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# Bridging China's past with humanity's future – Part 1

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This will be presented in 3 parts and in 3 different blog posts

## **PART – 1**

### **1. INTRODUCTION**

The world is tottering under the omnipresent virus covid19. Since January'2020, economic and sociological parameters went into a tailspin in one after another country across the globe. By end of year 2020, when the corona pandemic would be under control in all the top 25 countries (with GDP PPP more than 1 trillion \$ in 2018, as per World Bank estimates), global economic fabric would have been torn apart with unheard of impact on society, few of which are:

- millions of sick people will need medical care,
- millions of unemployed people (and continuously growing) will need food and shelter,
- at least one-third of the medium and large industrial and utility producing units will be financially sick, while close to half of the small scale units permanently closed down,
- due to decline of overall purchasing power among the citizens, demand of manufactured products will decline dramatically with simultaneous upsurge of demand for medicines,
- banking system will be under tremendous stress to renegotiate with their clients to reschedule loan repay and/or write-off loans,

- Governments will be embarrassed with dwindling tax collection, large scale impoverishments which would accompany increasing unrest among common people

Under the above circumstances, what would be the action plan of the global oligarchy who collectively own banking and industrial sectors and who maintain the current unipolar *world order* through chosen members of the so-called (USA/5Eyes/Israel) Deep State? We need to remember that there exist nothing like 'national capitalism' – by virtue of its expansionary characteristic, 'capitalism' has always been global in outlook which resulted in 'world system' with industrially advanced society forming the 'core' and rest of the world forming the 'periphery'. The global oligarchy has its interest in EVERY nook and corner of the globe. Deep State elites maintain strong economic and political alliances with almost all countries where, ALL significant political parties and large business houses of every hue and colours are joined through invisible covenant to continuously extend their support, and, in return get benefitted from the global oligarchy. (Cuba and North Korea are the exceptions owing to their overtly and fiercely 'independent' policy of governance; for past two decades, Russia-China-Iran-Venezuela governments are resisting the global oligarchy and their local partners with gusto.)

The answer to above question is – **state policy and implementation of the same would be geared towards accumulation of capital in every country except the above mentioned six countries.** Other than getting humongous sums as bailout packages from governments and share buy-back programmes through zero interest loan, the oligarchy (1% of the population) and flunky elites (5% to 15% of the population) has little interest in governance and support to common people in distress.

[ Link: <https://www.cnbc.com/2020/05/21/american-billionaires-got-434-billion-richer-during-the-pandemic.html> ]

A closer look reveals that, among those six 'resistance camp' countries, **only China has both: landmass and population, that can be termed as 'resources' necessary to resist unipolar world order, roll back onward march of global capitalism, and simultaneously build a multipolar world order and more equitable society in close coordination with Russia.** So it is natural to expect that China leads socio-economic rejuvenation of the world with full support from Russia. China is also well positioned to harness the strengths of Iran-North Korea-Cube-Venezuela. On behalf of peace-loving people who believe in truth-justice-equality, let me dig deeper into the proposition.

The journey will begin with review of Qing Chinese society as well as economy and industry of Qing era, then discuss the current Communist epoch, and end with future possibilities. Looking back is necessary, because a society which have a significant past would have a remarkable future as well.

## 2. CHINA IN QING ERA

While mentioning three successive empires: Yuan-Ming-Qing in late medieval and early modern China, it is often forgotten that, Yuan empire was divided into two parts: Ming and Northern Yuan empires, and most of the regions falling under these two empires were brought under control by Qing empire. Even though during the 'century of humiliation' starting from 1839 CE Qing empire gradually lost large territories in north-east, north, north-west as well as smaller tracts of land in the south and South China Sea, Qing empire should be given due credit for the following:

1. Notwithstanding the preferential treatments meted out to the Manchu aristocrats, the Qing emperors transformed the Chinese empire as a multi-ethnic multi-language empire in official policy and procedures (in contrast to Ming era that was truly Han chinese in outlook), thereby creating a fundamental basis of a modern Chinese society. Starting in 1618 through renunciation of Ming overlordship and creating Manchu kingdom by Jurchen/Manchu tribal chief, by 1648 Qing dynasty formed by the Jurchen/Manchu tribal chief extended their control over most part of the erstwhile Ming empire through a military force in which Manchu Bannermen represented below 20% of the manpower while Han Bannermen made up more than 70%. This data amply represented the multi-ethnic character of Qing policies.
2. The successive Qing emperors maintained warm relationship with all tributary states and protectorates until the onset of the 'century of humiliation' in 1839. Commentators and academicians who bring up *Westphalian concept* while discussing relationship between empires/kingdoms in pre-colonial Asia generally forget that *Westphalian sovereignty* was a concept that was necessary for and was derived under 'feudal' environment of medieval and early modern Europe. Except Japan, statecraft in Asian empires/kingdoms never introduced 'feudalism' in medieval and early modern Asia. Hence, the relationship between Qing empire and different categories of vassals had multiple vectors that can't be seen through the *Westphalian* lens. Even though Qing empire didn't lack manpower or military resources that would be necessary to directly rule over the vassals, they were comfortable with the

tributary system (based on Confucian ideals) whereby different kingdoms surrounding the Chinese empire would accept Chinese emperor as the predominant authority of that part of the world, and the benevolent Chinese empire would guarantee the opportunity of peaceful trading and commerce across central, east and south-east Asia – this ensured continuation of the two millennium long exchange of goods-services-knowledge-culture between Asia and Europe.

