

NEOLIBERAL TRANSFORMATION IN CHINA

IN THE 1980s AND THE 1990s

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ABSTRACT

NEOLIBERAL TRANSFORMATION IN CHINA IN THE 1980s AND THE 1990s

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This thesis discusses one of the primary questions of the debates on China, the question of the nature of Chinese transformation. It is suggested in this thesis that to fully grasp the transformation of China, we need to contextualize it within global neoliberal transformations since the 1980s. It is also argued that even if the transformation in China has been heavily influenced by global tendencies, we still have to recognize peculiar characteristics of Chinese transformation. Thus, the thesis aims to contribute to the scholarly discussions on the nature of Chinese transformation especially by way of critically engaging with ‘Beijing Consensus’, a notion that is relatively new and opens to the scientific debates. In the thesis, a decade-based analysis of the transformation in China is provided. In this regard, this thesis identifies the period between Deng’s coming to power in 1978 and his Southern Tour in 1992 as the period of ‘launching of the reforms’. It is argued that the reforms introduced in the 1980s are of vital importance in terms of abandoning the legacies of Maoist period and the construction of the institutions of a capitalist market economy in China. On the other hand, the 1990s period that ends with the change of leadership from Jiang Zemin to Hu Jintao in 2002 is characterized as the period of ‘consolidation of the reforms’. It is assumed that the reform drive in the

1990s has a pivotal role for the consolidation of the current configuration of state, labour, capital relations in China.

Keywords: China, Neoliberalism, Transformation

ÖZ

1980'LER VE 1990'LARDA ÇİN'İN NEOLİBERAL DÖNÜŞÜMÜ

Altun, Sırma

Yüksek Lisans, Siyaset Bilimi ve Kamu Yönetimi

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Bu tez, Çin'in dönüşümüyle ilgili başlıca sorulardan birini, bu dönüşümün doğası sorununu tartışmaktadır. Çin'in dönüşümünü kavramak, bu dönüşümü küresel bağlamda, 1980'lerden beri süre gelen neoliberal dönüşüm süreci içinde anlamlandırmayı gerektirmektedir. Küresel bağlamın Çin'in dönüşümü üzerindeki etkilerinin yanında, bu sürecin Çin'e özgü yanları da ortaya konmalıdır. Bu açıdan, bu tez görece olarak yeni olan 'Pekin Konsensusu' kavramı üzerindeki akademik tartışmalara katkı yapmayı amaçlamaktadır. Tezde Çin'in dönüşüm süreci on yıllık dönemler halinde ele alınmıştır. Deng Xiaoping'in 1978'de iş başına gelişinden 1992 Güney Turu'na kadar geçen dönemde hayata geçirilen reformlar Mao döneminin kurumlarının yıkılması ve Çin'de kapitalist market ekonomisinin inşası bakımından özel önem taşımaktadır. Güney Turu'ndan 2002 yılında Hu Jintao'nun iş başına gelmesine kadar devam eden 1990'lar dönemi bu tezde 'reformların konsolidasyonu' süreci olarak adlandırılmıştır. 1990'larda hayata geçirilen reformlar Çin'de devlet-emek-sermaye ilişkilerinin bugünkü halini alması açısından belirleyici olmuştur.

Anahtar Kelimeler: Çin, Neoliberalizm, Dönüşüm

with love to my dear family...

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LIST OF ABBREVIATIONS

ACFTU	All China Federation of Trade Unions
PRC	People's Republic of China
CPC	Communist Party of China
HRS	Household Responsibility System
IMF	International Monetary Fund
IFI	International Financial Institution
FDI	Foreign Direct Investment
WTO	World Trade Organization
GDP	Gross Domestic Product
TVE	Township and Village Enterprise
SEZ	Special Economic Zone
SOE	State-owned Enterprises
GATT	General Agreement on Tariffs and Trade
MOLSS	Ministry of Labour and Social Security
WORK REPORT, 1992	Jiang Zemin's Work Report delivered to the 14 th Congress of Communist Party of China, 1992
WORK REPORT, 1997	Jiang Zemin's Work Report delivered to the 15 th Congress of Communist Party of China, 1997
WORK REPORT, 2007	Hu Jintao's Work Report delivered to the 17 th Congress of Communist Party of China, 2007

CHAPTER 1

INTRODUCTION

In 1978, Deng Xiaoping's coming to power paved the way for a whole set of economic transformations in China. The Dengist rupture of 'reform' and 'openness' from the Maoist principles of self-sufficiency and de-linking has turned China from a socialist planned economy into a 'socialist market economy' characterized by significantly high growth rates and considerable levels of trade surplus. However, China's transitional path was not only constituted by the various economic transformations. Rather, China has been going through ground shaking social, political and cultural transformations for nearly thirty-five years. Hence, what has become of China since 1978 set the stage for multi-dimensional debates within both China and international circles.

This thesis discusses one of the primary questions of the debates on China, the question of the nature of Chinese transition. Shall China still be identified as a socialist country after three decades of reform and openness? What does the 'Chinese characteristics' imply in terms of the transition from a socialist planned to a 'socialist market economy'? How were the relations between the state, labour and capital transformed in China and what does the new forms these relations have taken imply concerning the debates on the nature of Chinese transition? After three decades of transition, has China become a capitalist country? More importantly, concerning the international context and timing, has China been going through a neoliberal transformation since 1978?

Looking into the experiences of middle-income countries, Saad-Filho and Yalman (2010) define neoliberalism as a comprehensive hegemonic project that aims to 're-establish the power of capital against labour' through the 'systematic use of state power'. The two pillars of neoliberal transformation are the transformation of the material basis of social reproduction and the imperative for the integration with

the world economy. By the transformation of the material basis of social reproduction, Saad-Filho and Yalman refer to the ‘shifts in economic and social policies’ that led to the evaporation of welfare provisions, redistribution of wealth from working to upper classes in addition to the insecure working conditions and high levels of unemployment. At the same time, the imperative for the integration with the world economy brings with it the subordination of the local working classes to the rules of international economy while the state plays a crucial role for the disciplining of labour in the name of encouraging international competitiveness. Following Saad-Filho and Yalman’s conceptualization, it is suggested in this thesis that to fully grasp Chinese transition, we need to contextualize it within global neoliberal transformations since the 1980s. It is also argued that even if the transformation in China has been heavily influenced by global tendencies, we still have to recognize peculiar characteristics of Chinese transformation, a phenomenon that will be elaborated throughout this dissertation.

The investigation of whether China has been going through a neoliberal transformation necessitates developing a general understanding of neoliberalism. For this reason, in Chapter 2, the thesis will develop an overview of neoliberalism in general in addition to addressing the debates on neoliberalism in the particular context of China. With the aim of fully exploring the neoliberalism in general, Chapter 2 will turn to the examination of theoretical roots as well as the historical development of neoliberalism. In terms of the examination of theoretical roots of neoliberalism, this thesis notes Alfredo Saad-Filho and Deborah Johnston’s remark that a pure theoretical definition of neoliberalism cannot be made since neoliberalism is not a mode of production like feudalism and capitalism. Rather, neoliberalism is the current configuration of capitalism that is shaped by historically divergent experiences of different countries supported by various theoretical roots (Saad-Filho and Johnston, 2005). From these various theoretical roots, the neoclassical conceptions of ‘free trade’ and ‘free market’ will be discussed within the scope of this thesis since these conceptions underpin the neoliberal transformations in economic and social policies.

In broadest terms, the conception of ‘free market’ assumes that rational individuals are involved in exchange relations with the aim of profit maximization in the market. Thus, the aim of profit maximization shall be best served in a market that is immune to any kind of restrictions that can be imposed especially by the state. Furthermore, the conception of ‘free trade’ is based on the idea that any restrictions on trade – especially by the nation states - should be eliminated since the restrictions would prevent individuals from getting opportunities to improve their situation. As Shaikh puts, global free trade is the essence of neoliberalism and the overall benefit is conditioned by the competition all over the world (Shaikh, 2005:41). Above all, what lies behind the conceptions of free trade and free market is the neoclassical formulation of the state and the market as two distinct and mutually exclusive realms. Within this framework, market is regarded as the realm of efficiency in allocating resources and maximizing profits while the state is regarded as the realm of inefficiency and rent seeking.

Concerning the historical development of neoliberalism, this thesis will discuss the crisis of the world capitalist system in the 1970s and the collapse of the Bretton Woods System to develop a general understanding of the economic and political processes that led to the rise of neoliberalism. The thesis will proceed with the analysis of two consequent phases of historical development of neoliberalism, namely the Washington Consensus and the Post-Washington Consensus. The first phase of neoliberalism constituted an attack on the Keynesian welfare state in the developed countries, specifically in the UK and US while for the developing countries Washington Consensus emerged as a new developmental agenda that is based on privatisation, deregulation and the diminishing role of state planning. Meanwhile, Washington Consensus puts a special emphasis on the integration with the world economy by way of export-orientation and trade liberalization. For the second phase of neoliberalism, this thesis will provide an analysis of the challenges to the Washington Consensus policies that prompted the shift towards Post-Washington Consensus inspired specially by the criticisms of the former chief economist of the World Bank, Joseph Stiglitz. Furthermore, in surveying the literature on neoliberalism, one of the primary targets of this thesis is to conceive the

transformations of the relations between the state and labour. In that, this thesis assumes that neoliberalism facilitated the transformation of the relations between the state and labour in favour of capital since the state assumes an active role in reestablishment of the power of capital against labour.

Having offered a brief account of neoliberalism in general, this chapter will touch upon the debates on the quest for a model that is alternative to neoliberal relations of capital accumulation. The debates on the sustainability of neoliberalism for both developing and the developed world gained momentum in the context of 2008 crisis. In that sense, the development path followed by China, named as 'Beijing Consensus' has become the focus of attention. For one strand of scholars, Beijing Consensus policies constitute a challenge to neoliberal policy prescriptions of Washington Consensus. Thus, China's successive growth rates are based upon its unique developmental approach that deviates from Washington Consensus policies especially by outlining the state as a facilitator of the development process. Other strand of scholars negatively engage with Beijing Consensus policies since the state with its authoritarian character assumes a central role in the development process. The central role of the state is perceived as an impediment for the development of free market while its authoritarian character inhibits political liberalization. Against this background, a detailed analysis of Beijing Consensus will be provided in the last part of Chapter 2.

Despite the fact that China is a unitary state by its constitution and division of power within the different levels of government, there are studies that characterize the central-local relations in China as 'market preserving federalism' (Qian and Weingast, 1996) and 'de-facto federalism' (Zheng, 2007). In that sense, this thesis bears in mind the vital role of local governments in China's transition from state socialism to socialist market economy and their decision-making power especially over the local economy. On the other hand, there are significant gaps between regions and provinces in China in terms of development levels. Thus, the transformation in China is not a uniform and simultaneous process for every part of the whole country. Moreover, this thesis takes into account that the Chinese state is not a monolithic entity. Rather, the organic interrelationships between the

government, military and the Communist Party of China (CPC) characterizes ‘the state’ in China (Shambaugh, 2000). Besides, this thesis considers that one of the central features of the Communist Party of China and Chinese politics is factionalism (Huang 2000, Shambaugh 2000). In the light of these notes, in the following two chapters, Chapter 3 and Chapter 4, the reader will be provided an insight into the transformation in China in the 1980s and the 1990s. By doing so, this thesis attempts to identify the ways in which Chinese transformation overlaps with and differs from neoliberalism by its unique and challenging characteristics.

A decade-based analysis of the transformation in China is provided considering the significant moments of Chinese transformation. In this regard, this thesis identifies the period between Deng’s coming to power in 1978 and his Southern Tour in 1992 as the period of ‘launching of the reforms’. On the other hand, the 1990s period that ends with the change of leadership from Jiang Zemin to Hu Jintao in the 16th CPC Congress in 2002 is characterized as the period of ‘consolidation of the reforms’ in this thesis. There are two main reasons for the designation of the scope of this thesis as the last two decades of the 20th century. First, it is argued that the reforms introduced in the 1980s period are of vital importance in terms of abandoning the legacies of Maoist period and construction of the institutions of a capitalist market economy in China. Second, it is assumed that the reform drive in the 1990s has a pivotal role for the transformation of the relations between the state, labour and capital and the consolidation of the current configuration of state, labour, capital relations in China.

In this vein, Chapter 3 aims to fully explore the dynamics of transformation in China in the 1980s. In full conformity with this aim, Chapter 3 will proceed in four sections. In the first section, restructuring in rural China will be examined since it was one of the earliest targets of Deng Xiaoping’s reform and openness strategy. Among the most prominent features of restructuring in rural China in the 1980s came the restructuring in agriculture through decollectivization and the establishment of Household Responsibility System (HRS). The second core element of the rural restructuring was the rise of rural industry through the establishment of Township and Village Enterprises. Furthermore, Chapter 3 will examine the establishment of

Special Economic Zones to develop a general understanding of Open Door Policy and China's reintegration with the world economy. In addition, restructuring in urban China will be discussed in Chapter 3 referring to the introduction of labour contracts and Contract Responsibility System. The introduction of labour contracts to state-owned enterprises and the establishment of Contract Responsibility System are regarded as the two pillars of reconstruction of labour relations in China in the 1980s. Yet, another major task of Chapter 3 is to discuss the discontents created by the reforms among the masses that resulted in Democracy Movement at the end of the 1980s. In surveying the literature, the role of Tiananmen Massacre on the consolidation and deepening of the reforms in the 1990s will be questioned in the last section of Chapter 3.

During his Southern Tour in 1992, Deng Xiaoping gave a series of talks in the Special Economic Zones in Southern China. Calling for an end to the retrenchment period that comes after Tiananmen Massacre, Deng set the tone for the course of transition in a way to speed up the pace of reform. Thus, the deepening of the reforms in state-owned enterprises, the increasing weight of foreign investments within Chinese economy, the rapidly developing private sector and the deepening of the transformation of labour relations characterized the course of transition in the 1990s period. In this context, Chapter 4 is built upon the analysis of the reform in state-owned enterprises and the transformation of the relations between state and labour in the 1990s in China. Moreover, with the aim of capturing the relations between 'the political' and 'the economic' realms, this thesis attempts to analyse the transformations of the official ideology of CPC in parallel to the accelerated transformation of China in the 1990s. For this reason, Chapter 4 will provide an insight into Deng Xiaoping's notion of 'socialism with Chinese characteristics' that became the hallmark of official ideology of CPC in the 1990s. Moreover, a general understanding of Jiang Zemin's notion of 'Three Represents' will be developed by Chapter 4. The notion of 'Three Represents' was put forward by Jiang Zemin in the early 2000s as part of an attempt to reformulate Party's ideology concerning the high tide of reforms during the 1990s. 'Three Represents' is a significant moment of transformation of CPC's official ideology since it opened the Party's doors to the

‘advanced productive forces’ of the Chinese economy by permitting private entrepreneurs to become members of the CPC.

Chapter 5, the concluding chapter of the thesis, will briefly introduce the 2000s period in China in order to draw a comprehensive picture of the three decades of reform and opening. Afterwards, a discussion on the ways in which Chinese transformation overlaps with and differs from neoliberalism by its unique and challenging characteristics in the 1980s and the 1990s periods will be provided concerning the findings of the previous chapters and Chapter 5 itself. In that, the thesis aims to contribute to the scholarly discussions on the nature of Chinese transformation especially by way of critically engaging with ‘Beijing Consensus’, a notion that is relatively new and opens to the scientific debates.

CHAPTER 2

NEOLIBERALISM

The investigation of whether China has been going through a neoliberal transformation necessitates developing a general understanding of neoliberalism. For this reason, this chapter seeks to construct an account of neoliberalism in general in addition to addressing the debates on neoliberalism in the particular context of China. To fully explore neoliberalism in general, this chapter will turn to the examination of the two consequent phases in historical development of neoliberalism, the Washington Consensus and Post-Washington Consensus. Having offered a brief account of neoliberalism in general, this chapter will touch upon the debates on neoliberalism in China particularly referring to the so-called Beijing Consensus that emerged with the claim of being an alternative to neoliberal model of development.

2.1 Introduction to Neoliberalism

Looking into the experiences of middle-income countries, Saad-Filho and Yalman (2010) define neoliberalism as a comprehensive hegemonic project that aims to “re-establish the power of capital against labour’ through the ‘systematic use of state power”. At the domestic level, two pillars of neoliberal transformation are the transformation of the material basis of social reproduction and the imperative for the integration with the world economy. By the transformation of the material basis of social reproduction, Saad-Filho and Yalman refer to the “shifts in economic and social policies” that led to the evaporation of welfare provisions, redistribution of wealth from working to upper classes in addition to insecure working conditions and high levels of unemployment. At the same time, the imperative for the integration with the world economy brings with it the subordination of the local working classes to the rules of international economy while state plays a crucial role for the disciplining of labour in the name of encouraging international competitiveness. In a

similar vein, David Harvey defines the process of neoliberalization as the process of accumulation by dispossession¹. The notion of accumulation by dispossession assumes that in neoliberal times privatization and commodification become the instruments of opening up new fields for the accumulation of capital while the neoliberal state emerges as the “prime agent of redistributive policies from lower to upper classes” through the diminishing state expenditures and privatizations (Harvey, 2005:165).

Theoretically², the neoclassical conceptions of free trade and free market underpin the neoliberal shift in economic and social policies. The combination of strong private property rights, free trade and free market is regarded as the most appropriate institutional framework to “advance human well-being” and ‘liberate individual entrepreneurial freedoms and skills’ (Harvey, 2005:2). The literature, overwhelmingly under the influence of Adam Smith’s political economy, celebrates the virtues of free market and free trade that are expected to provide mutual gain for the parties involved (Clarke, 2005). The conception of free market assumes that free exchange of rational individuals within the market best serves to the aim of profit-maximization (Colas, 2005). Since market symbolizes rationality in terms of efficient distribution of resources (Munck, 2005:61), only markets without restrictions would utilize economic resources in the most efficient manner, and generate full employment for the people *who wish to work*³ (Shaikh, 2005:41, emphasis added). The conception of free trade assumes that any restrictions on free trade should be eliminated since the restrictions would prevent individuals from getting opportunities to improve their situation. Once parties involved in free trade according to their

¹ The term accumulation by dispossession is the product of Harvey’s reformulation of the notion of primitive accumulation that originally belongs to Karl Marx. However, Harvey does not use the term accumulation by dispossession referring to a specific practice of the rise of capitalism. Rather, the term is used in reference to an ongoing process in the neoliberal era.

² This thesis notes Alfredo Saad-Filho and Deborah Johnston’s remark that a pure theoretical definition of neoliberalism cannot be made since neoliberalism is not a mode of production like feudalism and capitalism. Rather, neoliberalism is the current configuration of capitalism that is shaped by historically divergent experiences of different countries supported by various theoretical roots (Saad-Filho and Johnston, 2005). From these various theoretical roots, the neoclassical conceptions of free trade and free market will be discussed within the scope of this thesis.

³ For further details on the policy shift from full employment to natural rate of unemployment, see Palley (2005).

comparative advantages⁴, none would emerge worse-off at the end. As Shaikh puts, unrestricted global trade is the essence of doctrine of neoliberalism and the overall benefit of global trade is conditioned by the competition all over the world (Shaikh, 2005:41). For the ultimate aim of competitive free trade to come true, it is necessary to eliminate the restrictions on markets particularly in the developing world (Bhagwati 2002, quoted from Shaikh 2005:42). The global capitalist market as a non-political, purely economic sphere is created through the undermining of political constraints imposed by states and other interest groups. Then, resources shall be distributed in a most effective manner via the competitive resource allocation on a world scale (Colas, 2005).

Looking into the historical development of neoliberalism, one encounters with a quite different picture from the theoretical commitment in free market and global trade as the generator of mutual gain and prosperity for individuals and countries. Thus, it is vital to differentiate the doctrine of neoliberalism from what neoliberalism implies in terms of actual practices (Harvey 2005, 2007; Munck 2005, Ferguson 2009). Harvey (2007) claims that neoliberalism as a utopian project provides a theoretical template for the reorganization of international capitalism while neoliberalism as a political scheme aimed at re-establishing the conditions for accumulation of capital and the restoration of the power of upper classes. The utopian project of reorganization of international capital worked as a system of justification and legitimization for restoration of the power of upper classes even though it was mostly a failed attempt for creating prosperity for the working classes. Conversely, surplus value created both at the domestic and international levels was centralized and redistributed from lower to upper classes (Saad-Filho, 2010). In fact, neoliberalism set forward lower growth rates, higher levels of unemployment, inhuman living and working conditions for the majority and sharpened the inequalities within and between countries by bringing economic instability for the periphery (Saad-Filho and Johnston, 2005). In the following part, the historical

⁴ David Ricardo introduced the theory of comparative advantage in 1821. The theory assumes that if the trading countries concentrate on the production of goods that they have relative and comparative advantage, the parties will all gain from this trade optimally (Hart- Landsberg, 2006).

development of neoliberalism will be discussed to elaborate on the differences between neoliberal theory and practice.

2.2. Historical Development of Neoliberalism

2.2.1 Crisis of 1970s and the Collapse of Bretton Woods System

The emergence of neoliberalism as a hegemonic project shall be traced back to the crises in the world capitalist system in the 1970s. Colas (2005) claims that, crisis in the world capitalist system in the 1970s was a two-dimensional crisis. The economic dimension consists of recession, cumulative inflation and mass unemployment while legitimacy crisis of the state constitutes the political dimension. Moreover, the collapse in the stock markets was an economic threat to the position of ruling classes. In this context, the oil crisis in 1973 contributed to the rapid and persistent inflation. Nevertheless, widespread discontent created by accelerating inflation and rising unemployment was a threat for the ruling classes both in advanced and in developing countries (Harvey, 2005). Thus, states had difficulty in maintaining the consent of both ruling and working classes.

