

## A discussion on neoliberalism and China's post-Mao market reform

At around the same time during the latter decades of the 20<sup>th</sup> century, just as neoliberalism was sweeping across the globe like an economic tsunami, engendering a series of fundamental changes in national economies, governance and politics especially among the developed democracies, the world watched in awe as China rose from its long-standing poverty and emerged as a global power within a remarkably short time span of 30 years.

By the time of Mao Zedong's death in 1976, the economy and society of China had suffered so deeply from the catastrophic failure of the Great Leap Forward (1958-1961) and the Great Proletarian Cultural Revolution (1966-1976) that fundamental reform was necessary to bring the country back on track. Determined to replace the outdated Marxist-Leninist and Maoist visions, Deng Xiaoping engineered a comprehensive economic reform package that aimed to bring the "market" into the socialist system, leading to the so-called "socialism with Chinese characteristics".

This simultaneous development of neoliberalism around the world and the transformation of China have given rise to debates whether a connection exists between the two and whether the notion of "neoliberal restructuring" holds true in context of China. This essay attempts to join the discourse by first looking briefly at the theoretical underpinnings of neoliberalism and explaining why it is more useful to consider neoliberalism as a flexible and unfolding policy package rather than as a fixed and static ideology. It will then examine China's advancement along the path of socialism with Chinese characteristics under the leadership of Deng until present day's Xi, paying special attention to the role of state and market logic. By determining how China's reform policies and outcomes align with or deviate from the theory of neoliberalism, this essay aims to shed lights on the degree to which neoliberalism informed China's post-Mao market reform.

### *Neoliberalism*

Emerged initially as an ideological response to the crisis of the "Keynesian welfare state", which manifested itself in the form of global recession and stagflation in the US, neoliberalism began to gain widespread prominence at the end of the 1970s.

Illustrated by the "invisible hand", a metaphor popularized by Adam Smith, neoliberalism subscribes to the idea that when each human in a community is left alone seeking to maximize his/her own wealth, aggregate wealth will be maximized. In neoliberal rationality, free market is therefore a means to an end rather than an end in itself. It is believed that only a self-regulating market is able to ensure an efficient allocation of resources and that free markets naturally tend to equilibrium.

Neoliberals also assert that any state intervention would "undermine the finely tuned logic of the marketplace, and thus reduce economic efficiency." (Thorsen and Lie, 2006) The only legitimate purpose of the state is to create and preserve an institutional framework that would safeguard private property rights and the proper functioning of free markets.

Essentially, according to Navarro (2007), neoliberalism is an ideology that holds the following three tenets: 1) minimum state intervention in the economic and social spheres. 2) deregulation of the labour and financial markets. 3) elimination of borders and barriers to allow for full mobility of capital, goods and services. The neoliberal transformation in late 20<sup>th</sup> century could therefore be described concisely as "a time of market deregulation, state decentralization, and reduced state intervention into economic affairs in general" (Campbell & Pederson, 2001).

### *Neoliberalism as policy paradigm*

A simple definitional approach to neoliberalism however offers little value to anyone who wishes to study it in context and in depth. As Wang (2011) remarked, “characteristic theories of neoliberalism are unable to lead to any persuasive conclusions and that neoliberalism’s real content is difficult to glean from its own general theoretical narrative.”

Describing neoliberalism as “historically specific, ongoing, and internally contradictory”, Brenner and Theodore (2002) also pointed out that it is imbued with “a rather blatant disjuncture” between its theoretical discourse and its everyday political operations and societal effects. While neoliberals aspired to create a free market economy liberated from any state interference and expected an optimal allocation of resources, what happened in reality were an intensification of state intervention and a strict imposition of market discipline. Market failures proliferated, social polarization and uneven spatial development exacerbated.

It is perhaps useful then, to look at neoliberalism as policy paradigm, that is, “a set of interrelated policies intended, generally speaking, to increase the role of markets in regulating economic life” (Evans and Sewell, 2013). Privatization, deregulation of credit markets, shock therapy, global free-trade agreements and intellectual property regimes are all typical examples of such policies.