3. Continuation of the merit-based entry through examination system to the bureaucratic institutions and pre-eminence of Confucian family value system (both were adopted from earlier dynasties) ensured that Qing China stepped into the modern era keeping the fundamental socio-political basis of Chinese society intact. Both of these ancient Chinese practices are valued in all modern societies across world.

By the end of the 18th century, Qing empire commanded an area of around 14 million sq.km with estimated population of around 300 million. Qing society was divided into mainly five categories:

- Bureaucratic Officials
- Gentry elite aristocracy
- Literati, scholar
- Respectable “Commoner”
  - occupational group of farmers
  - occupational group of artisans
  - occupational group of merchants
- Debased “Mean” people (slaves, bond-servants, entertainers like prostitutes, tattooed criminals, very low-level employees of government officials)

About 80% of total population were peasants. Landholding peasants were largest labour force with presence of insignificant number of hired (landless) labour. The state also recruited army personnel from rural population.

### **Agriculture and Land-use:**

Agriculture sector was the largest source of employment in Chinese society. With private property rights over land, the farmers had natural incentive to produce more quantity and produce variety of crops. This resulted in increased factor productivity. Land owning peasantry also got benefitted from the state policy that supported hiring of labourers. On the other hand, tax from agriculture made up the largest share of state revenue. So, the landholding peasantry and fiscal-military state both had incentive for territorial expansion. And, the state often resettled farmers in new regions with material (seed and farming tools) and finance (free passage and tax holidays). By the 18th century the Han 'refugees' from northern China who were suffering from drought and flood were resettled in Manchuria and Inner Mongolia regions. The Han farmers farmed about 0.5 million hectares of privately owned land by Manchu elites in Manchuria and about 200,000 hectares of lands that were part of noble estates and Banner lands.

There were other innovative actions as well – introduction of maize and sweet potatoes, double cropping, fertilizer such as bean-cakes, re-introduction of early-ripening rice – that helped to increase productivity and conversion of marginal land into regular farm land. A system of monitoring grain prices helped the rulers to eliminate severe shortages, as well as to eliminate hoarding and price shock to the consumers.

The farmers on the basis of a high-yield agriculture produced a constant and sizeable 'surplus' that ensured development of market economy in (medieval and) early modern China. Historians estimate that up to one-third of China's post-tax agricultural output was subject to market exchange. This surplus also became the basis of growth and development of other sectors in the economy.

### **Trade and Commerce:**

For the first time, a large percentage of farming households began producing crops for sale in the local and national markets rather than for their own consumption or barter in the traditional economy. Surplus crops were placed onto the national market for sale, integrating farmers into the commercial economy from the ground up. This naturally led to regions specializing in certain cash-crops for export as China's economy became increasingly reliant on inter-regional trade of bulk staple goods such as cotton, grain, beans, vegetable oils, forest products, animal products, and fertilizer.

Merchant class functioned within the state-imposed boundary. At the apex of the

market structure, the state controlled key commodities like salt, wine, iron and steel etc. Qing state refused new mining rights to private merchants. Foreign trade was controlled by the state, participated by both state and private merchants. So the Chinese merchant class was left with unrestricted platform to engage in commercial transactions at village level (surplus-based market exchange with farmers) and at region level (estimated around 1,000–1,500 such regions in Qing empire). Trade between markets at the village level, region level, and province levels developed into a network covering much of Qing empire. Hence, the merchant class became very wealthy but lacked the strength (as a class) to influence the economy and state politics.

Merchant guilds proliferated in all growing cities in China who sourced manufactured items (by artisans and commoners) like textile, handicraft, ceramics, silk, paper, stationary, cooking utensils. More efficient administration of the Grand Canal created new opportunities for private merchants who could transport goods easily within Qing empire. It has been estimated that in the early nineteenth century, as much as one-third of the world's total manufactures were produced by China. Though In 1685 the state opened maritime trade for the merchants along the coast by establishing customs offices in port cities like Guangzhou, Xiamen, Ningbo, due to internal political moves such trade arrangement was abandoned. By the time when maritime trade was again made legal, trade with west Europe grew to such an extent that, Canton alone housed more than forty mercantile houses. China primarily imported war horses (for the army), and metals (for currency). China exported silk, ceramics, textiles, metal products (made of iron, copper, bronze etc.), non-metal handicrafts, tea. Trade between China and Europe grew at an average annual rate of 4% between 1719 and 1806. Qing state established the Canton System in 1756 CE that restricted maritime trade to Canton/Guangzhou and gave monopoly trading rights to private Chinese merchants. European merchant 'companies' British East India Company and Dutch East India Company had been granted similar monopoly rights by their governments long ago. In the early modern era, demand in Europe for Chinese goods were met through import for which payments were made by silver (sourced by European colonial powers from western hemisphere colonies). Resulting inflow of silver expanded the money supply, facilitating the growth of competitive and stable markets. Thus China had gradually shifted to silver as the standard currency for large scale transactions and by the beginning of 18th century collection of the land tax was done in silver. Since China was self-sufficient in all types of consumer goods, very low import caused imbalance of trade vis-à-vis Europe, which in turn resulted in drain of silver from European powers. British East India Company started importing opium into China. Import of opium into China were paid for by silver – It is estimated that between 1821 and 1840, as much as one-fifth of the silver circulating in China was used to purchase opium. Alarmed with both over the outflow of silver and damage that opium smoking was causing to Chinese people, emperor ordered to end the opium

trade, which started the conflicts with European powers in 1839 CE.