The collapse of Bretton Woods and the system of fixed exchange rates in 1971 was significant for the emergence of neoliberalism. The collapse of fixed exchange rates system meant the introduction of floating exchange rates and subsequent liberalization of capital flows by the two leading countries of neoliberal transformation, US and UK. The reason why the floating exchange rates are regarded as the very first component of neoliberal policy framework (Dumenil and Levy, 2005) is that it led to the emergence of new financial instruments that significantly expanded the financial profits⁵ (McNally, 2009). At the same time, floating exchange rates was the source of increasing financial uncertainty that make countries prone to

⁵ Financialisation is one of the constitutive elements of neoliberalism (Saad-Filho 2010, McNally 2009, Fine 2010). However, since the primary target of this thesis is to investigate the transformation of the relations between state and labour in general and in China in particular, the comprehensive and multi-dimensional debates over financialisation is beyond the scope of this thesis.

crisis. Another important moment for the emergence of neoliberalism was the shift in US' fiscal and monetary policies applied by the chair of the US Federal Reserve Bank, Paul Volcker. Named as the Volcker Shock, the shift in policies originated from the replacement of Keynesian objective of full-employment with the measures to fight inflation no matter what the consequences might be for employment (Harvey, 2005:23). As a result, Federal Reserve increased the interest rates to put an end to rising inflation. The rise of interest rates was advantageous for fighting inflation, thereby raising the income and wealth of creditors and using the indebtedness to attack the welfare state (Dumenil and Levy, 2005:12).

2.2.2. The First Phase of Neoliberalism: Washington Consensus

The construction of neoliberalism as a global social order shall be analysed in two phases (Munck, 2005; Lapavitsas, 2005). The decline of the post-war Keynesian macroeconomics marks the first phase of neoliberalism whereas the second phase is associated with the Post-Washington Consensus and the formulation of the notion of market-friendly state. For the first phase, Margaret Thatcher in the United Kingdom and Ronald Reagan in the United States are regarded as the two leading figures of the establishment of neoliberalism. Thatcher-Reagan assault on the Keynesian welfare state was based on the idea of reforming the government and restructuring the state through deployment of market mechanisms within the terrain of the state (Ferguson, 2009:172). Their policy agenda rested on the counter-Keynesian economic measures and the reformulation of the state as a 'strong but minimal' entity under the rubric of New Right ideology. Thereby, neoliberalism was constituted as an attack on the Keynesian welfare state in the developed countries, specifically in the UK and US. In a broader sense, the attack of neoliberal hegemony was targeted at national developmentalism and the active role of the state within the development process (Öniş and Şenses, 2005). In that sense, Chile's early experience of neoliberal transformation was significant. Munck (2005) claims that, the first phase of neoliberal transformation does not begin with Thatcher and Reagan administrations.

Rather, ‘Chicago Boys’ in Chile first applied a neoliberal policy agenda after the Pinochet’s military coup against Salvador Allende and his leftist social democratic government in 1973. The policy agenda applied by Chicago Boys included opening of the economy to foreign capital, export orientation, privatisation of state-owned companies, rolling back of social expenditure and employment rights, abolishing taxes on wealth and capital gains and the systematic repression of labour movement (Colas, 2005:76). Thus, the first phase of neoliberalism was marked by labour market deregulation and the emerging of the more ‘flexible’ forms of labour; the elimination of ‘political constraints’ to the market and the rhetoric of ‘There is no alternative (TINA)’ that presents the previous welfare and developmental state models as archaic and invalid⁶ (Munck, 2005).

The neoliberal attack on national developmentalism and the active role of the state on development process was accompanied with emerging of a new developmental agenda for the developing countries. In John Williamson’s famous terminology, Washington Consensus, which is composed of policy prescriptions for the global South, emerged as the new developmental agenda. Washington Consensus was a set of neoliberal ideas, demanding of developing countries that they should achieve macroeconomic stability, deregulate their domestic markets, privatise state enterprises and open their economies to foreign trade and finance (Lapavitsas, 2005:38). The terminology of Washington Consensus meant there is a consensus among the three Washington-originated institutions, World Bank, International Monetary Fund and the US Treasury Department on these policy prescriptions. As mentioned above, theoretically, the neoclassical conceptions of free market and free trade underpin the neoliberal shift of economic and social policies. Thus, the policy prescriptions within Washington Consensus were based on the same conceptions of neoclassical theory. Neoclassical theory formulates market and state as two distinct and mutually exclusive realms. Within this framework, market is regarded as the realm of efficiency in allocating resources and maximizing profits while the state is

⁶ It is important to mention that Deng Xiaoping initiated the reform drive in China in 1978 with the claim that the reform was an imperative since the Chinese economy was at the point of bankruptcy toward the end of the Cultural Revolution (Hu, 2008 quoted from Chu and So, 2010). In other words, the market reforms in China was initiated with the claim of ‘There is no alternative’ (TINA).

regarded as the realm of inefficiency and rent seeking. Thus, under the rubric of Washington Consensus, state is regarded as the source of rather than the solution to developmental problems (Öniş and Şenses, 2005). In this context, efficient market rather than inefficient state should deal with developmental problems such as industrial growth, international competitiveness and employment creation. In other words, state should retreat from its welfare and developmental functions. The rolling-back of state from development policies is complemented with privatisation, deregulation and diminishing role of state planning. State is limited with the role of defence against foreign aggression, provision of legal and economic infrastructure for the markets and mediation between social groups in order to preserve and expand market relations (Saad-Filho, 2005:114). IMF and World Bank propounded the shift of the role of state under the guise of reforming the state⁷. However, continuous and obligatory reforms for the states of developing countries meant the ‘opening up of economy’ and the ‘freeing of market from political controls and regulation’ (Munck, 2005:65). In this sense, the reform of the state meant “privatisations, the introduction of the public-private partnership, commercialisation of the remaining public services, the imposition of the private sector performance requirements and credit ratings on state institutions” (Saad-Filho, 2010: 254). In fact, the reforms did not end up with the total retreat of state from its regulatory functions. Rather, in Munck’s words, policies of deregulation have been creating new forms of regulation with new market-oriented rules and policies to facilitate the development of capitalism (Munck, 2005:63). Beside the discourse of the retreat of the state from its developmental functions and regulatory roles, Washington Consensus puts a special emphasis on the integration with the world economy for developing countries. Bearing on the neoclassical emphasis on free trade and capital mobility, Washington Consensus prescribes trade and financial liberalization as the engine of rapid growth.

⁷ Within the framework of Washington Consensus, the positive meaning attached to the word ‘reform’ was instrumentalized in order to describe the transformation of the role of state within development process and the transformation of the relations between the state and labour. As it will be elaborated in Chapter 4, the official representation of the large scale privatizations as ‘reforming the state-owned enterprises’ in the late 1990s in China is not coincidental. On the contrary, the term ‘reform’ is used by Chinese officials due to their concerns about the legitimacy problem created by the explicit usage of the term privatization.

Thus, export-orientation rather than import-substitution became the new 'recommended' mode of integration with the world economy while domestic policies are expected to conform to the interests of the financial markets to attract foreign financial and productive capital. On the one hand, attractiveness for foreign investments became a new obligation for the developing countries in order to achieve expected growth levels. On the other, through trade and financial liberalization, capital is relocated in the global South to benefit from the reserves of cheap labour and raw materials (Li, 2008:69).

Why 'there was no alternative' for developing countries other than applying policy prescriptions put forward by IMF and World Bank? Third World debt crises of the 1980s were significant in understanding how neoliberal transformation took the form of Washington Consensus conditionalities for the global South. Debt crises resulted in the emergence of international financial institutions (IFIs) as an external force for the developing economies to apply neoliberal practices. Structural adjustment programmes for debtor countries were designed by IMF and the World Bank to secure the repayment of debts. Receiving loans from IFIs was conditioned by the application of structural adjustment programmes that include severe austerity measures. Around 100 poor countries were compelled to agree one or more stabilisation or structural adjustment programmes in twenty years, leading to the cumulative imposition of the neoliberal policies around the world (Filho, 2005:115). Under the rubric of structural adjustment programmes, many Third World countries cut their public spending, changed their development strategies from import-substitution to export-promotion, opened up their trade and capital accounts, made way for large-scale privatisations.

In fact, the attempts in the first phase of the construction of neoliberalism did not succeed in bringing high rates of growth and financial stability. On the contrary, the period between 1973 to early 1990s was characterized by slow growth and economic and financial instabilities in the world economy (Kotz, 2003). Developed countries like US and Britain showed poor economic performances after they led the shift to neoliberal restructuring. In the same vein, the economies of former Soviet Union countries as well as communist countries in Eastern Europe significantly

declined in the period of neoliberal restructuring. Only in the particular case of East Asia, profitability was restored after 1982 in such a way to expand capitalist reproduction (McNally, 2009: 53). However, pre-1970 profitability levels could not be reached even in the East Asia and growth rates were highly prone to cyclical contradictions and regional crises.

In addition to the failed attempt of Washington Consensus to provide rapid growth rates, the first phase of neoliberalism was not a success story in terms of bringing freedom and democracy to developing countries. Instead, first phase of neoliberal establishment was marked by military coups in countries of Latin America like Argentina and Chile. Besides, these countries and others were forced to apply neoliberal policy prescriptions due to debt crises. In this context, structural adjustment programmes were instrumental in international spread of neoliberal macroeconomic policies. As a way out of economic crises, IMF and World Bank pushed countries to follow neoliberal policies and perform the criteria of credibility. Washington Consensus became the new developmental model that in turn contributed to the restoration of power of capital against labour in developing countries. Furthermore, in countries where a capitalist class did not exist due to a communist background, like China, neoliberalism created the conditions for the formation of a capitalist class (Harvey, 2007:34).

2.2.3. The Second Phase of Neoliberalism: Post-Washington Consensus

Before going into details of Post-Washington Consensus, it is important to look at the challenges to Washington Consensus that render this shift necessary. First, the overall growth in world economy was lower and highly unstable in 1980s. The gap between developed and less developed countries was widening. Furthermore, East Asian countries that performed their ‘miracles’ and Latin American countries that were implementing stabilization policies and living through their ‘lost decades’ in 1980s were highly polarized among themselves in terms of growth levels. In this

sense, the so-called East Asian Miracle⁸ constituted an exception to the neoliberal development agenda of Washington Consensus and once again triggered the debates on the role of state within development process. On the one hand, the neoliberal interpretation of the success of the East Asian countries in achieving high growth levels suggested that these countries owed their growth rates to their fewer protectionists, outward oriented and free-market based development strategies. On the other, the institutionalist interpretation of East Asian Miracle propounded that the success of these countries was grounded on the effective interventionism together with the mix of state and market as well as the mix of import-substitution and export-promotion strategies (Öniş and Şenses, 2005:266). Second, other examples that furthered the scholarly discussion on the role of the state within development process were the post-communist countries. In that respect, the famous former chief of the World Bank, Joseph Stiglitz led the criticisms to Washington Consensus policies. As Stiglitz puts, the experiences of post-communist countries that followed Washington Consensus guidance in their transitions created a huge disappointment in terms of Washington Consensus policies (2005: 19). The commitment entailed in Washington Consensus to large-scale privatizations ‘without adequate government regulation’ gave rise to the disruption of these economies and destroyed their public finances (Stiglitz, 2005: 18). However, China was an exception that constituted a significant challenge to the Washington Consensus policies. For Öniş and Şenses (2005), what lies behind the successive growth rates of China was an active industrial policy led by Chinese state. Third, under-regulated financial systems and open capital account regimes ended up with financial crises in the 1990s and in the early 2000s. Due to financial globalization without the proper regulatory infrastructure, Mexico in 1994, East Asian countries in 1997, Brazil and the Russian Federation in 1999, Turkey and Argentina in 2001 were hit by severe financial crises. The cases of Turkey and Argentina were dramatic since these countries were strictly implementing the neoliberal agenda under IMF stand-by agreements when they were hit by deep economic crises. Besides, the East Asian Crisis was a decisive turning point for the

⁸ The term signifies superior economic performance of eight East Asian economies, Hong Kong, Indonesia, Japan, the Republic of Korea, Malaysia, Singapore, Taiwan and Thailand in the 1980s and the 1990s. Together with growth promotion, these countries also followed income distribution policies for achieving greater equality in key social indicators (Stiglitz, 1996).

hegemonic macroeconomic policies supported by financial institutions such as the IMF to be criticised not only by outsiders but also from within the neoliberal circles (Öniş and Şenses, 2005:274). As highlighted by Stiglitz (2000), China and India were the two countries that survived the East Asian Crisis by virtue of strong controls over short-term capital flows. In fact, one of Stiglitz strong criticisms to Washington Consensus is because it pushes the countries for financial and capital market liberalizations without building the adequate regulatory frameworks⁹. For Stiglitz (2000), capital market liberalization neither necessarily leads to faster economic growth nor leads to more investment. On the contrary, financial and capital market liberalization is closely related to greater instability and increased frequency of financial and economic crises. Moreover, the China case proves that the attractiveness to Foreign Direct Investments (FDI) is not conditioned by the capital market liberalization and openness to short-term capital flows. China achieved a significant success in terms of FDI inflows while imposing high levels of restrictions on short-term capital inflows. Finally, in the 1990s, there emerged widespread protests at the local and international levels against the social consequences of neoliberal restructuring. Zapatista Movement in Mexico, Food riots in Argentina, anti-globalization movement in Seattle in 2000 as protests against the meeting of World Trade Organization were the manifestations of huge international discontent with the neoliberal social order. So were the gatherings of World Social Forums during the first half of the 2000s.

The above-mentioned challenges called into question the Washington Consensus policies and paved the way for the new debates within the framework of Post-Washington Consensus. In what manner Post-Washington Consensus differs from its early version? First, under Post-Washington Consensus policy framework, states and markets are regarded as complementing rather than substituting for each other (Öniş and Şenses, 2005). In other words, Post-Washington Consensus is an attempt to build a 'more balanced' relationship between state and market (Stiglitz,

⁹ Albeit Stiglitz's criticism against Washington Consensus due to its imposition of capital account liberalization without adequate regulatory framework, Williamson (2004) rejects that, his version of Washington Consensus includes capital account liberalization. For Williamson, 'there was no call for capital account liberalization' in Washington Consensus. On the contrary, the underlying reason behind the East Asian Crisis was 'premature capital account liberalization'.

2005) which brings states new responsibilities in terms of ‘shaping the economic environment’ such as regulation of the financial system and providing necessary infrastructure for the markets (Öniş and Şenses, 2005: 274). In addition, the state regains its responsibilities in terms of providing public services specifically education (Stiglitz, 2005) as well as promoting equality and alleviating poverty (Öniş and Şenses, 2005:274). Thus, active state intervention is rendered as necessary for correcting market failures. The second point that distinguishes Post Washington Consensus from Washington Consensus is the renewed emphasis on the institutions. Institution building and once created, the strengthening of the institutions are regarded as essential parts of a development strategy. Looking into the transitional experiences of the post-communist countries, a distinguished scholar of the transition literature Gregorz Kolodko (1999) claims that “the failure of Washington Consensus with regard to transition economies” was significant for the revision of the policies in such a way to include institution building. Thus, the main conclusion deduced from the ‘shock therapy’ experiences of post-communist countries of Eastern Europe and the former Soviet Union was that “institutional arrangements are the most important factor for progress towards durable growth” (Kolodko, 1999). Indeed, it is of vital importance for governments to be involved in the process of comprehensive institution building.

However, whether Post-Washington Consensus represents a clear rupture from the main premises of Washington Consensus is debatable. One strand of the literature conceives Post-Washington Consensus as a rupture within development thinking in terms of its emphasis on the role of the state and the institutions. Another strand takes quite an opposite stance and claims that Post-Washington Consensus instrumentalizes the state to institutionalize neoliberal reforms in developing countries. Against this background, Ruckert (2006) introduces the term *inclusive neoliberalism* in order to locate the Post-Washington Consensus within development literature. The term inclusive neoliberalism implies that Post-Washington Consensus involves new forms of domination to include previously excluded people from neoliberal policy framework (Ruckert, 2006:37). Thus, inclusive neoliberalism tends to include civil society actors and excluded segments of society into the policy-making processes with an attempt to subsume the critics of the neoliberal policies. In

that sense, new inclusionary norms such as empowerment, participation, the promotion of opportunities, ownership of reforms and poverty reduction became common themes of Post-Washington Consensus within development literature. Among them, poverty reduction strategy is the most visible policy tool of the inclusive neoliberal policy framework¹⁰.

Taking a critical stance against Post-Washington Consensus, this thesis suggests that the Post-Washington Consensus policy framework propounded by World Bank as a new outlook to development process was not a clear rupture from the Washington Consensus policies. First, Post-Washington Consensus follows Washington Consensus policy prescriptions concerning its emphasis on the ineffectiveness of the state. The way the markets operate is rendered as the most effective operational mechanism and the emphasis on the restructuring of the state through deployment of market mechanisms is maintained. Second, the state is rendered as responsible for stimulating competition between private firms. Meanwhile state enterprises are expected to compete with private firms since competitive pressures will contribute to the effectiveness of the state enterprises (Öniş and Şenses, 2005: 276). Another important continuity between Washington and Post-Washington Consensus is the stress on the privatizations in developing countries. Despite Stiglitz's emphasis on 'adequate government regulation' to privatization process, it does not entail a rupture from the privatization itself. Rather, the 'adequate government regulation' is rendered as necessary to provide the proper environment for competition and operation of markets. Finally, the emphasis on property rights was a continuity rather than rupture between Washington Consensus and Post-Washington Consensus policies. As put by Harvey (2005:2), neoliberalism assumes the combination of strong private property rights, free trade and free market as the most appropriate institutional framework to "advance human well-being" and "liberate individual entrepreneurial freedoms and skills". Built upon the assumption that secure property rights will enhance growth by providing a proper environment for investments, Washington Consensus policies aimed at securing property rights. In

¹⁰ Similarly, the considerable decline in the number of people living in poverty is celebrated as one of the most significant achievements of the reform period in China. According to the World Bank estimates, there was a sharp fall by 500 million people who lives less than 1 \$ per day between 1981 and 2001 (Lippitt, 2005).

terms of the emphasis on secure property rights as a determinant of development and growth, Washington and Post-Washington Consensus policies were in continuity albeit a slight difference. Beside the importance of secure property rights, Post-Washington Consensus also points out the importance of broadly accessible property rights against the challenges by the state agents especially in transition countries (Deininger and Jin, 2007). Thus, there was a shift of terms from “secure” property rights to “strengthened” property rights as part of second-generation reforms in addition to foreign trade and investment liberalization, public enterprise reform and bank restructuring (IMF, 1997). Yet, the emphasis on property rights was a continuity rather than rupture between Washington Consensus and Post-Washington Consensus policies.

2.3 Transformation of the relations between state and labour

Turning back to Saad-Filho and Yalman’s (2010) definition, neoliberalism in middle-income countries is a hegemonic project that reestablished the power of capital against labour through the systematic use of state power. There are two bases that neoliberalism rests upon; the transformation of the material basis of social reproduction and the imperative for a new mode of integration with the world economy. Against this background, this thesis assumes that the two bases of neoliberalism have triggered a transformation of the relations between state and labour in favour of capital.

As mentioned above, Post-Washington Consensus renders a shift in terms of the definition of state “as an impediment” to the “reformed state as the facilitator” of the development process (Yalman, 2009). Despite the shift in the role of state, what Washington Consensus and Post-Washington Consensus have in common is their persistent commitment for the transformation of the relations between the state and labour. Following David Harvey’s (2005) conceptualization, this thesis asserts that the neoliberal transformation of the relations between the state and labour has mainly two dimensions. First, the neoliberal attack against labour takes the form of repressive measures against trade unions and the dismantling of working class

organizations. At the same time, the consolidation of “flexible” labour markets has been complemented with the state’s withdrawal from the provision of social welfare and social security for workers (Harvey, 2005:168). Because of the cutbacks in subsidies, benefits and non-market protections for workers, reduction in real wages, structural unemployment, rising informalization and faster turnover has become widespread (Saad-Filho, 2010). Meanwhile, the privatization of welfare provisions such as housing, education, health care and retirement benefits has a significant role in the compression of real wages. Nonetheless, states assume an active role in disciplining labour through limiting the right to collective action through trade unions and shop floor organizations especially in developing countries. Second, the transnationalization of production supported by the financialisation and increasing mobility of capital has served to the composition of a global labour force whose own geographical mobility is constrained (Harvey, 2005:168). Thus, illegal internal and international migration has deprived migrant workers from the rights and benefits that belongs to citizens (Ong, 2006) while turning them into a huge and highly exploitable reserve army of labour (Harvey, 2005)¹¹. In other words, local working classes have become highly subordinated to the rules of international economy.

