

**A Neo-Marxist examination into
the interaction between China's
nation-state and market forces
in shaping urban development**

By

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Introduction

The decision of China's political institution to integrate an economic system of market forces into the organising of the nation-state was fundamental in managing the inherent incompatibility the nation-state with the system of socialism. I wish to argue that the failure of the socialist regime and subsequent shift to market forces in China implies that capitalism is the only economic system capable of sustaining the political structure of the nation-state. This argument is grounded in a deterministic Marxist epistemology that views human agency as ineffectual on the macro-scale of economic and political structures. This Marxist view holds that economics is the fundamental system of society, and if there is a change in this system then this leads to a change in the structure of politics and society. In the case of China, the elite were forced by the inefficiency of state socialism and the subsequent threat to their legitimacy to allow for the inclusion of a capitalist system. This has a Pandora's Box outcome for the state that potentially limitlessly decentralises central state power. This argument is supported by the evolution of the urban environment away from a socialist semi-rural work-unit structure towards the capital efficient urban pattern of large cities and private land ownership. The relevance of the built environment to this argument is in its reflection of the power structures and economic systems that create them. To address this argument I will set the theoretical framework by explaining the processes that legitimize the nation-state in relation to economic forces. I will then build my argument by examining the shift towards market forces as a result of the state needing to maintain their legitimacy under the failure of socialism. The socialist work-unit system lacked the motivational incentives for people to strive for success and, instead created mass dependency. I will then consider the subsequent decentralisation of power from the state that this shift to capitalism has entailed. This power restructuring is evident on a spatial scale in two significant forms which will be examined. The first is the shift to an urbanised pattern and the social strength that large cities create through increased education, communication, and awareness. The second is the privatization of land which has placed pressure for an independent rule of law and an increasingly accountable government. The final section of this essay will consider the deterministic trajectory of China towards enhanced global market forces and the inevitable results that this pressure entails.

Legitimising the Nation-State

The inclusion of market forces and privatisation into the organisation of China is an inherent conflict with the ideology of socialist nationalism. This conflict explains the element of denial by the state in the early transition to market forces. It is important to understand the use of nationalism by the elite to sustain their legitimacy. Nationalism is the basis of organising the geopolitical world. This concept of a unified 'nation' as the foundation for a state is rarely challenged as an organising principle. The idea of a 'nation' is that a distinctive group of people can have a mystical bond to a territory, and this is a bond which forms into an immutable whole called a 'nation' (Connor, 1978:379, Penrose, 1994:163). The 'nation' is an imagined community of people that is tied to a particular territory (Anderson, 1991). This construction of a 'nation' is a powerful mechanism to control the behaviour of people as it is constructed with a discourse. Nationalism proposes that the boundaries of a nation should coincide with that of the state to form a nation-state (Conner, 1978:382). If a specific nation-state does not meet the needs of people then it will perish to be replaced by a new one (Penrose, 1994). In the case of China, the construction of the nation as socialist put immense unsustainable economic pressure on the state to provide for its dependent nation. The inherent inefficiency of socialism undermined its ability to cater for the ideological socialist equality of welfare and resources. The dependency culture of the socialist system put unbearable burdens on the state and a continuation of this would have been a failure of the system and a loss of state legitimacy. Hou & Hou (2002:366) explain the inefficiency of the socialist state in relation to the laissez faire advocated by Adam Smith, which proposed that the role of the state should be reduced to national defence, judiciary, and social order for the maximum economic efficiency of people. In these terms the significant costs of maintaining the large government institutions and the inherent lack of competition to drive people undermined economic efficiency. The Chinese leader Deng Xiaoping realised that this legitimacy of the Communist Party could only be sustained if there was a more abundant life for people (Wong, 2004:155). Therefore, the state had to turn to market forces to enhance economic efficiency and provide for the basic living requirements of the Chinese people. Here we see that the state is reconstructing the idea of the nation from a distinctly socialist construction to a more ambiguous inclusion of capitalist forces. To maintain legitimacy a state must continually instil a sense of a

unified nation or a common culture (Guibernau, 1996:60). The maintenance of an idea of a unified nation, and therefore control over its people, has meant that the transition to market forces has been slow and the rhetoric complex. The complexity of a post-socialist nation is the fundamental changes that occur in every aspect of life, from tradition, to culture, to welfare.