Apart from short-term credit systems, offering house and farm land as collateral to raise long-term money was also present. But, community and state interference with such contracts by blocking land transfers from debtors to creditors was one of the significant factors that displacement and dispossession (basis of 'capitalistic' primitive accumulation) never took root in China.

Due to 'equal opportunity' meritocracy and social mobility, the talented youth were generally drawn towards literati and officialdom ('Pan' family of Anhui transformed from one of wealthiest merchant family to powerful family of bureaucrats within two centuries). Merchant class was not considered as sufficiently suave which can attract talented people. They could not rival the influence of large landholding aristocracy notwithstanding localised influence of very rich merchants. Instead, the existence of factor markets for land allowed merchants to join the landholding class.

Some merchants with entrepreneurship zeal migrated to the European colonial outposts like Manila, Macau, Jakarta to avoid empire's policies which were Confucian (assigning merchants and other commoners same level who deserved equal treatment from the state as a patriarch).

### **Early Banking:**

Copper coins were used for everyday transactions, while silver was used for larger transactions as well as for payment of tax to the government. Apart from monetary conversion the money-changers also provided credit, and rudimentary banking services. Remittance banks evolved during this period that would take cash deposits from merchant in one place and issue remittance certificates, which the merchant could then take elsewhere to pay his supplier. That person would in turn go to bank in his vicinity and exchange the certificate for coins. By the 18th century there was a vast network of such banks which played a stellar role for development of commercial activity in China.

### **Development of Trade Towns:**

Due to the commercialization of the surplus agricultural products as well as booming 'cottage industry' (if I may say so), merchants were involved in inter-region and inter-province trades with help of long-distance transportation network. Towns popped up as commercial centres to direct the flow of domestic trade. As more and more people travelled, 'guild halls' came up in market-towns for lodging

and boarding of those people which included merchants, buyers, and sellers. It has been that about 45,000 market towns developed, some of which became home to some of the merchants.

During mid-17th century guild halls were introduced for more specific purpose – to facilitate craftsmen and artisans of specific sectors like textiles weaving, carpentry, medicine, iron and steel work. Thus those guild halls acted as nucleus of industrial-towns, which further developed into large cities with real estate, water supply, sewerage system etc.

### **Similarities & Dissimilarities with Western Europe:**

**In 18th century Qing era, the standards of living in south and east regions of China reached a high level which was comparable with wealthy regions of 19th century Western Europe.** As per renowned Historians-cum-Sinologists key factors were '(1) the rationality of private property rights-led growth, (2) total factor productivity growth associated with China's green revolutions from Han to Ming-Qing and the economic revolution under Song dynasty, and (3) China's export capacity (hence China's surplus output) and China's silver imports (hence purchasing power of China's surplus).'

Ken Pomeranz showed that the core productive regions in China and West Europe both faced major bottlenecks in the form of land and energy constraints in the 19th century. A combination of domestic and international factors as well as much luck enabled England to overcome these challenges and embark on a capital-intensive path of industrialization. As per Pomeranz, two major factors here were '(1) the conveniently located coal reserves, which, being near the core areas helped Britain escape its energy constraints more easily, and (2) Britain's coercive colonization of the western hemisphere, which served as a source of land-intensive goods such as cotton, sugar and grain, while at the same time providing a market for its manufactured goods. In China, where coal reserves were not as readily available, and a policy of coercive colonization, which could provide it with free land, was absent, ecological constraints led to a turn to labour-intensive agriculture.'

Yet another line of thought considers (1) families of 'strong, urban, entrepreneurial class capable of concentrating the agrarian surplus to foster a capitalist-industrial' were absent in China unlike in UK, (2) In both agriculture and cottage industry sectors the Qing emperors' policy of conflict-containment (between landlord and tenant, between owner and labour) contained appeasing and accommodating attitude towards the tenants and labours (very much unlike the UK where merchants, landlords and entrepreneurs received unconditional support from state)

which ultimately were detrimental to accumulation of capital.

**Socio-economic indicators:**

As per Maddison, percentage share of global GDP and GDP per Capita of China, West Europe, and USA:

Year	China GDP	China GDP per Capita	West Europe GDP	West Europe GDP per Capita	USA GDP	USA GDP per Capita
1500	24.9	1.1	15.5	1.4	—	—
1820	33.0	0.9	20.4	1.9	1.8	1.8
1940	6.4	0.3	27.5	2.5	20.6	3.6

As per Allen, and Pomeranz, select socio-economic indicators in early-modern China and England:

Country	Average Life Expectancy at Birth in mid-18th century	Average Calorie Intake/male/day in 19th century	Land Productivity 1806 to 1820 CE (Pound/Acre)	Labour Productivity 1806 to 1820 CE (Pence/Day)
China	35 to 39	About 2600	26.1	51.3
England	31 to 34	2000 to 3500	3.3	60.9