The combination of export-led industrialization model with the transnationalization of production has facilitated significant changes in the structure of world manufacturing since the 1980s (McNally, 2009). To give one example, between 1980 and 2005, the number of manufacturing workers increased four times worldwide while in East Asia the increase in the number of workers was about nine-fold from 100 million to 900 million workers (McNally, 2009:51). In fact, by 2002, the total number of manufacturing workers in G-7 countries was about one-half of the number of Chinese manufacturing workers (McNally, 2009:52). Beyond these mind blowing numbers lies the picture of international division of labour and the new geography of production. However, the relocation of production is not only limited with the East Asian countries. As Washington and Post-Washington Consensus prescribe export-led industrialization to developing countries as the only way of integration with the world economy, the workers in various regions of the world such

¹¹ According to the estimates, about 200 million migrant workers has been floating to the cities in search of seasonal jobs and turning back to their villages for the rest of the year in China.

as Eastern Europe, sub-Saharan Africa and Latin America has joined the ranks of international competition between national working classes (Saad-Filho, 2010). The fact that rising numbers of workers take part within the transnational production processes makes a downward pressure on wages while leading to an increase in the rate of surplus value (McNally, 2009). In addition, what flexible working conditions means for the increasing numbers of workers is longer work hours, piecework production and lack of job security. In short, neoliberalism facilitated the transformation of the relations between the state and labour in favour of capital since the state assumes an active role in reestablishment of the power of capital against labour. Hence, what Washington Consensus and Post-Washington Consensus have in common is their persistence with the neoliberal attack against labour.

2.4 Beijing Consensus as an Alternative to Washington Consensus

Albeit never left out from the scope of scholarly discussion, the debates on the nature and future of neoliberalism have been blazed out by a very recent global economic crisis in 2008. At first sight, the 2008 crisis was increasingly a US based financial crisis. However, closer engagement with the structure of the crisis has showed that the effects of the crisis have gone beyond the sectoral and national borders in a very short time. What is more remarkable is that the global nature of the crisis has also broadened the scope of concerns about the sustainability of the neoliberalism including not only the concerns about developing countries but also about the developed world (Saad-Filho, 2011). In this context, the measures taken by developed countries, especially by the US, against the 2008 crisis such as nationalizing some of the largest financial institutions and bailing out banks by injecting significant amount of public money into them were regarded as if a shift away from the main neoliberal principle of non-intervention was taking place before the eyes of the whole world. Thus, the quest for a model that is alternative to neoliberal relations of capital accumulation gained momentum.

Originally coined by Joshuo Cooper Ramo, an expert on China issues at Goldman Sachs, in 2004, the term Beijing Consensus signified “China’s new

developmental approach” that is an alternative to Washington Consensus policy framework. For Ramo (2004), Beijing Consensus was “driven by a desire to have equitable, peaceful and high-quality growth” that will ‘turn traditional ideas like privatisation and free trade on their heads’. According to Ramo (2004:4),

China is marking a path for other nations around the world who are trying to figure out not simply how to develop their countries, but also how to fit into the international order in a way that allows them to be truly independent, to protect their way of life and political choices in a world with a single massively powerful centre of gravity.

The Chinese path for development is composed of three pillars. First, Beijing Consensus highlights the importance of innovation for developing countries. For Ramo, the agricultural reform in China in the 1980s was an outstanding example of how innovation and productivity growth goes hand in hand. Second, Beijing Consensus goes beyond the statistical measures such as GDP and tries to develop a comprehensive, equitable and sustainable approach to development. In Ramo’s terms, the primary concern of Beijing Consensus is “balanced development”. Finally, Beijing Consensus contains a “new security doctrine” based on self-determination. As put by Ramo (2004:5), these three pillars of Beijing Consensus “draws a wake of new ideas that are very different from those coming from Washington”. Beside Ramo, the chair of the World Economic Forum, Klaus Schwab was one of the early participants of the debates on Beijing Consensus. Taking a positive stance to “China model”, Schwab claims that “China’s unique development experience of coordinated development” has achieved macroeconomic stability and predictability while China goes beyond growth rates and tries to reach “balanced, comprehensive and coordinated development” (“Beijing Consensus”, 2004) .

However, not all the scholars of China is as assertive as Ramo that Beijing Consensus will “turn the traditional Washington Consensus ideas on their heads” and be the new developmental approach of the future. On the contrary, there are very lively debates on the nature of Beijing Consensus and the heart of the problem revolves around whether or not it offers an alternative to Washington Consensus policy framework. In this context, very nascent strands of scholars have been formed

concerning their approaches to the idea of Beijing Consensus. In a very recent article, John Williamson, the founder of the term “Washington Consensus”, takes a quite opposite stance to Beijing Consensus and asserts that “the wisdom we [*the West*] have accumulated over the years should not be abandoned in favour of Beijing Consensus” (Williamson, 2012:12). In his article, Williamson identifies five components of Beijing Consensus as follows: incremental reform, innovation and experimentation, export-led growth, state capitalism and authoritarianism. In details, what Williamson refers as “incremental approach” shall be understood relative to the “Big Bang Approach” applied by many post-communist countries including Russia during their transition from state socialism to market economy. Besides, Williamson defines state capitalism as a system within which many companies are state-owned and they have an explicit advantage in terms of getting access to resources whose prices are not competitively determined and getting easy credit from banks that are also owned by the state (Williamson, 2012:6). Finally, Williamson defines China as an authoritarian regime. Albeit being undemocratic, “Chinese leadership has a sense of the collective good of the community” (Williamson, 2012:7). According to Williamson, Beijing Consensus does not hold more premises for the future than giving a central role to the free market within the operation of the economy. Analysing the five components systematically, Williamson claims that developing countries should concentrate on imitation rather than innovation since it is costly for them. Second, incremental reforms do not work at all circumstances. If the economy of a country is not well functioning, then it needs a “Big Bang” to fix it. Third, China’s export-led growth is based upon its undervalued currency that has significant side effects for the world economy. Fourth, Williamson is a committed advocate of free market capitalism “that prevailed in the West until the financial crisis in 2008”. However, he makes a distinction between monopoly capitalism and free market capitalism and suggests that replacement of national industry with a private monopoly is not what Washington Consensus understands from privatization. In addition, for Williamson, the 2008 crisis triggered a policy reversal with regards to minimizing the role of state under Washington Consensus. However, the vital difference between US and China is that in the US the state’s active role in bailing out banks, financial institutions and leading the economy is a temporary measure

while what Beijing Consensus suggests for the states is to stop privatization and initiate an industrial policy (Williamson, 2012: 10). Finally, Williamson sees an urgent need for the Chinese people to participate in political processes. What is remarkable about Williamson's analysis of Beijing Consensus is that Williamson takes Ramo's approach one-step further and elaborates on Beijing Consensus as a model not only for developing countries but also for the West after the 2008 crisis. Albeit his stance is against the dismantling of the "wisdom that the West has accumulated over the years", it is a clear indication of the quest for alternatives to neoliberalism not only for developing but also for developed countries.

Contrary to the Williamson's negative engagement with Beijing Consensus debates, in one of his lectures in 2011, Ben Fine highlights the challenge of China to Washington Consensus policies and emphasizes the "positive role of state in the wake of the 2008 crisis" inspired by China's developmentalism. Fine (2011) claims that "China might serve as an enabling factor in the promotion of developmental states elsewhere" since its growth is based upon expanding domestic markets that makes an upward pressure on wages, increasing labour productivity and high levels of infrastructural investment financed by state-owned banks. Fine also mentions China's widening trade surplus sourced by its export growth. However, for Fine (2011), the low-wage export economy is "neither typical of nor predominant in" the success of Chinese economy. In line with Fine's stance, Strange defines the Chinese state as a "developmental state that is one integrated with globalisation" (Strange, 2011:18). Despite the fact that the rise of China corresponds to the rise of neoliberalism throughout the world, China constitutes a challenge to neoliberalism with its regulatory and macroeconomic capabilities as well as its constructive engagement with liberal global governance (Strange, 2011:6). Strange (2011) claims that the combination of the state controlled resource importation and the high technology sector dominated by China's own multinationals is the key to China's successive economic growth. Moreover, China's increasing engagement with the global governance institutions such as IMF and WTO constitutes a pressure upon these institutions to transform their structure in favour of a balance between developed and developing member nations.

Beside the approaches to Beijing Consensus from Western scholars, it is also vital to investigate how Chinese scholars take part within the debates on Beijing Consensus. Albeit not using the term Beijing Consensus, Lo and Zhang (2010) claim that China's economic transformation challenges the market fundamentalist doctrine of Washington Consensus. In details, China has achieved "real development" based on productivity growth during its economic transformation. In this process the Chinese state has "governed the market" by a set of structural, institutional and China-specific measures. Thus, neither in the 1980s nor in the 1990s, developmental achievements of China's economic transition can be reduced to Washington Consensus policies (Lo and Zhang, 2010:174). With this regard, the Chinese experience shall be a model for other late developing countries. A Chinese professor in international management at the MIT Sloan School of Management, Yasheng Huang (2010) disagrees with Lo and Zhang (2010) concerning their claim that China's economic transformation challenges Washington Consensus prescriptions. According to Huang (2010), there are two China models. The first China model is applied in the 1980s in China and based upon financial liberalization, private entrepreneurship and political opening to some degree. Therefore, the model applied by China in the 1980s is in full conformity with Washington Consensus policies (Huang, 2010:32). In contrast, the second China model which is applied from the 1990s onwards is based upon financial and political controls and favours state-owned enterprises at the expense of private entrepreneurship. Huang identifies this model as a move away from Washington Consensus for embracing more statist Beijing Consensus policies (Huang, 2010:32). Huang claims that Beijing Consensus supports the authoritarian political structure in China since it is regarded as enabling China's rapid growth rate. In fact, the highly limited political reforms made in the 1980s were reversed from the 1990s onwards. In addition, Beijing Consensus policies resulted in the declining share of household consumption within GDP while the share of investments has massively increased (Huang, 2010:46). This is an indication of the slowdown in personal incomes especially in rural areas as a result of Beijing Consensus policies that inhibits rural entrepreneurship in favour of a more urban-based development.

A professor at the China Center for Economic Research in Peking University, Yang Yao claims that Beijing Consensus refers to the “unique way” China has applied “the institutional and policy reforms” prescribed by Washington Consensus in the Chinese context (Yao, 2011:28). For Yang, during the 30 years of reform China has applied “prudent fiscal policy, economic openness, privatization, market liberalization and measures for protecting private property”. All these policies are in line with the neoclassical market doctrines proposed by Washington Consensus. In addition, China comes right after US in terms of inflows of FDI and it has either privatized 80 percent of its state-owned enterprises or turned them into publicly listed companies (Yao, 2011:28). However, the uniqueness of China is based on the institutional adaptations such as Township and Village Enterprises (TVEs) and dual track price system it has made to increase the efficiency of reforms in the Chinese context. According to Yang, what other developing countries can learn from the unique experience of China with Washington Consensus policies is its “pragmatism featuring constant experimentation with a defined objective to improve on the status quo” (Yao, 2011:30). From another standpoint, the former president of Beijing University, Professor Wu Shuqing points out a critical difference between the Washington and Beijing Consensus (“The Washington Consensus and Beijing Consensus”, 2005). For Wu, Marxism and Deng Xiaoping Theory guide the reforms in China and the nature of the Beijing Consensus is “self-improvement and development of the socialist system”. Therefore, the critical difference between the Washington and Beijing Consensus is the “guiding thoughts and different goals” of the reforms that two consensus have prescribed. Being a member of the Communist Party of China since 1955, Wu represents the Party’s official stance in terms of the reform process in China. Beside the different standpoints from younger and older generation of scholars from China, a news item from the People’s Daily Online manifests a different dimension about Beijing Consensus. “BRIC nations sign Beijing Consensus” says the headline (“BRIC Nations Sign Beijing Consensus”, 2011):

The BRICS countries, including China, Brazil, Russia, India and South Africa, signed the Beijing Consensus on Wednesday, stating that coping with the financial crisis and promoting long-term, steady and relatively rapid economic growth are their shared tasks. The consensus, signed at

the second BRICS International Competition Conference, called on all countries and regions to build more consensus and adopt effective competition policies, which it said are vital for ensuring fair competition, protecting the interests of consumers and promoting the healthy development of a market economy.

The interesting point about the news of People's Daily is that Beijing Consensus has taken the form of an international agreement signed by "emerging countries" so as to guarantee fair competition and promote the operation of the market economy.

In summary, since the voicing of the term in 2004 by Ramo, Beijing Consensus has triggered lively debates about an alternative development model to neoliberalism. The crisis in 2008 that emerged as a financial crisis in the US but in a very short span of time transcended the sectoral and national borders, furthered the scope of debates. Hence, the widening concerns about the sustainability of neoliberalism for both developing and developed countries were started to be spoken out. In this context, the very nascent strands of scholars have been formed concerning their approaches to the notion of Beijing Consensus. For one strand of scholars, Beijing Consensus policies constitute a challenge to neoliberal policy prescriptions of Washington Consensus. Thus, China's successive growth rates are based upon its unique developmental approach that deviates from Washington Consensus policies especially by outlining the state as a facilitator of the development process. Moreover, Beijing Consensus is regarded as an attempt to go beyond the statistical measures of growth and initiate "balanced, comprehensive and coordinated" development. On the contrary, other strands of scholars negatively engage with Beijing Consensus policies since the state with its authoritarian character assumes a central role in the development process. The central role of the state is perceived as an impediment for the development of free market while its authoritarian character inhibits political liberalization. With respect to the above-mentioned standpoints, the research in the following chapters of the thesis will unpack the transformation of China in the 1980s and the 1990s. By doing so, the thesis attempts to identify the ways in which Chinese transformation overlaps with and differs from neoliberalism by its unique and challenging characteristics.

CHAPTER 3

THE LAUNCHING OF THE REFORMS IN THE 1980s

3.1. Introduction

In 1978, Deng Xiaoping came to power with a new development strategy (Aiguo,1999) based on ‘reform’ and ‘openness’ in contrast to the Maoist principles of self-sufficiency and de-linking. Within Deng Xiaoping’s new development strategy, the term reform was used to emphasize the transformation of the central planning system while the term openness was used to point out opening of Chinese borders to the world trade and reintegration with the world economy (Aiguo, 1999:121). The Four Modernization Program, implying the modernization of agriculture, industry, science and technology and national defence by using capitalist incentives and techniques labelled the 1980s period and legitimized Deng Xiaoping’s new development strategy. In this context, the period that started with Deng Xiaoping’s coming to power in 1978 and lasted until his Southern Tour in 1992 is characterized as the period of ‘launching of the reforms’ within this thesis.

The critical literature on Chinese transition is often guided by an understanding that the reforms introduced from the 1980s onwards imply a clear rupture from the premises of state socialism contrary to the official ideology that regards transition period as the “primary stage of socialism” (“Basic Line”, 1987) and Deng Xiaoping’s claim of “building socialism with Chinese characteristics” (Deng, 1984). By taking a critical stance against Chinese transition, it is argued that the reforms introduced in the 1980s period are of vital importance in terms of abandoning the legacies of Maoist period and construction of the institutions of a capitalist market economy in China. In this vein, this chapter aims to fully explore the dynamics of Chinese transition from state socialism to market economy in the 1980s. In full conformity with this aim, under the theme of ‘launching of reforms’, this chapter will proceed in four sections. In the first section, restructuring in rural China will be examined under two subsections. First subsection will concentrate on the dynamics of restructuring in agriculture referring to decollectivization and the

establishment of Household Responsibility System while in the second subsection the rise of rural industry with the establishment of Township and Village Enterprises will be analysed. In the second section, the establishment of Special Economic Zones (SEZs) will be examined within the context of Open Door Policy and China's reintegration with the world economy. In addition to the restructuring in rural China and Open Door Policy, restructuring in urban China will be discussed in the third section referring to the introduction of Labour Contracts and Contract Responsibility System. Yet, another major task of this chapter is to discuss the discontents created by the reforms among the masses that resulted in Democracy Movement at the end of the 1980s. In surveying the literature, the role of Tiananmen Massacre on the consolidation and deepening of the reforms will be questioned in the last section.

3.2. Restructuring in Rural China

Restructuring in rural China was one of the earliest targets of Deng Xiaoping's reform and openness strategy. Among the most prominent features of restructuring in rural China in the 1980s came the restructuring in agriculture through decollectivization, the establishment of Household Responsibility System and erosion of the central role of procurement prices for peasants due to the reintroduction of 'free market' for agricultural products. The second core element of the rural restructuring was the rise of rural industry through the establishment of Township and Village Enterprises.

3.2.1. Restructuring in Agriculture: Decollectivization and Household Responsibility System (HRS)

Collective ownership of the land and the means of production were at the core of organization of the rural China during the Maoist period. After the redistribution of land among peasants through the Land Reform and rural collectivization, production teams were organized. Production teams later formed Agricultural Producers' Cooperatives and People's Communes. The land and the means of

production were collectively owned by the peasants who belong to an agricultural commune while the income was distributed among them according to work. As being the primary unit of production, People's Communes were responsible for the achievement of production quotas determined by the state.

The dismantling of the People's Communes and the introduction of household responsibility system shifted the primary unit of production and accumulation from communes to households. Household contract was one form of responsibility systems that were started to be officially applied in rural China in 1979 after the circulation of the document on 'Responsibility System' by Central Committee. The document was emphasizing that "different forms of management of the land should be allowed to coexist in the light of local conditions" (Gittings, 2005: 124). Responsibility systems in general and household contracts in particular were based on the idea of a bonus for the work groups who surpass the output quota (Zweig, 1983:881). Thus, the HRS aimed to improve the low efficiency of collective agriculture (Aiguo 1999:131). Under the HRS, the use rights of formerly collectively owned land were divided among households that made contracts with the state at least on annual basis. Therefore, households became responsible for achieving the production quotas determined by these contracts. More remarkable than that, under HRS, households were allowed to consume or sell the excess quotas at prices that were not determined by the state. By this way, the notion of 'free market' and 'market price' was reintroduced to rural China making households not only the primary unit of production but also accumulation (Zweig, 1983:884). Coexistence of procurement prices for the quota determined by the contracts and market prices under the HRS also became a model for the dual-track nature of enterprise reform in industrial economy (Guthrie, 2006:44).

HRS was amended many times after it was first introduced in 1979. In 1982, peasants were allowed to hire five labourers and two apprentices (Gittings, 2005:125). However, the numbers were relaxed in the following years. In 1983, Communist Party of China allowed peasants to either buy their own means of production such as tractors or hire them from their communes. (Gittings, 2005:125).

In 1984, Central Committee of the CPC circulated a document extending the period of household contracts up to fifteen years. At the same time, households were allowed to transfer their use rights of land (Gittings, 2005:128). Considering these amendments, Andreas (2008) defines the establishment of the HRS as the split of ownership and use rights of land in rural China.

By 1983, the process of decollectivization was completed with 94 percent of communes turned to family farming from collective production (Chung 2000, quoted from Bramall 2008:338). HRS weakened administrative powers of the People's Communes by reducing them only to the units of economic management (Gittings, 2005:125). The contractual obligation of peasants to their communes was reduced to paying taxes especially after they were allowed to buy their own means of production. Not coincidentally, the dismantling of communes and production units in rural China was officially announced in 1984. Instead, townships and villages were established as the new administrative units that would take over the functions as well as the assets of the People's Communes and production units. Especially after 1985, CPC encouraged the ownership of the means of production by individual peasants in the name of supporting private sector of the national economy that was defined as a supplementary to the socialist economy (Gittings, 2005:130).

Introduction of the HRS and decollectivization in agriculture fuelled the debates between bureaucrats within the Party as well as within the scholars of Chinese transition. Especially in the earliest period of its introduction, HRS was opposed by some bureaucrats because of the risk of creating extreme polarization between the rich and poor by reintroducing capitalism and class exploitation in rural China (Zweig, 1983:886). HRS was labelled as a form of capitalist farming because of the division of land and the dismantling of communal account and accumulation. Scholars also take different stances about the role of HRS within Chinese transition from state socialism to market economy. Broadly, there are two strands of scholars concerning their engagement with the establishment and implications of HRS in rural China. One strand regards HRS as the crucial manifestation of the establishment of market economy in rural China. For the scholars of this strand, the market economy generated the increase in agricultural production in the early 1980s. The other strand

is more critical to the establishment and implications of HRS in rural China arguing that HRS meant privatization of the land in rural China and emphasize the role of early Maoist efforts that contributed to the rise of agricultural production in the early 1980s.

Representing the first strand for scholars, Nee (1989) claims that market economy was established in rural China through the HRS. By means of HRS, direct producers were freed from bureaucratic hierarchy and gained control over land and price of their production. The HRS allowed households to engage in their own business. However, the number of employees that they were legally permitted to employ was limited with seven (Andreas, 2010). Thus, peasants started to be involved in income generating activities outside the span of redistributive coordination and management (Nee, 1989). In this respect, the shift from state socialism to market economy in agricultural production resulted in a substantial increase in agricultural output as well as in per capita incomes of the peasants in rural China in the early 1980s (Yeh 1992, Nee 1989).

