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PETER NOLAN

For Wang Xiaoqiang

China at the Crossroads

PETER NOLAN

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[T]he disparity between our technology and our ethics is greater than it has ever been. [This] is mortally dangerous.... [I]n spite of his scientific and technological prowess, modern man, like primitive man, is not the master of the situation in which he finds himself. He has failed to master it because he has failed to master himself.... The individual self is alienated from the universal self by greed. This greed is a desire to exploit the universal for the individual self's purposes. The converse of greed is compassion. By practising compassion, the individual self can become the universal self actually.... It is hard to see how, in the atomic age, mankind can avoid committing mass suicide if it does not raise the average level of its behaviour to the level actually attained by the Buddha and Saint Francis of Assisi.... If mankind is not to destroy itself, it must now cleanse the pollution it has produced and must refrain from producing any more. [T]his can only be by co-operation on a world-wide scale.... [P]rivate competitive economic enterprise is condemning itself to death because all parties fail to restrain their greed. The ethical – or perhaps unethical – postulate of the ideology of competitive economic enterprise is that greed is a virtue, not a vice.... Unrestrained greed is self-destructive because it takes suicidally short views.... [I]n all industrial countries in which maximum private profit is the motive for production, the competitive economic system will become unworkable.

[T]he survival of mankind is more precarious today than it has been at any time since mankind established its ascendancy over non-human nature.... [T]he human race will be unable to survive unless it achieves political unification quickly. It is conceivable that the future unifier of the world will not be a Western or a Westernized country but will be China.... [F]or most of the time since the third century BC, [China] has been the centre of the world. Within the last five hundred years, the whole world has been knitted together by Western enterprise all except on the political plane. Perhaps it is China's destiny now to give political unity and peace not just to half but to all the world.... East Asia preserves a number of historical assets that may enable it to become the geographical and cultural axis for the unification of the whole world: [these include] the Chinese people's experience, during

the last twenty-one centuries, of maintaining an empire that is a regional model for a literally worldwide world-state; the ecumenical spirit with which the Chinese have been imbued during this long chapter of Chinese history; the rationality of both Confucianism and Buddhism; the sense of mystery of the universe and the recognition that human attempts to dominate the universe are self-defeating,... the most precious intuition of Taoism; the conviction that... far from trying to dominate nonhuman nature, man's aim should be to live in harmony with it.

Arnold Toynbee, in conversation with Daisaku Ikeda, in Toynbee and Ikeda, 1989: 42, 128, 248–51, 264, 266, 330–1, 340 and 368

Do we expect China to meet the world's life and death demands? Will China make this attempt? If it attempts, will it succeed? We cannot predict the future, but it is already obvious that if China tries and fails, the prospect for mankind will be dim.... The world's unification is a way for mankind to escape suicide.

Arnold Toynbee in Horizon Magazine, Summer 1974

Preface

This little book was written in a relatively short period of time at the end of 2002 and early 2003. This short period was extremely significant in both Chinese and world history. The USA was trying to come to terms with 11 September, and preparing for war against Iraq. North Korea had announced it was re-starting its nuclear programme, in response to the USA's attempt to blockade its fuel supplies. By the time it was completed, the USA and the UK had launched a full-scale attack on Iraq.

In November 2002, China held the Sixteenth Congress of the Chinese Communist Party. This historic Congress announced a new Central Committee and elected a new Party General Secretary, Hu Jintao. The Congress took place at the end of a period of unprecedented growth of the Chinese economy. Alongside the extraordinary success of this development effort since the late 1970s, there were a wide accumulation of deep challenges for the new leadership.

The ideas in this book are the product of innumerable conversations with Dr Wang Xiaoqiang in the course of over ten years of research together. It was strongly influenced by our research on Guangdong province in South China during the Asian Financial Crisis.¹ It was written entirely by me, and I carry full responsibility for the content. However, it is not possible for me to separate my ideas from those of Dr Wang. I am immensely grateful to Dr Zhang Jin for constant discussion, advice and research assistance while writing this book. I am also greatly indebted to Dr Jiang Xiaoming for his deep concern and assistance at points of difficulty during the preparation of this book and in the course of other related projects.