**Significant observations on Qing China:**

1. Even though Chinese society maintained a robust lead over rest of the world in science and technology (as conclusively shown by Joseph Needham) including metallurgy, porcelain, gunpowder, compass, silk, paper, block printing, water turbine, herbal medicines and many other areas, China was slow to catch up with the technology behind (a) industrial machinery, (b) transportation systems, (c) military arms developed in West Europe since mid-18th century
2. By end-18th century when territorial expansion stopped, population continued a healthy growth. Due to prevailing equal-inheritance practice, farm-owners started facing the problem of a shrinking farm that resulted in decreasing prosperity among farmer class, which finally reflected in less than expected tax realisation by the Chinese state. Combination of key factors like (a) the organised hooliganism and colonialism of European trading companies, (b) internal discontent and rebellion among the common people, and (c) territorial competition with Russian and

Japanese empire, proved fatal after 1840 CE

3. With a thriving agriculture and a splendid cottage industry that catered domestic demands China mostly needed war horses and metals to be imported. This was in direct contrast to West European states who needed consumer goods to be imported from China but couldn't offer goods to be exported to maintain somewhat balance in trade, so they brought in opium. Qing administration should have analysed this problematic trading relation beforehand to take necessary actions to forestall such developments

4. The debate among a large number of Historians and Sinologists about 'why China couldn't develop capitalism before West Europe' continues till date. The fact of the matter is that, the **social-economic-political checks and balances that existed in China since 1st millennium BCE (largely due to pervasive Confucian thought in Mandarin Chinese mainland as well as Buddhist thought in Mongolian-Tibetan dominated regions) were diametrically opposite to concept of the so-called 'animal spirit' of Zionist capitalism. The wealthy landlord and merchant class in China could never pursue profit and endless accumulation of capital by controlling state super-structure.** However, the hard-working and merit-based dynamic society of China allowed commercialization, trading, proto-industrialization, and urbanization in a big way since medieval Song era.

### 3. CHINA IN MAO ERA

Since mid-19th century, one-after-another onslaught by the west European colonialist powers, and Russian-Japanese empires devastated China: first the Qing empire up to 1911, then the Nationalist China up to 1945. Overcoming the 'century of humiliation', through armed struggle and huge loss of life, the Chinese Communist Party seized state power in mainland China in 1949. Mao Zedong lost his wife, a son, two brothers, and sister, Zhou Enlai lost all his children, while Zhu De found decapitated head of his pregnant wife nailed to the city gate. At the time, China was a backward agrarian economy with widespread poverty, lawlessness and illiteracy; of its five hundred million people, eight in every ten people were illiterate, one in every eight people was drug addict. It was a time when peasants had to give away two-thirds of their produce in rent/tax, and people sold themselves to avoid starvation.

One can only look back at 1949 China with bewildering awe about how the Peoples' Liberation Army completed their task of liberation under Mao and his comrades, which culminated with CPC's emphatic take-over of state power. No other

revolutionary leader, anywhere in the world till date, could mobilise such vast number of his countrymen through such enormous hardships for decades. Initial acts were swift and effective. The banking system was nationalized and People's Bank of China became the central bank for the country. The government tightened credit, established value of the currency, implemented centrally controlled government budgets – all of these ensured that inflation was under strict control. CPC undertook a land reform programme through which 45% of the arable land were redistributed to the 65% of peasant families who owned little or no land. These peasants were encouraged to form sort of mutual aid teams among 7-8 households. CPC also nationalised most of the industrial units as soon as they came to power. By 1952, 17% of the industrial units were outside state-owned enterprises compared to about 65% during Kuo Mindang government.

The First Five-Year Plan (1953–57) followed the Soviet Union model which assigned primacy to development of heavy industry. Government of China controlled about 67% as directly state-owned enterprise and 33% as joint state-private enterprise. There was no more privately owned company. Key sectors like Coal and Iron ore mining, Electricity generation, Heavy Machinery manufacturing, Iron and Steel manufacturing, Cement manufacturing etc. were modernised by construction of hundreds of new factories with help from engineers sent by Soviet Union. Growth of industrial production increased at average rate of 19% per year during this period. During this period, more than 90% of cottage/handicraft industries were organized into cooperatives.

The agricultural sector however didn't perform as per expectation and only clocked average growth rate of 4% per year. From loosely constructed 'mutual aid teams', peasants were encouraged to form 'cooperatives', in which individual families still received some income on the basis of their contribution of land. In the next stage, 'collectives' were formed on which income was based only on the amount of labour contributed by each family. In addition, each family was allowed to retain a small plot to grow vegetables and fruit for their personal consumption. By 1957 the collectivization process covered 93% of all farm households.