TABLE 3.1: Growth in Per Capita Incomes of Peasants 1978-1985

Table 1. Transition From Redistribution to Market for Peasant Households*

	1978	1980	1981	1982	1983	1984	1985
I. Average net income per capita (Rmb)	133.57	191.33	223.44	270.11	309.77	355.77	397.60
Income from redistributive sector	88.53	108.37	116.20	58.09	36.06	35.33	33.37
Income from private cooperatives					0.88	2.85	3.69
Net income from household commodity production	35.79	62.55	84.52	187.55	244.66	285.44	322.53
Other nonborrowing incomes	9.25	20.41	22.72	24.47	28.17	31.71	38.01
II. Proportion (%) (net income as 100)							
Income from redistributive sector	66.3	56.6	52.0	21.5	11.6	10.0	8.4
Income from private cooperatives					0.3	0.8	0.9
Net income from household commodity production	26.8	32.7	37.8	69.4	79.0	80.3	81.1
Other nonborrowing income	6.9	10.7	10.2	9.1	9.1	8.9	9.6

* Source: *Statistical Yearbook of China* (State Statistical Bureau 1986^a, p. 582). Based upon a national sample survey compiled by the State Statistical Bureau.

Source: Nee, V. (Oct 1989), p.665

Taking a more critical stance against HRS, second strand of scholars claim that rising outputs cannot be merely explained by the establishment of HRS in rural China. As noted above, critical scholars emphasize the contribution of investments in irrigation and other infrastructural facilities made in rural China in the Maoist period on the 'growth miracle' achieved in the early 1980s (Li 2008 ; Piovani and Li, 2011). Besides, the use of chemical fertilizers and pesticides in increasing amounts led to the rising outputs (Li, 2008:60). In fact, the use of chemical fertilizers reached the level of 71.6 % between 1978 and 1984 (Lin, 1989:5). In addition, rising procurement prices was critical in terms of rising per capita income of the households in the early 1980s (Piovani and Li, 2011:79). Together with all these factors, the HRS led to the rising agricultural outputs and per capita incomes for rural households. However, from a wider perspective, HRS led to the de facto privatization of land and labour in the countryside (Piovani and Li, 2011) making Chinese path of transition shifting from socialism to capitalist market economy. It should also be noted that, the increase in agricultural output did not last longer after the establishment of household responsibility system. Agricultural growth substantially slowed by the mid-1980s (Aiguo 1999:131). The average annual growth rate for grain output was 4.8 % between 1978 and 1984 while it fell to the level of -0.2 % between 1984 and 1987 (Lin, 1989:2). Moreover, the stagnation in grain production resulted in a change for the status of China from a grain exporter in 1985 to a grain importer in 1987 (Lin, 1989). The decline in grain output was mostly because of the state's abolition of mandatory grain purchases in 1985 and the introduction of lower procurement prices for production quotas in the following years (Cheek, 2006:80). The end of agricultural 'growth miracle' in rural China triggered the emergence of a huge floating population composed of migrant peasants searching for jobs in rural or urban industries.

3.2.2. Restructuring in Rural Industry: Township and Village Enterprises (TVEs)

The second core element of the rural restructuring in the 1980s was the rise of rural industry through the establishment of Township and Village Enterprises

(TVEs). TVEs were mostly referred as the “unique feature” of Chinese export-led development strategy (Fu and Balasubramanyam 2003; Naughton 1994; Fan, Chen and Kirby 1996) as well as the driving force of the growth and marketization of the Chinese economy in the 1980s (Weitzman and Xu 1993, Naughton 1994, Breslin 2007). Thus, the proportion of China’s industrial output from TVEs rose from 9% to 23% between 1978 and 1991 (Gilley, 2010:109). In the same period, TVE sector became the second largest sector in the Chinese economy with an average annual rate of growth at 28.1 %. Besides, the average annual rate of increase of exports by TVEs was 66 % from 1986 to 1990 (Weitzman and Xu, 1993:10).

As mentioned earlier, People’s Communes were officially dismantled as part of reform strategy during the early 1980s. Township and village governments as the new administrative units under which TVEs were established replaced the agricultural communes. In fact, TVEs were not the very innovations of Chinese reform strategy. Rather, the Commune and Brigade Enterprises were substantial output and employment generating mechanisms of countryside in the Maoist China. Since township and village governments took over the assets of People’s Communes, the assets of Commune and Brigade Enterprises were also transferred to township and village governments within the restructuring in rural China. In addition to the assets of Commune and Brigade Enterprises, Rural Credit Cooperatives that were formed in the 1950s as part of rural collective infrastructure, were one of the leading credit providers for newly established TVEs in the early 1980s (Andreas, 2010:72). Therefore, TVEs were the collective property of rural residents. Yet, basic property rights of TVEs including control of residual income, the right to dispose of assets, and the right to dismiss or appoint managers (Naughton 1994:267) were exercised by township and village governments on behalf of rural residents (Fu and Balasubramanyam, 2003:28). In most cases, the leaders of townships and villages became the managers of TVEs themselves whereas workers or rural residents had no right to TVE management (Laffont and Qian, 1999).

The establishment of the TVEs was presented as a model for rural industrialization that created substantial funding for reinvestment in the countryside beside generating employment in significant numbers (Naughton, 1994). Indeed, 92

million workers were employed by 18.4 million rural enterprises while these enterprises brought in annually about \$ 10 billion in foreign exchange by 1990 (Nee, 1992:7). Various factors contributed to the achievement of these successive numbers by the TVEs. First, subcontracting practices with the large state-owned enterprises (SOEs) were crucial for the proliferation of the TVEs (Naughton, 1994). Low wages and low land costs make them 'attractive' for subcontracting practices with the SOEs as well as for foreign investors working in labour-intensive sectors. Not coincidentally, TVEs flourished in suburban areas in the coastal regions of China and became the main player of the strategy of industrialization towards the export of labour-intensive products (Chen, 2009:86). In 1984, TVEs took part in the Coastal Development Strategy and were prompted for overseas expansion. In 1987, TVEs also gained the right to keep more of the foreign currency that was earned through exports (Zweig, 2010:200). Second, changing economic policies in favour of the light industrial products contributed to the success of the TVEs in the reform period (Bramall, 2008:333). Equally remarkable was the relaxing of the controls over the release of labour from agriculture. Utilizing the incentives for the light industry and labour surplus, TVEs mostly exported goods in labour-intensive sectors such as textiles, garments, leather products and toys (Fu and Balasubramanyam, 2004). Third, savings from reform in agriculture contributed to the development of TVEs (Laffont and Qian, 1999:10). With the establishment of the HRS, peasants began to involve in off-farm businesses and accumulate savings in higher amounts especially in the first half of the 1980s. Channelling of accumulated savings to township and village enterprises contributed to their rapid development. Finally, the role of local governments was critical in the success of TVEs in the 1980s (Heston and Sicular, 2008). Local governments encouraged the growth of TVEs that stimulated the growth in local income and employment. Since local governments had the basic property rights of TVEs, they supported and protected the enterprises.

However, a sophisticated analysis of the TVEs should embrace the role of workers located within the global production chains. Huge surplus of cheap labour was the 'comparative advantage' of China that led its export boom in the reform period. Taking this advantage relative to Taiwan, Japan, Hong Kong, and other rapidly developing regions of East Asia, TVEs became the basis of export-led

development strategy of China (Zweig, 2010:200). The working conditions of the huge surplus of cheap labour in the TVEs shall be summarized as follows. In general, TVEs recruit unskilled workers from the rural sector (Fu and Balasubramanyam, 2004). They do not have job security and welfare benefits¹² because short-term personal labour contracts do not provide job security for them. They work on a temporal basis in response to cyclical changes of demand for the exports. Thus, they could be hired and fired as needed (Ding, Lan and Warner, 2001). Performance-driven rewards system makes them work overtime and mostly paid by pieces (Fu and Balasubramanyam, 2003:30). Most of the TVE workers are not unionized. Even if they are unionized, they have very low bargaining power because of a huge labour surplus.

Being the prominent sector of reform strategy in the 1980s, TVEs attracted significant scholarly attention. Much of the debate revolves around the nature of TVEs and a broad range of definitions for TVEs from “vaguely defined cooperatives” (Weitzman and Xu, 1993) to “non state-owned, non-agricultural sector” (Chen, 2009) was put forward by the scholars. However, one shall identify mainly three approaches: TVEs as private enterprises, TVEs as state-owned enterprises and TVEs as a third sector. Representing the first approach, Pend and Heath suggest that many of the private enterprises were registered as collective enterprises in the 1980s because of the fear of the liability of the newness, political instability and lack of well-defined property rights (Pend and Heath, 1996:516). In the same vein, Nee suggests that family businesses gained easier access to bank loans, markets, political protection and tax subsidies by registering their firms as collective enterprises and paying a percentage of their profits to local governments (Nee, 1992:17). Therefore, scholars claim that many of the township and village enterprises were de facto private enterprises that “wore red hats” by registering as collective enterprises. Taking a different standpoint within the first approach, Burkett and Landsberg (2006) make an emphasis on the management practices and working conditions as an evidence of TVEs’ private character. The fact is that workers have

¹² Job security and welfare benefits for the workers in state-owned enterprises have been also eroding since the introduction of market reforms. However, workers in TVEs have never benefited from these provisions (Ding, Lan and Warner, 2001:331).

no right to TVE management and employment practice is insecure within TVEs similar to private enterprises. Accordingly, Fu and Balasubramanyam (2003) assume that TVEs were inclined to profit maximization and subject to the rules of the market, that makes them private enterprises. Apart from the first line of scholars, Guthrie (2006) represents the second approach claiming that TVEs were state-owned enterprises. Since local governments had the basic property rights of TVEs and controlled the managerial decisions in addition to gaining a percentage of their profits, TVEs were part of state-owned industry according to Guthrie (2006:51). Finally, the scholars who define TVEs as a third sector between private enterprises and state-owned enterprises constitute third approach. For Putterman (1997), flexibility and relative absence of bureaucratic controls make TVEs different from state-owned enterprises while their privileged position in terms of accessing financial resources and inputs makes them different from the private enterprises as well. Thus, TVEs constitute a third sector with flexible organization of production and close relationship with rural banks and local governments.

3.3. Open Door Policy: Special Economic Zones (SEZ)

Composed of series of laws and regulations, Open Door Policy was at the core of Deng Xiaoping's new development strategy. Legislated in 1979, Joint Venture Law was one of the earliest and most critical parts of the Open Door Policy. According to the Article 1 of the Joint Venture Law (1979), "with a view to expanding international economic cooperation and technical exchange", foreign companies, enterprises and other organizations or individuals referred to as "foreign partners" were permitted to establish joint ventures in People's Republic of China (PRC) by joining to a Chinese partner "in accordance with the principle of equality and mutual benefit and subject to the approval by the Chinese government"¹³. Equally remarkable part of the Open Door Policy was the establishment of Special

¹³ Coca Cola and Boeing were the first two companies with which Joint Venture Agreements signed. (Guthrie, 2006:43)

Economic Zones (SEZs)¹⁴ in the same year. SEZs were regarded as the ‘four windows’ of reintegration with the world economy on capital, technology, management and knowledge (Chen, 2009:83).

In many respects, SEZs in China were similar to their counterparts in India, Taiwan, South Korea and Malaysia that were named as Export Processing Zones in line with the countries’ attempt for export promotion. However, the point which gave China’s economic zones their ‘special’ character is more clearly understood when China’s socialist economy and Deng Xiaoping’s “One Country Two Systems” doctrine were taken into account. According to Deng’s doctrine, the SEZs would serve as a controlled conduit between the capitalist world economy and the socialist economy of the rest of China (Gittings, 2005:219). In more detail, capitalist rules and regulations based on the free market system were allowed to operate in the special economic zones in a controlled manner to encourage foreign investment while the rest of the economy was ruled according to socialist principles (Sit, 1985:69). Since the economic zones were “four windows” on capital, technology, management and knowledge, they were ‘special’ in terms of transfer of technology, management skills and knowledge beside capital from foreign investment (Sit, 1985). The then vice-president of the Chinese Academy of Social Sciences, Xu Dixin, stated in his article published in Beijing Review in 1981 that the SEZs were designed as “experimental units and the schools for learning the law of value and the regulation of production according to market demands” (Xu, 1981). In fact, market oriented and outward-looking measures were tested in the SEZs before they were applied to the rest of the country (Ota, 2003:3).

The first four SEZs in Shenzhen, Zhuhai, Shantou and Xiamen were established in 1979. These locations in Guangdong and Fujian Provinces were not the random selections of the CPC. On the contrary, they were selected due to their proximity to Hong Kong, Taiwan and Macao where most of the investment came especially in the early stages of open door policy (Ota, 2003:4). In fact, most of the foreign partners of joint ventures were from Hong Kong and more than a million of

¹⁴ Special economic zones are defined as the geographic areas within the territory of a country in which special policy instruments are applied to promote economic activities (Ge, 1999).

population in the Pearl River Delta were working for Hong Kong industry by 1988 (Gittings, 2005:221). In 1984, 14 port cities in the coastal region of China were opened up to international trade with the Coastal Development Strategy of the then Premier Zhao Ziyang with the aim of channelling the flow of foreign direct investments also to the eastern and southern provinces in coastal areas (Guthrie, 2006:116). In these cities, economic and technical zones were established in line with the goal of promoting technology-intensive industries (Ota, 2003:3). In 1985, three deltas in coastal China, Pearl River Delta, Southern Fujian Delta and Yangtze River Delta, were given the Open Economic Zone status for the same aims of attracting foreign capital and export promotion (Ota, 2003:3). Later, Shanghai was also incorporated into the Open Economic Zone program of the Party. The concentration of the SEZs and open economic zones in the coastal regions of China was the result of an intentional strategy of CPC based on the theory of regional stages of economic development (Gittings, 2005:218). Accordingly, the open door policy followed the sequential pattern of opening up from the SEZs to coastal cities, then coastal economic regions, and finally to interior areas, as asserted by Zhao Ziyang in his Party report in 1987 (Gittings, 2005: 218). In that vein, according to the Seventh Five Year Plan (1986-1990), the East of China would lead the economic development by foreign trade and the production of high technology and quality consumer goods in its SEZs and Open Port Cities whereas the interior regions were defined as immature for foreign economic activity (Gittings, 2005:219).

At the core of the establishment of SEZs in China lies the goal of attracting foreign capital. To that end, special policy instruments applied in these zones included duty-free privileges, concessionary tax rates, and preferential fees for land or facility use, flexible treatments regarding business management, employment and wage schemes (Ge, 1999:1269). “Twenty-two regulations” legislated by CPC in 1986 were the legal basis of the incentives for foreign investors included lower fees for labour and rent as well as tax rebates for exporters (Breslin, 2007:85). In the same context, The Wholly Foreign Owned Enterprise Law of 1986 allowed foreign investors to set up their own companies without the need to have a domestic Chinese partner (Breslin, 2007:47). Next year, joint ventures were allowed to sell their goods within China and be paid in foreign exchange (Gittings, 2005:217). Accordingly,

various sectors such as service industries, agriculture, housing construction and infrastructural development were opened to foreign investment within SEZs in addition to manufacturing industries (Ota, 2003:3). With the open door policies, not only open port cities and SEZs, but also rural industries around these cities were articulated into the global production chains. As noted in the above section, township and village enterprises close to SEZs developed faster than their counterparts in the interior China develop and became leading exporters of the 1980s period. Because of the incentives for foreign investors, China received the cumulative amount of \$128.1 billion of foreign direct investment between 1979 and 1995 (Ota, 2003:9). From that amount, coastal regions took the lion's share with 90 percent (Ota, 2003:9). Foreign investors were not the only beneficiaries of the incentives of the SEZs and open port cities. In fact, local bureaucrats also gained from the establishment of special economic zones whose children were among the first internal investors in those regions (Laffont and Qian, 1999).

The Open Door Policy and the establishment of SEZs were important for the transition process in China for many respects. First, SEZs significantly contributed to the overall performance of the Chinese economy by reaching substantial growth rates. Between the years 1980 and 1985, the average rate of growth for Chinese economy was 10 percent annually whereas it was 35.5 percent in Shenzhen SEZ in Guangdong Province (Ge, 1999:1272). Second, with the Open Door Policy, China became the member of international organizations such as IMF and World Bank in 1980. China also became the member of Asian Development Bank in 1986 and applied to participate in GATT in the same year. Third, through the establishment of SEZs, Chinese economy reintegrated with the world economy concerning 'comparative advantages' of China. The so-called comparative advantage of the SEZs was migrant workers that provided cheap and mostly unskilled labour source for the investments of foreign enterprises in labour-intensive sectors. It is important to note that export expansion of China was mostly contingent on labour-intensive production. In fact, 70 percent of China's total exports was labour intensive manufacturing while 51 percent of labour intensive manufacturing was unskilled labour intensive manufacturing in 1990 (World Bank 1994b:8-9; quoted from Aiguo, 1999:136). In that sense, SEZs were defined as a new type of cheap labour haven for

multinational firms (Sit, 1985) without which it was impossible to reach those growth rates (Liang,1999). Fourth, being the ‘experimental units’ of free market economy, a new employment regime based on labour contracts and performance based wages was first adopted in joint ventures in SEZs. The new patterns of employment were later applied in state-owned enterprises as part of the SOE reform in the 1990s. SEZs were also experimental in terms of the change in ownership structure from a pure state-ownership to a mixed type of ownership. In 1987, more than half of the 9000 licensed joint ventures were concentrated on the four special economic zones (Gittings, 2005:217). Finally, because of regional stages of development policy and the anticipated division of labour within regions, internal development gap between SEZs and the rest of China heightened (Ota, 2003:20). Therefore, the Open Door Policy triggered the flow of migrant labour from the less developed regions of China to the coastal regions in search of employment. Only after 1992, CPC started to take measures to channel the foreign capital to other regions; however, the general structure of concentration of foreign investment in coastal regions has not changed significantly (Augio, 1999:137).

3.4. Labour Relations Reconstructed: Introduction of Contract Responsibility System and Labour Contracts

After the dismantling of People’s Communes and the introduction of Household Responsibility System, the target of the reforms underwent a change from restructuring of rural to urban China in the second half of the 1980s. In this context, the first signs of the comprehensive reform in state-owned enterprises (SOE) in the mid-1990s were the introduction of labour contracts and the Contract Responsibility System in 1986 and 1987 respectively. At the same time, market prices were adopted for the products of state-owned enterprises with Price Reform. However, Price Reform did not attempt a full liberalization in prices and resulted in a dual-track price system. The aim of this section is to develop a general understanding of the restructuring in urban China in the 1980s after offering a brief account of the operation of state owned enterprises and work unit system in the Maoist period.

Work units were the core institutions in urban China around which industrial production and social welfare were organized in the Maoist period (Guthrie, 2006:96). After achieving membership to a work unit by birth or assignment by Labour Bureau, an urban worker got access to “cradle to grave” employment in a state owned enterprise in addition to the access to welfare benefits including housing, health, education and retirement. With these functions, work units in general and state owned enterprises in particular were the grassroots organizations of the party state system (Wu, 2006:140). Accordingly, SOEs were directly attached to the government organs and were responsible to meet the requirements of the government plans (Wu, 2006:140). Government plans included the quality and quantity of the products to be produced as well as production inputs and target costumers.

Reform in state-owned enterprises became a central issue of the transition from socialism to market economy especially after 1984 with the decision of 12th Central Committee of the Chinese Communist Party on economic reform. Central to the 1984 decision was the delegation to state owned enterprises the autonomy in decisions regarding production, supply, marketing, pricing, investment, and personnel to function as profit-seeking economic units (Chow, 2007:51). Besides, 1984 decision promoted different wage levels for urban workers according to different kinds of work and productivity levels to increase the efficiency of state owned enterprises. Equally remarkable was the relaxation of the government control of pricing for the industrial products with 1984 decision (Guthrie, 1999:103). With all these new measures taken by CPC, 1984 decision on economic reform was an attempt to shift from mandatory to guidance planning for industrial production (Chow, 2007:51). Accordingly, the then Premier Zhao Ziyang announced the first priority of the Seventh Five Year Plan (1985-1990) as “to make socialist producers and managers wholly and truly independent, self-managing and solely responsible for their own profits and loses” (quoted from Gittings, 2005:112).

1984 decision on economic reform laid the groundwork of Contract Responsibility System that was officially introduced to state owned enterprises in 1987. Similar to Household Responsibility System in agriculture, Contract

Responsibility System was based on the contracts signed between state and the managers of the state owned enterprises. Through these contracts, managers became responsible for achieving the mandatory quotas determined by the state in exchange of the autonomy to sell the above quota products at market prices. In addition, managers gained the right to retain a share of their profits for welfare expenses and reinvestment. Therefore, they became responsible for the profits and losses of the enterprises while their income depended upon the profitability of the enterprise (Gittings, 2005:111). It is important to note that, Contract Responsibility System did not intend a change in the ownership structure of the state owned enterprises (Guo, 2003:556). In other words, the state maintained the ownership rights of the enterprises and remained as the last bearer of the losses (Guo, 2003:557). Nevertheless, Contract Responsibility System led to a change in the balance of power within the state owned enterprises in favour of managers by giving managers the exclusive power on workers' compensation and duration of employment (Piovani and Li, 2011:79). Managers were less expected to consult the union or workers committees on production decisions while they had the right to veto the objections coming from workers (Sheehan, 1998). In addition, capitalist-style labour disciplines such as Tayloristic scientific management were started to be imposed on workers by the managers (Li, 2008). Examinations and interviews started to be implemented in the recruitment process by managers as well (Meng, 2000). Therefore, Contract Responsibility System was a nascent rupture from the Maoist principles of equality and lifetime employment provided by state owned enterprises (Piovani and Li, 2011).

