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The Rise of China and the Demise of the Capitalist World-Economy

MINQI LI

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take place in China, the US, and the semi-periphery (Wallerstein 1979:244–9). The outcomes of these struggles have long been settled. The question that concerns us now is how since then the development of the capitalist world-economy has again prepared conditions for a new round of upsurge of global class struggle, and how the semi-periphery could again prove to be the decisive battleground.

THE SEMI-PERIPHERY IN THE CAPITALIST WORLD-ECONOMY

All social systems that are based on the exploitation of the great majority are confronted with the question: how can the unified rebellion of the exploited majority be prevented? Without an effective solution to this problem, it is unlikely that any exploitative system can survive for long. Historically, the problem has been “resolved” by dividing the majority into “a larger lower stratum and a smaller middle stratum.” The middle stratum is both exploiter and exploited. By providing the middle stratum with the access to a portion of the surplus product, the ruling elites buy off the potential political leadership of the exploited majority.

For the capitalist world-economy, which is politically organized as an inter-state system, the solution required is more complicated. The problem that confronts the modern world-system is twofold: how to prevent unified political rebellion by the exploited majority within each state and how to prevent unified political rebellion by the disadvantaged states that include the great majority of the population in the system. For this twofold problem has therefore emerged a twofold solution. Within each state, the working population is to be divided between the great majority and a relatively privileged “middle class” or “labor aristocracy.” Moreover, at the systemic level, the hierarchy of states is organized into a three-layered structure. Between the core states (which appropriate the bulk of the world’s surplus value) and the peripheral states (which produce much more surplus value than they retain themselves), there must be a group of states that constitute the semi-periphery, which is essential for the political stability of the world-system (Wallerstein 1979:22–3).

But what is a semi-peripheral state? Which states are the semi-peripheral states? As a starting point, a semi-peripheral state may be defined as one that is both exploiter and exploited in the capitalist world-economy. While the core states are characterized by high-wage, high-profit production and the peripheral states are characterized by low-wage, low-profit production, the semi-peripheral states fall

4 Can the Capitalist World-Economy Survive the Rise of China?

The 1960s marked the pinnacle of the world’s “old” anti-systemic movements. From the mid-nineteenth century to the mid-twentieth century, despite periodic setbacks, the social democratic movements (based on the proletarianized working classes in the core zone), the Communist movements (which primarily embodied the interests and aspirations of the workers and peasants in the periphery and semi-periphery), and the national liberation movements (led by the indigenous capitalists and middle classes in the periphery and semi-periphery), had grown progressively stronger; by the 1960s, these groups had come to state power throughout the world. The consolidation of the US’s hegemony in the mid-twentieth century rested upon a new global social compact that involved major concessions to the working classes in the core states, and the people in the peripheral and semi-peripheral states.

In previous hegemonic transitions, the intensification of inter-state, inter-capitalist conflicts preceded the intensification of social conflicts. In the 1960s, it was the surge of working-class militancy and “Third World” rebellions that preceded and shaped the global capitalist crisis and the decline of the US hegemony (Silver and Slater 1999:211–16). With the “speeding-up” of social history, the modern world-system was exhausting its historical space of social compromise. The global political and economic situation in the 1960s ruled out a reformist solution (that is, one based on a global income redistribution and expansion of effective demand) to the crisis. The crisis could only be resolved through either a revolutionary overturn of the existing world-system and global social transformation, or if the capitalist world-economy were to be preserved, the establishment of a new set of conditions that would allow the global capitalists to recover at least some of the grounds they had previously lost.

In 1975, at the Sixth Sorokin Lecture, Immanuel Wallerstein evaluated the prospect of the ongoing struggle between the two historical solutions and argued that the decisive battles were to

in between in the kinds of products they produce, as well as their wage rates and profit margins. Semi-peripheral states are supposed to benefit from the transfer of surplus value when they trade with the periphery but suffer from trade with the core. This implies that a semi-peripheral state has a relatively diversified economic structure. By comparison, a peripheral state tends to have a narrowly specialized economic structure (in the "modern" or market-oriented sector) and generally suffers from the transfer of surplus value in trade (Wallerstein 1979:71–2, 97).

However, since the semi-periphery plays an indispensable role for the political stability of the capitalist world-economy, a proper "definition" of semi-periphery inevitably involves a historical and a political dimension. In the seventeenth century, north-western Europe established itself as the core, while Spain and the northern Italian city-states declined to become the semi-periphery, and the periphery included both eastern Europe and Latin America. In the nineteenth century, Latin America remained a part of the periphery, while Africa and much of Asia were also incorporated into the capitalist world-economy as peripheral areas. The semi-periphery expanded to include a few large "emerging" national states such as the US, Germany, Russia, and Japan (Wallerstein 1979:26–30).