Charles Curwen and Geoff Harcourt kindly encouraged me to turn this study from an appendix of another work into its current form as a free-standing book. Charles was kind enough to provide meticulous comments on the whole manuscript. I am grateful to two anonymous referees for their detailed and helpful comments. I am also grateful to John Thompson of

Polity for his interest in the publication of this book, and to Justin Dyer for seeing it through the editorial process. Finally, I wish to thank Oxford University Press for their kind permission to reproduce the quotations from Arnold Toynbee that constitute the opening epigraph to the volume.

Introduction

This study examines the following question: is it possible for China to build a civilized, socially cohesive society over the next few decades, during what is still the early phase of China's industrialization, and during which time there will still be a huge rural reserve army of labour?

Will China be condemned to pass through a long phase of harsh political rule in order to meet the imperative of the accumulation process? If China fails to achieve a socially cohesive path of development, will the society and political structure remain stable? Does the fact that China is trying to industrialize at the beginning of the twenty-first century make this task more or less difficult? Is this task made more difficult by the fact that China faces numerous other deep development challenges, including a wide-ranging threat to the natural environment? Is it made more difficult by the fact that China faces a massive international relations challenge, notably in its relationship with the USA? What is the impact of the fact that China's large firms face a deep threat to their survival from the global giant firms headquartered in the high-income countries? Is this task more or less difficult in a huge country such as China, with a long history of economic development, possessing a highly sophisticated culture?

Since the late 1970s, China has enjoyed one of the most remarkable periods of economic growth ever seen. However, the country faces deep economic, political and social challenges as it moves into the next period in its development. These challenges include the vast extent of poverty and rapidly growing inequality; the challenge for Chinese businesses from the global business revolution; a deeply degraded natural environment; declining capabilities of the state; a comprehensive challenge in international relations; widespread corruption within the Chinese Communist Party; and extreme dangers in engaging closely with the global financial system, which were vividly exposed during the Asian Financial Crisis. The Chinese leadership is trying to deal simultaneously with the challenges of globalization, transition and development. No other country

has ever faced such a set of challenges. There are no textbooks to guide China along this path. The responsibilities for the leadership are massive, because the price of failure is so huge. The possibility of social and political disintegration is real. Every effort of policy has to be directed towards avoiding this potentially catastrophic outcome.

There is intense debate among Chinese policy-makers, scholars and society at large about each of these issues. There is a wide sense that the country has arrived at a crossroads in its long journey away from the administratively planned economy. At a crossroads in the middle of nowhere the traveller cannot stay put. He can turn to the left, to the right, or even turn around and go home. The other option is to keep on in the same direction as the road he has come down.

Some people argue that China has no alternative but to accept that this phase of development will be characterized by a harsh political-economic order. They compare this with the phase of 'primitive capitalist accumulation' in Marx's *Capital*, Vol. 1. Few people dispute that the main task for China's policy-makers is to ensure social stability. Many people argue that the only way to achieve this in such a turbulent, challenging environment is through the exercise of harsh social control: the process of accumulation must come first or there will be no 'development'. Such arguments are typically supported with historical examples from early industrialization elsewhere.

Many people both inside and outside the country argue for a 'regime' change. They believe that the hard tasks that lie ahead can only be resolved with Western democratic institutions. Many people in this camp believe that the model for China to aim at is the USA, not the 'bankrupt' models of the European welfare states or 'quasi-socialist' Japan. Almost invariably, those advancing such arguments claim the authority of Adam Smith, who, they argue, demonstrated that the only rational way to organize the economy is through the free market. Frequently, it is asserted that China's long economic history provides a powerful object lesson for today's policy-makers: China's achievement in technical progress in medieval times was blocked from making further progress by a despotic state that prevented China taking the capitalist path that was followed in Europe. They believe

that the smaller the role for the state, the faster will China progress in the period ahead.

A third group, the 'new left wing', argues that the country has taken a fundamentally wrong turning by moving towards a market economy, increasingly integrated with and 'dependent' on the global economy. They believe that the country can only solve the growing tensions by reducing the country's reliance on international trade and capital inflow, and returning to the policies of the Maoist years, from the mid-1950s to the mid-1970s.