However, breaking away with the lifetime employment had started earlier than Contract Responsibility System. Officially introduced in 1986 by State Council, contractual labour marks the end of socialist institution of lifetime employment (Guthrie, 1999:75). In fact, labour contracts were started to be experimented in 1983 in a way to cover the new entrants to the state and collective enterprises (Meng, 2000). From 1983, the number of workers covered by the labour contracts increased significantly. The percentage of workers on labour contracts were 1.8 in 1984 while the numbers reached approximately 8% of the workers in state owned enterprises after the official declaration of State Council in 1986 (Korzec, 1992 quoted from Meng, 2000:82). The restructuring in labour relations continued with the introduction

of Enterprise Law in 1988¹⁵. The article 30 of the Enterprise Law strengthen the power of the enterprise managers to determine the wages and the distribution of bonuses to workers while the article 31 was the legal basis of the power of enterprise managers to employ or dismiss staff members and workers. Furthermore, the Article 39 of the Enterprise Law gave the enterprise manager the responsibility to “raise the labour efficiency” and to “strive to reduce costs”.

Labour contracts not only put an end to lifetime employment but also eroded the welfare benefits provided by the state owned enterprises to urban workers. Since state owned enterprises were expected to become profit-making institutions, the responsibility of enterprise to provide welfare benefits for workers was limited with the contract period (Guthrie, 1999:87). Moreover, contractual and performance based work contributed to the fragmentation of industrial workforce by creating disparities among workers within and between the state owned enterprises (Burkett and Landsberg, 2004). A statement from the then Premier Zhao Ziyang in 1987 manifests the target of reforms introduced in urban China:

The practice of allowing everyone to ‘eat from the same big pot’, egalitarianism and jealousy of other people’s incomes still constitute the main tendency in income distribution at present. We must continue to tackle these problems both from ideological perspective and in our practical work’ (quoted from Bramall, 2008:456).

Thus, the restructuring in urban China with the introduction of labour contracts and Contract Responsibility System was a shift away from the mentality of “eating from the one big pot” in work units and led to management-labour antagonisms in late 1980s (Walder, 1991).

3.5. Democracy Movement and Market Reforms Without Democracy

Primarily organized by students and intellectuals, Democracy Movement and the harsh oppression of the movement in Tiananmen Square by People’s Liberation

¹⁵ The Law of the People’s Republic of China on Industrial Enterprises Owned by the Whole People was adopted on 13 April 1988 at the First Session of the Seventh National People’s Congress.

Army marked the end of the first decade of 'reform and openness' in China. Before the Tiananmen Massacre in 4 June 1989, the movement had already gained a huge public support from different segments of the society who were uncomfortable with the results of reform period. Most prominent support to students came from the urban workers despite the official ban on workers' participation to the movement (Sheehan, 1998). The permanent workers of the state owned enterprises as well as temporary, contractual and laid-off workers were supporting the movement. The unemployed workers, as the China's newly formed sub-proletariat, were also at the Tiananmen Square reflecting their uneasiness with the reforms (Gittings, 2005). Beijing Workers' Autonomous Federation was formed in Tiananmen Square during the protests with a pledge on "speaking for the workers and addressing the workers" political and economic demands' contrary to the official trade unions' avoidance of the political matters (quoted from Gittings, 2005: 237). The movement also succeeded in gaining the support of some high level party officials including the General Secretary of the CPC, Zhao Ziyang, and the official newspaper of the CPC, The People's Daily.

A decade of reform created various tensions within Chinese society a complex set of factors led to the Democracy Movement and the immense social unrest in 1989. First, rising inflation and the declining real wages for urban workers in the second half of the 1980s had an impact upon the public support for the movement. According to the official rates, the cost of living increased cumulatively 88.7 % between 1978 and 1988 in China (Walder, 1991). There was a sharp increase in the rate of inflation especially from 1985 onwards, 1988 being the year with a highest increase of 20.7 % (Walder, 1991). In fact, the increase in consumer prices reached the level of 83 % between 1985 and 1989 (Gilley, 2010:110). Thus, the real incomes of the workers fell sharply after 1985 leading to a public discomfort with the reforms. Second, restructuring in labour relations with the introduction of Contract Responsibility System and labour contracts created "job security panic" among workers (Sheehan, 1998). Lifetime employment and social welfare for workers came under threat because of the reforms. Moreover, the gap between contract and permanent workers steadily widened in terms of wage levels and the right for welfare provisions. Beside, Contract Responsibility System resulted in the spread of

Tayloristic practices and the increasing autonomy of managers against the declining representation of workers within the enterprises (Sheehan, 1998). Nevertheless, the gap between the wages of managers and workers also widened. (Gittings, 2005). Third, dual-track price strategy adopted by CPC as a way of gradual transition to the market determined prices resulted in corruption and created tensions within the society. Originally, dual-track price strategy was based on the coexistence of market prices and state procurement prices for agricultural and industrial products. The strategy was adopted by CPC as a first step before the full liberalization of prices. However, the state officials who later formed local and departmental interest groups exploited the gap between the state and market prices (Wang, 2004). The cases of official corruption and the manipulation of price system was one of the main targets of the Democracy Movement.

The demands of the Democracy Movement were twofold. Calling for political reform after a decade of economic reform, the students and intellectuals demanded democratic politics, freedom of speech, freedom of press and freedom of assembly. Besides, there was a strong belief among participants of the movement that they did not benefit from the reforms. Instead, they believed that the reforms benefited private entrepreneurs, political cadres and their families (Walder, 1991:483). Thus, the movement was against the emerging privileged class and demanded social justice and the end of official corruption. In that sense, the declaration made by Beijing University Students' Preparatory Committee on 21 April 1989 was voicing the demands of students from the government. According to Beijing University Students' declaration, the government should "publish a freedom of information law, allow the people to publish newspapers and acknowledge the freedom of press". In addition, state officials should "declare openly their personal and family possessions and income" and the government should "check official corruption" (quoted from Gittings, 2005:231).

Seeing that their demands were not satisfied by the government, students staged hunger strike on 13th May 1989, nearly one month after the beginning of protests at Tiananmen Square. A few days later, CPC imposed martial law against the occupation of the square by the protestors. On 4 June 1989, the People's

Liberation Army harshly repressed the Democracy Movement. Huge number of unarmed protestors were killed and wounded by the army's fire at the square. More people were arrested and jailed after the demonstrations. Within two weeks, CPC banned all the autonomous workers' organizations around the country (Sheehan, 1998). Party officials that supported the movement were removed from the Party including the General Secretary, Zhao Ziyang. CPC also strictly controlled the media coverage of the demonstrations and the repression of the movement.

Defined as a "state violence" against its unarmed citizens (Cheek, 2006), the harsh repression of the Democracy Movement was critical concerning the course of transition period in China. In the short run, economic reforms were suspended and a company against the involvement of senior party figures and their families in business operations was launched by the CPC (Gittings, 2005:248). As part of the attack against the idea of political reform, the General Secretary of CPC, Zhao Ziyang was removed from his posts and Jiang Zemin became the new General Secretary at the Thirteenth Party Congress in 1989. In 1990, Chinese government announced two-year economic austerity programme (Sullivan, 1995). The market reforms came to a halt between 1989 and 1992. The rectification period lasted until Deng Xiaoping's Southern Tour in 1992. In the long run, the repression of Democracy Movement in 1989 closed the official doors for political reform and democratic politics in China (Li, 1996). However, the repression of the Democracy Movement not only obstructed the claim of democracy but also eroded the opposition against the introduction of market reforms. In 1992, Deng Xiaoping once again initiated the reform period but this time with an urge to radicalization of reforms and privatizations.

3.6. Conclusion

In the course of transition from state socialism to market economy, the reforms introduced in the 1980s period are of vital importance in terms of abandoning the legacies of the Maoist period and the construction of the institutions of a capitalist market economy in China. Under the leadership of Deng Xiaoping, the

CPC launched ‘reform’ and ‘openness’ campaign with the attempts to transform the central planning system and reintegration with the world economy. In that vein, this chapter is organized to develop a general understanding of the reforms introduced in the 1980s in three dimensions. First, the dismantling of the People’s Communes and the establishment of Household Responsibility System in the Chinese countryside marked the beginning of reform period in the early the 1980s. Household Responsibility System resulted in the separation of ownership and use rights of land and shifted the primary unit of agricultural production and accumulation from communes to households. Moreover, the establishment and proliferation of the Township and Village Enterprises led to a significant rise in rural industries. On the one hand, the contribution of rural industries to the development of Chinese economy was noteworthy. On the other, mostly unskilled workers from the countryside were deprived of job security and welfare provisions in the TVEs. Second, the CPC adopted the ‘Open Door Policy’ and first experimented ‘openness’ with the establishment of four Special Economic Zones in 1979. With the goal of attracting foreign capital, Special Economic Zones became the main source of cheap labour and land for foreign investors and became the experimental units of the free market economy. Finally, the introduction of labour contracts and the Contract Responsibility System were central in terms of the restructuring in urban China. Official introduction of labour contracts in 1986 was a turning point from the lifetime employment principle of the urban work units while the Contract Responsibility System put state owned enterprises in charge of profit making.

In line with the changing state-capital-labour relations with the launching of the reforms in the 1980s, the “primary stage of socialism thesis” was adopted by Thirteenth Party Congress of the CPC in 1987. The thesis assumes that, China has to improve its productive forces while public ownership remains as the dominant part of Chinese economy in the primary stage of socialism. As declared by the then General Secretary Zhao Ziyang in 1987, primary stage of socialism would be a long one in Chinese conditions during which class struggle would no longer be the principal contradiction even if it would remain to exist in certain limits (quoted from Bramall, 2008: 327). The need to improve the Chinese productive forces “to catch up with the advanced West” also necessitated a new definition of the private sector in

China. Therefore, the Thirteenth Congress of CPC in 1987 officially defined private sector as a “necessary and beneficial supplement to the public economy”. Accordingly, the state constitution was amended in 1988 to recognize the legitimate existence of the private sector (Breslin, 2007:50). The state-capital-labour relations continued to be restructured by the reforms introduced in the 1990s. The next chapter concentrates on the reforms in the 1990s period with the aim of analysing the continuities and ruptures between the two decades of reform in China.

CHAPTER 4

CONSOLIDATION OF THE REFORMS IN THE 1990s

4.1. Introduction

After the harsh repression of “counter-revolutionary violence in Beijing”¹⁶ in 1989 and the slowing down of market reforms between 1989-1991, Deng Xiaoping once again lit the fire of the reform period in his Southern Tour by declaring, “Whoever is against reform must leave office.” (Vogel, 2011). During his Southern Tour, Deng Xiaoping gave a series of talks in the Special Economic Zones in Southern China. Calling for an end to the retrenchment period, he set the tone for the course of transition. As the then General Secretary of the Communist Party of China, Jiang Zemin mentioned in his Work Report to 14th Party Congress in 1992:

He [*Deng Xiaoping*] urged us to further emancipate our minds, to be more daring in reform and opening up, to quicken the pace of economic development and not to lose any favourable opportunity...The talks by Comrade Deng Xiaoping and the plenary meeting of the Political Bureau mark a new stage in China's reform and opening up and in its modernization drive (Work Report, 1992).

In the same Work Report, Jiang Zemin also developed the theory of “building socialism with Chinese characteristics” and the notion of “socialist market economy” that were originally put by Deng Xiaoping. The key to the socialist market economy, as asserted by Jiang, was reforming the operation of large and medium-sized SOEs while leasing or selling the smaller ones (Work Report, 1992). Thus, the internal reform in large and medium-sized SOEs and the large-scale privatization of the small SOEs marked the course of transition in the 1990s. The aim of this chapter is to provide an account of the reform in state-owned enterprises in the 1990s. Besides, an investigation of the transformation of the CPC’s official ideology in line with the reform drive will also be provided.

¹⁶ Jiang Zemin described the 1989 Democracy Movement as the ‘counter-revolutionary violence’ in his Work Report delivered to the 14th Congress of CPC in 1992.

4.2. Breaking the Iron Rice Bowl: SOE Reform in the 1990s

The early 1990s was a crisis period for most of the SOEs financially because of the introduction of tight credit policies by the government (Andreas, 2010). The selectivity of the state banks in terms of lending to credit-worthy customers resulted in the bankruptcy of many urban and rural enterprises. In this context, the reform in the SOEs in the 1990s had broadly two dimensions. First, the SOE reform aimed an internal restructuring of the large and medium SOEs. In that regard, the Third Plenary Session of the 14th Central Committee of the CPC decided to establish a ‘Modern Enterprise System’ based on “clear property rights, clear powers and responsibilities, separation of government from enterprises and scientific management measures that meets the requirements of market economy” (“Modern Enterprise System”, 2008). The aim of the internal restructuring of the medium and large enterprises was to build up giant conglomerates that would be the “commanding heights of the national economy” (Guo, 2003). Second, the SOE reform targeted at “relaxing the control over small state-owned enterprises and invigorating them by way of reorganization, association, merger, leasing, contract operation, joint stock partnership or sell-off” (Work Report, 1997). Even though the term ‘privatization’ was not officially used in the party documents, it is widely mentioned by the scholars of Chinese transition that the SOE reform meant a large-scale privatization for the small SOEs and TVEs. As exposed by the two dimensions, the reform in SOEs in the 1990s went beyond the early themes of enhancing managerial autonomy and establishing contractual labour practices¹⁷. The target of the reform shifted from the introduction of Contract Responsibility System to establishing a Modern Enterprise System based on corporatization of large and medium SOEs. Meanwhile, the new tone of the SOE reform was officially set as diversifying the ownership structure and “allowing diverse sectors of the economy to develop side by side” (Work Report, 1992). In this context, the substantial role of foreign direct investments in Chinese economy was crucial both in terms of setting the ground for internal restructuring of the large and medium SOEs (Gallagher, 2005) and active participation to the privatization of the small SOEs (Gan, Guo and

¹⁷ See Chapter 3

Xu,2008). The aim of this section is to fully explore the impact of the SOE reform on the course of transition from state socialism to market economy in China. In line with this aim, this section will unpack both dimensions of the SOE reform, touching upon the role of legislations through the analysis of Company Law and Labour Law. In addition, a brief account of the role of FDI within the process of SOE reform will be provided.

4.2.1 Internal Restructuring of the Medium and Large SOEs

As put by Jefferson and Su (2006), there are three main elements of the internal restructuring of medium and large SOEs in the 1990s. First, the SOEs were mandated by the government to convert into companies or corporations. Second, as part of the internal restructuring, the government prompted the system of shareholding. The third plenum of the 14th Party Congress specified shareholding and limited liability companies as forms of corporate system (Lau, 1999:6). Third, the internal restructuring of the SOEs necessitated laying off huge number of ‘redundant’ urban workers from the SOEs and deepening of the transformation in labour relations.

14th Party Congress of the CPC was decisive in terms of initiating the efforts for internal restructuring of the medium and large SOEs. However, shortly before Jiang Zemin presented his Work Report at the 14th Party Congress, the State Council had already issued a document on the ‘Rules for Shifting the Operational Mechanism of the Industrial Enterprises Owned by the Whole People’ (“Market-Oriented Reforms”, 2003). The fourteen rights that SOEs were entitled to for shifting their operational mechanism were as follows:

Decision-making in production and operation; price-setting for products and labour; selling of products; material purchasing; import and export; investment decision; disposition of retained bonuses; disposition of property; decision on joint operation or mergers; labour employment; personnel management; distribution of wages and bonuses; internal structuring; refusing apportioning. So that enterprises would become commodity producers and business operators that were adapted to the requirements of the market, that were independently operating according

to law and responsible for their own losses and profits, that were capable of developing on their own and were self-disciplined (“Market-Oriented Reforms”, 2003).

State Council’s document covered a wide range of entitlements for the SOEs from price setting to the decision on joint operation. Still, Jiang Zemin’s Work Report went one step further by proposing to turn SOEs into legal entities that were responsible to preserve and increase the value of state assets (Work Report, 1992). Moreover, the internal restructuring of the large and medium SOEs aimed a clear separation between the functions of government from those of the enterprises (Work Report, 1992). It is important to note that, the official emphasis on the separation of the functions of the government from the functions of the enterprises lies within the neoclassical dichotomy between the state and the market. Neoclassical theory formulates the market and the state as two distinct and mutually exclusive realms. Within this framework, market is regarded as the realm of efficiency in allocating resources and maximizing profits while the state is regarded as the realm of inefficiency and rent seeking. In this context, efficient market rather than inefficient state is responsible for resource allocation and international competitiveness. Moreover, labour market should operate according to the rules of market forces. Since the state-owned enterprises are regarded to be belonged to the market realm, they should be freed from the interventions of government to become rational and competitive players of the international economy. Under the socialist market economy, the state remains as the owner of the large and strategic enterprises while internal restructuring is designed to prevent government intervention to the functioning of those enterprises.

As an early experiment of establishing Modern Enterprise System, State Council picked 100 medium and large SOEs in 1994 (“Market-Oriented Reforms”, 2003). In order to separate the functions of the government from the functions of the enterprises, the managerial staff members were deprived of their status as government officials and began to be designated by the Board of Directors (“Market-Oriented Reforms”, 2003). However, 15th Party Congress

of CPC in 1997 was a turning point in terms of “pushing forward SOE reform” by endorsing the program of “grasping the large and letting go off the small” (Ho, Bowles and Dong, 2003). In his Work Report presented at the 15th Party Congress, Jiang Zemin put the “irrational economic structure” and the lack of vitality of the SOEs as the “shortcomings” of reform process (Work Report, 1997). Thus, the program of “grasping the large and letting go off the small” was a response to the “irrational” operations of SOEs. “Grasping the large” meant the corporatization of the medium and large SOEs, especially the selected 500 ones in the key sectors of the economy that accounted for 37% of the state’s industrial assets, 46% of all tax revenue from the state sector and 63% of the state sector’s profits (China Labour Bulletin, 2007). Moreover, supervisory banks were assigned for the selected enterprises to help them to work with capital (Wang, 1999). After the decision of the Fourth Plenum of the 15th CPC Central Committee to set three-year targets for the SOEs to implement internal reforms, premier Zhu Rongji’s Three Year Reform Plan was put into practice in 1998. The aim of the Three Year Plan was to convert loss-making SOEs into profitable modern enterprises (Jefferson and Su, 2006). In line with this aim, the plan covered a range of measures including huge lay-offs, debt reduction, debt-equity swaps and technology improvement support (Lee, 2009). According to Jefferson and Su, behind the persistency of the CPC to accelerate the SOE reform from 1997 onwards lays the pressure of Asian financial crisis (Jefferson and Su, 2006:149). CPC put greater emphasis on “institutional restructuring” and “deepening economic reform” in the face of Asian crisis¹⁸. Moreover, the quest for WTO membership was critical for the acceleration of reform in SOEs 1997 onwards (Jefferson and Su, 2006).

¹⁸ For the decisions of the Fourth Plenum of the 15th CPC Central Committee on SOE reform, see Beijing Review, The 15th National Congress, http://www.bjreview.com/90th/2011-03/25/content_357542.htm

4.2.1.1 From Enterprises to Companies: The Company Law

Adopted by the Eighth National People's Congress in 1993, Company Law was part of the efforts to “meet the needs of establishing a Modern Enterprise System” and to “protect the legitimate rights and interests of the companies, shareholders and creditors” (Article 1 of the Company Law, 1993). Company Law was a critical document in terms of legalization of institutions of Chinese economy for two reasons. First, in line with the attempt of turning SOEs into legal entities responsible for their own profits and losses, Company Law was the first official document that gives state, private and collective enterprises the status of autonomous legal entities (Guthrie, 2006). Despite the differences between ownership types, Company Law confirmed the ownership right of companies over their property on equal footing (Wang, 1999:40). In this respect, Company Law was regarded as a shift towards more neoliberal economic policies that promoted the development of private corporate sector and privatization of state-owned and collective enterprises (Andreas, 2010:70). Second, Company Law provided the legal framework for the corporatization of SOEs (Naughton, 2008). As put by the law, limited liability company and joint-stock company are the two forms that SOEs shall convert into (Article 2, Company Law, 1993). However, forming a company is conditioned by transforming the operating mechanisms of SOEs according to the principle of scientific management (Article 6 and 7, Company Law, 1993). Moreover, SOEs need to form a Board of Directors that is in charge of appointing or dismissing the manager while the manager is responsible to the Board of Directors rather than government (Article 45 and 50, Company Law, 1993).

4.2.1.2 System of Shareholding: “Insider Privatization”

The system of shareholding was promoted as an internal part of the restructuring of large and medium SOEs in the 1990s in line with the aim of diversifying ownership structure. Between the years 1997 and 2001, there was a significant decline in the number of medium and large SOEs from 14,811 to

8675 while the number of medium and large shareholding enterprises jumped from 1801 to 5659 (Jefferson and Su, 2006: 149). Beside the medium and large SOEs, collectively owned enterprises were largely turned into shareholding cooperatives. By 1997, 21.3 % of all the reformed collectively owned enterprises became shareholding cooperatives (Oi, 1999:624). The underlying mentality behind the system of shareholding was to rationalize the structure of SOEs by making shareholders responsible for their own profits and losses. In addition, the managers of enterprises would be responsible to the shareholders rather than to the government. Thus, shareholding system was expected to reduce the government intervention to the enterprises. Under shareholding system, the shares of SOEs were sold to employees or managers of the enterprises. By this way, a new type of collective ownership structure named as share-based cooperatives came up (Lau, 1999). Besides, initial public offerings of SOEs were allowed by the government enabling private investors to own the shares of SOEs (Lee, 2009). Accordingly, in 1990 and 1991 Shenzhen and Shanghai Stock Exchanges were opened respectively (China Labour Bulletin, 2007). Thus, the market capitalization of the Chinese stock market runs in parallel to the intensification of shareholding system (Lee, 2009). Total market capitalization as a share of GDP increased from 10 % to 48 % between 1993 and 2000 (Piovani and Li, 2011).