The Failure of the Socialist State: the Inefficiency of the Work-Unit as a Provider for both Employment and Welfare

The failure of the socialist Chinese state supports the Marxist theory that a premature jump towards socialism will always fail. Socialism advocates that the ‘means of production, distribution, and exchange should be owned or regulated by the community as a whole’ (Oxford English Dictionary, 2003). The theory of socialism is that the state can act on the will of the people for equality and common prosperity. Fair treatment and improved welfare for all is seen to produce a climate of hard work (Wong, 2004). Socialism is seen to be more humane and fair than capitalism. I suggest that the economic-political structure of the nation-state can never support socialism as the construction of a ‘community’ or a ‘nation’ is always exclusive and hegemonic. Within any group of people there is always a power structure that undermines the possibility of a unified community to own or regulate as a whole. Ironically, the profit driven nature of capitalism allows for greater social mobility and, therefore, has a greater propensity to power diffusion than socialism. In China, the elite rule during state socialism was highly hegemonic and inefficient as it created a two-tiered power structure of the state elite and the Chinese citizens. The socialist political structure of China meant that for nearly four decades one leader, Mao, had supreme and largely unchallenged reign over the running of the country. Economic development had to succumb to the idiosyncrasies and prejudices of Mao’s singular perspective (Nolan & Ash, 1995:980). The result of this concentration of power with the state elite made government decision-making and allocation inefficient and ineffectual. The subservient position of the Chinese citizens undermined the efficiency inherent in competition and personal gain. The lack of incentives denied workers the will to strive for greater productivity as people were not rewarded on the basis of merit and performance (Wong, 2004:155). The fundamental problem with this form of government is the production of a stunted economy which is unable to

satisfy the demands of people or ‘nation’ and therefore maintain the legitimacy of the ‘state’.

The intention of state socialism was to counter the perceived anarchy of capitalism and instead implement for an avowed benevolent state to control distribution, production, and consumption. However, the result was that the planned economy actually acted to exacerbate the shortcomings of the capitalist system to generated waste and inefficiency on a grand scale. Nosh & Ash describe that state socialism ‘abolished production for profit, but failed to replace it with production for use’ (1995:981). To implement the Socialist ideals the People’s Republic government used three main devices. First, there was the creation of the socialist institutions, such as the centrally planned economy, abolition of private ownership, the systems of urban and rural work units. Second, the state prided production over consumption so livelihood became second to investment in production. Thirdly, methods were implemented to equalize living standards through equal pay, redistribution to poor, and guarantee jobs (Wong, 2004:152). The work-units or State Owned Enterprises (SOEs) functioned as both an economic institution and a social institution, providing for such issues as health care, housing, and to pensions. This structure of welfare made people heavily dependent on their work-unit. People did not ‘sell’ their labour to employees but rather were assigned jobs by the state. Therefore, people lacked any mobility as the welfare state and employment was tied to the SOE. This lack of movement enabled the state to maintain a strong control over the urban populations. Furthermore, the SOE were an inherently inefficient form of local government. The role of the SOEs was to provide for and book-keep the welfare provision, whilst all profits and depreciations went to the central government who was the sole decision-maker for resource allocation. Therefore, the SOEs had no need to worry about the financing of their welfare provision (Gu, 2001:133). After the economic reform measures were taken to implement market forces and efficiency to the SOE by allowing them to retain their own profits and spend them as they saw fit. The welfare burden was left to the SOEs causing them a fiscal crisis and an erosion of welfare provision. This has prompted an approach of welfare pluralism whereby the responsibility lies with the government, industry, the community and the individual. The effect of this discontinuation of the SOE welfare system has loosened the spatial ties of people to this industry network. This spatial immobility of people was

important for maintain the ideology of socialism, in terms of not allowing anyone to change their social status by economic activity. Hou & Hou (2002:372) describe that even to today people ask ‘what work unit are you from?’ in an introduction. This is likened to a feudal system where serfs were tied to the land and price was determined by the ‘just price’, that is a price without a profit or a loss.