Another perspective is that China must continue along the path it has trodden for the past two decades, but adapt this approach to the fresh challenges that the country faces. For the past two decades, the Chinese leadership has been groping its way forward, away from the 'planned' economy of the Maoist period (Naughton, 1995; Wang Xiaoqiang, 1998). In the sharpest contrast to the reform path of the former USSR, China has been 'groping for stones to cross the river' (Nolan, 1995). China's approach was deeply influenced by the disasters that the country has experienced since the middle of the nineteenth century, not least the massive famine after the 'Great Leap Forward', and the great suffering during the Cultural Revolution. China's policy-makers were determined to avoid such policy-induced disasters. The process of reform has throughout been treated as a complex process of comprehensive 'system transformation', in which economic, social, political and psychological factors are considered as a seamless whole. Unlike the former USSR, China decided to address economic reform before considering political reform, though this was not inconsistent with making great efforts to improve the capability of the bureaucratic apparatus.

In economic reform, the watchword has been consistent experimentation before widespread adoption of a particular policy. Reform began in the countryside in the late 1970s and early 1980s with the system of contracting land to the individual household. It spread to the urban areas in the 1980s with the widespread introduction of the 'contract system' for individual enterprises. By the 1990s this had been replaced by a system of even wider enterprise autonomy, with taxation substituted for profit hand-overs to the state, corporatization and flotation of part of companies' equity on domestic and international stock markets. Controls over foreign

investment were lifted slowly, and were followed by a surging tide of foreign direct investment (FDI) in the 1990s. By 2002, China was the world's largest recipient of FDI, and had over US\$400 billion in accumulated FDI. Rural 'township and village enterprises' were allowed increased freedom in resource allocation, becoming a highly dynamic part of the economy in the late 1980s and early 1990s.

Market forces, including market-determined prices, and entrepreneurship gradually permeated the economy. Private business activity gradually was accepted and spread into all corners of the economy, though it was still not given formal protection. However, in July 2002, it was announced that private business people were eligible formally to join the Communist Party. At the Sixteenth Party Congress in 2002, Party General Secretary Jiang Zemin announced that citizens should be judged on their contribution to society and not penalized for their property holdings, a statement that was seen to provide 'support for the speedier development of legal institutions for protecting private property and the wealth generated by the emerging middle class of entrepreneurs' (*Financial Times [FT]*, 10 November 2002). Controls over foreign trade were relaxed slowly over the course of two decades, and given a final impetus by China finally joining the World Trade Organization at the end of 2001. Foreign exchange controls also were only slowly relaxed, and by 2003, the *renminbi* was still not convertible on the capital account.

China's incremental system reform produced outstanding results. By the time of the Sixteenth Party Congress in November 2002, China had decisively left one 'bank' of the river, that of the old Maoist system, but the 'other bank' was only dimly visible. At the end of 2002, at the Congress, a new generation of leaders was appointed, including a new Party General Secretary, Hu Jintao. In his first speech after being elected, he likened China's current situation to that facing the leadership under Chairman Mao at the end of the Civil War.

In March 1949 at the Second Plenum of the Seventh Central Committee of the Chinese Communist Party Mao Zedong made a highly significant speech outlining the tasks ahead. The victory over the Guomindang (KMT) was basically complete. The Party was entering a new phase in its development. Chairman Mao warned that it should guard against

complacency, and realize that a long, arduous struggle lay ahead: 'To win countrywide victory is only the first step in a long march of ten thousand *li*. Even if this step is worthy of pride, it is comparatively tiny; what will be more worthy of pride is yet to come' (Mao Zedong, 1949: 374). The central theme of the speech was the need for the Party to find a path through the enormous tasks that confronted them in the face of great challenges both at home and abroad. In the same way, China now stands at a crossroads. It must grope its way forward in the face of these immense challenges, fully aware that there is a serious danger of system disintegration. This would be disaster for the Chinese people. It would render previous achievements meaningless.