After World War Two, the semi-peripheral group expanded vastly; in a 1976 article on the semi-periphery, Wallerstein drew up the following list of semi-peripheral states:

The 'semiperiphery' includes a wide range of countries in terms of economic strength and political background. It includes the economically stronger countries of Latin America: Brazil, Mexico, Argentina, Venezuela, possibly Chile and Cuba. It includes the whole outer rim of Europe: the southern tier of Portugal, Spain, Italy and Greece; most of eastern Europe; parts of the northern tier such as Norway and Finland. It includes a series of Arab states: Algeria, Egypt, Saudi Arabia; and also Israel. It includes in Africa at least Nigeria and Zaire, and in Asia, Turkey, Iran, India, Indonesia, China, Korea, and Vietnam. And it includes the old white commonwealth: Canada, Australia, South Africa, possibly New Zealand. [Wallerstein 1979:100]

A casual examination would immediately reveal that Wallerstein's list of semi-peripheral states apparently included the vast majority of the world population. This belies the characterization of the semi-periphery as a relatively small "middle stratum" which is to stabilize the world-system politically.

A more careful look at the list suggests that the semi-peripheral group can be divided into three sub-groups. First, there are the "rich" semi-peripheral states, such as Canada, Australia, New Zealand, and those of northern Europe, countries that are clearly exploiters in the system-wide division of labor (that is, they generally benefit from transfer of surplus value in trade); they qualify for semi-peripheral status primarily because of their dependent or "semi-colonial" geopolitical roles. Secondly, there are the large "underdeveloped" countries, or the economically "poor" semi-periphery, such as China, India, Indonesia, Vietnam, Nigeria, Zaire, and Egypt that are not distinguished from the peripheral countries in the ranking of the world income hierarchy. They qualify for the semi-peripheral status to the extent to which their territorial sizes and scales of population allow them to develop a comparatively diversified economic structure (which sometimes includes a significant "high-technology" sector) and act as important geopolitical players in the inter-state system. This sub-group includes about half of the world population.

Finally, there is the truly "middle" middle stratum that includes the Latin American and East Asian "new industrializers", as well as those of eastern Europe, and western Asia. These were the developmental "success stories" in the 1960s and 1970s and the main bearers of the modernization ideology. They may be referred to as the "well-to-do" semi-periphery. It was within this group that most of the potentially politically powerful social groups (such as the indigenous capitalists, professional middle classes, and proletarianized working classes) outside the core zone were concentrated. By offering these social groups concrete material gains as well as future hopes, the success of the well-to-do semi-periphery in "national" or "socialist" development helped to buy off some of the most dangerous political threats to the existing world-system and thus play a key stabilizing role.

For a middle stratum in an exploitative social system to be truly stabilizing, two conditions are required. First, it must have a significant stake in the existing social system. That is, it must have access to a significant portion of the social surplus product. This usually means that the income of the members of the middle stratum should include a large "middle-class" premium relative to the "norm" of the vast majority. But the second condition is that, the middle stratum must not be too large relative to those at the bottom. With too large a middle stratum, there would be too few left to be exploited by both the elites and the middle stratum. If the middle stratum really becomes a majority, then both the material and the social value

of the middle-class premium are likely to diminish as the middle stratum becomes materially as well as psychologically less privileged. In that case, while the ruling elites may not need to worry about the rebellion of the exploited minority, it could face a unified rebellion by the middle-class majority.

Until the eighteenth century, the capitalist world-economy was largely limited to the transatlantic areas. The periphery of Latin America and eastern Europe was large enough relative to the core of north-western Europe and the semi-periphery of southern Europe. Over the nineteenth century, the capitalist world-economy became a global system. The peripheralization of Asia and Africa greatly expanded the "base" of the exploited majority and allowed both the core and the semi-periphery to expand. After about 1870, Latin America and eastern Europe (led by Russia) were promoted to the semi-peripheral status. In Chapter 2, Figure 2.2 shows the widening income gap between the Latin American and eastern European semi-periphery and the Asian and African periphery between 1870 and 1950. By 1950, the semi-periphery had between a 3:1 and 6:1 advantage over the periphery in per capita GDP. In 1950, the core (North America and western Europe) and the semi-periphery (Latin America, eastern Europe, southern Europe, and Japan) each accounted for about 20 percent of the world population, and the periphery accounted for about 60 percent.

After 1950, as the former colonies and semi-colonies were incorporated into the inter-state system and the geopolitical influence of the non-core states were inflated by the "Cold War" (which was in fact a global social compact under the US hegemony), a number of large "Third World" states might be said to have risen to political semi-peripheral status. But economically, the "poor" semi-periphery continued to fall far behind the world average and the combined population of the periphery and poor semi-periphery continued to include the vast majority of the world population. In this sense, the "base" remained large enough for the capitalist world-economy.