Second Five-Year Plan (1958–62) was abandoned. The leadership introduced new set of policies, and decided to engage entire population to produce a "great leap" in production for all sectors of the economy at once. 3-tier Communes were built to spearhead quantum jump in agricultural produce – at the top level commune central administration, at the next level 20 or more production brigades represented by the old 'collectives', and the last tier production team that consisted of about 30 families of village. They attempted to build vast irrigation network by employing unemployed and underemployed farmers – final objective was to increase the agricultural output and employment. Similarly, surplus rural labour

was also employed in thousands of small-scale, low-technology, industrial projects in rural areas – final objective was enhancement in industrial and agricultural output and employment. Such small scale industry (including steel making furnaces) were also run by communes. The communes proved to be too bulky to carry out administrative functions efficiently. As a result of economic mismanagement, and unfavourable weather for two years, food production in 1960 and 1961 plunged. As a result, **China faced a famine – in 1960 the death rate was 2.54% compared to average death rate of 1.14% registered during 1957 and 1958.**

In 1958 industrial growth was 55%, in 1961 it was 38%. By 1962 overall economic collapse propelled the leadership to devise a new set of economic policies. Agricultural taxes were reduced, supplies of chemical fertilizer increased, agricultural machinery were made available, procurement prices for agricultural products were raised, the role of the commune central administration was significantly reduced, and private farming plots were restored. In industry, planning was again emphasized, import of technologically advanced foreign machinery started, hydro-electric power plants were setup, old plants were refurbished, chemical fertilizer plants and agro-machinery plants were setup in large numbers. Between 1961 and 1966, average annual growth of industrial output surpassed 10% while agricultural output grew at an average rate more than 9% a year.

The Cultural Revolution, a political upheaval whereby Mao re-established control over the party by pushing aside the right-of-centre and left-of-centre factions of CPC. It didn't produce major changes in official economic policies or the basic economic model. Nonetheless, the disturbances affected urban society which impacted about 14% decline in industrial production in 1967. By 1969 industrial sector returned to a normal growth rate. Fourth Five-Year Plan (1971-1975) saw resumption of systematic economic growth especially in industrial sector (with new plants setup for Petroleum Exploration and Refinery, Fertilizer, Steel, building materials, Chemicals etc.). Petroleum and Coal were exported since the beginning of 1970s. With industrial sector average rate of 8% and agricultural sector average rate of 3.8% it was clear that, contrary to popular image Mao era targeted industrial growth as the top priority.

CPC leadership re-evaluated the economic state of affairs and Zhou Enlai presented a report to the Fourth National People's Congress in Jan'1975. He formulated the famous 'Four Modernizations' policy targeting agriculture, industry, defence, science and technology. **By 1976, when both Mao and Zhou departed, foundation for a strong self-reliant country had been built, and mainland China had** (1) a very large, and healthy labour force having basic

education, (2) a huge battery of state-owned industrial enterprises across sectors, (3) infrastructure, power, communication required for further economic growth, (4) an economy burdened by extremely low external debt (2.99% of gross national income as of 1981).

### **Socio-economic indicators:**

Except three interludes – Great Leap Forward (1958–60), Proletarian Cultural Revolution (1966–69), and post-Mao political struggle (1976–78) – different sectors of the Chinese economy (agriculture, mining, manufacturing) experienced healthy growth, albeit with quite difficulty aroused out of frequent policy changes. Economists estimate that during the period 1952–1978, China's real GDP per capita grew at a robust 4% average annual rate, the industrial share of GDP rose from 20.9% in 1952 to 47.9% in 1978 (as per Chinese National Bureau of Statistics), industrial labour productivity grew by 236.7% and agricultural labour productivity growth was only 25.5% over the same period, the fraction of the labour force in agriculture declined from 83% to 75% with the value added produced in agriculture declined from 78% in 1953 to 30% in 1977, household consumption grew by only 2.3% annually, retail prices for consumer goods grew at an average rate of 0.6% a year. Life expectancy at birth improved from 43.5 years in 1960 to 66.5 years in 1978, according to World Bank data.

Year	GDP Nominal (Billion USD)	GDP per Capita (USD)	Population (Billion)
1952	30.55	54	0.569
1960	59.72	89	0.667
1970	92.60	113	0.818
1977	174.94	185	0.943

### **Significant observations on Mao China:**

1. Treading on the same path taken by Soviet Union, 1949 onwards China went on to implement a mode of production which was essentially 'state capitalism'. Soviet Union as a state was the owner of the means of production and 'commodity' (which by definition is integrated with exchange-value i.e. 'price' in the 'market') that were produced. Following similar model, China created a new economy that also revolved around commodity production by state-owned enterprises, agricultural output production by state-owned communes and accumulation of capital by the state (through extraction of surplus from the rural agriculture and light industry). In Soviet Union and China, the ideologues termed it 'socialist commodity', however,

socialism' can't theoretically accommodate production of 'commodity' that inherently refers to 'market'.

In fact as Marxism suggests, the concepts of 'commodity', 'market', 'capital' and 'surplus capital' are intricately joined with 'ownership' of means of production. Marx and Engels were clear that these concepts don't have place in socialist/communist society. It is not true that ownership pertains to only 'private' citizens, even 'state' can own assets to be used as 'capital' and the profits out of business gets appropriated by the state authority and close followers.

**Undoubtedly, Stalin and Mao being the most committed followers of philosophy and ideology of Marx-Engels-Lenin, were well aware of the final destination of the Marxist journey. Why then both of them set out to accumulate capital in the state treasuries?** We will come back to this question again in the last part of this hypothesis in section 5.