In their search for a path forward, China's leaders are looking to the lessons from the country's own past, as well as to those from other countries, in order to find a way to build a stable, cohesive and prosperous society. This effort is of vital importance, not only for China, but also for the whole world.

Prologue

Groping for a Way Forward

Deng Xiaoping launches China's 'reform and opening-up'

The overall philosophy behind China's reform path since the death of Chairman Mao and the overthrow of the Gang of Four was established early on in the reform years. In 1978, the Third Plenum of the Eleventh Central Committee of the Chinese Communist Party set in motion the overall policy direction of 'reform and opening-up'. It began the process of rural reform which was to act as the guiding path for all subsequent reform. Even this first stage of China's system reform was to be a prolonged process of institutional experimentation. It was not completed until the high tide of 'contracting output to the household' swept across the whole country in 1983.¹ Each year, the crucial 'Document Number One' on rural reform summed up the results from the previous year, and indicated the way forward in rural reform in the year ahead. Deng Xiaoping was by far the most important figure in this process.

In June 1979 I was fortunate to be a member of a delegation from Oxford University, led by Neville Maxwell,² which was able to conduct first-hand research on the reforms that were just beginning in the rural people's communes. In the middle of this research, on 21 June, we were privileged to be granted a long interview with the Vice-Premier, Deng Xiaoping.

In the course of this interview he expounded his philosophy for economic reform. At this point he could have had no idea of the way in which China would change over the following decades. He had no grand blueprint for system change. What stood out from the key points in his exposition to us was the overall pragmatic philosophy of trying to 'seek truth from the facts', moving forward incrementally to see if the change in

question was likely to produce good results for the whole mass of the Chinese population. The first, groping efforts at rural reform, which he outlined to us, were to prove representative of the approach applied to the whole process of system change, which is still under way in 2003. Each incremental reform helped to build a process of mutually reinforcing, positive feedback effects. Once China set out on this path, the process of cumulative causation created powerful ‘path-dependent’ effects, and it became harder and harder to shift the country off the development path it had established. The crucial part of this process was the starting point. It set the ball rolling in a particular direction. It established the overall philosophy and set up the pattern for the whole subsequent reform effort.

Some of the main points made by Vice-Premier Deng Xiaoping to our group at this, the very outset of the reform process, were as follows:³

China is poor. Poverty cannot demonstrate the superiority of socialism. Our general aim is for everyone in society to become rich and prosperous. This will take a long time. Our overall method is to encourage the advanced to take the lead in becoming rich, so that the others can follow.

Truth is to be found in practice (*shishi qiushi*). If we can achieve an increase in the average income of all Chinese people, then it will prove that our practice was correct. If our future experience proves that we have upheld socialism and prevented the restoration of capitalism, then it will demonstrate that our political practice was correct.

When I visited the USA recently, I was asked the question: Won’t this lead to the restoration of capitalism? However, all the profits gained from accumulation will go to the people because there is ownership by all the people, despite the differences of income among the people. Because we have all-people ownership, polarization will not occur. Therefore, a bourgeois class will not arise. In China very few people receive high salaries. My salary is the highest in China, but I am sure it is less than that of any of the foreigners here today. Moreover, such salaries will not be increased

for a long time. China's economic policies and efforts to accelerate the Four Modernizations under the leadership of the Communist Party of China are based on four principles: socialism, the dictatorship of the proletariat, Marxism-Leninism and Mao Zedong Thought. Under these principles, the income and profits from economic growth will go to the collectives and the people.

We think it is a good thing that in certain people's communes there has been a marked increase in incomes. If a group of people's communes, say ten or twenty per cent, have become fairly well-off, then there is no need for the state to give them aid to increase their accumulation.... The state will then be able to concentrate its efforts on helping backward areas. In general, we should help some people's communes to get rich first, and then the state will help poor people's communes to become rich. Those that have taken the lead in getting rich will serve as a model for the other people's communes to become rich. Of course, inequality will exist for a long period of time, but 'rich' is a relative term, and we do not mean rich in the Western sense. I have seen two different production teams with similar natural conditions, one with an average per capita income of around 100 *yuan* and the other with just a couple of dozen *yuan*. The difference lies in the quality of management. Is it reasonable to ask the well-run people's communes to wait for the backward ones to catch up? Our policy throughout the country is to allow regions or people's communes that achieve high incomes thanks to good management to go ahead.