Identified as “employee shareholding” (Gan,Guo and Xu, 2008), the selling of the shares to the employees was one of the most common practices especially at the early stages of shareholding system. However, workers were not always free to choose not to buy the shares. The shares were offered to workers to substitute their unpaid wages (Lau, 1999) or as part of compensation schemes for the laid-off workers (Gan, Guo and Xu, 2008). Workers were even forced to buy shares to save their jobs (Lau, 1999). Another common practice of shareholding was the management buy-outs of the shares (Gan, Guo and Xu, 2008). In general, workers resold their shares to managers due to lack of cash or lack of knowledge on the financial operation of the enterprises (Lau, 1999). Thus, management buy-outs became the dominant practice of shareholding at later stages of the SOE reform (Gan, Guo and Xu,

2008). In the cases of both employee shareholding and management buy-outs, the enterprises were categorized as share-based cooperatives (Lau, 1999) and still officially accounted as part of the public sector (National Bureau of Statistics of China, quoted from Szamosszegi and Kyle, 2011). In that, Jiang Zemin supported the development of collective economy in rural and urban areas in his Work Report presented at the 15th Party Congress in 1997 (Work Report, 1997). Nevertheless, whether the intensification of shareholding system in the 1990s contributed to the development of public sector is a debatable issue for the scholars of Chinese transition. Gan, Guo and Xu (2008) depicted the selling of shares to employees and managers as “insider privatization” of the SOEs. Accordingly, Lau (1999) claims that the category of share-based cooperatives served as an ideological legitimization of the de facto privatization of the SOEs. Moreover, the listing of the profitable SOEs on the stock market meant that SOEs would be run on a commercial basis similar to private enterprises even if the majority of their shares remained state-owned (Yu, 2011:454).

4.2.1.3 The deepening of the transformation of labour relations

The internal restructuring of the SOEs in the 1990s runs in parallel to the deepening of the transformation of labour relations in China. The process was labelled as “breaking the iron rice bowl” referring to the collapse of work unit system in urban China and its basic premises of lifetime employment and welfare benefits for workers¹⁹. Being subject to the rules of market, SOEs started to lay-off their ‘redundant’ workers to reduce their costs and improve productivity (Hassard, Morris and Sheehan, 2002). Between the years 1993 and 2003, the number of workers laid-off from state enterprises exceeded 30 million while the share of public sector workers within the labour force declined from 27% in 1996 to 7 % by 2003 (Zweig, 2010:205). Similarly, there was a significant decline in the proportion of the urban public sector workforce relative to total urban workforce from 82 % to 27 % between

¹⁹ Under work unit system referred as the ‘iron rice bowl’, state provided life-time employment as well as services and benefits through work units in China. For details, See Chapter 3.

1991 and 2005 (Andreas, 2008). For the remaining workers, SOEs jettisoned the burden of providing welfare benefits (Andreas, 2010:70). In fact, welfare provisions that were provided by enterprises such as health and education started to be privatized. Meanwhile, housing facilities that belonged to the enterprises were up for sale. Not surprisingly, the primary target customer was the workers. Laid-off from their formal jobs with highly limited amount of social provisions, urban workers were “being driven into the ranks of new urban lumpen proletariat of migrant workers in increasing numbers” (Meisner, 1999:534). Even Jiang Zemin himself acknowledged the fact that restructuring in SOEs would cause “temporary difficulties to some workers” (Work Report, 1997). However, Jiang claims, as long as internal restructuring was “conducive to economic development”, it was “conforming to the long term interests of the working class” (Work Report, 1997). Thus, “workers should change their ideas about employment and improve their quality to meet the new requirements of reform and development” (Work Report, 1997).

Adopted by the Eighth National People’s Congress in 1994, the Labour Law became the manifestation of transformation of labour relations in the 1990s. Formulated in order to “readjust labour relationship and establish the labour system suiting the socialist market economy” (Article 1, Labour Law, 1994), the Labour Law legally guaranteed the contractual labour and new forms of working such as probation period. On the other hand, the Labour Law was the first legal document that included the notion of ‘collective labour contracts’ (Gallagher, 2005). Thus, one strand of the scholars of Chinese transition makes a relatively positive assessment of the 1994 Labour Law. As put by Guthrie (2006), the Labour Law guaranteed workers their individual rights as labourers. According to Gallagher (2005), the Labour Law was critical for two reasons. First, the law did not discriminate between the permanent, contract, seasonal and migrant workers and covered the basic standards for all Chinese workers. Second, the law was comprehensive in terms of covering the basic standards for all types of enterprises without discriminating between the ownership types (Gallagher, 2005:110). However, Gallagher also notes that there is a significant gap between the legislation and implementation of the labour codes in China (Gallagher, 2005). Another strand of scholars takes a critical stance against the

1994 Labour Law. For Taylor (2011), Labour Law was not about guaranteeing the rights of workers. Rather, the attempt was to consolidate social stability against rising unemployment caused by the SOE reform (Taylor, 2011: 496). From a wider perspective, Gray claims, “the introduction of rule by law principle to the industrial relations in China should be understood in terms of its social control function” (Gray, 2010: 459). In line with the aim of consolidating social stability, Labour Law defined the official levels of mediation and arbitration for cases of labour disputes. Thus, labour dispute mediation and arbitration committees became an internal part of legalization of labour relations from the 1990s onwards.

In line with the acceleration of the SOE reform and the deepening of the transformation of labour relations, the category of ‘unemployed’ was officially redefined for several times. In 1985, the The Ministry of Labour and Social Security (MOLSS) in China defined a category of ‘waiting for work’ (Johnston and Huimin, 2002:192). The ‘waiting for work’ category was referring to people (men between the years 16 and 50; women between the years 16 and 45) who were registered with a low-level government office as waiting for a job. Later in 1995, MOLSS started to collect statistics about ‘unemployed’ rather than ‘waiting for work’ (Johnston and Huimin, 2002:195). In 1996, National Bureau of Statistics constituted a new definition for unemployment removing the upper age limit and the condition of holding an urban residence permit to be categorized as unemployed. The difference between the meanings attached to the category of ‘waiting for work’ and to the category of ‘unemployed’ was significant in terms of revealing the fact that unemployment became a structural problem for China by the 1990s. However, despite the redefinitions of the category of the ‘unemployed’, official unemployment statistics are still far from reflecting the reality since migrant workers and unregistered urban workers are excluded from the statistics. Equally remarkable is the exclusion of laid-off workers from the unemployment statistics. Chinese government formed a special status for the workers who were laid-off from state enterprises in accordance with the Three Year Reform Plan. Named as ‘xiagang’ rather than unemployed, laid-off workers were the ones who were removed from their posts due to financial difficulty or selling off of their work unit (Won, 2004). The special status of being a laid-off worker stemmed from the continuation of

affiliation with the work post for three years. Since the workers' affiliation with their posts continued for three years, their right for living subsidies such as housing and health care benefits was protected in that time period. Besides, they were offered training and job placement assistance by their former enterprises. However, whether the training programs and job placement assistance helped the laid-off workers to find new jobs is debatable among the scholars of Chinese transition. For Gregory Chow²⁰, the internal restructuring within SOEs did not create excessive unemployment in China because most laid-off workers succeeded in finding jobs especially in the service sector thanks to the operation of market economy (Chow, 2007:72). For Wei, laid-off workers lack the "entrepreneurial initiative" in seeking work due to their "high expectations" and government paid income support (Wei, 2007, quoted from Taylor, 2011). In other words, laid-off workers are responsible for their joblessness. From a different perspective, Gu suggests that what emerged in China in the 1990s was "transitional unemployment" that is peculiar to transitional economies (Gu, 1999:282). In China, transitional unemployment with Chinese characteristics was rooted in the full employment policy that was implemented under centrally planned economy (Gu, 1999:283). Contrary to Chow, Gu claims that most laid-off workers did not succeed in finding new jobs because the enterprises preferred employing peasant workers on a temporal basis rather than reemploying laid-off workers (Gu, 1999:286). In that vein, Won asserts that reemployment project was not a systemic solution for the unemployment in China and the level of reemployment for laid-off workers was significantly low (Won, 2004: 75). Since the majority of laid-off workers faced with the notion of 'labour market' for the first time in their middle-forties, it was nearly impossible for them to regain their original worker status with job security and welfare benefits. According to the estimates, by 2005 over 21.8 million of laid-off workers who did not manage to find a job were the dependants of 'average minimum living allowance' provided by the government (China Labour Bulletin, quoted from Landsberg 2006). However, there is a significant gap between the average monthly income of an urban worker and living allowance provided by the government that the former be approximately \$ 165

²⁰ Professor Gregory C. Chow taught modern economics in China between 1984 and 1986 and has advised Chinese and Taiwanese officials on economic reform. For details, see <http://www.princeton.edu/~gchow/>

dollars while the latter was nearly \$ 19 dollars a month in 2005 (Hart-Landsberg, 2006).

What has internal restructuring meant for the remaining workers in SOEs? Restructured enterprises cut welfare benefits (Lau, 1999) and reduced the wages 50% or more (Chow, 2007) after they were encouraged to set their own wages. The incentive for SOEs to set their own wages signified the withdrawal of state from direct intervention in wage distribution (Taylor, 2011:497). The erosion of welfare benefits created “new three mountains”²¹ for the workers in terms of affordable housing, medical costs and education (Li, 2008:88). Before the internal restructuring in SOEs, workers benefited from public housing with rental levels costing about 1.5% of their living expenditure (Gu, 1999:289). After the privatization of the housing facilities, affordable housing became a significant problem for the workers. Similarly, workers were deprived of health care and education provisions because welfare provisions started to be counted as extra costs by enterprises that were responsible for profit maximizing. Beside the retreat of state from the provision of health care to urban workers, in the countryside, rural clinics were also privatized. Therefore, 90 % of the rural population was deprived of health care coverage while the percentage was 60 % for urban population (2001 government survey, quoted from Lippitt, 2005). Despite the significant growth levels in terms of its GDP, China was ranked by World Health Organization as the 144th out of 191 countries in terms of public health services in 2000 (Lippitt, 2005). Reduced wages and the retreat of the state from the provision of welfare benefits brought about a significant decline in the household consumption as the share of China’s GDP growth while the share of exports and investment was substantial (Piovani and Li, 2011). Between 2000 and 2006, China had one of the lowest shares of household consumption in the world whereas the share of export of goods and services increased from 23% to 37% (Piovani and Li, 2011).

Beside the loss of welfare benefits and decline in income levels, the working conditions became harder for Chinese workers after the SOE reform. Even though

²¹ The pre-revolution forces of oppression referred as the ‘three mountains’ were imperialism, feudalism and bureaucratic capitalism (Li, 2008:88).

the notion of collective contract took place within the Labour Law, labour contracts largely remained on individual basis that served to the atomization of workers within production processes (Gallagher, 2005). Gallagher defines the labour regime in China as “nasty, brutish and short” referring to the flexible and insecure working conditions based on short-term individual contracts. (Gallagher, 2005: 79). Within the Maoist work unit system, the managers and workers were relatively equal members of the work unit who ate “from the same big pot”. However, the internal restructuring and privatization of SOEs turned managers into property owners while workers were turned out to be “disfranchised proletarians” (Andreas, 2008: 131). Andreas identifies the process of internal restructuring and privatization of SOEs as commodification of labour in China since in this process labour power was separated from the means of production (Andreas, 2008:132). On the other hand, reform process created a new wealthy class composed of large-scale private entrepreneurs and state officials who were the owners of the shares in the corporations that they managed (Andreas, 2008:135).

4.2.2 ‘Letting go off the small’: Privatization of SOEs

The second dimension of the SOE reform in the 1990s was the reform in small SOEs and TVEs that mainly took the form of privatizations. Even though the reform in small SOEs was officially identified as ‘reforming the system’ rather than privatization, the number of firms that were privatized between 1998 and 2005 exceeded 90,000 covering more than two-thirds of China’s state owned assets (Gan, Guo and Xu, 2008:2). Contrary to the attempt of revitalizing the large and medium SOEs through internal restructuring, Chinese government dealt with the small SOEs by means of buy-outs or allowing bankruptcy (Lee, 2009). Nevertheless, joint stock companies and joint ventures with foreign investors were established as part of the SOE reform in the 1990s (Wang, 1999:137). In parallel to the SOE reform, as high as 80 % of TVEs had been also converted into shareholding companies or reformed through merger, leasing, contracting and bankruptcy by the end of 1998 (Yuan 2000, quoted from Ho, Bowles and Dong, 2003:8).

Similar to the acceleration of the internal restructuring of the large and medium SOEs, privatization of small SOEs speeded up after the 15th Party Congress in 1997. As Jiang Zemin mentioned in his Work Report presented to the 15th Party Congress, the decreasing proportion of the public sector within the economy would not affect the socialist nature of the country as long as public sector had stronger control power and was more competitive than the private sector (Work Report, 1997). Thus, the government's "flexible policy towards the small SOEs" was regarded as compatible with the premises of socialist market economy (Work Report, 1997). In addition, the system of shareholding was officially justified as the ownership of the mass that is a form of public ownership (Wang, 1999). However, the shareholding system adopted in both the large and small SOEs changed the nature of ownership of SOEs (Shu, 1998). It is important to note that there is a significant gap between the official discourse on "reforming the system" and the privatizations within the Chinese economy. On the one hand, Chinese officials avoided defining the process as privatization since it was in sharp contrast to the Marxist principle of public ownership (Shu, 1998). The term 'reform' is used by Chinese officials due to their concerns about the legitimacy problem created by the explicit usage of the term privatization. On the other, scholars of Chinese transition reached almost a common understanding that what was actually happening in the 1990s in China within the framework of SOE reform was large-scale privatization and the transfer of state assets to private individuals. Favouring private over public, Jiang Zemin and Zhu Rongji promoted the privatizations while the process was started to be centrally initiated especially after the mid-1990s (Andreas, 2010). In most cases, the assets of SOEs were transferred to 'insiders' at excessively low prices (Wu, 2006). It is important to note that the process of privatization of the SOEs paved the way for the debate on corruption among the scholars of Chinese transition. For Li (2008) and Andreas (2010) the primary beneficiaries of the privatization process were government officials, former SOE managers and private capitalists with connections with the government. Thus, Li claims, the privatization of the SOEs led to the formation of new capitalist class composed of ex-state bureaucrats.

4.2.3 SOE Reform and Foreign Direct Investments

It is evident from a wide variety of indicators that there was a rapid rise of FDI inflows to China during the 1990s. Between 1992 and 2000, China attracted the cumulative of \$ 282.6 billion of FDI that accounted to the 93 % of the total amount between 1979 and 2000 (Huang, 2003). In 1985, the ratio of FDI to GDP in China was 0.54 % while it jumped to 4.08 % in 1999 (Zheng, Giorgioni and Siler, 2006:147). Furthermore, the share of foreign manufacturing affiliates in China's total manufacturing sales was 2.3 % in 1990 while it dramatically rose to 31.3 % in 2000 (Hart-Landsberg, 2006:6). Thus, China has a high dependency on FDI. Besides, relative to the FDI inflows to other countries, FDI inflows to China accounted for a significantly high amount. As high as 8.2 % of worldwide FDI as well as 26.3 % of FDI inflows to developing countries flowed to China between 1992 and 1999 (Huang, 2003: 6).

It is an ironic fact that the growing existence of FDI within Chinese economy was identified both as a leading factor to the low profitability of the SOEs and as a cure for it. On the one hand, the profitability of SOEs was declining due to a sharp competition between foreign companies and SOEs (Lee, 2009). On the other, the reformist leaders regarded FDI as a means to overcome the financial problems of the SOEs and prevent their bankruptcy (Gallagher, 2005:46). According to the 'utilization of FDI' line followed by Wang (1999), private equity injection was a means to the revitalization of the large SOEs. In addition, the utilization of FDI would contribute to the internal restructuring within SOEs in terms of bringing advanced technology, management skills and experience (Wang, 1999:149). For the small SOEs, active role of FDI within privatization process took the forms of foreign acquisition of the small enterprises, long term leases to foreigners and adopting joint ventures with foreign partners (Gallagher, 2005). Since Jiang Zemin and Zhu Rongji leadership followed a "more neoliberal economic paradigm" based on liberalizing the investment regime and attracting international capital (Breslin, 2007), the role of FDI within the privatization of Chinese SOEs was substantial. In this context, the arguments developed by Yasheng Huang on the inflow of FDI to China need special attention. According to Huang (2003), the substantial role played by FDI in the

privatization process in China stemmed from a political choice of Chinese government to rule domestic nonstate firms out the process of asset acquisitions until 1997. Domestic investors were excluded from the asset acquisition on significant scales due to Chinese government's refusal of domestic privatization policy. Since domestic nonstate firms were out of the privatization process, the competition over SOE assets was low and assets were transferred to foreign investors at low prices. Another debate on the role of FDI within the reform process in China revolves around the relationship between the liberalization of FDI and SOE reform. For Mary Elizabeth Gallagher, the sequencing of the FDI liberalization before SOE reform was internal to 'breaking the iron rice bowl and the spread of capitalist labour practices out from the nonstate sector to the largest SOEs in China's economy' (Gallagher, 2005:1). Besides adopting joint ventures with domestic partners, foreign investments took the form of adopting wholly foreign owned enterprises since 1986. The proportion of the wholly foreign owned enterprises within all new foreign firms in China was 64 % by the end of 2002 (Gallagher, 2005:43). Gallagher claims that the growing existence of the foreign private sector within Chinese economy with its competitive pressures against SOEs contributed to the erosion of the "traditional social contract between the state and urban workers" while the ideological basis of importance of public ownership above private ownership was dismantled in favour of economic growth accelerated by FDI inflows.

4.3 Transformation of the Official Ideology from the 1990s onwards²²

Reform in state-owned enterprises, growing existence of FDI within Chinese economy and the rapidly developing private sector labelled the course of transition in the 1990s in China. When these are considered, the crucial question is how the official ideology of CPC has transformed in parallel to the accelerated transformation of China from 1990s onwards. In order to elaborate on this question, this section will provide an analysis of the main notions and theories adopted by CPC from 1990s onwards.

²² Please note that the term 'transformations of the official ideology' is used in this thesis to reflect discursive and legal changes initiated by CPC from 1990s onwards.

4.3.1. The Demise of Socialism and the Rise of ‘Socialism with Chinese Characteristics’

The collapse of Soviet Union and Eastern European communism had a significant impact on the the reformulation of CPC’s official ideology in two main terms. One is that, for Chinese leadership, the disconnectedness of the stagnant and rigid ideology from the realities of Soviet Union accelerated the Union’s collapse (Shambaugh, 2008). Watching the collapse of the Soviet Union anxiously, Chinese leadership developed an understanding that ‘the historical references to Marx, Engels, Lenin, Mao, Stalin and the like’ were not enough to justify contemporary policies; what needed to be done was to invent new concepts and reformulate ideology ‘with Chinese characteristics’ (Shambaugh, 2008:105). Second, the collapse of Soviet Union and Eastern European communism provided a strong justification for the CPC’s emphasis on political stability (Wang and Zheng, 2000). Political stability, formulated as the permanence of CPC’s one party rule, was regarded as a prerequisite for the economic growth and as an internal part of socialism with Chinese characteristics.

Primarily put forward by Deng Xiaoping in the 1980s, the notion of ‘socialism with Chinese characteristics’ was prominent in terms of reformulating Party’s ideology in line with the reform and opening up drive. Thus, it was not a coincidence that Jiang Zemin put a great emphasis on the vitality of ‘building socialism with Chinese characteristics’ for the course of transition in China in his Work Report presented in the 14th Party Congress in 1992. The central place of the notion in Jiang’s Work Report was an indication of his commitment to Deng Xiaoping’s line of accelerating reform and opening up. Accordingly, in 1993, the notion was added to the preamble of the constitution of PRC. From then on, ‘socialism with Chinese characteristics’ became the cornerstone of the Party’s official ideology (Saich, 1992).