2. The central planning system initially adopted from Soviet Union, was the punching bag for CPC leaders whenever they reviewed the planned-vs.-achieved results and found variance (actual results were less than planned). The centralised economic planning as a concept was correct – there were shortcomings in the execution process. Firstly, sector-wise prioritization should have been done that reflects the reality in the society – Chinese society being overwhelmingly agrarian, the 1st Five Year Plan should have assigned primary importance to agriculture and next level of importance to light industry, heavy machinery being at the last layer of importance. Secondly, centralised economic planning needs *accurate* and *complete* set of data – China being a vast country with wide regional differences in weather, natural resources, social norms, demography, occupation, infrastructure etc., compilation of complete and correct and data for planning process 70 years back was much more complex than we can imagine today. Thirdly, in reality the central planning was a top-down process albeit with participation of all concerned ministries and departments. In a large country like China, bottom-up would have been a better approach.

3. Government introduced *hukou* system (originated in medieval China) in 1958 through which all rural households got registered through which the family members will get entitlement for housing, education, medical care in the place of their registered birthplace. In a way government controlled migration of rural population towards urban and semi-urban regions. Intellectuals who value human rights as inalienable natural right, termed this system as draconian. However, such arrangements were highly effective in controlling large-scale migration of unemployed rural people to urban areas causing socio-economic problem in both rural and urban areas.

4. The revolutionary spirit of Mao knew no bounds. Undoubtedly, he was right in emphasizing that, (a) not only economic sphere needs transformation from capitalism to socialism, but cultural sphere of society equally calls for such transformation, (b) the proletarian revolution has a long way to go. Time and again he became impatient with policies that were developed by him and his team earlier. Possibly Mao was oblivious of the fact that, frequent changes in political and economic policy would leave a trail of inefficiency, maybe he was not. During the second half of 1950s, the decisive rejection of Stalin's achievements by CPSU, dampening of Leninist ideals, and withdrawal of all kinds of Soviet support from China made Mao deeply perceptive of the overall challenges on the way to build socialism in a country– this alone can explain **Mao's vacillation in policy issues and in-depth deliberations on socio-cultural aspects of socialist revolution** (a territory, which was much less travelled by Lenin and Stalin). Thus Mao delved into too many intangible factors (apart from political economy) that would influence the final outcome of a complete communist transformation of any society.

#### 4. CHINA IN DENG ERA

After a brief struggle for leadership, Deng Xiaoping took control of CPC in 1978. At the Third Plenary Session of the 11th Central Committee of the CPC held in December'1978 in Beijing, the majority party leaders decided to undertake reform and opening up of economy. They repudiated the Cultural Revolution of Mao era. **The reform, as Deng proposed, would develop productive forces through increasing role of market mechanisms and reducing role of government planning.**

Agricultural production was stimulated by an increase of over 22% in the procurement prices paid to the peasants for farm produces. The *commune* system was decollectivized but the state still owned the land and *household responsibility* system was introduced in agriculture starting in 1979 – individual farming families would get 'right to use' on plots of land (divided from old 'communes') from government, earn profit by selling their products on the market in lieu of delivering a small contractual amount of produce to the state as taxes. This arrangement increased productivity through the profit incentives for the farmers, and about 98% of farm households were brought under this system by 1984. In 1985, by employing 63% of the country's labour force the agricultural sector achieved 33% of the GNP, agricultural production got increased by about 25%. Among agricultural produces grains like rice, wheat, corn, barley, millet, cash crops like oil seeds, sugarcane, cotton, jute, fruits, vegetables, poultry and pigs were primarily produced by peasant families. Though efficiency of agriculture sector improved a lot with all arable plots producing at least one crop per year, and under favourable conditions two or three

crops a year, fundamental problems remained as before – small farm size, and inadequate agriculture equipment.

Apart from a significant category of small handicraft/cottage industry, light industries formed second category while large industry category included Power plants, Petroleum Refineries, Petrochemicals, Chemicals, Fertilizers, Textile, Steel, Cement, and Automobile. Reforms targeted in urban industrial regions. In industrial sectors, state-owned industries received permission to sell production above the 'plan quota' at market at prevailing market prices, as well as received affirmation to experiment with the bonuses to reward higher productivity among employees. *Industrial Responsibility System* introduced in mid-1980s allowed individuals or groups to manage the state-owned enterprise by entering into contract with government. Private businesses (which almost disappeared after the Cultural Revolution) were allowed to operate and price flexibility was introduced, and gradually private ownership enterprises began to make up a greater percentage of industrial output. Bringing in modern business enterprise management process, government allowed managers to gain control over their business operation including recruitment and layoff (with approval from bureaucrats and CPC). Industrial sector generated around 46% of GNP in 1985 by employing only about 17% of the total labour force in China. Enterprises further got incentive when in 1985 the policy of retaining the net profit (after payment of tax-on-profit to government) within the enterprise was made across China. On banking and financing also there were policy changes – bank loans were made available to the enterprises at a very low interest which would have to be paid back to banks. Budgetary support by government was reduced. For industries, foreign trade procedures were made much easier; (soon special economic zones would be launched to be in the forefront of the boom in foreign trade). The effect of profit-driven competitive environment on working class people was that, many enterprises slowly replaced permanent employment with short-term contractual job as well as eliminated welfare packages for workers – this impacted industrial workers' living standard and social security negatively.