We are not afraid of such inequality. We can work out ways to prevent it. Generally, the basic thing is to retain the collective ownership. So far even the most prosperous people's communes, around Shanghai, have only around 300 *yuan* per capita income. Our policy is to encourage those with higher incomes to put more money into accumulation, buy machinery, diversify the economy and push their economy to a higher level.

The principle we are today following in the rural areas is exactly that of before the Cultural Revolution. The principle of 'distribution according to labour' was laid down in the 1950s. It is not a new

thing. The Gang of Four destroyed these policies. This harmed the peasants' enthusiasm. No matter how hard they worked, under the Gang of Four, they still received the same.

China today is still very poor. There still are some problems at present for which there is no solution, but we will find one in the future. For example, today there is no income tax. If some day there emerges a marked inequality between collectives and individuals, we can introduce an income tax to correct the inequality. But today incomes are too low to warrant this. This is just one possibility. Other methods could also be used to correct this problem.

Poverty is not socialism. If socialism means poverty, where is the superiority of socialism? In the past decade we suffered greatly from excessive egalitarianism and ultra-left tendencies. The Gang of Four would rather have poor socialism than rich capitalism.

We also suffered from egalitarianism in the industrial enterprises, which caused great suffering. People earned the same pay irrespective of their work. Those enterprises that manage well should have higher incomes than those that manage badly. This will compel the enterprises that manage badly to improve their management. In the past, the enterprises making losses received the same income as the well-run, profit-making enterprises. We should not treat these two types of enterprises in the same way.

The success of 'groping for a way forward'

The outcome of China's reform strategy, initiated by Deng Xiaoping, has been the most explosive and long-sustained period of economic advance that the world has ever seen. Even the Asian Financial Crisis made no dent in China's forward momentum. Moreover, this growth has taken place in a vast country, with more than one-fifth of the total world population. Therefore, the significance of China's unprecedentedly successful development eclipses that of all other late-comer countries.

From 1978 to 2001, China's average annual growth rate of GDP per capita was 8.1 per cent, and its rate of industrial growth was 11.5 per cent, placing it at the top of the world's growth performance in this period.⁴

When one considers the huge diversity of conditions of China's different regions, this was a remarkable performance. It went far beyond merely 'taking up the slack' from the inefficiencies of the Maoist period. No other former planned economy achieved remotely this performance. It went far beyond simply benefiting from the 'advantages of backwardness'. No other developing country achieved remotely this performance.⁵

By 2001, China had climbed to first place in the world in the production of a wide array of products, including cereals, meat, cotton lint, fruit, crude steel, coal, cement, chemical fertilizer and TV sets. It was the world's largest production base for a wide range of household appliances. In 2001, China produced 96 million electric fans, 60 million cameras, 41 million colour TV sets, 25 million mobile phones, 14 million household refrigerators, 14 million household washing machines, 11 million vacuum cleaners, 11 million household freezers and 11 million video recorders.

China's exports grew from US\$18.1 billion in 1978 to over US\$266 billion in 2001, an average annual growth rate of over 12 per cent. Its manufactured exports in the same period rose from US\$9 billion to US\$240 billion, an average annual growth rate of over 15 percent. Manufactured exports' share in China total exports rose from 50 per cent in 1978 to over 90 per cent in 2001.

China had become the largest single focus for global firms' foreign direct investment. The total stock of FDI in the Mainland had reached US\$395 billion in 2001, and US\$452 billion in Hong Kong Special Administrative Region, totalling more than US\$847 billion (UNCTAD, 2002: 311).⁶ This combined total was significantly greater than that in the whole of Latin America and the Caribbean, which stood at US\$693 billion in 2001. It greatly exceeded the stock of FDI in the rest of Asia, including East Asia (including Japan), Southeast Asia and South Asia, the total for which amounted to US\$434 billion in 2001. It eclipsed that in the former USSR and Eastern Europe, which totalled just US\$163 billion in 2001.