It is worth noting that the central state did not completely undermine the human drive towards competition, inequality, and increased personal gain. *Guanxi* Practice is a ‘network of informal relationships and exchange that dominate business activities throughout China’ (Lovett, et al. 1999:231). The *Guanxi* practice was a counter-state network that could be likened to an informal capitalism upheld by a strict moral code. Warren *et al.* (2004:369) suggest that *Guanxi* Practice provided an alternative form of exchange to centralized state institutions. However, as the procedures of market forces expand the traditional *Guanxi* Practice must be increasingly judged only on economic competitiveness. There is a suggestion that since the economic reform *Guanxi* Practice is of no more significance than a good business relationship anywhere in the world (Hutchings & Murray, 2002:190).

The Diffusion of Power and the Shift to Market Forces Represented in Urbanisation and Privatisation of Land

Prior to the economic transition to market forces the legitimacy of the state elite was challenged by the political disorder caused by the intense poverty of Chinese citizens. The system of an omnipotent government acting as landowner, financier, developer, had failed to provide for the basic needs of people. The prevalent poverty was a challenge to the legitimacy of the state to care for its people. Wong (2004:155) explains that Deng Xiaoping recognised the ‘legitimacy of the communist party could only be redeemed by the success of modernization and a more abundant life for people’. For Deng, the ‘iron rice bowl’ concept where everyone has a job erodes incentive and producer creativity. These issues lead to the pragmatic redefinition of the Chinese nation by the elite in 1978 from socialism towards an ambiguous socialist capitalism. Capitalism is understood to be ‘an economic and political system in which a country’s trade and industry are controlled by private owners for profit, rather than by the state’ (Oxford English Dictionary). The ambiguous linking of socialism and

capitalism by the state was an attempt to integrate market forces without too much initial erosion of state power. This shift was preceded with caution so as to maintain the imagined unity of nation, as the legitimacy of the state is dependent on this. The result of the economic transition was greater integration in the global market, whilst still maintaining control of China's people. It is worth noting that the caution of the China's government allowed for a more gradual and stable shift to market forces in contrast to the intense unpredictability and corruption that has been incurred with the transition and early democratic procedures of the Former USSR. The approach of China to economic transition has been gradual with a continual tension between maintaining the elite sovereignty and forgoing some of this power for greater economic gain. Furthermore, this gradual shift to market forces has ironically aided the establishment of capital in China. This is evident in the significant number of secondary industries locating in China to take advantage of the comparatively docile and industrious workforce. Furthermore, the authoritarian position of the central state government has allowed for substantial land acquisition and development that would not be possible in most developed capitalist countries.

The movement of people was highly restricted by the state up till 1980s so prevented any significant urbanisation (Chang, 1994). This industrialisation without urbanisation is unique to China, as generally these processes occur together. Instead of this urbanisation process the pre-reform state imposed a system of rural industrialisation. The state neglected urban investment. The first stage of the economic transition involved a rural reform which saw the demise of rural communes, diversification of farm economy, expansion of township enterprises, and the reduction of restrictions on the rural-to-urban migration (Wong, 2004:154). The result of this was rapid urbanisation largely due to the participation of non-state actors. Much of this urbanisation has been the expansion of rural townships and the old SOEs (Zhu, 1996:188). During 1979-90 the urban population grew by about 117 million more people (Chang, 2004). The government selected several urban regions to direct incentives for industry. Cities such as Shenzhen and Shanghai are an urban reflection of market forces. These cities are formed through the system of capitalist requirements. The most significant capitalist economic drivers in these cities are the increasing Foreign Direct Investment (FDI) and the privatisation of land. The heightened power of private industry is evident in the restructuring of state policies to

attract industry. These policies include tax incentives, high public investment in infrastructure, increased land leasing, and the development of a transparent independent legal framework. The Shenzhen Special Economic Zone (SSEZ) is highly significant to the economic transition as it was designated as the experiment to test and modify the free market system and legislation. Shenzhen was a market town serving an agricultural region before its designation as SSEZ. To attract investment the state constructed legislation involving tax incentives, enhanced infrastructure, and lower production costs (Zhu, 1996:189). Due to its weak financial capacity the state has relinquished some of its power to non-state actors to develop the urban environment. The financial potential of the huge Chinese market is extremely attractive to capital investment. The involvement of non-state actors in urban development demanded the commercialisation of land in terms of land leasing or buying. This is a fundamental shift from the old land system that was a state monopoly. The need for investor security resulted in the state implementing a legal leasing of the land to the private sector. This commercialisation of land was in congress with the national constitution of time so demanded that the state reinterpret the definition of the 'nation'. In 1988, the National People's Congress amended the constitution to read 'the right of land use can be transferred in accordance with the law'. This in contrast to the previous 1982 Constitution that read 'no organisation, or individual may appropriate, buy, sell, or lease land' (Zhu, 1996:192). The effect of this legislation was very rapid investment by the private sector. This is a significant shift in power from the state signifying its increasing role as market regulator rather than actor. Furthermore, the trajectory of this process with increasing private investment in land leasing will put further pressure on the state to extend land leases and solidify the legal system. The incentive for the state to lease land is in the potential profit from the investors. Here, we see the cycle of economic profit reduces the power of the state to create the built environment.