What has happened since then? Figure 4.1 presents the index of per capita GDP (in constant 2000 international dollars) for the world's major regions: China; the US; other high-income countries (HICs); East Asia, South Asia, and the Pacific (excluding China) (EASAP); Europe and Central Asia (ECA); Latin America and Caribbean (LAC); the Middle East and North Africa (MNA); and Sub-Saharan Africa (SSA). The last five groups only include "low- and middle-income

countries." The 1980s and 1990s were "lost decades" for the historical well-to-do semi-peripheral states. From 1980 to 2000, Latin America saw its income index (as a ratio of the world average per capita GDP) fall from 120 to 95, and Middle East and North Africa saw its income index fall from 75 to 64. The eastern European index collapsed from 129 in 1989 to 82 in 2000.

Between 1975 and 2006, China's index surged from 12 to 75. The "lost decades" and the "rise of China" have together produced a great convergence, with China now rapidly approaching the status of a well-to-do semi-periphery. The rest of Asia (led by India), having seen its index rising from 24 in 1975 to 37 in 2006, is also catching up. Only Africa is left behind. China, Latin America, eastern Europe, and the Middle East together already account for 40 percent of the world's population. If they were to be further joined by India and the rest of Asia (this would be the case if the great majority of the South Asian population were to be promoted to the status of "middle-class" consumers), then potentially the well-to-do semi-peripheral group would swell to more than two-thirds of the world population. Can the remaining small exploitable "base" manage to support and balance such a top-heavy middle and upper "superstructure"? Or will the superstructure turn out to be so large that it will crush its own base? To explore these questions, let us examine the other dimension

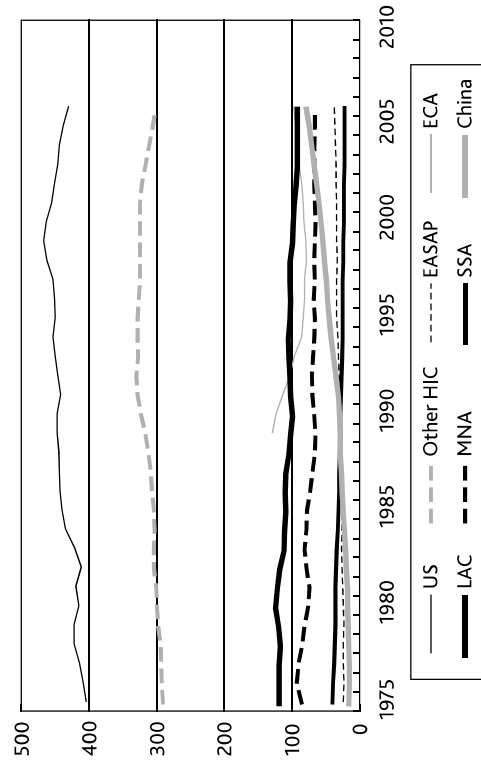


Figure 4.1 Index of per capita GDP, 1975–2006 (world average = 100)

Source: World Bank, *World Development Indicators Online*. <<http://devdata.worldbank.org/dataonline/>> (accessed November 1, 2007).

of the existing world-system's political structure: the internal class structures within the states.

CLASS STRUCTURES IN THE CAPITALIST WORLD-ECONOMY

One consequence of the operation of the capitalist world-economy has been the very different levels of incomes for the working classes located in different structural positions in the world-system. The wage rate, or the price of labor power, just like the price of any commodity, is determined by "demand" and "supply." The question is: what are the social forces that regulate and influence the "demand" and "supply"?

The division of labor within the capitalist world-economy results in flows of commodities, labor, and capital across different geographic areas through millions of chains of production and exchange. These chains are the "global commodity chains." Within each commodity chain, a certain amount of surplus value (the difference between the total value added and the subsistence needs of the producers) is generated. However, typically, the surplus value generated is unevenly distributed among the states, reflecting their different degrees of relative monopolization at different stages of commodity chains. Relative monopoly may be established if certain producers have technical, organizational, or political advantages over other producers. The core states generally benefit from this uneven distribution and receive disproportionately greater portions of the world surplus value. The peripheral states generally suffer and receive disproportionately smaller portions of the world surplus value.

Thus, on the "demand" side, the system of unequal exchange and the uneven distribution of the world surplus value set the upper limits to the incomes (and therefore the wage rates) in different structural positions of the world-system. On the "supply" side, the workers' biologically determined subsistence needs set the absolute lower limits. However, the real or the social lower limits to wage rates are set by class struggle, or the bargaining power of the working classes, which in turn reflects the class structure historically formed within the states. The political and economic viability of a state in the capitalist world-economy, in this sense, depends on if there is a sufficiently large space of maneuver between the upper limit and the lower limit. A "mismatch" between the two limits would undermine accumulation and potentially lead to the disintegration of the existing state structure.

The workers' bargaining power varies under different forms of labor organization. If one studies the working classes in the capitalist world-economy, depending on how their labor is organized and their relative bargaining power, they may be divided into several sectors: the highly skilled "professionals, technicians, and managers," the fully proletarianized wage workers, the semi-proletarian "migrant workers," and the semi-proletarian peasants (Wallerstein 1979:102–103).