The primary stage of socialism thesis was one of the main components of Deng’s notion of ‘socialism with Chinese characteristics’. As stated by Jiang, “all principles and policies must be based on the fundamental reality that China is in the primary stage of socialism” and this stage “will last for at least a hundred years”

(Work Report, 1992). What lies behind the primary stage of socialism thesis is the orthodox Marxist notion of stages of development. Within this framework, primary stage of socialism refers to a stage that comes after the political overthrow of the capitalist system. The reason why Deng developed the primary stage of socialism thesis was the idea that at this stage various capitalist instruments are legitimate while building socialism (Joseph, 2010:155). In parallel to Deng's view, Jiang asserted that "the abstract debate of what is socialist and what is capitalist" should be left aside in the primary stage of socialism in order to "speed up reform and opening up to the rest of the world" (Work Report, 1992). The removal of the "abstract debate of what is socialist and what is capitalist" from the political agenda necessitated disregarding the class struggle. Thus, class struggle was no longer regarded as the principle contradiction in Chinese society where the central task was economic development (Work Report, 1992). Instead, "the principal contradiction in Chinese society" in the primary stage of socialism was "between the growing material and cultural needs of the people and the backwardness of the production" (Work Report, 1992). In accordance with the Jiang's emphasis, in 1993, the statement "Our country is in the primary stage of socialism" was added to the preamble of China's constitution (Chen, 2004). For Meisner (1999:537), the role of primary stage of socialism thesis within the political discourse in China was rendering socialism meaningless by continuously postponing it to a future time. In support of Meisner's argument, Jiang Zemin asserted that China "is destined to go through a rather long primary stage of socialism" due to low level of development of its productive forces (Work Report, 1997). Later in 1999, the statement "Our country will over a long period of time be in the primary stage of socialism" was added to the preamble of China's constitution (Chen, 2004). By this way, the reform drive of the Party was exempt from the criticisms in terms of its conformity with the socialist principles since capitalist means were legitimate within the road to socialism and the road to socialism would be a very long one. In addition, Jiang Zemin combined the primary stage of socialism thesis with the emphasis on stability that is formulated as the permanence of CPC's one party rule. Jiang claims that,

In the primary stage of socialism, it is of the utmost importance to balance reform, development and stability and to maintain a stable

environment and public order. Without stability, nothing could be achieved. We must uphold the leadership by the Party and the people's democratic dictatorship (Work Report, 1997).

The combination of primary stage of socialism thesis with the emphasis on stability is substantive in the sense of reformulating Party's ideology in line with its pro-reform stance. As put by Wang and Zheng (2000), development, stability and national unity became the new sources of Party's legitimacy in the Jiang's era.

4.3.2 The Notion of "Socialist Market Economy"²³

Another component of 'socialism with Chinese characteristics' was the notion of socialist market economy. In his Work Report presented to the 14th Party Congress in 1992, Jiang Zemin asserted that in order to "expand and liberate the productive forces" it was necessary to "state explicitly" the aim of establishing socialist market economy (Work Report, 1992). One year later, the statement "The state practices the socialist market economy" was added to China's constitution together with the notion of 'building socialism with Chinese characteristics' and primary stage of socialism thesis (Chen, 2004). In fact, the notion of socialist market economy was one step further from the notion of 'planned commodity economy' that was put forward by 12th Central Committee of CPC in 1984. The notion of 'planned commodity economy' was based on Central Committee's decision of reforming the urban economy and adopting the open door policy in 1984 while in 1992 the 14th Central Committee used the term socialist market economy referring to the composition of public ownership and private ownership within Chinese economy. Despite the fact that there is a slight difference in the wording of the 'planned commodity economy' and the 'socialist market economy', the change was notable since the term 'market' was for the first time used officially (Gilley, 2010:115).

²³ Originally, the notion of 'socialist market economy' was proposed by Polish economist Oscar Lange in the 1930s as a way out of the 'inefficiencies' of the Soviet economy. In that, Lange claimed that the introduction of the market mechanisms into the economy with the condition of leaving the public ownership as the dominant form would increase the efficiency of the Soviet economy (Szelenyi, 2010).

In Deng's view, the difference between the socialist market economy and the capitalist market economy was a matter of political power in a country (Joseph, 2010). In other words, a communist party that represents the interests of the people rather than the wealthy capitalists was the guarantor of the socialist character of the market economy. From this viewpoint, letting the market forces to "serve as the basic means of regulating the allocation of resources, to subject economic activity to the law of value and to make it responsive to the changing relations between supply and demand" was not harmful to the socialist character of the economy as long as political power was in the hands of CPC (Work Report, 1992). Hence, the Third Plenary Session of the 14th CPC Central Committee defined socialist market economy as the one within which market was the "fundamental factor in the disposition of resources under state macro-control" ("The Third Plenary Session of the 14th CPC Central Committee", 1993). In addition, achieving a "unified and open market network" with dominant public sector and other forms of ownership was rendered as necessary for a socialist market economy ("The Third Plenary Session of the 14th CPC Central Committee", 1993). According to Sezen (2009), the term socialist market economy was critical for Party's legitimacy in two main terms. First, the emphasis of socialism legitimizes the existence and permanence of CPC's one party rule within a market economy since it is a communist party representing the interests of the people. Second, the emphasis of socialism was instrumental in terms of gaining public support for the implementation of the reforms that became radical especially after 1992. Therefore, the notion of socialist market economy had a special importance concerning reformulation of CPC's official ideology in the 1990s. It is important to note that, it was in 2005 that a Chinese bureaucrat, the Minister of the National Development and Reform Commission Ma Kai, stated that China has completed the transition from a highly centralized planning economy to socialist market economy after 26 years of reform ("China Has Socialist Market Economy in Place", 2005).

In fact, Giovanni Arrighi's engagement with the notion of 'market economy' runs in parallel to Deng's differentiation between the capitalist and the socialist market economies. In his famous book 'Adam Smith in Beijing', Arrighi (2007) makes a differentiation between the 'market economy' and 'capitalist development'.

For Arrighi, contrary to the predominant view among historians, market formation and capitalist development are two distinct paths of economic and political development. In that, Arrighi draws upon Adam Smith's distinction between natural and unnatural paths of development. According to Smith, the West followed the unnatural path of development that is based on long distance foreign trade while the natural or the home-trade based path was followed by China. Arrighi identifies the former as capitalist development and the latter as the market society. In this context, the relation of state power to capital determines the difference between the capitalist path and market society. The capitalist path is characterized by the greater power of capitalists to impose their class interest at the expense of national interest (Arrighi, 2007:92). In a famous quote from 'Adam Smith in Beijing', Arrighi contends that,

Add as many capitalists as you like to a market economy, but unless the state has been subordinated to those class interests, the market economy remains noncapitalist (2007:332).

Similarly, for Jiang, the decreasing proportion of the public sector within the economy would not affect the socialist nature of China as long as public sector had stronger control power and was more competitive than the private sector (Work Report, 1997).

For Chase-Dunn (2010), by virtue of differentiation between the market society and capitalist development, Arrighi attributes a positive role to the rise of China in terms of "reducing global inequalities and moving toward a more sustainable and just form of political economy". In line with Arrighi's stance, Chase-Dunn claims that China's developmental path that differs from capitalist development is a progressive force in world politics (2010:48). However, Chase-Dunn draws attention to two points about China that needs closer analysis. The first point is the issue of democracy while the second is about the institutional forms of property. According to Chase-Dunn private versus state ownership are not the only two options and market socialism shall be based on more just forms of property. In sharp contrast to Arrighi's and Chase-Dunn's stance regarding the notion of market society, Panitch (2010) claims that the relationship of workers to the process of economic development determines whether China pursues the capitalist development

path or not. For Panitch, Arrighi's conceptualization of market society misses two significant points. First, Arrighi does not take into account "the specific mode of organisation of a capitalist state, and its defining functions of guaranteeing property-relations, reproducing labour-capital relations and sustaining accumulation" (Panitch, 2010:79). The second but more remarkable point is that Arrighi does not sceptically engage with the notion of "national interest in the increasingly unequal class society that China has become" (2010:83). Thus, Panitch puts that what defines China's economic development is the commodification of labour power, the creation of labour markets and the struggle against the oppressive and exploitative social relations. Following Panitch's emphasis, this thesis asserts that it is vital for the analysis of the nature of China's transformation to include the transformation of the relationships between state, labour and capital.

As mentioned above, the notion of 'building socialism with Chinese characteristics' manifested Deng's view on reform. The two main pillars of 'building socialism with Chinese characteristics' were the primary stage of socialism thesis and the notion of socialist market economy. In that respect, the 15th National Party Congress in 1997 was critical concerning the decisions that accelerated the SOE reform and made Deng Xiaoping Theory the "guideline" of the Party ("The 15th Party Congress, 2011). Defined by Jiang Zemin as the "Marxism of the present-day China" (Work Report, 1997), Deng Xiaoping Theory was first added to the Party constitution in 1997. Two years after his demise, in 1999, Deng Xiaoping Theory was added to the preamble of the constitution of China near the Marxism-Leninism and Mao Zedong Thought as a guidance to Chinese people to "develop socialist market economy" (Chen, 2004). In addition to Deng Xiaoping Theory's guidance to develop a socialist market economy, "the individual economy, the private economy and other non-public ownership sector within the domain stipulated by law" were defined as the "important components" of the socialist market economy in the Article 11 of the China's constitution in 1999 (Chen, 2004). In the same article, it is stated that "The state protects the lawful rights and interests of the individual economy and private economy" (Chen, 2004). Hence, 1999 amendments to China's constitution provided the private economy the legitimacy and protection under the socialist market economy.

4.3.3 The “Theory of Three Represents”

Propounded by Jiang Zemin primarily in 2000 during his Inspection tour of Guangdong Province, the Theory of Three Represents is to a great extent a product of the accelerated reform drive of the 1990s. Jiang’s ‘Three Represents’ refers to three elements of Chinese society that are represented by the CPC: the development trends of advanced productive forces; the orientations of advanced culture; the fundamental interests of the overwhelming majority of the people of China (“What is ‘Three Represents’ CPC Theory, China.org.cn). At the celebrations of the 80th anniversary of the founding of CPC in 2001, Jiang made “the scientific meaning” of his theory clear by stating that:

Saying our Party always represents the development trend of China’s advanced productive forces means that the Party’s theory, line, program, principles, policies and all its work must be in line with the laws governing the development of productive forces; embody the prerequisites for constantly furthering the release and development of productive forces; especially advanced productive forces; and steadily raise the people’s standard of living by developing the productive forces. (“Three Represents”, 2006)

The scholars of the Chinese transition reach a common ground about Jiang’s emphasis on the productive forces – especially the advanced productive forces – signified a substantial shift in terms of Party’s official ideology. For Li (2008), Theory of Three Represents made it explicit that CPC no longer considered itself as representing the interests of the proletariat. Rather, The Party was the representative of advanced productive forces that was the new capitalist class (Li, 2011:40). Similarly, Wang and Lye (2007) identify the Theory of Three Represents as a “major shift in the traditional role of the Party”. Once regarded as the “exploiters and enemies” by the orthodox Party ideology, private entrepreneurs and business owners were now claimed to be represented by the same Party (Wang and Lye, 2007:5). However, the difference between the orthodox Party ideology and the Theory of Three Represents shall be found in Jiang’s own words from his report to 16th National Congress of CPC in 2002. For Jiang, “the great banner of Deng Xiaoping Theory and the important thought of Three Represents” characterized the new phase

in building socialism with Chinese characteristics (“Three Represents”, 2006). Because of the necessity of “constantly extending Marxist theory into new realms”, the important thought of Three Represents was vital for Party building (“Three Represents”, 2006) Thus, in the new phase of socialism with Chinese characteristics, the doors of the Party were opened to the members of the advanced productive forces. By this way, the old “enemies of the Party” are not only represented but also are permitted to become party members thanks to their great contribution to economic development (Guthrie, 2006). It is also important to note that Theory of Three Represents formulates private entrepreneurs, managers and other professionals as agencies of the “advanced culture” in addition to their roles of advanced productive forces (Lam, 2006). The Theory of Three Represents took its place first in the Party’s constitution in 2002, then in the constitution of China near Deng Xiaoping Theory in 2004 (Chen, 2004).

4.4 Conclusion

The reform in state-owned enterprises, growing existence of FDI within Chinese economy and the rapidly developing private sector labelled the course of transition in the 1990s in China. The reform in the SOEs in the 1990s had broadly two dimensions. First, medium and large SOEs underwent an internal restructuring with the aim of establishing a ‘Modern Enterprise System’ and building up giant conglomerates that would be the ‘commanding heights of the national economy’. Second, with the motto of ‘letting go off the small’, small SOEs were ‘reformed’ through association, merger, leasing, contract operation, joint stock partnership or sell-off. Even though the term ‘privatization’ was not officially used in the party documents and the process was identified as ‘reforming the SOEs’, it is widely mentioned by the scholars of Chinese transition that the SOE reform meant a large-scale privatization for the small SOEs and TVEs. As exposed by the two dimensions, there was a shift in the target of SOE reform from the introduction of the ‘Contract Responsibility System’ to establishing a ‘Modern Enterprise System’ from the 1980s to 1990s with the new tone officially set as diversifying the ownership structure. In this context, foreign direct investments played a crucial role by setting the ground for

internal restructuring of the large and medium SOEs and actively participating to the privatization of the small SOEs.

The reform in SOEs paved the way for the deepening of the transformation of the relations between the state and labour in China. First, being subject to the rules of market, SOEs started to lay-off their ‘redundant’ workers to reduce their costs and improve productivity. In that respect, a special category of ‘laid-off’ workers was created to guarantee the continuation of the affiliation of redundant workers with their former enterprises for three years. On the other hand, considerable number of laid-off workers has not achieved to find full time jobs in SOEs and either became dependents of average minimum living allowance provided by the government or started to work in part time jobs without job security and welfare provisions. Second, SOEs jettisoned the burden of providing welfare benefits for the remaining workers. Third, welfare provisions that were provided by enterprises such as health and education started to be privatized. Meanwhile, housing facilities that belonged to the enterprises were up for sale. Fourth, the restructured enterprises were encouraged by the government to set their own wages. In addition to the cut off in welfare benefits, the wages were reduced in restructured SOEs. The incentive for SOEs to set their own wages signified the withdrawal of the state from wage distribution. Finally, contractual employment in SOEs became widespread and labour contracts in individual basis served to the atomization of workers within production processes.

The official ideology of CPC has transformed in parallel to the accelerated transformation of China from 1990s onwards. Deng Xiaoping’s notion of ‘socialism with Chinese characteristics’ became the hallmark of official ideology of CPC in the 1990s. The two pillars of ‘socialism with Chinese characteristics’, ‘the primary stage of socialism thesis’ and ‘the notion of socialist market economy’ were embraced and developed by Jiang Zemin in the 1990s. In the early 2000s, Jiang put his own notion of Theory of Three Represents as part of an attempt to reformulate Party’s ideology concerning the high tide of reforms during the 1990s. Theory of Three Represents opened the Party’s doors to the ‘advanced productive forces’ of the Chinese economy by permitting private entrepreneurs to become members of the CPC.

CHAPTER 5

DISCUSSION AND CONCLUSION

5.1 China after Three Decades of ‘Reform’ and ‘Openness’

After three decades of reform and openness, China is currently the three ‘largest’ of the world: the largest manufacturer, the largest exporter and the largest creditor (World Bank, 2012). Deeply integrated with the world economy, China’s share accounts for 10.4 percent of global exports in comparison to its share of less than one percent in 1978 (Li, 2012). The size of its economy is behind only to that of the US; however, according to the IMF’s estimations, by 2016 China will overtake the US economy (Weisbrot, 2011). Shifting from being a low-income country in 1978, China will achieve the high-income country status concerning the per capita income of its citizens by 2030 (World Bank, 2012). There is a general consensus among the scholars of China that the considerable reduction in the number of poor people²⁴ is one of the most vital achievements of transition in China. In fact, in three decades, the number of people who were risen out of poverty reached some 500 million (China Human Development Report, 2009/10). Concerning the 1 \$ per day measure for absolute poverty, 65.2 percent of the population was poor in China in 1981 while the percentage decreased sharply to 10.4 in 2004 (China Human Development Report, 2009/10).

Meanwhile, three decades of ‘reform’ and ‘openness’ has transformed China into a country of sharp inequalities. On the one hand, due to wage constraints, migrant workers in Beijing even live in underground ‘bomb shelter hoteliers’ that were designed as a sanctuary in case of war or disaster (Foster and Wei, 2011). On the other, having achieved a social and “quasi-political status”, the richest of China no longer avoid to show off with luxury cars and expensive watches (“China’s Nouveau Riche, Q&A”, 2009). As an indicator of the widening inequalities in China,

²⁴ In 1978, there were 250 million rural poor in China according to the estimates of National Bureau of Statistics, China (2004).

the gini coefficient substantially increased from 0.21 in 1978 to 0.37 in 2003 (Yu and Zhao, 2009) and reached the level of 0.47 in 2010 (“Urban-Rural Income Gap”, 2010). In 2010, the widest urban-rural income gap since the 1978 was recorded concerning the ratio of urban per capita income to rural per capita income that exceeds 3.3 (“Urban-Rural Income Gap”, 2010). In comparison, the ratio of consumption of urban to rural households in India was much lower than China, being just under 2 in 2009 (OECD, 2012). Beside the increasing urban-rural income gap, the regional income gap including coastal-inland and inter-city disparities have also risen since 1978²⁵. Thus, poverty rate is higher in rural and western China as compared to urban and eastern coasts (Hu, 2007). Moreover, there are considerable disparities in China in terms of access to health and education services. Concerning the fairness of access to health care and fairness to contributions to the cost of healthcare, China was placed at 144 among the 191 countries by World Health Organization in 2000 (“China’s Health Care”, 2011). In fact, *health insecurity*²⁶ is identified as the biggest challenge to human security in China (Hu and Linhin, 2004). Between 1993 and 2003, the rate of people who were not covered by medical insurance rose from 67.8 % to 80.7 % of the population while in cities the number of the people who are not covered by medical insurance jumped from 96.53 million to 300 million (Hu and Linhin, 2004). Since the local governments hold the primary responsibility of providing health and education services, the developmental gaps between local levels have direct effects on the provision of these services. Poorer households in the poorer localities have notable difficulties in affording the private costs of basic health and education services (Dollar, 2007). Concerning the access and retention to schools, girls are underprivileged than boys in China as the illiteracy rates indicate. 72 percent of the 165 million illiterates in 1996 were women while once enrolled women were 26% less likely than men to finish 9 years of schooling, 28% less likely to finish high school and 43% less likely to finish 3 or more years of

²⁵ For further details about the regional disparities in China, see Zhang and Zou (2012), “Regional Inequality in Contemporary China”, *Annals of Economics and Finance*, Society for AEF, Vol. 13 (1), pp. 113-137

²⁶ Health insecurity is defined as the set of health risk factors that cannot be brought under control since people are deprived of the basic health rights such as joining an elementary health service, medical insurance, basic health care knowledge and the right to live in an environment that is not detrimental to health (Hu and Linhin, 2004).

college (Rong and Shi, 2001). Furthermore, three decades of reform and openness has transformed China into the world's largest emitter of the greenhouse gases since 2007. In parallel to modernization and urbanization drive, China's energy consumption and reliance on fossil fuels have deepened that in turn have direct effects on emissions of greenhouse gases. Meanwhile, China became the world's second largest oil consumer accounting for the 31% of the growth in oil demand (Liang, 2010). 16 of the 20 most polluted cities are in China due to massive reliance on fossil fuels while according to the World Bank's estimates the cost of environmental degradation and pollution to China is \$ 170 billion on an annual basis ("China's Growing Pains", 2004). As Liang (2010:73) suggests,

Ordinary Chinese have started to miss blue skies, clean rivers, green forests and birds. Heart-breaking coal mine tragedies have become regular news on TV. Pollution has made cancer China's leading cause of death. Ambient air pollution alone is blamed for hundreds of thousands of deaths every year. Nearly 500 million people lack access to safe drinking water...The WHO found that the pollution-related death has now reached 750,000 year. In comparison, 4,700 people died in 2006 in China's unsafe mines²⁷.

According to Hu (2007), albeit the three decades long rise of Chinese economy in quantitative terms, the quality of economic growth have been rapidly declining since the early 1990s due to sharp inequalities in distribution of the benefits of reform and openness to Chinese population. The combination of the environmental degradation and pollution with the unfair access to health and education services has made health insecurity one of the most serious problems of Chinese transition. Moreover, three decades of reform and openness has transformed China into a country of massive internal migration. From 1989 to 2006 the number of migrant workers in China soared from 30 million to 130 million (Panitch, 2010). In 2011, the numbers reached 252.78 million ("Chinese Migrant Workers' Wages Up 21.2%", 2012). The working conditions for the Chinese migrant workers are considerably harsh since they get the lowest wages without the right to social services, health care and job security. As Solinger (1995) puts, the working conditions are 'slave-like'

²⁷ Mining is the most insecure sector for migrant workers in China that more than fifteen miners a day were killed in the mines in 2004 due to insecure working conditions (Lippitt, 2005).

especially in private enterprises including unpaid overtime, abuse, disrespect, beating up and arbitrary firings. Against these working conditions, neither migrant workers nor the urban workers in state-owned enterprises have the right to form independent trade unions. Instead, All China Federation of Trade Unions (ACFTU) is the one and only official trade union that workers shall enrol. However, according to the general understanding of workers, ACFTU primarily protects the political authority of the CPC and serves for the maintenance of social stability rather than protecting the rights of workers in China (China Labour Bulletin, 2012).

At the same time, the 2000s is characterized by a ‘new approach’ to transition and development in China. The concept of ‘Scientific Development’ has marked Hu Jintao-Wen Jiabao approach to development since their coming to power as the fourth generation leaders in 2003. For the founder of the term, Hu Jintao, Scientific Development Concept constitutes a “comprehensive, balanced and sustainable approach” to development while it “puts people as its core” (Work Report, 2007). In the Third Plenum of the 16th National Congress in 2003, the CPC Central Committee worked out the guidelines of the concept of Scientific Development and asserted that,

To coordinate development in both urban and rural areas and in different regions, integrate economic and social development, achieve harmonious development between man and nature and coordinate domestic development and opening up to the outside world, it is of essential importance to give bigger play to the fundamental role of the market in resource allocation, increase the vitality and competitiveness of enterprises, improve state macro-control and enhance the government's functions in social management and public service, thereby forging strong institutional guarantees for building a moderately prosperous society in an all-round way (“The 16th National Congress”, 2011).