Perhaps the most sweeping policy decision taken by Deng related to the open door policy for foreign investment. Starting in January 1979, Chinese government created initial 5 special economic zones (SEZ) in Shantou, Shenzhen, Zhuhai (all in Guangdong province), Xiamen (in Fujian province), and Hainan province where many additional infrastructure, fiscal incentives, and freedom from too many bureaucratic regulations were provided to foreign investors for setting up industry. Primarily geared to exporting goods, the five SEZs housed foreign joint ventures with Chinese companies as well as fully owned foreign companies. In 1984, China opened 14 coastal cities to MNC investment: Dalian (Liaoning province), Qinhuangdao (Hebei province), Tianjin, Yantai, Qingdao (both in Shandong

province), Lianyungang, Nantong (both in Jiangsu province), Shanghai, Ningbo, Wenzhou (both in Zhejiang province), Fuzhou (Fujian province), Guangzhou, Zhanjiang (both in Guangdong province), and Beihai (in Guangxi province). Beginning in 1985, new economic zones were established in Liaodong peninsula, Hebei province, Shandong peninsula, Yangtze river delta, Pearl river delta, Xiamen-Zhangzhou-Quanzhou in southern Fujian province, and Guangxi Zhuang Autonomous region. In the post-Deng era, these regions became high-power engines of economic growth and technological breakthroughs for the Chinese economy.

The open door policy changed the landscape of foreign trade in China. Before the reforms, combined exports-imports in 1969 was 15% of GDP; with reforms in 1984 it became about 20% and in 1986 it reached 35% of GNP. Textiles, Petroleum, and foodstuff were main export goods while machinery, transport equipment, and chemicals were key import items. By 1986, Japan became the dominant trading partner accounting for 28.9% of imports and 15.2% of exports. During the same time, USA appeared on the horizon as the third largest overall trade partner, next only to Hong Kong which accounted for 13% of imports and 31.6% of exports. Under Deng, the SEZ and foreign trade became significant tools for both foreign direct investment (FDI) and modern technology. Most interesting part of China's industrial drive was **'technology transfer'**. While historically China was always on the forefront of applied science and technology, as the 18th century was drawing to a close China was slowing down in the technology race compared to west Europe – hence Deng made it a point that following the 'four modernisation' programme China should rapidly close the technology gap by upgrading old mining and manufacturing plants as well as installing plants with sophistication.

Apart from huge coal reserves, China had substantial reserves of natural gas. With many rivers running across the country, hydroelectric potential was among the largest in the world. Large number of coal-fired thermal power plants and large hydroelectric projects were undertaken by the government to generate electric energy necessary for a thriving industrial economy.

Undoubtedly Deng's overall reform programme accomplished very impressive success, but it also **gave rise to several serious socio-economic problems – rise of factions attached to neoliberal free-market political economy within CPC**, managerial autonomy in state owned and private owned enterprises, rampant corruption, economic crime, widening income disparities, uncontrolled inflation, and large scale moral deterioration. These concerns created huge storm within CPC and party general secretary Hu Yaobang was forced to resign in 1987. The left-of-centre faction of CPC stalled some of the reform programmes. Student leaders mainly based in Beijing and Shanghai who were fascinated by the neoliberal

free-market ideology, pointed out to such socio-economic issues in the then Chinese society and built a movement (supported by the Zionist Capitalist Deep State) that aimed at toppling the CPC rule. The People's Liberation Army was mobilised to break seize by protesting students at Tiananmen Square in Beijing in June 1989.

In November and December of 1990 Deng reopened the Shanghai Stock Exchange and established the Shenzhen Stock Exchange respectively. Party Congress in 1992 echoed Deng's views while stating that China's key task ahead would be to create a 'socialist market economy'. And, in 1992 Deng undertook 'southern tour' during which he underscored the need to continue reforms to open up the economy. Through these actions Deng re-established control over the party (which was weakened in the aftermath of Tiananmen Square protests) by pushing aside the far-left and left-of-centre factions of CPC. Deng made Jiang Zemin the CCP's new top leader. A new round of market reforms was initiated. Private enterprises and enterprises owned by the local governments took advantage of easy loans from state-owned banks to expand their business. This again caused inflation and fiscal deficit during 1993. New policy of floating exchange rate and convertibility for renminbi caused about 33% devaluation of renminbi. Foreign Direct Investment was further encouraged and capital inflows to China poured. Economy cooled down after enterprises owned by local governments transferred a larger portion of revenue to the central government, and bank credits were tightened. Exports surged due to devaluation. In 1996, the economy grew at around 9.5% accompanied by low inflation.

Working on the free trade and economic zone policy after 1990, the government opened the Pudong New Area in Shanghai and cities in Yangtze river delta to overseas investment. Since 1992 the government opened more border cities and capital cities of provinces and autonomous regions.

The total number of industrial enterprises rose from 377,300 in 1980 to nearly 8 million in 1990. During the Deng era, higher levels of inflation appeared with reduced government controls – in 1980 consumer prices rose by 7.5% while in 1985 the increase was 11.9% going down to 7.6% in 1986. In 1995 China exported 24.7 billion USD to USA and 149 billion USD to rest of the world. In 1997, the year when Deng departed, share of private consumption in GDP was only around 43% while share of exports in GDP was around 22%.