The highly skilled "professionals, technicians, and managers" have, to a certain degree, monopolistic control over the supply of their labor power and their labor is generally difficult to monitor. They perform economic and social functions that are of strategic importance to the capitalist system. To secure their loyalty, the capitalists must pay these workers a "loyalty rent," so that their incomes are significantly higher than those of other workers. To the extent these workers live a relatively privileged material life, they constitute the "middle class" between the capitalist class and other working classes (Wright 1997:19–26).

The fully proletarianized wage workers are skilled and semi-skilled workers in the urban sector, who usually have full-time jobs in the "formal sector." Their money incomes are derived entirely or almost entirely from wage labor.

Unskilled wage workers in the urban sector, who usually have part-time or insecure jobs and are frequently unemployed, belong to the semi-proletariat. Their wage incomes are not sufficient to meet their essential needs and they must engage in petty market transactions or petty commodity production, or work in the "informal sector" to supplement their money incomes. In the periphery and semi-periphery, many semi-proletarian workers are "migrant workers" who spend part of their time in the urban area and the rest of their time in the rural area. A substantial part of their real incomes comes from rural family production.

The agricultural petty commodity producers living in the rural areas are known as "peasants." In the periphery and semi-periphery, peasants and semi-proletarian wage workers often belong to the same households. Many semi-proletarian workers live as peasants for part of their lives, and vice versa. In the context of the periphery and semi-periphery, the peasants may be seen as "semi-proletarians" to the extent that they function as a rural reserve army for the urban unskilled wage workers.

If we rank different sectors of the working classes according to their bargaining power, reflected by their real incomes, then the

professional and managerial workers (the middle class) obviously have the highest level of bargaining power and real incomes. Among the rest of the working classes, the fully proletarianized wage workers (the proletariat) are better educated, more effectively organized, have stronger bargaining power, and receive higher real incomes. In comparison to the core states, peripheral and semi-peripheral states are usually characterized by a smaller professional middle class, a smaller fully proletarianized working class, but a far larger semi proletariat.

Table 4.1 compares two studies on the contemporary US class structure, by Gilbert and Kahl (1992) and Wright (1997). The proletariat, if narrowly defined, includes skilled and semi-skilled workers, or about 30 percent of the US's economically active population. A broad definition should include all of those whose money incomes derive entirely or almost entirely from wage incomes and have relatively strong bargaining power (with the exception of highly skilled professional workers occupying strategic positions). A broad definition of the proletariat may include not only skilled and semi-skilled workers, but also those in supervisory and lower management roles, and semi-professional workers. This definition

Table 4.1 The structure of social classes and occupations in the US (1990, as % of total economically active population)

Classes (Gilbert and Kahl 1992)	Classes (Wright 1997)	Occupations
Capitalists, 1%	Employers, 4.7%	Investors, executives
Upper-middle class, 14%	Managers, 8.3%	Medium-size business owners
	Experts -Managers, 6.9%	Upper managers and professionals
	6.0%	
Middle class, 30%	Petty bourgeoisie, 5.2%	Lower managers and semi-professionals
	Supervisory workers, 14.8%	Self-employed
Working class, 30%	Skilled workers, 12.8%	Foremen
	Workers, 41.4%	Craftsmen
Working poor		Operatives, retail sales workers, clericals
		Service workers, laborers, low-paid operatives and clericals
Underclass, 25%		Unemployed or part-time, welfare recipients

Sources: Gilbert and Kahl (1992), pp. 305-24; Wright (1997), pp. 91-113.

includes about 60 percent of the US population. If one takes the average between the narrow definition and the broad definition and regards the supervisory workers as a part of the proletariat, then the proletariat accounts for 45 percent of the US population and the middle class accounts for 20 percent. The capitalist class and the petty bourgeoisie each account for 5 percent.

About the working poor and the underclass, Gilbert and Kahl (1992:315-16) comment: "They oscillate in income from just above to below the poverty line, they are threatened with periodic unemployment, or they have no chance to work at all." Among them, "[those] who are seldom employed and are poor most of the time form the underclass in our society." The working poor and the underclass may be considered to be the semi-proletariat in US society.

Table 4.2 reports the class and occupational structures in three Latin American semi-peripheral states: Argentina, Brazil, and Chile. In the Latin American countries, there is a large so-called "low-productivity" sector. Workers in the low-productivity sector include workers in the micro-enterprises (those with less than five employees), household employment, and own-account and unpaid family workers. In most cases, the income of a "low-productivity" worker is not sufficient to keep a family of four above the poverty line (ECLAC 1994:25). If the semi-proletariat includes micro-enterprise workers, household workers, the urban unemployed, rural workers, and other workers who receive a wage lower than the poverty line, then in Argentina, Brazil, and Chile, the semi-proletariat accounts for 32, 47, and 43 percent of the economically active population respectively. The middle class (professional and technical workers and self-employed) accounts for 11, 7, and 11 percent of the population of Argentina, Brazil, and Chile respectively. It follows that the proletariat accounts for 31, 20, and 26 percent; peasants account for 7, 12, and 15 percent; the petty bourgeoisie accounts for 17, 9, and 13 percent; and the capitalist class accounts for 4, 5, and 2 percent, respectively.

