

The Economy of the People's Republic of China: "The Socialist Syndicate"

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as told to Dada Maheshvarananda

The Communist Party state is the nucleus and the coordinator of the economy. The Party leaders have a very strong political will. They believe in nationalism, Communism, historical materialism and material power. These are the only powers they trust. Collectively they say they want to develop "general national power". However having many faces or "soft power", a cultural image which they promote, is only a phase of material power.

The Party is very centralized, yet because the country is so vast and the population of over 1.3 billion people, some parts of the machine are out of control. The brain does not always know what the fingers are doing. This is a chronic problem, an internal dilemma. It is also a problem of quality, because agriculture and industry are produced by local, revenue-seeking enterprises.

There are presently 42 billionaires in China, according to Forbes Magazine, each one with an estimated wealth of from 1 to 7.4 billion dollars. There is tremendous energy in the economy, the world's fourth largest with a 6-fold increase of gross domestic product since 1978. The economy functions almost like a decentralized multinational corporation, or a "socialist syndicate". Yet the Chinese capitalists have developed in a significantly different environment than have other capitalists.

During the last two years there was debate within the Communist Party asking how the very rich people got their wealth, from where did they get their "first barrel of gold". The investigation revealed that in every case the origin of their wealth came from the Party.

Two years after the death of Mao Zedong in 1976, Premier Deng Xiaoping convinced the Party leaders to initiate market-oriented reforms in the economy. When everyone was poor, no one was motivated to work hard. So the Party leaders decided to allow some people to get rich while still maintaining rigid political control. Once a few got rich, their wealth quickly accumulated, creating a socialist market economy. The economy has fluctuating prices, but is socialist controlled. Their wealth originated from three waves of "rent-seeking", meaning those with power have access to various resources and can charge rent for them.

The first wave of rent-seeking was the "double price track". All businesses were originally state-owned, and each used to produce certain items. For example, a state-owned company produced watches. The Party set their production quota at say 100,000 per year, and allocated them coal, steel and other raw materials they needed to produce this. Because prices were fixed, the company paid very low prices for those raw materials. When economic reforms were implemented, the company was informed that as long as they continue produce to produce 100,000 watches per year, they could do whatever they wanted to become more efficient.

First the company manager asked to produce more watches, in order to get more raw materials. The extra raw materials he then sold on the open market for a much higher price. So the company earned enormous profits by the difference between the state-controlled prices and the fluctuating market prices for raw materials.

State-owned enterprises also no longer had to produce their quotas themselves. Instead they could go to the countryside, where 800 million people live and labor is very cheap, and contract others to produce for them. There is a large wealth disparity between the coastal regions and the remainder of the country. Many civilian companies started competing for these contracts. With the free market and free prices businesses, became more efficient, and production prices fell.

The second wave of rent-seeking was in the privatization of inefficient state-owned companies. Who did the Party sell them to? In many cases, they were sold to the managers themselves!

First the manager would ask or bribe the local government inspectors to under value it. Then they went to the local government-owned bank and applied for a business loan to expand. Then the manager would buy the under-valued company from the government with the loan money, so without spending any money, it became the manager's. After that they were free to fire workers, making the company more efficient and profitable. They also bargained with local government officials how much taxes they have to pay. In all of these transactions with local officials, corruption was possible. All this made the economy livelier.

The third wave of rent-seeking was in competition between different privately-owned enterprises. Some fail, some succeed, the government doesn't care. The most precious, scarce resource in China is land, especially in the city or suburbs. There are two kinds of government-owned land: nation-owned, and collective owned. Nation-owned means the national government owns it. Collective-owned means, for example, 1000 villagers have house-hold ownership of land. City land is owned by the nation. But when a city wants to expand its territory by buying adjacent collective-owned rural land, the city government doesn't bargain with the people, it just negotiates with the Party chief in the village. This system is rife with corruption. Old houses in the cities get torn down. Who develops this new land? Government-owned companies do.