The role of China state is increasingly defined by the market as a regulator. The functioning of capitalism requires non-market institutions to oversee the regulation of the market and provide the social structures for the efficient functioning of the market. China urban environment is increasingly defined by capitalist forces of privatisation and market efficiency, as the footloose capacity of capital has the advantage of the veto power of exiting any nation-state whose policies it disagrees with. The spatial

impact of the economic transition was the creation of a suitable environment for multinational companies. The power of capital to form cities is highlighted by the sensitivity of FDI to locational advantages. This power undermines the priority of welfare provision by the state as Chinese cities are constructed for the requirements of commerce. This is evident in the decline of Wuhan in relation to the coastal cities. The development of Wuhan was driven by state policy rather than the needs of capital. Therefore, the competitive advantage of the coastal cities has undermined the role of Wuhan for industrial location. The mobility of capital and the competition for investment has meant that local governments cannot rely on central state planning and must adopt a more innovative and entrepreneurial approach to promote local growth.

A consequence of the state's decreasing role as provider and decision-maker has been in the rising income gap between the rich and poor within the urban area. This is a result of the higher salaries for some from private companies, tax evasion, and the rising unemployment (Qian & Wong, 2000). Much unemployment is a result of layoffs from the State-Owned Enterprises (SOE) in contrast to the full employment of the Maoist Era. This rising urban poor is the inevitable cost of the transition to a market economy. This rise of the urban poor, aggravated by the reduced welfare allocation is a consequence of the market ethos of chasing efficiency and trimming costs. As China's economy grows it is hoped that more funds will be channelled to alleviate this urban poverty. The downsizing of SOEs has been progressed with caution as this would cause significant unemployment and impoverishment. There is a pragmatic recognition among the elite that the economic reform must allow for the change in beliefs of people that accepts the inevitable economic disparity between people. For the state to remain legitimate for citizens there needs to be an acceptance of both the institutional and the composition of benefits and costs through society in the new system of market forces (Wong & Lee, 2001:519) Whilst China's state must continue with the economic reforms as this is how it now maintains legitimacy, the instability caused by the negative side-effects of the market forces must be tempered to maintain this legitimacy. To achieve this social welfare and grassroots sensitivity the state has proposed a system of '*shequ*'. As present this is an ambiguous terms that has been defined as 'a self-governing entity', 'a government representative at the local level', to 'an enlarged neighbourhood committee' (Derleth & Koldyk, 2004:769). The ambiguity of the *shequ* is a result of the central governments resistance to relinquish

power to a local level. Yet, the mere debate over them points to the increasing pressure on the central government to relinquish power and integrate a more democratic political structure.

The Future of China as Enmeshed in Global Capitalism

At present, the influence of central state socialist planning in China is still significant and institutional structures are underdeveloped. However, as China immersion in the global market increases there will be increasing pressure to enhance the independent rule of law and private ownership. Furthermore, as China's people become more economically affluent, their independence and political value will increase. This should put increasing pressure on the state for accountability and transparency. Jin et al (2005:2) describes 'democracy, the separation of powers, and the rule of law are among the important institutions that allow citizens to hold governments accountable for economic actions and to secure markets from arbitrary state intrusion'. I suggest that the legitimacy of China's state will not be able to rest on the ideological basis that it has in the past, rather some form of electoral legitimacy is more suited to the workings of capitalism. As the Chinese regime continues to be absorbed in the international market there is increasing aspirations for legitimacy in China and abroad. Support for the independent rule of law ever more comes from international investors and local citizens as people wish to secure their growth economic investments and prosperity. The control of the central state on administrative rule and decision-making is being eroded as other agencies are increasingly assertive in pursuing their own agendas. The decentralisation of power and the increasing affluence of people raise the demand for accountability and transparency in public institutions. Evidence for the political aspirations of the rising middle class is evident in the recent movement for democratically elected resident representatives for housing complexes. Read (2004:58) attributes this to a broader trend for a 'rights based collective action on the part of the citizen'. Peerenboom (2003:50) asserts there is potential for a shift to democracy in China in the future as it provides a mechanism to regulate interest group conflicts and mitigate social cleavages, and provides a more accurate feedback mechanism. Market reforms have already shifted the balance of power from the central state to society. The separation of state and enterprises, and the increasing role of the state as a regulator continue to erode state power. However, it is

clear that this shift of power from the state to society is still in its early stages with the state still maintaining significant control.