Thus, the degree of proletarianization in a state appears to be correlated with the state's position in the world-system hierarchy. In the United States, full-time proletarian workers account for nearly half of the total labor force and all types of wage workers account for about 90 percent. In the Latin American semi-peripheral states, the fully proletarianized workers account for 20-30 percent of the labor force and all types of wage workers account for about 70 percent. The peripheral states in the capitalist world-economy (such as pre-Revolutionary China) are typically characterized by

Table 4.2 The structure of social classes and occupations in Latin American countries (1990/1992), as % of total economically active population

	Argentina	Brazil	Chile
Urban sector:			
Employers	4.4	3.9	1.7
Professional and technical workers	7.5	6.5	9.9
Professional and technical self-employed Workers	3.0	0.9	1.1
	35.3	28.9	34.1
in which: poverty workers	4.2	8.7	7.8
Micro-enterprise workers	10.3	13.7	10.6
Household employment	3.7	4.5	5.4
Own-account workers ^a	17.9	15.7	17.8
in which: poverty workers	1.3	6.3	4.8
Urban unemployment	5.7	3.7	5.1
Rural sector:			
Employers	13.0	0.7	0.2
Workers		10.2	9.7
Own-account workers		12.1	5.1

^a Including unpaid family workers. Source: ECLAC (1994).

the overwhelming majority of the peasant population and a much smaller urban working class.

To the extent that the non-core states have lower levels of proletarianization, workers tend to be less educated, less effectively organized, and under constant pressure to compete against a large rural reserve army. The workers in these states, therefore, tend to have much lower bargaining power and receive significantly lower real wages. The low real wages in the periphery and semi-periphery make it possible for the world surplus value to be concentrated in the core and help to keep down system-wide wage costs. However, in the long run, the development of the capitalist world-economy has been associated with the progressive urbanization of the labor force. After some initial disorientation, urbanized workers have invariably struggled for higher degrees of organization and extension of their economic, social, and political rights. Their struggles have led to growing degrees of proletarianization within the capitalist world-economy

CHINA'S CLASS STRUCTURE

On July 1, 2001 (on the occasion of the eightieth anniversary of the Chinese Communist Party), Jiang Zemin, then the general secretary

of the Chinese Communist Party, formally announced the notorious "three represents" theory. That is, the Communist Party is supposed to represent the most advanced productive forces, the most advanced culture, and the interests of the broadest layers of people. This represents an official rejection of the Marxist-Leninist definition of the Communist Party as the vanguard organization of the proletariat. Jiang's speech severed the remaining nominal connection between the Party and the working class. At the practical level, Jiang's speech formally opened the way for private capitalists (who are now supposed to be the representatives of the "most advanced productive forces") to be recruited into the Party.

During the period 1999–2001, at the request of the leadership of the Chinese Communist Party, a special research group of the Chinese Academy of Social Sciences (CASS) conducted a study on "the Evolution of the Contemporary Social Structure." The political nature of this research was explicitly stated in the preface of the group's research report published after Jiang's speech:

In August 1998, the director of the CASS, a member of the Chinese Communist Party Politburo, Comrade Li Tieying, demanded that the Institute of Sociology study the evolution of social structures ... After Comrade Jiang Zemin's important speech on July 1, the general public has paid strong attention to the changes in social strata, and the relevant authority demanded that the research group provide survey data and results as soon as possible. [CASS 2001]

The research group rejects the Marxist class analysis and is in favor of an analysis of the "structure of social strata." It argues that

... the word 'class' [*jie ji*] often refers to the traditional Marxist concept of class—that is, those groups that are divided according to whether or not they own the means of production, the groups that have mutual conflicts in their interests and are related to each other by antagonisms and struggles. The word reminds people of severe social conflicts, turmoil, and fights between men and men, and some scholars and people are hostile to such a word and tend to reject it. [CASS 2001]

Apparently, the research group believes (or hopes) that so long as one does not remind people of social conflicts and turmoil, these will not exist and it will be quite acceptable to pretend that these do not exist. To avoid the inconvenience of *jie ji*, the research group divides up the contemporary Chinese society into ten major social strata according to their different access to "organizational, economic, and

cultural resources" (CASS 2002:116). The ten social strata and their distribution are presented in Table 4.3.

Table 4.3 The evolution of the structure of China's social strata, 1978–99 (% of population)

	1978	1988	1999
State and social managers	1.0	1.7	2.1
Managers	0.2	0.5	1.5
Private entrepreneurs	0.0	0.0	0.6
Professional and technical workers	3.5	4.8	5.1
Clerical workers	1.3	1.7	4.8
Self-employed	0.0	3.1	4.2
Salespersons and service workers	2.2	6.4	12.0
in which: peasant workers	0.8	1.8	3.7
Industrial workers	19.8	22.4	22.6
in which: peasant workers	1.1	5.4	7.8
Agricultural laborers	67.4	55.8	44.0
Unemployed and underemployed	4.6	3.6	3.1

Source: Research Group of the Chinese Academy of Social Sciences, "Zhongguo Muzhian Shehui Jiejeng Jieqiu Yanjiu Baogao (A Research Report on the Current Structure of Social Strata in China)," in Xin, Xueyi, and Peilin (eds) (2002), pp. 115–32.

