

Primitive Accumulation and China's Industrial Revolution

Implications for North America

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Paper presented to the annual conference,  
Canadian Political Science Association (Political Economy),  
June, University of Saskatchewan, Saskatoon<sup>1</sup>

Draft only

May 17, 2007

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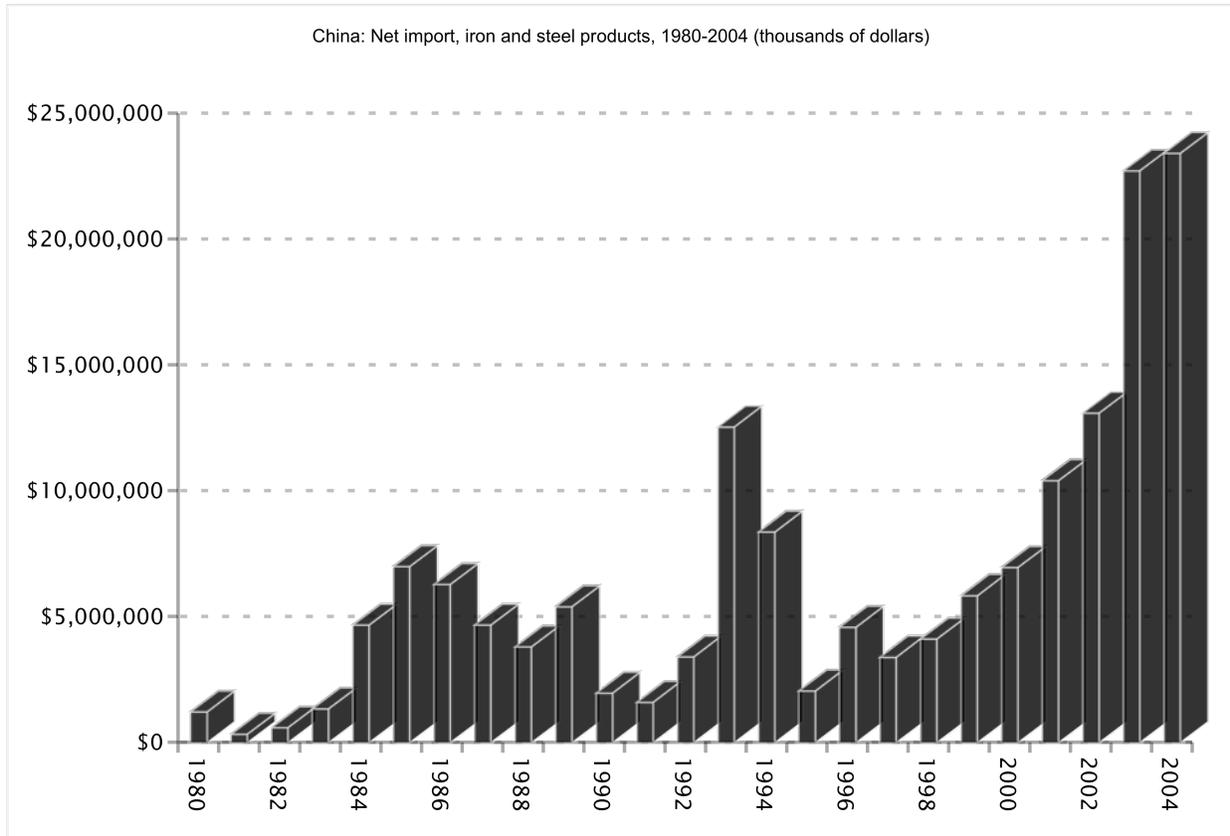
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## **Introduction: Stelco and the 2003 watershed**

In retrospect, the year 2003 might stand out as a turning point in the contemporary contours of the world economy. Events in the Canadian steel industry were symptomatic. In January 2003, Hamilton's steel giant Stelco filed for bankruptcy. Some saw this as a trick – a way for management to win concessions on wages, pensions and other benefits from the unions. And perhaps, that was a strategic goal of Stelco management – to use bankruptcy to engage in a restructuring similar to what had taken place in the US. But the bankruptcy was not a trick. Stelco lost \$37 million in the first quarter of 2003, \$100 million in the second, just over \$30 million in the third, followed by a staggering loss of nearly \$400 million in the fourth quarter of 2003. Total losses for 2003 were more than one-half billion dollars.<sup>2</sup> Some blamed China for the crisis, arguing that it was “dumping steel” on the world market. With its very low wage workforce, China, it was argued, could export steel to North America at prices much lower than steel produced in Canada.