Even more importantly, this period of exceptional growth saw a comprehensive transformation of Chinese people's livelihoods. Real average per capita consumption of Chinese people rose by over 7 per cent per annum from 1978 to 2001 (SSB, *ZTN*, 2002). This achievement was all the more remarkable in view of the fact that the Chinese population grew by

over 313 million people during the same period. Not only was the standard of living transformed during this period, but the early years of reform and opening-up saw the most remarkable reduction in absolute poverty that the world has ever seen. The World Bank estimates that the number of absolutely poor people in China fell from 270 million in 1978 (28 per cent of the total) to just 97 million (9.2 per cent of the total) in 1985 (quoted in Nolan, 1995: 14).

There are radically different interpretations of the causes and significance of this performance. At an international meeting held in Beijing in 2001, one Chinese economist delivered an impassioned speech. He said that although China had achieved a great deal in the previous two decades, if only the government would stop interfering in the economy, then the growth rate would be double or more that of the previous period. The statement was met with loud applause from the international business people attending the meeting. My own view is that the reason China has been so successful is that despite great strains and numerous policy shortcomings, the state has continued to play a critical role in maintaining social stability, resolving problems of market failure, regulating the distribution of income, wealth and life opportunities, and regulating the way in which China interacts with the global economy.

The Challenges to China's Economic and Political Stability

Can China Build a Sustainable and Civilized Modern Economy?

We have seen in the prologue to this study that China has achieved remarkable results in its social and economic development since the process of 'reform and opening up' was initiated by Deng Xiaoping over two decades ago. However, that same process has produced a series of formidable challenges for the entire system of political economy, coming from several directions at once.

Poverty and inequality

Behind almost every aspect of China's development process in the early twenty-first century lies the harsh reality of the 'Lewis model' of economic development with unlimited supplies of labour (Lewis, 1954).

China has a huge population of almost 1.3 billion, increasing by around 15–16 million people each year (SSB, ZTN, 2002). From 1990 to 1999, China's working-age population rose from 679 million to 829 million, an increase of no less than 150 million in less than a decade. Almost 70 per cent of the Chinese population still lives in the countryside. Employment in agriculture is stagnant (333 million in 1995, falling to 329 million in 1999). It is estimated that there may be as many as 150 million 'surplus' farm workers. This places a powerful constraint on the rate of growth of real incomes for low-skilled occupations in the non-farm sector (see below).

As the impact of the World Trade Organization (WTO) increases, pressures on rural employment will intensify. The main alternative source

of rural labour absorption, the ‘township and village enterprises’ (TVEs), stagnated in terms of employment creation (at around 127 million employees) after the mid-1990s. The high-speed growth of the TVEs in the 1980s and early 1990s was based mainly on the rapid growth of small businesses in labour-intensive activities using simple technologies. In order to compete within the global value chain, the TVEs are being forced to increase labour productivity fast. The thousands of new enterprises established in the early 1990s faced increasing challenges from greater market integration. The unavoidable reality is that the level of rural underemployment will continue to rise rapidly in the early years of the twenty-first century.

The farm sector is continuing to grow at around 5–6 per cent per annum, and is investing on a large scale: the total power of agricultural machinery rose from 361 million kwh in 1995 to 489 million kwh in 1999 (SSB, *ZTN*, 2002). However, there is estimated to have been a 22 per cent drop in the prices paid to farmers between 1997 and 2002. The rate of growth of farm incomes has reduced, at best, to slow progress. Official data report average annual growth of farm income per capita of around three per cent in the late 1990s. However, many analysts estimate that rural incomes have stagnated, and some argue that they have even declined since the mid-1990s. For example, Chen Xiwen, Deputy Director of the State Development Research Centre, estimates that China’s farmers ‘suffered an average decline in income in 1998, 1999, 2000 and 2001’ (reported in *FT*, 31 October 2002). Rural income distribution has become much more unequal: the Gini coefficient of rural income distribution is estimated to have risen from 0.21 in 1978 to 0.40 in 1998. The farm sector will face severe challenges in the face of the rise in imports within the WTO, and possible deterioration in the terms of trade for farm products. One recent study believes that within the WTO in the years ahead ‘the prospects for most rural households are grim’ (Qu Hongbin, 2002). The share of the rural population in total consumption has fallen from around 60 per cent in the early 1980s to just 42 per cent in 2001, while the share of the rural population in China’s total population still stands at 65 per cent (Qu Hongbin, 2002).