### **Changing socio-economic indicators:**

Economists John Whalley and Xiliang Zhao estimated the impressive performance of Chinese economy (using Barro-Lee approach) between 1978 and 1999:

- Output growth rate – 9.72%
- Growth rate in Input
  - physical capital – 7.30%
  - labour – 2.03%
  - human capital (represented by average years of schooling) – 2.81%
- Growth rate in Total Factor Productivity (TFP) – 3.64%
- Contribution to GDP growth
  - physical capital – 36.35%
  - labour – 10.78%
  - human capital – 14.95%
  - TFP – 37.93%

Year	GDP Nominal (Billion USD)	GDP per Capita (USD)	Population (Billion)
1980	306.17	312	0.98
1990	394.57	348	1.135
1997	961.60	782	1.23

### **Significant observations on Deng China:**

1. The 14th National Communist Party Congress held in the year 1992 not only backed Deng's continuous push for market reforms but they thought that China was on the way to create a '*socialist market economy*'. This was the official expression of CPC to document their push for reform using market forces. I doubt, if such terminology existed in pre-Deng China or in pre-Gorbachev Soviet Union.

Again, as the Marxist theory proposed, socialism would be antithesis to market-

driven economy which had been propelled by capitalistic mode of production. In capitalist society the 'factor of production' would be sourced from 'market' and commodity would be sold in the 'market'. In socialist parlance, concept of market shouldn't exist irrespective of whether the concept is proposed by any faction within the communist party: 'left', 'right', or 'centre'. It was, primarily, the inability of the then CPC leadership to reorganise and galvanize the rural and urban economy to unleash the productive forces; instead they got into the 'market economy' which was the engine of 'mercantile'-'agrarian'-'industrial' versions of capitalism that took root in west European societies since 16th century.

2. Deng was the great architect of what can be termed as the 'Chinese juggernaut for export'. China's market reform was undertaken much later compared to Japan and other Asian Tigers. Beginning in the 1980s the late-coming exporter did a splendid job of absorbing huge amount of investment and latest manufacturing technology. Relatively stagnant urban living standards and falling rural living standards resulted in massive transfer of rural labour into the growing export sector. Additionally, the state-owned enterprises already had disciplined, educated, and skilled labour force that made the entry of big Multi-National Corporations (MNC) easy into Chinese market – giants like Boeing, Toyota started their businesses in China through collaboration with Chinese state-owned enterprises who were in same sector of aircraft or automobile. This environment was another legacy of the Mao era. China's attractiveness to global capital was further enhanced by persistently low level of workers' wage compared to other Asian countries like Japan, Singapore, as well as the competitive pressure among local provinces who raced with one another to achieve high GDP growth by offering favourable terms possible to foreign investors (ranging from tax breaks to free industrial land).

While China went on to build world's largest export-dependent economy in 2000s, unlike Japan and other Asian Tigers who built on the basis of private-owned enterprises, Chinese government depended on both: state-owned and private-owned enterprises to manufacture and to export an amazing range of consumer goods to every nook and corner of the world. Deng foresaw this economic boom that provided much needed upliftment of living standard of millions of educated Chinese. However, Chinese economy couldn't avoid the short-term economic hardships unleashed by such rapid reforms to push export-oriented economy.

3. Far from being a follower of liberal capitalist political thought, Deng was a committed socialist unlike many top leaders of Soviet Union at that point of time. Researchers should remember that for Deng, 'market economy' was '*a method of using black cat to catch mice instead of using a red cat*', and capability development in China would follow the policy '*hide your strength, bide your time*'. In my opinion, Deng didn't have ever any doubt on the final outcome of the Marxist

view that, the final history will be written by the classless communist society. Hence, his advice to build strength.

While authorising the deployment of PLA forces to remove the protesting student by force from Tiananmen Square in 1989, Deng was clear that the leadership of protesting students were liberal capitalist ideologues who was trying to bring down the CPC rule in China using the discontent among the people about corruption-inflation-nepotism. **Had Deng and most other senior leadership believed an iota of liberal capitalist philosophy, by 1991, words like 'socialism', 'communism', 'Marxism' would have been completely erased from even the written history of civilization.**

Part 2 – pending

Part 3 – pending

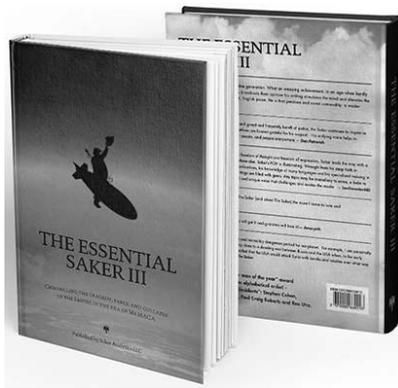
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By profession I'm an Engineer and Consultant, but my first love was and is History and Political Science. In retired life, I'm pursuing higher study in Economics.

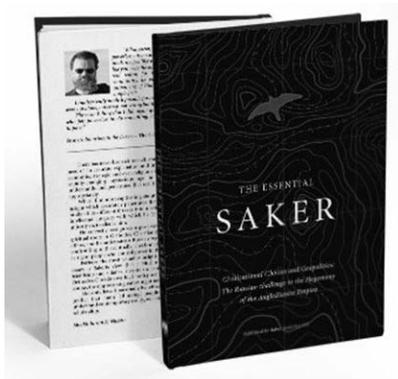
I'm one of the few decade-old members of The Saker blog-site. Hope that this website will continue to focus on truth and justice in public life and will support the struggle of common people across the world.

An Indian by nationality, I believe in humanity.



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