The integration of China into the global market has been marked by its membership to the World Trade Organisation in December 2001. The significance of this membership should demand significant free trade processes within member economies. This implies a fluidity of nation-state boundaries and a political order that is above the state level. Furthermore, the dependence of the state on the international market is sizable as much of the recent economic growth has been export driven (Daniel, 2004:365). Furthermore, in the mid-1990s foreign investment was larger in China than anywhere else in the developing world, with 28.9% of this in real estate investment and 53.2% in industry (Wu, 2001:280). Therefore, this investment has a considerable impact on urban development and urban employment levels. Much of this investment has created high-profile developments in the major urban areas, such as the Shanghai Centre. These skyscraper urban forms reflect the integration of capitalist forces and foreign influence in the structuring of China. These urban patterns are a distinct shift from the cellular organisation of the socialist work-unit system. The necessity of attracting capital has shifted focus of the state from the provision of welfare and social housing to a form of urban place marketing that attracts capital. Massive investments are being made by the state in high-profile developments and infrastructure, particularly in Beijing for the 2008 Olympics. Much of this development is achieved through land acquisition and the relocation of people. This emphasises the state's priorities to the needs of capital. However, this relocation of the working-class could have the effect of reducing the availability of low-cost labour, thereby undermining China's competitive advantage for attracting industry.

The ideals of China's socialist state were founded on the premise that the state can implement a desire in all people to forgo their individual gain for that of the community. It is clear that this stagnated people's creativity and drive which undermined productivity and resource allocation. The quest for individual gain was not completely subdued as methods of informal capitalism came in the form of a *Guanxi* exchange practice. Marx believed that true socialism can only be achieved in an advanced capitalist system, as only those systems had the capacity to cater to human desires without requiring class distinctions and oppressive political rule. The

reality of this seems idealistic in a global political climate of intense economic inequality. Yet, there is some truth in the correlation between increased wealth of a nation-state and the increase of minority rights during the twentieth century. However, the increased wealth has also brought significant wealth polarisation. The present issue is whether the static nature of people's location is complemented by the increasing fluidity of capital. For example in the case of China, trade by countries such as the US is considered more fundamental than protesting against their poor human rights record in a trade embargo.

Conclusion

In conclusion, I have attempted to illustrate the interconnection between economic processes and political institutions in creating the urban landscape. The state socialist political structure of China had a centrally planned economic process that tied employment and welfare to the work-unit. This economic system inevitably going to fail as it undermined competition and efficient resource allocation, which, in turn, undermined the states fiscal ability to provide for the socialist political features made claims to. The result of this was that the state has integrated market forces into the economic structuring of China, whilst still trying to maintain a strong sense of central control. This economic restructuring is ambiguously defined as socialist capitalism. The ambiguity of the economic political status of China is reflected in the urban landscape, particularly the recent quasi-privatisation of land towards a system of land leasing. Furthermore, the significant high-profile development in major Chinese cities reflects the pattern of capitalist skyscraper form found in many cities round the world. I have suggested that the processes on capitalist forces on the political institutions and urban landscape will continue as power is further distributed to international, local, and individual level. The immense contribution of international capital to the development of China has influenced the political structuring of China with the recent move for China to enter the WTO and the pressure on the state for increasing independence of law and privatisation of land. Furthermore, the rapid urbanisation and rising urban income has created an increasingly aware and influential rising middle class population. The pressure from both this individual and international level means that the central state is unlikely to reverse this economic process as a challenge could effectively undermine their political legitimacy. Therefore, the urban landscape

will continue to be formed by the processes of capitalist force. The issue for the state in the future is to mitigate against the negative effects of this economic process such as economic polarisation, social segregation, and environmental degradation.

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