In the city of Suzhou, the Singapore government was interested and bought a piece of land to the east of the city to start a joint-venture project in 1994, called the China-Singapore Suzhou Industrial Park (CS-SIP). The Singapore government owned a majority share, about 65%, and 35% by the local government. Singapore invested a lot in building infrastructure, internet, high tech access, roads and warehouses. But almost simultaneously the local government started a second industrial park, Suzhou New District (SND) on the other side of the city, and sold the lots to companies at much cheaper rates. So almost no company was buying lots in the Singapore-owned park.

After incurring almost US\$90 million losses over five years, Singapore lowered its stake to 35 percent, raising the city government's stake to 65 percent, and reducing the Singaporean share from a planned 70 sq. km. to just 8 sq. km. The manager of the competing SND became the new manager of the this project, and immediately everything changed. The city re-divided the park, so that factory lots were sold very cheaply around the periphery, while the center of the park was left undeveloped. Companies then moved there from the other park. Once the park was full of factories, the central area became very valuable and apartments were built there, which can be sold for much more than factory land. One year after Singapore lowered its share, the park made its first profit of \$3.8 million.

In this example, one can see that the local government is trying to make profit from every layer of revenue they can get. Party leaders start with nothing, but they have total power over land and zoning. Nobody else in this world can relocate people like China can. The government can construct a subway in only one year. People in China who suffer have no voice. Those who benefit are multinational corporations.

So China attracts more and more international investment and gains access to the international market. China bargains for technology transfer.

The cost of land is free to the government. Labor is still very cheap, because labor unions are not allowed to organize. Strikes take place on a small scale, but each time they only ask for more money, nothing more. Workers come from the rural area, and they need money to send home to their families. So they are easy to manage. City people do services.

Rural people are very hard working, getting up at 4am to sell in the markets, for example. People travel and switch jobs.

Everyone in China has a household registration. In the countryside, this entitles you to a piece of land. You can always return to your own land and feed yourself. It might be less than 1

“mu” per person (a mu is a Chinese measurement of land that equals 650 square meters). So a small field and a house, that your one child will inherit. The “One-child Policy” is very strictly enforced in the countryside. If a family has a girl, to get a second child, they need to move to a city, where there are more job opportunities. But if they don't return to their village, they will lose their entitlement to their household registration. Usually every Chinese New Year they return to their village, and often they bring other people back with them to the city.

If you were not born in a city there is a price to pay to obtain city household registration, after which their children will be entitled to go to the city schools. Rural people who have moved to the city but don't yet have household registration there set up their own unofficial “black” schools. Crimes are often blamed on rural workers, who are sometimes called “peasants”, a very derogatory term. But often it is the city boys who do crime.

In China there is no health insurance or welfare system. Hospitals tend to charge very high fees. The cost and quality of treatment differs from city to city, depending on whether the local government has financial capability.

The huge poor population is a key source of wealth. In China, people say there is a “fourth world”, that is easy to exploit.

It is a great honor to buy your membership into the Party. Getting opportunities from Party bosses, paying them. This corruption continuing.

The Party can decide to bankrupt you or execute you tomorrow. They control the courts, the media, everything. If injustice is done to you, who will you tell your story to? One businessman, Lai Changxing, fled to Canada in 1999 with his wife and children. He made a fortune by smuggling in the late 1990s. China is trying to extradite him. He knows too much. He operated a prostitution house and filmed officials visiting prostitutes. He also sold intelligence. He even did business with the People's Liberation Army, using their naval ships to smuggle oil. Another 14 people who were involved in the smuggling operation have been executed. (More than 90 percent of the total executions in the world take place in China.) In February 2009 the Canadian Government granted Lai a work permit.

So the very rich are very scared. They can influence people as long as the Party allows them to do it. The rich capitalists have wealth and can influence and bribe officials, but as long as the government controls everything, they can never have their own voice. When one becomes too rich, the “red eye illness” can come, i.e. jealousy.

From the perspective of P.R. Sarkar's Social Cycle, the ksatriyan military leaders are still firmly in charge in China. They have allowed capitalist vaeshyans to develop the economy and to gain significant wealth, but not to control the society.