But then, a “miracle” occurred. The first quarter of 2004 saw Stelco's losses shrink from nearly \$400 million to just \$30 million. And then this bankrupt company began making money. In the second quarter of 2004, it returned to profitability, and throughout 2004 it made profits of \$60 million. In 2005, this continued, with \$49 million in profits in the first quarter. When stated as profit before interest, taxes and restructuring expenses, the figure was actually \$118 million for the first quarter of 2004. China did indeed figure into the Stelco issue, but not as a dumper of cheap steel. China's cities were expanding at a break neck speed. The Chinese economy needed

the building blocks of construction and manufacturing, and that meant above all iron and steel. Between 2003 and 2005, China's appetite for imported iron and steel products rose exponentially. Chart 1 documents this, tracking China's net import of iron and steel industrial inputs – from iron ore to steel sheets and plate – from 1980 until 2004.<sup>3</sup> The results are calculated by subtracting exports from imports.



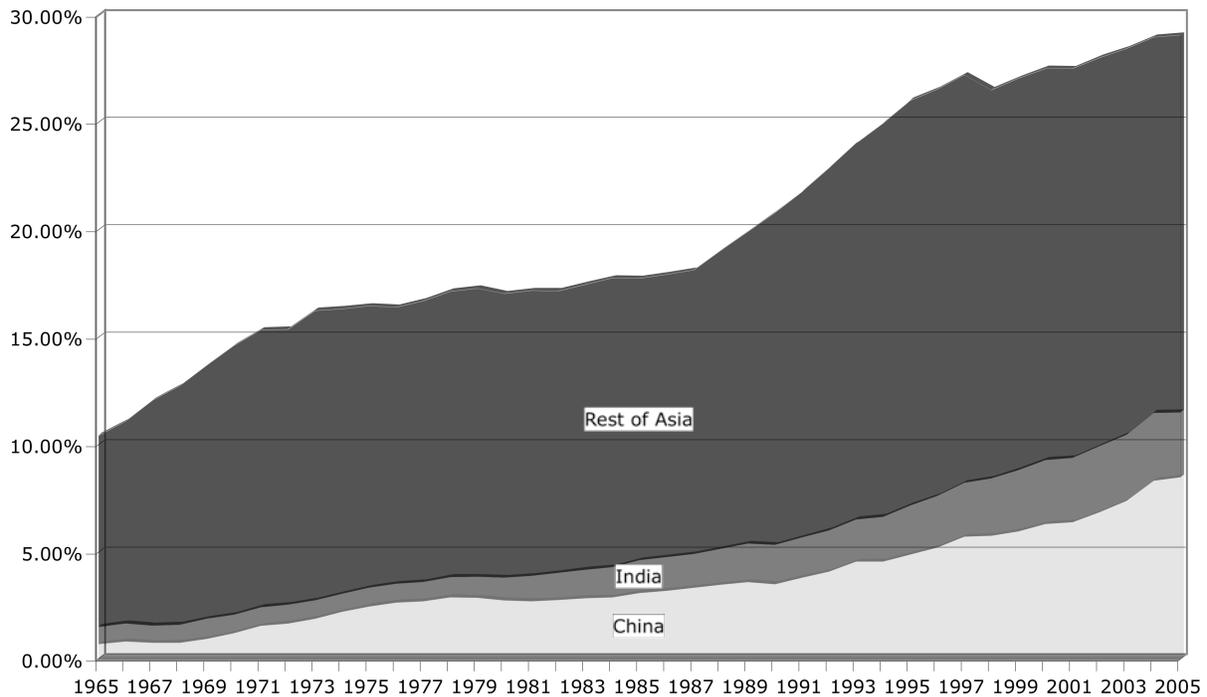
The first point worth noting is that in no year is the figure negative. That is, in no year does the Chinese economy export more iron and steel than it imports. There is no material basis, then, for the argument that dumped cheap steel from China is a source of job loss in mature capitalist economies.

Second, the trend is very clear. In the early 1980s, China's net import of iron and steel is negligible. There is an increase in the mid-1980s, but a decline again to a very low figure in

1991, a big spurt in 1993 and 1994, and then a very pronounced drop in 1992. From that point on, however, there is a steady rise, as the value of the net imports of iron and steel rises above \$5 billion in 1999, above \$10 billion in 2002, and then above \$20 billion in 2003 and 2004, the years of the great Stelco turnaround. These figures reflect the enormous appetite for basic inputs into industry being generated by the Chinese economy. Instead of China's dumping of excess iron and steel, it is this country's demand for iron and steel that created huge, and growing, demand.

