



## **The Myth Of Chinese Capitalism: China's Troubled Transition From Factory Of The World To Superpower**

**Speaker:** Dexter Roberts

**Chair:** Santosh Pai

**Venue:** Zoom Webinar

**Time:** 3:00 PM

The webinar was based on the recent book "The Myth of Chinese Capitalism" by Dexter Roberts. He started with stories that became the foundation of the book going back to the year 2000. These stories were covered during the speaker's association with BusinessWeek. First was the story of inequality between Western and Eastern China published in Spring 2000. By this time, China was well into the reforms initiated under Deng Xiaoping in 1978 and there was growing concern about income inequality and wealth inequality, particularly between the coast and interior of China. The trickle-down effect starting from the coast was not reflected as hoped by reformers in China. By 2000, China had new leader Jiang Zemin and the government launched a new policy to develop the western region in China, improve the living standards, and they tried to narrow the gap between the coast and the interior of China. Second story was about the great migration in China which was published in fall 2020. This story aimed to trace the human migration because of uneven economic development in China. The focus of this story was the southwestern region near Guizhou and Guangdong. The speaker tracked a family who had migrated out of villages in search of work. He further narrated the stories of workers and their experiences as migrant workers when they came to the city.

The speaker observed that even before formally entering the WTO in 2001, the Chinese knew that China would be opening soon because the agreement with the US had been completed in 1999. Hence, by 2000, it was understood that it is just a matter of time and some plan changes in the economy before China joins WTO. Even in the remote villages in China there was a hope that the membership of WTO would help their development and transform their village. The people in villages were hoping that they will get money from either Chinese investors or overseas investors that they can put into local fruit or vegetable processing factories and they can move away from their subsistence agriculture and remittances that they were getting from young migrants that were supporting the villages at that point. According to the speaker, entry to the WTO was a seminal moment in China's modern economic history.

It really transformed the country into many ways. For example, foreign investment jumped from \$47 billion in 2001 to \$124 billion a decade later. Thousands of export-oriented factories were set up and living standards were lifted across the country. He explained another term called 'The China Price' which represented the Chinese manufacturers outcompeting the US industry based on the low worker wages. Post China's entry into WTO may manufacture g industries left places like the US heartland and relocate to China. There was a fear that this hollowing out of the industry and lost jobs was going to become a permanent thing. Thus, the term 'The China Price' became popular and was considered the frightening thing. This somewhat foreshadows the current friction in terms of the US-China Trade War.

The speaker noted that China has set some ambitious goals for the 100th anniversary of China. One is to eliminate absolute poverty which they have almost succeeded in doing so. Second is to double GDP from 2010 to 2020 which again they have just achieved. Another goal is to double per capita disposable income again from 2010 to 2020. Even with COVID 19, it looks like China will successfully achieve this goal also by building what they call a moderately prosperous society in Chinese communist party jargon. Although the achievements of China are undeniable, it is important to note that despite multiple efforts, China has not been able to narrow down the gap between urban incomes and rural incomes. According to the speaker, several legacy policies still play a huge role in the Chinese society he also talks about in his book. First, the household registration system in China. Second, the household responsibility system in China. These two policies have helped to drive the wealth gap in the country. The phenomenon of 'precautionary savings' is increasing in China and therefore, consumption is low. China laid out the plans to reform the economy in 2013 – including dual land policy and household registration policy – but the progress has been slow.

Responding to a question on tensions between SOEs and private enterprises in China, Mr. Roberts said that the tension between private companies and SOEs is very real under present leadership and will continue to be an issue. Xi Jinping has envisioned a larger role of party and SOEs in the economy. Around three years ago, Xi Jinping had announced that private entrepreneurs have two roles. First role is traditional that includes making profits, paying employees, providing returns to shareholders etc. Second role is to 'love' the party. Many private companies when they reach a certain size and success must align their goals with the broader goals of communist party of China to grow. Chinese tech giants like Alibaba and WeChat have already proven this with example. On the other hand, Xi Jinping has made it clear that Chinese SOEs should have a commanding and larger role than before. Xi Jinping has talked about not only integrating private companies with the party, but also encouraged private companies to form closer relationships with SOEs like a mixed ownership model.

Furthermore, responding to a question on land reforms he said it is also an issue and goes back to the time under leadership of then vice premier Zhu Rongji. The investment led economy of China and the dual land system of China has led to this problem. China needs to find an alternate source of income other than land sales for their local governments. Chinese need to return more profits from and transactions to farmers and migrants if they want to create a domestic market driven economy. This requires finding the new sources of income for local governments. Chinese have floated some reforms like property tax, but this has met with resistance mainly from local officials who have multiple properties they do not want to be exposed to under the new system. Additionally, he explained that both India and China

have strong labour laws, but implementation is a key issue. Global community of consumers is going to be a key lobby in getting the labour laws implemented. For example, the growth of the anti-sweatshop movement on college campuses in the US started to put pressure on the big, listed companies like Walmart and Nike. In response to such demands, a large labour monitoring industry sprung up in China. Chinese have strengthened their regulation and inspection regime.

In response to a question on current debates in Chinese Communist party representing various political factions, Mr. Roberts maintained that the level and control and centralization in the communist party under Xi Jinping is unlike anything we know. There is a real reversal of democratic centralism and leadership by a small group of men. There has been a shift from the Deng Xiaoping's policy which was constituted in response to Mao Zedong era excess during the cultural revolution. Commenting on the labour transfer program of China with respect to the China's ageing population vis-à-vis minorities that were exempted under one China policy, the speaker elaborated that this program is very lucrative specially for the labour brokers because they can earn a lot per worker they transfer. He argued to focus less on economic reasons for such transfers. To what degree such transfer is forced labour or arm twisting is a matter of concern. The speaker further argued that China needs to scrap the legacy policies to allow people to live and work longer in parts where economic opportunities are available. He also argued that China needs to scrap the land policies so that people could benefit from the land they may hold. These are key to reducing the geographic inequalities in China.

*This report was prepared by Megha Pardhi, Research Intern, Institute of Chinese Studies, Delhi.*

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