In his valedictory speech as China's Premier, Zhu Rongji warned: 'Agricultural, village and farmers' problems relate to the overall situation of China's reform, opening and modernization. We cannot neglect them or relax at any time. If we do not change these conditions, they will severely damp farmers' enthusiasm to produce, undermine the foundation of agriculture and even threaten the overall health of the national economy' (quoted in FT, 6 February 2003).

There is no question that there was a massive decline in absolute poverty in the early years of China's rural reforms in the late 1970s and early 1980s (Nolan, 1988). However, there still are huge numbers of people who are absolutely poor in terms of international poverty lines. Moreover, recent estimates suggest that in eight out of twenty-nine provinces, the incidence of poverty rose significantly from 1985 to 1996 (Yao Shujie, 2002). The World Bank estimated that in 1995 there were 716 million people (58 per cent of the population) who had less than US\$2 per day, and around 280 million who lived on less than US\$1 per day (World Bank, *WDR*, 2001: 236). A large fraction of these are rural dwellers, or rural migrants to the cities. Official data for 2001 show that the average per capita income of China's 800 million rural residents is just US\$290 (RMB2,366), or 80 cents per day (SSB, *ZTN*, 2002: 343). Within the total rural population, there were approximately 580 million rural dwellers (72.5 per cent of rural households) with less than US\$360 per year (SSB, *ZTN*, 2002: 343).¹ In other words, the number of absolutely poor people is still huge, and may well be growing.

The massive growth of rural underemployment deeply affects the character of development in the non-farm sector. It provides intense incentives for rural-urban migration, and great downward pressure on non-farm wages in unskilled and low-skilled occupations. By 2002, there were around 150 million rural residents who worked in the urban areas without permanent urban residence qualifications. These were predominantly 'lumpen' labour, with limited skills. The rate of pay is simple to estimate, namely the equivalent of roughly US\$1-2 per day, which is the price of 'lumpen' migrant labour throughout human history (at today's prices). Even in the fastest-growing region of China, the Pearl River Delta, there was no increase in the real wages of unskilled labour during the whole of the

1990s. There is great social tension in China's urban areas, with relatively large numbers of rural migrants on subsistence wages struggling for survival alongside the rising Chinese middle class and high income earners, working mainly in the foreign sector and in Chinese businesses within the value chain of the global giant firms.

The way in which wages are determined for 'lumpen' unskilled migrant labour is basically that vividly described by John Steinbeck in the *Grapes of Wrath* (1939), on the Californian fruit farms during the Depression:

And the migrants streamed in on the highways and their hunger was in their eyes. They had no argument, no system, nothing but their numbers and their needs. When there was work for a man, ten men fought for it – fought with a low wage – If that fella'll work for thirty cents, I'll work for twenty-five. If he'll do it for twenty-five, I'll do it for twenty. No me, I'm hungry. I'll work for fifteen. I'll work for food.

Steinbeck graphically portrays the threat to social stability posed by huge numbers of migrants:

In the West there was panic when the migrants multiplied on the highways. Men of property were terrified for their property. Men who had never been hungry saw the eyes of the hungry. Men who had never wanted anything very much saw the flare of want in the eyes of migrants. And the men of the towns and the soft suburban country gathered to defend themselves; and they reassured themselves that they were good and the invaders bad, as a man must do before he fights. They said, These goddammed Okies are dirty and ignorant. They're degenerate, sexual maniacs. These goddammed Okies are thieves. They'll steal anything. They've got no sense of property rights. The local people whipped themselves into a mold of cruelty. Then they formed units, squads, and armed them – armed them with gas, with guns. We own the country – we can't let these Okies get out of hand.