CASS believes that in China, an embryonic "modern" structure of social strata has taken shape, symbolized by the ever-growing middle stratum and the entrepreneurial stratum. It argues that "unlike traditional society, the modern structure of social strata is not pyramid-shaped, but olive-shaped, in which most members of society belong to the middle and upper-middle positions, a minority group belongs to the upper or relatively upper positions, and another minority group belongs to the lowest positions" (CASS 2002:124).

The research group argues that since 1978, the "middle strata" (including entrepreneurs, managers, the self-employed, clerical workers, professional and technical workers, and workers in the wholesale, retail, and service industries) have been the most rapidly growing portion of the Chinese society. It predicts that "as China experiences industrialization, informatization, and urbanization, the middle strata will keep growing, and eventually become the most important, most stabilizing social force within the modernized Chinese structure of social strata" (CASS 2002:125).

Will China one day evolve into such a beautiful "olive-shaped" middle-class society? As is argued above, the middle stratum—understood as a non-ruling social group that has access to a portion

of the surplus value—needs to be relatively small. If the surplus-sharing classes really become the majority of the population, it will probably lead not to the stabilization but the demise of an exploitative social system.

An examination of the trends presented in Table 4.3 reveals that the argument that the "middle strata" have been the most rapidly expanding part of the Chinese society depends heavily on including the workers in the wholesale, retail, and service industries as a part of the "middle strata." However, according to the group's own survey, these workers usually have lower incomes than the industrial workers, who are not supposed to be a part of the "middle strata" (CASS 2002:127). It seems to be more reasonable to group industrial workers and services workers together as the proletariat and the semi-proletariat living on wage labor. Such a regrouping will lead one to conclude that the most significant development of China's social structure during the past decades has been the rapid proletarianization of the Chinese society.

According to one report, about two million high and middle-ranking, current and retired Chinese government officials and their relatives own about 70 percent of the total private wealth (savings, stocks, bonds, houses, and foreign exchanges) in China. The document claims to be based on an internal report to the Politburo of the Chinese Communist Party (See "Dalu Guanliao Yong Quannin Qicheng Caifu—The Mainland China's bureaucrats own seven-tenths of all people's wealth." Website: <<http://www.donews.com/donews/article/1/19330.html>>, retrieved November 1, 2003).

If the "state and social managers" are considered to be the bureaucratic capitalists, then the capitalist class (including the bureaucratic and private capitalists) in China accounts for about 3 percent of the population. The middle class may include managers, professional and technical workers, and half of all clerical workers, or about 9 percent of the population. Peasants account for 44 percent and the petty bourgeoisie accounts for 4 percent.

Among the industrial and services workers, the peasant workers (12 percent) belong to the semi-proletariat. The semi-proletariat also includes the unemployed and underemployed (3 percent, though this is probably a significant underestimate). In addition, among the urban workers, only about half are considered to be "formal" employees in state-owned enterprises, stock-holding companies, private enterprises, and foreign invested enterprises that are somewhat protected by government regulations and labor contracts. The proletariat is thus estimated to be 12 percent and the semi-proletariat 28 percent.

Table 4.4 compares China's class structure with that of the US and Brazil. Compared to the US and Brazil, China has a much larger rural peasant population but a significantly smaller proletariat and semi-proletariat.

Table 4.4 Class structures in the core and the semi-periphery

Classes	Core (US, 1990)	Semi-periphery (Brazil, 1990)	Semi-periphery (China, 1999)
Bourgeoisie/elite	5	5	3
Middle class	20	7	9
Petty bourgeoisie	5	9	4
Proletariat	45	20	12
Semi-proletariat	25	47	28
Peasants	/	12	44

Source: Author's estimates (based on Tables 4.1, 4.2, and 4.3).

CAN THE CAPITALIST WORLD-ECONOMY SURVIVE THE RISE OF CHINA?

The capitalist world-economy is based on the pursuit of profit and endless accumulation of capital. However, there are structural forces that arise from the processes of capitalist accumulation itself that tend to drive down the profit rate. In the core states, the highly proletarianized working classes are able to organize effectively for economic and political struggles. Historically, their struggles have led to rising wage and taxation costs, leading to a falling profit rate and crisis of accumulation.

To restore the profit rate and reinvigorate capital accumulation, it is necessary for the core states to shift their capital out of certain economic sectors with declining profit rates and relocate these sectors to geographic areas in the periphery and semi-periphery where the wage and taxation costs remain sufficiently low. Global capital relocation thus plays a crucial role in the periodic restructurings of the capitalist world-economy.