It is important to note that Hu Jintao’s Scientific Development Concept has been formulated concerning that China is still in the primary stage of socialism and the principal contradiction in China remains as “the one between the ever-growing material and cultural needs of the people and the low level of social production” (Work Report, 2007). Thus, Hu identifies his approach as a continuation of Marxism-

Leninism, Mao Zedong Thought, Deng Xiaoping Theory and the important thought of Three Represents. As the above mentioned quote suggest, Scientific Development Concept maintains the emphasis on central role of market forces in resource allocation and the necessity of increasing competitiveness of enterprises. On the other hand, the concept highlights the macro control of the state over the economy and the need to enhance the government's role in providing public services. Hence, in formulating his Scientific Development Concept, Hu recognizes "the growing gap in income distribution" and "considerable number of impoverished and low-income people in both rural and urban areas" (Work Report, 2007). Hu contends that the urban-rural gap and interregional gaps need to be narrowed to balance the economic and social development. Moreover, the Scientific Development Concept assumes that there is a need to enhance "people's democracy" and improve the legal system through implementing the rule of law as "the fundamental principle" for economic and social development. Besides, the Scientific Development Concept includes the notions of "harmonious" and "peaceful" development. In that, Hu claims, harmonious development should be achieved by 'promoting unity and amity among all members of society' while in the course of peaceful development China will "safeguard the world peace and contribute to world peace by developing itself" (Work Report, 2007). Another salient emphasis of Scientific Development Concept is on the "sound ecological and environmental conditions" and on the sustainable economic development. Thus, there is a need to "harmonize the economic growth with the resources, population and environment" and "build a resource-conserving and environment-friendly society" (Work Report, 2007).

Despite the fact that Hu Jintao identifies his approach as a continuation of Marxism-Leninism, Mao Zedong Thought, Deng Xiaoping Theory and the important thought of Three Represents, there is a strand among the scholars of Chinese transition that regards Scientific Development Concept as a new developmental approach that differs especially from Jiang Zemin's position (Fewsmith 2004, Zhang and Lo 2010, So 2003, Shambaugh 2008, Harris 2012). In that sense, the current debates on Hu Jintao's approach revolves around the notion of "Building a

Harmonious Society”²⁸ that is an internal part of Scientific Development Concept. For Hu, “social harmony is an essential part of socialism with Chinese characteristics”. For this reason, the application of Scientific Development Concept should be complemented with the efforts to build a harmonious socialist society (Work Report, 2007). According to the Resolution on Major Issues Regarding the Building of a Harmonious Socialist Society that was adopted by the 16th Central Committee of the CPC, the main objectives and tasks for building a socialist harmonious society by 2020 includes:

a relatively high employment rate and the establishment of a social security system covering both urban and rural residents; further improvements to the basic public service system and significant improvements to government administrative and service level; enhanced health status of the whole nation and the development of an innovation-based nation (“China Publishes Harmonious Society Resolution”, 2006)

By virtue of its emphasis on the disparities within and between regions; urban-rural development gap; environmental problems and sustainability of the development; the implementation of the rule of law; and the inadequacy of the social security system and the public services, the Scientific Development Concept in general and the notion of Harmonious Socialist Society in particular were regarded as a challenge to neoliberalism in the international level (Zhang and Lo 2010, Harris 2012) as well as to Jiang Zemin’s “growth-at-all-costs agenda” in the Chinese context (So 2003, Shambaugh 2008). According to Harris, the policies followed by Hu-Wen administration such as increasing the minimum wage, extending the scope of minimum subsistence allowance, offering free health care and education to the rural poor as well as investing in green technologies reflect a Keynesian social democratic approach that challenges neoliberal Washington Consensus policies (Harris, 2012:29). Moreover, Harris puts that in line with the Keynesian approach, Chinese state has invested in large scale infrastructural projects that in turn supported

²⁸ The 17th National Congress amended the Constitution of CPC in 2007 to include a call for ‘building of a harmonious world characterized by a sustained peace and common prosperity’. “CPC Constitution amendment advocates building of Harmonious World”, 25 October 2007, People’s Daily Online, Retrieved from <http://english.people.com.cn/90001/90776/6290885.html>

SOEs and absorbed 20 million unemployed migrant workers. Besides, Shambaugh (2008) claims that the highlights of Hu-Wen administration differs from Jiang Zemin's developmental approach in many respects. First, there was a shift of focus from coastal to interior areas of China in terms of promotion of development. For Shambaugh (2008), Hu-Wen leadership has a more interior-oriented populist developmental agenda in contrast to Jiang Zemin's technocratic leadership. Second, since Hu-Wen leadership addresses the problems of income distribution and social stratification and places an emphasis on development "with the people and for the people" (Work Report, 2007), they differ from Jiang's "growth-at-all-costs" strategy that puts "economic growth in command" (Shambaugh, 2008:118). Third, Hu-Wen leadership stresses the promotion of rural development. In that respect, the notion of "New Socialist Countryside" has become the motto of Hu-Wen leadership in terms of their engagement with rural development. For Wen Jiabao, 'building a new socialist countryside' refers to "putting agriculture and rural initiatives more prominently on the agenda of China's modernization drive" ("New Socialist Countryside", 2008). Thus, under the framework of New Socialist Countryside, agricultural capacity shall be improved, the development of rural infrastructure shall be accelerated and the government's priority for investments shall be reoriented to the countryside. In that sense, Hu-Wen leadership abolished the agricultural tax throughout the country that has been collected for 2,600 years ("New Socialist Countryside", 2008). Furthermore, the Chinese state has enhanced its efforts in providing free education and health care for rural citizens. Beside the state's efforts and investments in promoting rural development, the concept of "New Socialist Countryside" refers also to the fostering of market forces in rural areas. As Xiong Qinghua, the Secretary of the CPC Baoshan City Committee, Yunnan Province suggests, "the priority in building a new socialist countryside is to foster modern concepts, such as competition and cost, among farmers" ("New Socialist Countryside", 2008). For Xiong, since most farmers in rural areas lack modern concepts such as competition and cost that matches with a market economy, the introduction of these concepts to farmers are of great importance for the long-term rural development. Nevertheless, Xiong asserts that the important thing about building a new socialist countryside is to make farmers learn the meaning of cost and

let them understand that labour should be included in costs. In that sense, ‘New Socialist Countryside’ is a call for the consolidation of the market forces in managing the rural economy.

5.2 Conclusion

Following the recessions of 1974-75 and 1980-82 and the ruling class offensive against unions and the Global South that took off in this period, severe capitalist restructuring did generate a new wave of capitalist growth, albeit much more uneven and volatile than occurred during the great boom of 1949-73. By attacking working class organizations and undermining states in the Global South; by raising the rate of exploitation and spatially reorganising manufacturing industries; by generating huge new reserves of global labour via accelerated primitive accumulation; through massive FDI, particularly in East Asia; by introducing new systems of work organization and labour intensification and new technologies – by all these means, rates of exploitation were increased, South to North value flows were accelerated and the rate of profit was significantly boosted from its lows of the early 1980s. In the process, new centres of global accumulation were created. The rise of China should be analysed in this context. (McNally, 2009:45-46).

China has been going through ground shaking economic, social, political and cultural transformations for nearly thirty-five years. It is suggested in this thesis that to fully grasp Chinese transition, we need to contextualize it within global neoliberal transformations since the 1980s. First, it is claimed that the transformation of the relations between the state and labour in China overlaps with the neoliberal transformation of the relations between the state and labour in general. Following Saad-Filho and Yalman (2010), it is argued that there are two bases that neoliberalism rests upon; the transformation of the material basis of social reproduction and a new mode of integration with the world economy. The two bases of neoliberalism have triggered a transformation of the relations between the state and labour in favour of capital. Second, China’s deepening integration with the world economy is shaped by the transnationalization of production supported by the financialisation and increasing mobility of capital in contrast to the composition of a global labour force whose own geographical mobility is constrained (Harvey,

2005:168). Thus, illegal internal migration has deprived Chinese migrant workers from the rights and benefits that belongs to citizens (Ong, 2006) while turning them into a huge and highly exploitable reserve army of labour (Harvey, 2005). In other words, local working classes have become highly subordinated to the rules of international economy. Third, as put by Harvey (2005:2), neoliberalism assumes the combination of strong private property rights, free trade and free market as the most appropriate institutional framework to “advance human well-being” and “liberate individual entrepreneurial freedoms and skills”. It is assumed in this thesis that ‘reform’ and ‘openness’ is marked by the introduction and the consolidation of the institutions of capitalist market economy in China. Thus, the reforms introduced in the 1980s is vital in terms of abandoning the legacies of Maoist period and construction of the institutions of a capitalist market economy while the reform drive in the 1990s has a pivotal role for the consolidation of the current configuration of state, labour, capital relations in China. In line with the emphasis of property rights within neoliberal framework, the transition in China from state socialism to socialist market economy is built upon an attempt to ‘secure’ and ‘strengthen’ property rights. In other words, there was a transition from the system of public ownership of the means of production to the “hegemony of private property” since 1978 in China (Szelenyi, 2008).

Neoliberalism is defined in this thesis as the current configuration of capitalism that is shaped by historically divergent experiences of different countries (Saad-Filho and Johnston, 2005). Thus, it is argued that even if the transformation in China has been heavily influenced by global tendencies, we still have to recognize peculiar characteristics of Chinese transformation, a phenomenon that was elaborated throughout this dissertation. In that sense, in Chapter 2, a discussion on the ‘Beijing Consensus’ that emerged as an alternative to the neoliberal Washington and Post-Washington Consensus was the focus of attention. Since the voicing of the term in 2004 by Joshuo Cooper Ramo, Beijing Consensus has triggered lively debates about an alternative development model to neoliberalism. The crisis in 2008 that emerged as a financial crisis in the US but in a very short span of time transcended the sectoral and national borders, furthered the scope of debates. In this context, Beijing Consensus was identified as a unique developmental approach that deviates from

Washington Consensus policies especially by outlining the state as the facilitator of the development process. In addition, originally put by the current president of PRC, Hu Jintao after his coming to power in 2003, the ‘Scientific Development Concept’ and ‘Harmonious Society’ are regarded as ruptures from neoliberalism.

According to World Bank, China is ‘unique’ among developing countries since it has managed to discover the most ‘workable transitional institutions’ at every stage of transition by applying a ‘gradual’ and ‘experimental’ approach and promoting the local governments to take the initiative in development process. The motto of “crossing the river by feeling the stones” put by Deng Xiaoping was the key to China’s gradual and experimental approach to transition. The transition literature, overwhelmingly under the influence of ‘shock therapy’ versus ‘gradualism’ dichotomy, regards the Chinese transition as the prime example of gradualist model in contrast to the shock therapy experiences of Russia and most of the Eastern European countries (Walder, 1995). Yet, beside representing the gradualist model, Chinese transition is often referred as a “unique path” because of its “bottom-up” approach to transition and the central role of Chinese state within the transition process (Szelenyi, 2008). Nevertheless, China is regarded as a special case since the economic liberalization has not been complemented with political liberalization in the course of Chinese transition. China is marked by the absence of ‘second transition’²⁹, that is the transition to democracy unlike Russia and Eastern European countries.

The advocates of ‘shock therapy’ approach³⁰ claim that rapid privatizations and deregulation of price control that can create extreme shocks in society is the most feasible path of transition from state socialism to market economy (Guthrie, 2006). On the other hand, for gradualist school, the support and guidance of the state is significant in terms of a stable and gradual transition to market economy. Thus, Chinese path of transition is categorized as a gradualist approach to the extent that large scale privatizations were not initiated until the mid-1990s, price reform was

²⁹ The literature names the transition to market economy as the ‘first transition’.

³⁰ ‘Shock therapy’ approach is also labelled as ‘big bang approach’ within the transition literature.

applied in a dual-track manner and market reforms implemented in an ‘experimental way’ in the Special Economic Zones and later incrementally applied to the rest of the country. As Kolodko (1999) claims, reform process in China is at a much slower pace than other post-communist transition countries; however, it is still directed at further liberalization and opening up. It is important to note that, there are criticisms to the recognition of the whole transition process in China within the framework of gradualism. Chen (2009) asserts that some of the market reforms were introduced in China in a rather radical manner such as the introduction of the Household Responsibility System. For Chen, within a five years of time, Household Responsibility System changed the production relations in rural China strikingly. In addition, the reform of the state-owned enterprises in the late 1990s was a radical and accelerated part of Chinese transition³¹. Thus, SOE reform significantly transformed the relations between the state and labour and it was a considerable step towards a new system of property rights in China.

Representing the claim that China has a ‘unique’ path of transition, Ivan Szelenyi (2008) puts that the transition in China was guided by a mixture of “bottom-up” approach and “state-led development”. For Szelenyi, the reforms introduced in rural China such as decollectivization and the reestablishment of family enterprise were in favour of direct producers -the peasants- in the 1980s. Since the successive reforms in rural China created the conditions of later reforms in urban part, it is labelled as a bottom-up approach by Szelenyi. Against Szelenyi’s claim, a Chinese economist Cheng Siwei³² asserts that one of the main characteristics of the Chinese transition was that the reforms were introduced in a top-down fashion under the leadership of the CPC, including the introduction of the Household Responsibility System in rural China (“Economists Evaluate China’s 30 Year Reform”, 2008). Furthermore, Szelenyi suggests that Chinese transition is marked as state-led development to the extent that public sector was dominant in the urban economy and Chinese state was leading the industrial policy in the 1980s and 1990s. In contrast, the

³¹ I thank Dr.Ceren Ergenç for this point.

³² Cheng Siwei is the Dean of the School of Management of the Graduate School of the Chinese Academy of Sciences.

transitions of Russia and Eastern European countries were “from above” processes due to the communist parties’ leading role in privatizations. The hurried privatizations led to the transformation of property rights faster than the making of market institutions in Russia and Eastern European countries (Szelenyi, 2008).

Moreover, in transition literature, China is referred as a special case since the economic liberalization has not been complemented with political liberalization in the course of Chinese transition. In that, the transition to market and the transition to democracy are put as the two processes of transition in post-communist countries. Thus, China is marked by the absence of the transition to democracy. However, this thesis assumes that the differentiation between economic transition and political transition is a problematic one since it is based on conceiving ‘the economic’ and ‘the political’ as two separate realms. On the contrary, China’s transition to market and non-transition to democracy is interrelated processes since the Chinese state assumes an active role in disciplining labour in the context of ‘reform’ and ‘openness’. Against this background, it is necessary to go beyond the dichotomies between ‘shock therapy’ versus ‘gradualism’ and ‘bottom-up’ versus ‘top-down’ approach to transition. By conceiving the economic and political transformations as two interrelated processes, this thesis analysed the transformation in China within the framework of transformation of the material basis of production and the integration with the world economy (Saad-Filho and Yalman, 2010). It is claimed that the transformations in the 1980s and the 1990s in China radically transformed the relations between the state and labour. In addition, China’s integration with the world economy led to the subordination of the working classes in China to the rules of international economy.

China is marked with the absence of ‘clearly defined property rights’ within the literature on Chinese transition. However, for one strand of scholars, the lack of clearly well-defined formal property rights is not an obstacle on economic growth to the extent that social arrangements at the local level are equally in terms of investment (Zhang, 2006). In fact, it is argued that there are “de facto property rights” in China secured by local government albeit the lack of “de jure property rights” at the national level (Zhang, 2006). The growth rates achieved by township

and village enterprises in the 1980s are regarded as an indicator of de facto property rights in China despite of the fact that de jure property rights of TVEs were not well defined. Yet, it is asserted in this thesis that in line with the emphasis of property rights within neoliberal framework, the transition in China from state socialism to socialist market economy is marked by an attempt to ‘secure’ and ‘strengthen’ property rights. In other words, there was a transition from the system of public ownership of the means of production to the “hegemony of private property” since 1978 in China (Szelenyi, 2008). This process is also defined as “redefining the property rights under a system where everything is owned by the state” by Qiren Zhou (2010)³³. In that sense, decollectivization and the introduction of Household Responsibility System in rural China as well as the introduction of Contract Responsibility System as part of restructuring in urban China in the 1980s represents ‘a new system of property rights in terms of neoliberal discourse’³⁴. The introduction of Household Responsibility System in 1979 led to the formation of a new system of property rights since the ownership and the use rights of land was separated via the household contracts signed between the state and the households. Later in 1984, the transfer of use rights of land was also allowed by CPC while the local governments still held the ownership rights. Moreover, the introduction of the Contract Responsibility System to the state-owned enterprises in 1987 marks a new form of property rights to the extent that managers of enterprises became the bearers of ownership rights while the rights themselves held by the state. Zhou (2010:27) claims that the introduction of responsibility contracts to state-owned and collectively owned economy served to the restoration of individual’s rights in open and competitive market economy. Thus, it is claimed that the introduction of responsibility contracts was a move towards the clarification of property rights in the 1980s. However, since the property rights were yet to be clear, a new system of property rights were formed by the split of ownership and the use rights of the means of production. In addition, as part of a move towards the clarification of property rights, private economy was defined as a "necessary and beneficiary complement to

³³ Dr. Zhou is a professor at the Center of Economic Research, National School of Development, Peking University.

³⁴ I thank my supervisor Assoc. Prof. Galip Yalman for this point.

the public economy' by the 13th CPC Congress in 1987. Accordingly, in 1988 the Article 11 of the constitution of China was amended. The statement of "The state permits the private economy to exist and to develop within the limits prescribed by law. The private economy is a complement to socialist public economy. The state protects the lawful rights and interests of the private economy and provides guidance, supervision and administration" was added to Article 11 (Chen, 2004).

As the reforms deepened and accelerated after Deng Xiaoping's Southern Tour in 1992, so did the attempts towards the clarification of the property rights. In that, reform in state-owned enterprises was of vital importance. First, as part of SOE reform, CPC introduced 'Modern Enterprise System' in 1992 to the medium and large enterprises that is based on "clear property rights, clear powers and responsibilities, separation of government from enterprises and scientific management measures that meets the requirements of market economy" ("Modern Enterprise System", 1993). The shareholding system was regarded as a means to restructure medium and large SOEs while it served to the aim of diversifying the ownership structure of the economy. Zhou (2010) asserts that public ownership in China no longer excludes private property after the implementation of shareholding system. Rather, shareholding system served to the redefinition of property rights concerning "public ownership on the basis of private property". At the same time, shareholding system served to the development of 'productive forces' and establishment and capital markets through which Chinese firms utilize capital from overseas. Against Zhou's claims, it is argued that the introduction of the shareholding system to the medium and large SOEs and large scale privatizations of the small SOEs and TVEs were internal parts of the transition from the system of public ownership of the means of production to the "hegemony of private property" in China. Accordingly, in 1999, the constitution of PRC was revised that there was a shift for the role of private economy from being a 'complement' to the public economy to being a 'component' of the socialist market economy. Hence, 1999 amendments to China's constitution provided the private economy the legitimacy and protection under the socialist market economy.

Beside the transition from the system of public ownership to the ‘hegemony of private property’, this thesis assumes that the transformation of the relations between the state and labour in China overlaps with the global neoliberal transformations since the 1980s. The introduction and consolidation of labour contracts had a vital role for the transformation of the relations between the state and labour in the 1980s by constituting a clear rupture from the ‘lifetime employment’ of the Maoist period. The working conditions in the Township and Village Enterprises and Special Economic Zones also served for the neoliberal transformation of the relations between the state and labour in China. In the 1990s, the reform in state-owned enterprises radically changed the production relations in China, as well. Meanwhile, with the Open Door strategy, urban and migrant workers in China have become highly subordinated to the rules of international economy. Lastly, it is assumed in the thesis that transformation of the official ideology in China runs in parallel to the neoliberal transformation. In that sense, it is claimed in the thesis that so called ‘Beijing Consensus’ is not an *alternative of*, but an *alternative within* neoliberal transformations in the global context.

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APPENDICES

Appendix A: Tez Fotokopisi İzin Formu



ENSTİTÜ

Fen Bilimleri Enstitüsü	<input type="checkbox"/>
Sosyal Bilimler Enstitüsü	<input checked="" type="checkbox"/>
Uygulamalı Matematik Enstitüsü	<input type="checkbox"/>
Enformatik Enstitüsü	<input type="checkbox"/>
Deniz Bilimleri Enstitüsü	<input type="checkbox"/>

YAZARIN

Soyadı : Altun

Adı : Sırma

Bölümü : Siyaset Bilimi ve Kamu Yönetimi

TEZİN ADI (İngilizce) : Neoliberal Transformation of China in the 1980s and the 1990s

TEZİN TÜRÜ : Yüksek Lisans Doktora

1. Tezimin tamamı dünya çapında erişime açılsın ve kaynak gösterilmek şartıyla tezimin bir kısmı veya tamamının fotokopisi alınsın.
2. Tezimin tamamı yalnızca Orta Doğu Teknik Üniversitesi kullanıcılarının erişimine açılsın. (Bu seçenekle tezinizin fotokopisi ya da elektronik kopyası Kütüphane aracılığı ile ODTÜ dışına dağıtılmayacaktır.)
3. Tezim bir (1) yıl süreyle erişime kapalı olsun. (Bu seçenekle tezinizin fotokopisi ya da elektronik kopyası Kütüphane aracılığı ile ODTÜ dışına dağıtılmayacaktır.)

Yazarın imzası

Tarih