From this perspective, neoliberalism becomes “a loose conglomeration of institutions, ideas and policy prescriptions from which actors pick and choose depending on the prevailing political, economic, social, historical, and institutional conditions.” (Campbell and Pederson, 2001) Neoliberal rationality can then “be one among other logics of governing in play in a particular situation without becoming the dominant feature of the environment itself.” (Zhang and Ong, 2008) In other words, states that have adopted measures which fit the neoliberal policy paradigm do not have to be ideologically committed to neoliberalism.

### *China’s market reform with neoliberal elements*

Indeed, as Demmers et al. (2004) pointed out, “both capitalist and socialist regimes have gradually taken the shape of neoliberal regimes, largely irrespective of the type of party or coalition in government”. It can then be said that national programmes of neoliberalization since the late 1970s became were instead shaped by historical circumstances and existing policies. Following this line of reasoning, China can therefore be seen as “a particular kind of market economy that increasingly incorporates neoliberal elements interdigitate with authoritarian centralized control.” (Harvey 2005)

According to Liew (2005), “China’s market reform programme contains elements of the two key pillars of the IMF/World Bank neo-liberal model – market liberalization and privatization.” By advocating to “let some people get rich first”, China adopted the opening door policy in 1979. A series of Special Economic Zones were being established, decision making regarding foreign trade was decentralized to local governments, and preferential tax treatment and high rates of return were offered to foreign firms to attract foreign direct investment.

By 1989, China rose from being the 32<sup>nd</sup> in the world in export volume in 1978 to become the world’s 13<sup>th</sup> largest exporter. Its share of world trade doubled and expanded at an annual rate of 15% during this period (Wei, 1995). Large-scale privatization also began in the late 1990s. “Between 1995 and 2005, close to 100,000 firms with 11.4 trillion RMB worth of assets were privatized, comprising two-thirds of China’s SOEs and state assets and making China’s privatization by far the largest in human history.” (Gan, 2009)

The disintegration of the Mao-era social security system further contributed to the privatization of public services. “[R]esponsibility for employment, welfare, education, health, poverty alleviation, and environment have become redistributed from government to non-governmental organizations and from the collective to the individuals.” (Ren, 2013) Shares of government spending on health care in China’s total health care expenses dropped from 36% in 1980 to 15% in 2000. Private sources of education funding in China’s total funds for education increased from 26% in 1996 to 33% in 2000, and tuition fee tripled during the period between 1995 and 2000 (Li and Zhu, 2004).

### *Neoliberalism as mechanism for resource allocation*

Although the Chinese state increasingly withdrew itself from many areas of social and economic activities according to neoliberal traditions, the Communist Party of China has retained its strong grip on power in the process of imposing market rules upon all aspects of social life, intensifying coercive and disciplinary forms of state intervention.

State-owned enterprises, which comprised 27.3% of total industrial enterprises and produced 44.4% of industrial output in 2001 (NBSC, 2002), continued to dominate the industrial sector and enjoyed preferential state treatment, benefitting from a disproportionate share of bank loans from state-owned banks. In addition, “[t]he state determines the grand outlines of industrial policy, provides much of the financing of enterprises, and stringently oversees infusions of foreign capital.” (Evans and Sewell, 2013) In fact, “China’s post-Mao leadership did not begin with an ideological commitment to neoliberalism- far from it.” (Breslin, 2006)

Stating that there was a crisis of state socialism at the end of the 1970s, Wu (2008) argued that neoliberalism was “born out of the logic of capital in an indigenous way as a modernization project.” Under a strong state apparatus, the social economy had serious over-accumulation tendencies and the “welfare-state” regime simply reached its limit to further support effective accumulation. Cheap labour became a burden and new space had to be carved out to turn this idle pool of production factors into productive force to ensure further development. Market was thus injected into the traditional society to absorb the surplus capital. What was initially introduced as an instrument to preserve the party-state’s legitimacy and power subsequently replaced the state itself to become the predominant mechanism for resource allocation.

Markets were therefore the outcome of central design and neoliberalization a highly engineered process that was inherently connected with the state of China and state-directed economic policy. The transition of the Chinese economy to an urban-based and export-linked accumulation was controlled by the state’s provision and modulation of production factors (Wu, 2010).