China has been the primary beneficiary of the latest round of global capital relocation. When China started the project of "reform and openness" to deepen the incorporation into the capitalist world-economy, it had a very large rural surplus labor force and the class structure was far less proletarianized than not only the core but also the historical well-to-do semi-periphery. On the other hand, partly due to the success of Maoist self-reliance and industrialization, China

had a comprehensive technological capability to produce a wide variety of products that was the envy of many semi-peripheral states. As soon as China was "opened," it started to engage in full-scale competition against the established semi-peripheral states. Because of China's low wages and other costs, China has been in a favorable position in the competition and has become the major receiver of the capital relocated out of the core states.

Table 4.5 reports the wage rates in the manufacturing sectors in selected countries. At the top of the hierarchy are the core states and "rich" semi-peripheral states such as the US, Japan, and South Korea. The historically well-to-do semi-peripheral states in Latin America and eastern Europe have wage rates between 10 and 30 percent of those of the core states. At the bottom of the hierarchy are the Asian poor semi-peripheral states whose wage rates are between 1 and 5 percent of those of the core states. While China is approaching the well-to-do semi-periphery in term of per capita GDP, the Chinese wage rate continues to resemble that of a poor semi-peripheral state.

Table 4.5 Manufacturing workers' wage rates in selected countries (monthly wage in US\$, 2005 or the latest available year)

Countries	Monthly wage	As % of US wage
United States	2898.2	100.0
Japan	2650.2	91.4
South Korea	2331.4	80.4
Argentina (2001)	837.5	28.9
Hungary	732.7	25.3
Czech Republic	612.0	21.1
Poland (2004)	585.9	20.2
Chile	432.4	14.9
Turkey (2001)	427.5	14.8
Mexico (2004)	341.9	11.8
Brazil (2002)	308.7	10.7
Peru	237.8	8.2
China (2004)	141.3	4.9
Thailand (2003)	133.5	4.6
Philippines (2004)	98.8	3.4
Indonesia (2001)	54.1	1.9
India (2003)	23.2	0.8

Source: ILO (2006), pp. 763–838, 933–1031. Wage rates are converted into US dollars using exchange rates from World Bank, *World Development Indicators Online*, <<http://devdata.worldbank.org/dataonline>>. If the wage rates are not stated as monthly wages, they are converted to monthly wages using the following formula: monthly wage = weekly wage x 4.3 = daily wage/8 x weekly working hours x 4.3 = hourly wage x weekly working hours x 4.3.

The wage gap between the core states and China is about 20:1. What could be the implications of this GDP-wage mismatch for China's social transformation in the coming decades?

As China becomes the center for world manufacturing export, Chinese society is experiencing rapid industrialization and urbanization. It is inevitable that China's class structure will be fundamentally transformed. The share of the proletariat and semi-proletarian wage workers in the total population will be substantially increased and the share of the peasants will be substantially reduced. In one or two generations' time, China's degree of proletarianization will reach the current levels in Latin American or eastern European semi-peripheral states. As a result, the Chinese proletariat and semi-proletarian workers will demand the semi-periphery's levels of wages and the corresponding political and social rights. The wage gap between the core states and China may be reduced from the present ratio of 20:1 to 10:1 or 5:1. The demands and the increased bargaining power of the proletariat and the semi-proletariat will impose great pressures on China's regime of capital accumulation. Can the Chinese regime survive such pressures, and what might be the global implications? One can imagine four possible scenarios.

First, China may fail. China's great drive towards "development" in the end may turn out to be no more than a great bubble. As China sinks back to the status of periphery or poor semi-periphery, China's existing regime of accumulation will collapse as it can no longer withstand the exploding social pressures the very process of accumulation has generated. This scenario, however, may be the least devastating for the capitalist world-economy.

For the capitalist world-economy, the problem of China lies with its huge size. China has a labor force that is larger than the total labor force in all of the core states, or that in the entire historical well-to-do semi-periphery. As China competes with the well-to-do semi-peripheral states in a wide range of global commodity chains, the competition eventually would lead to the convergence between China and the historical well-to-do semi-peripheral states in profit rates and wage rates. This convergence may take place in an upward manner or a downward manner.

In the downward-conversion scenario (the second scenario), China's competition, with its enormous labor force, will completely undermine the relative monopoly of the historical well-to-do semi-peripheral states in certain commodity chains. As relative monopoly

is replaced by intense competition, the value added contained in the traditional semi-peripheral commodity chains will be squeezed, forcing the historical well-to-do semi-peripheral states to accept lower wage rates that are closer to the Chinese wage rates.

This possibility was discussed by the Morgan Stanley Asian economists Andy Xie and Denise Yam, who argued:

China is likely to become an international player for an increasing range of products and to move up the value chain ... The bottom line is that China's surplus labor is three times the labor force in the manufacturing sector of OECD countries, meaning that it can absorb the world's manufacturing sector without causing much wage inflation. In our view, China's prices are becoming global prices, while other Asian producers have to accept prices. [Yam and Xie 2002]

Xie (2002) maintained that "other East Asian economies can't maintain the same living standard without deflation. Deflation in this context isn't about productivity gains; it's about depleting wealth to pay for an unsustainable living standard."

