a serious problem in finding a market for their goods.

Powerful productive forces would be a blessing to ease humankind of hunger and poverty if people's needs are prioritised. But in the capitalist world, profits come first, such that the more powerful the productive machines have become, they will only bring superprofits for individual capitalists, for a short time. But for the capitalist class as a whole, their fundamental problem of a lack of a big enough market will be made worse by more powerful productive machines.

It's not difficult to understand why these capitalist producers heartily embraced China since Deng Xiaoping kicked off the pro-capitalist reforms. They set their eyes on China's enormous markets. China could provide a much needed outlet of their machines and consumer products if Chinese industries and Chinese workers can afford to buy. Certainly not when factories are closing and workers are out of a job.

Foreign capital owners can make a handsome profit by investing in China, exploiting Chinese sweated labour. But that hinges on whether their goods can be sold — inside or outside China. On this crucial question of markets, after the initial honeymoon, many foreign investors started to have a problem. The lack of market has resulted in over-capacity, much sooner than expected.

Last year, China's air-conditioner producers, more than 20 of them, were reportedly using a fraction of their capacity only. They produced 6 million machines, but demand still felt short by 1 million machines. Idle capacity and unsold goods were also reported for many consumer durables and cars where new, quite a lot of production capacity was still being built.

There is no evidence, yet over-capacity is a general problem in China. Perhaps this worry on demand, rather than the squeeze on credit or other fallouts from the Asian crisis explains why foreign investments in China this year is expected to be only 50% of last year to, down to just over US$20 billion.

However, this temporary set-back, on its own, will not stop Beijing's privatisation or its broader pro-capitalist agenda. The rhetoric of some bureaucrats at the top, over time, can weigh less than the deep-seated self-interests of broad layers of Communist Party cadres and cronies who are doing well as capitalists from these private businesses.

Beijing announced last month that it planned to sack soon millions of cadres and soldiers from the state and military bureaucracy. This will probably speed up the growth of this fledgling capitalist class.

Pushed along by the capitalists of Chinese origins in Hong Kong, Taiwan and south-east Asia, this incipient capitalist class in China has come a big way over the last decade or so, actively engaging in primitive capital accumulation — reinvesting their profits for expanded capitalist reproduction. Within China, two social forces have the ability or potential social weight to stop this process — the bureaucracy and the workers.

But the more members of the bureaucracy were transformed into capitalists, the less it is in their interests to stall or reverse the capitalist agenda. While some workers and unemployed have turned into successful capitalists (mostly petty traders, service providers and small capitalists) they can be a force supporting more capitalist reforms. But the majority of workers and the increasing army of unemployed have more to lose if full-blown capitalism is returned to China. Whether they can act collectively in their class interests is a question that remains to be answered.

But if they do get organised and mobilise, it is in the interests of the bureaucracy, the growing capitalist class and the imperialists to stop them, and they will. We in this room, other participants at this conference, and other members of the people's movement in Asia and the Pacific will have everything to lose as well if that happens.

A weakening of the working class in China will weaken other people's movements in this region. The working people of different countries have interests in common — to smash their own capitalists and their imperialist backers.