The hukou system, “a major instrument of the socialist command apparatus” (Chan, 2010) designed to control internal migration, created an abundant supply of cheap labours. By drawing rural migrant labours into the cities and denying them the same rights entitled to the urban hukou, the state created a condition where exporters were able to price their manufactured products much less than foreign competitors, thus allowing China to emerge as an export-oriented economy.

In short, neoliberalization in China was an orchestrated reaction to the crisis of state socialism, that is over-accumulation. This transition from a traditional society to a market society in turn laid down the political economic conditions for further neoliberalization. In this sense, “the neo-liberal agenda of “withdrawal of the state” can be deciphered as a technique for government.” (Lemke, 2001) Instead of losing powers of regulation and control, the state simply took on new tasks and functions of creating conditions for market operations and managing potential crises.

According to Wang (2003), the ambiguity and duality within the Chinese discourse of neoliberalism demonstrate that there exists a complex relationship of co-dependency between the state and neoliberalism. While the state relies on neoliberalism to preserve its legitimacy, “market-driven practices are inextricably linked to state policies, so that self-enterprising activities frequently rely on political structures and relationships rather than opposing them.” (Zhang and Ong, 2008)

### *Neoliberalism and the creation of a new capitalist class*

As China underwent radical marketization, the state itself went through “a transformation from the “redistributive state” to the “entrepreneurial state(s)”” (Power et al. 2012). The state’s new role as a market actor means that the interests of the state are becoming increasingly allied with those of the dominant class. According to Harvey (2005), neoliberalism is all about the restoration or formation of class power. Based on the fact that the Communist Party created a social system where wealth was concentrated in the upper echelons of society and “capitalist enterprises can both form and function freely” (ibid), he concluded that China “has definitely moved towards neoliberalization and the reconstitution of class power, albeit “with distinctly Chinese characteristics”.” (ibid)

Under the household responsibility system, individual peasant cultivators were allotted parcels of communal land with which they could freely produce and sell their crops. However, because the peasants did not hold title to the land, they were easily displaced as lands were converted to urban uses. With the absence of clear systems of property rights, the rights over communal lands and assets were usually transferred to the advantage of a small minority, often to individual members of the political elites and their relatives, allowing them to speculate in real estate.

The lack of regulation by the government has also led to the super-exploitation of labour power. Not only were wage levels exceptionally low and labour conditions extremely unregulated, workers also suffered from non-payment of wages and pensions. “Nationwide, the total number of workers who were owed unpaid wages increased from 2.6 million in 1993 to 14 million in 2000. The problem is not restricted to old and bankrupt industrial bases with retirees and laid-off workers. Government survey showed 72.5 % of the country’s nearly 100 million migrant workers were owed wages. The total amount of owed pay was estimated to be about USD 12 billion (or 100 billion yuan).” (Lee, 2004)

As part of the restructuring strategy, the transfer of shares of enterprises to management led to the formation of a new group of tycoons. These managers might also borrow from banks to buy up the remaining shares from the workers. The desire to cultivate a new stratum of capitalist is also evident from the formulation of the “Three Represents” theory under the Jiang Zemin administration. Written into the constitution of the CCP in 2002, Jiang’s political ideologies proclaimed that the CCP should represent “advanced social productive force”, “China’s advanced culture” and “the fundamental interests of the Chinese people”. By allowing private entrepreneurs into the party through the adoption of the “Three Represents”, China effectively transformed itself from a state of work class to that of the capitalist class (Hepeng, 2004).

### *Chinese case of neoliberalization*

By positioning neoliberalism as an assemblage of rationalities, strategies and practices whose effects respond to varying political, historical and economic contexts, the essay has aligned China’s marketization with strong state intervention, demonstrating that the market-oriented reform launched by Deng was in fact a process heavily engineered by the state as it played a protective, mediating, and adjusting role in the context of relations between market expansion and class

formation. In this sense, the Chinese case of neoliberalization is represented by a hybrid capitalist-socialist system that juxtaposes elements of Maoist governance with neoliberal elements, and ultimately a manifestation of pragmatic experimentation and flexible adaptation.

(bibliography provided on request)