In effect, the second scenario is that of the peripheralization of the historical well-to-do semi-periphery. The scenario has dangerous implications for the capitalist world-economy. The well-to-do semi-periphery plays an indispensable role as the "middle stratum" in the world system. Should the layer of the well-to-do semi-periphery disappear and be reduced to no more than a part of the periphery or poor semi-periphery, the world-system is likely to become politically highly unstable, as the core states at the top face potentially unified resistance and rebellion from the periphery and poor semi periphery.

Moreover, the peripheralized semi-peripheral states will inevitably face highly explosive political situations at home. The relatively more proletarianized working classes will demand semi-peripheral levels of wages and political and social rights. However, the peripheralized semi-peripheral states will not be able to simultaneously offer the relatively high wages and survive the competition against other peripheral or peripheralized semi-peripheral states in the world market. The entire zone of the semi-periphery will be threatened with revolution and political turmoil.

There is the third scenario, that of upward convergence. China may succeed in its pursuit of "modernization" and become a secured, well-to-do semi-peripheral state. In the meantime, the historical well-

to-do semi-peripheral states may succeed in maintaining their relative monopoly in certain commodity chains. As a result, the Chinese wage rates converge upwards towards the semi-peripheral levels. Unfortunately, this scenario is as dangerous for the capitalist world-economy as the second scenario. The problem, again, lies with China's huge size. Should the Chinese workers generally receive the semi-peripheral levels of wages, given the size of the Chinese population, the total surplus value distributed to the working classes in the entire well-to-do semi-periphery would have to more than double. This will greatly reduce the share of the surplus value available for the rest of the world.

If the scenario of upward convergence turns out to be too expensive for the capitalist world-economy, what if China's upward mobility takes place at the expense of the historical well-to-do semi-periphery? In other words, imagine the scenario (the fourth scenario) in which the rise of China (and India) successfully displaces the historical well-to-do semi-periphery, what are the likely implications for the existing world system?

In *The Age of Transition*, Immanuel Wallerstein predicted that in the coming world economic expansion, the "North" will continue to receive the bulk of the global capital flows, and in the "South" China and Russia are likely to become priority areas for investment. He asked the question: after all of the investment is distributed, how much will be left for the other half of the globe (Wallerstein 1996:232). To be more consistent with the currently observed global capital flows, one only needs to replace Russia with India and ask essentially the same question.

To put this in the perspective of the world's available energy resources, Figure 4.2 presents the historical and hypothetically projected energy consumption of China, the US, the Eurozone, India and the rest of the world from 1970 to 2035. China's energy consumption is projected to grow at its trend rate over the period 1999–2004, or 7.9 percent a year and the world energy supply is projected to grow at its trend rate of 2.6 percent a year. The energy consumption of the US, the Eurozone, and India is projected to grow at their respective trend rate over the period 1999–2004. Given these trends, the rest of the world will have to get by with less and less energy consumption after 2017 and by 2035 there would be virtually no available energy left for the entire world outside China, India, the US, and the Eurozone. It is certainly impossible

for such a scenario to actually materialize. Figure 4.2 nevertheless assumes that the world energy supply would keep growing in the foreseeable future. This, as Chapter 6 will argue, could prove to be the "optimistic" scenario.

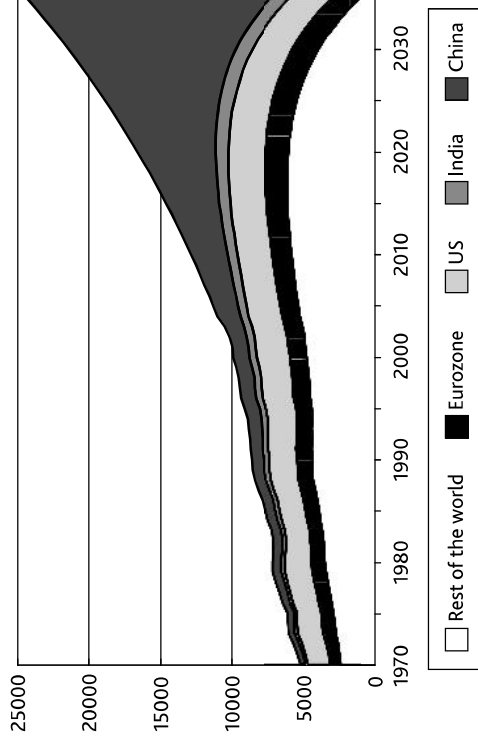


Figure 4.2 World energy consumption: historical and hypothetical projection (million tons of oil equivalent), 1970–2035

Source: Historical data for world energy consumption are from World Bank, *World Development Indicators Online* <<http://devdata.worldbank.org/dataonline>> (accessed November 1, 2007).