The result was the most profitable bankruptcy in Canadian history. The turnaround at Stelco is symptomatic of one of the most pronounced facts of the contemporary world economy – the emergence (or better, re-emergence) of the Chinese economy. A new centre of demand has opened up in the world economy that for some key commodities has been able to offset the crises of overproduction that drive capitalism into repeated slumps. Here the example was the demand generated by China's boom for iron and steel products. This demand effect is by no means restricted to steel. Without question, the key commodity in the world is oil, and one of the most pronounced aspects of the world economy in the last few years has been the surge in demand for, and price of, oil. Some of that can be accounted for by speculation. But without question, demand for oil in China and the rest of Asia – symbolic of the industrial revolutions taking place in these countries – is a principal cause of the upward pressure on oil prices. The chart here documents the dramatic increase in the share of oil consumption driven by Asia and in particular, India and China.<sup>4</sup>

**Asia's share of World Oil Consumption, 1965-2005**



This is important, of course, not just for Stelco, but for the world economy as a whole. From the early 1970s through the mid-1990s, the world economy has been wracked by three deep slumps – slumps which have set the contours for much of political action in both the Global North and Global South. With the collapse of the tiger economies in Asia in the late 1990s and the stock market crash in the United States which preceded the 9/11 events, it seemed that we were on track for a fourth, classic capitalist slump. However, the recession at the beginning of the 21st century, in the United States and Canada, was the mildest on record. The major economies have returned to growth. Unemployment is at historic lows in some of them. And in spite of continuing and increasing inequalities, the Global South, has also shown quite vigorous economic growth.

An unexpected development has transformed the world economy. That development is the emergence of undeveloped capitalisms – China in particular – as dynamic new centres of capital accumulation. These new capitalisms – industrializing on the backs of the long march of hundreds of millions of peasants, migrating from the countryside to the city – have, for the moment, saved the mature capitalisms of the world economy from their own contradictions. How stable this expansion of the world economy will be, how long it can last, is difficult to say. But the expansion of the world economy is nonetheless real, and coming to terms with this is the central challenge in navigating the terrain of the economy today.

This paper will aim to : 1) suggest an outline of the dynamics of crisis in the world of mature capitalisms; 2) document the surprising mildness of the capitalist slump at the turn of this century; 3) suggest some ways in which developments in China in particular have impacted on the crisis tendencies in the mature capitalisms; 4) describe the way in which, following on the analysis developed by Rosa Luxemburg, the co-existence of mature capitalisms with undeveloped capitalisms can help stabilize, for a time, the crisis tendencies of mature capitalisms; and 5) consider what some of the implications of this analysis are for economy and politics in both the developing and developed world.

### **Crises of Mature Capitalism**

By “mature capitalism” we mean a national economy that has overwhelmingly reduced class relations to those between capital and labour. The arrival of mature capitalisms on the world scene is historically very recent. When Karl Marx was pioneering the analysis of capitalism in the middle of the 19th century, the peasantry still comprised a significant majority of the population in most countries. But this very early stage of the capitalist world economy presented

analytical problems. Outposts of capitalism, where the Capital-Labour relationship predominated, were few and far between. As John Bellamy Foster summarizes: “In Marx’s view, the essential nature of capitalism was to be understood ... by analyzing the relations of capital and labour within production. It is here that the law of capitalism arose.”<sup>5</sup> But the areas of the world economy where that “essential nature” was revealed were at best isolated pockets. Most of the three volumes of *Capital* analyzed a world that did not yet actually exist – a world divided exclusively into capitalists and wage-labourers. In Paul Frölich’s wonderful summary of Rosa Luxemburg’s economic work, he argues that Marx dealt with this problem by proceeding “from the assumed existence of a society producing in an exclusively capitalist fashion, having no vestiges of pre-capitalist economic factors to complicate its workings, and consisting exclusively of capitalists (and their hangers-on living on surplus-value) and workers.”<sup>6</sup>

The “laws of motion” Marx deduced from this analysis – carried out at a very high level of abstraction – were clear. Accumulation of wealth took the form of the accumulation of surplus extracted from the employed section of the working class. Competition over this surplus had both short term and long term consequences. In the short term, it condemned capitalism to recurring crises of overproduction. The pursuit of profit in an unplanned world of multiple capitals ensured that a discovery of a new centre of profitability would result in a frenzy of competitive investment and thus, inevitably, overproduction, a collapse of prices, bankruptcies, layoffs and economic slump. This boom-slump cycle of capitalist economies has been characteristic of capitalism since the industrial revolution.

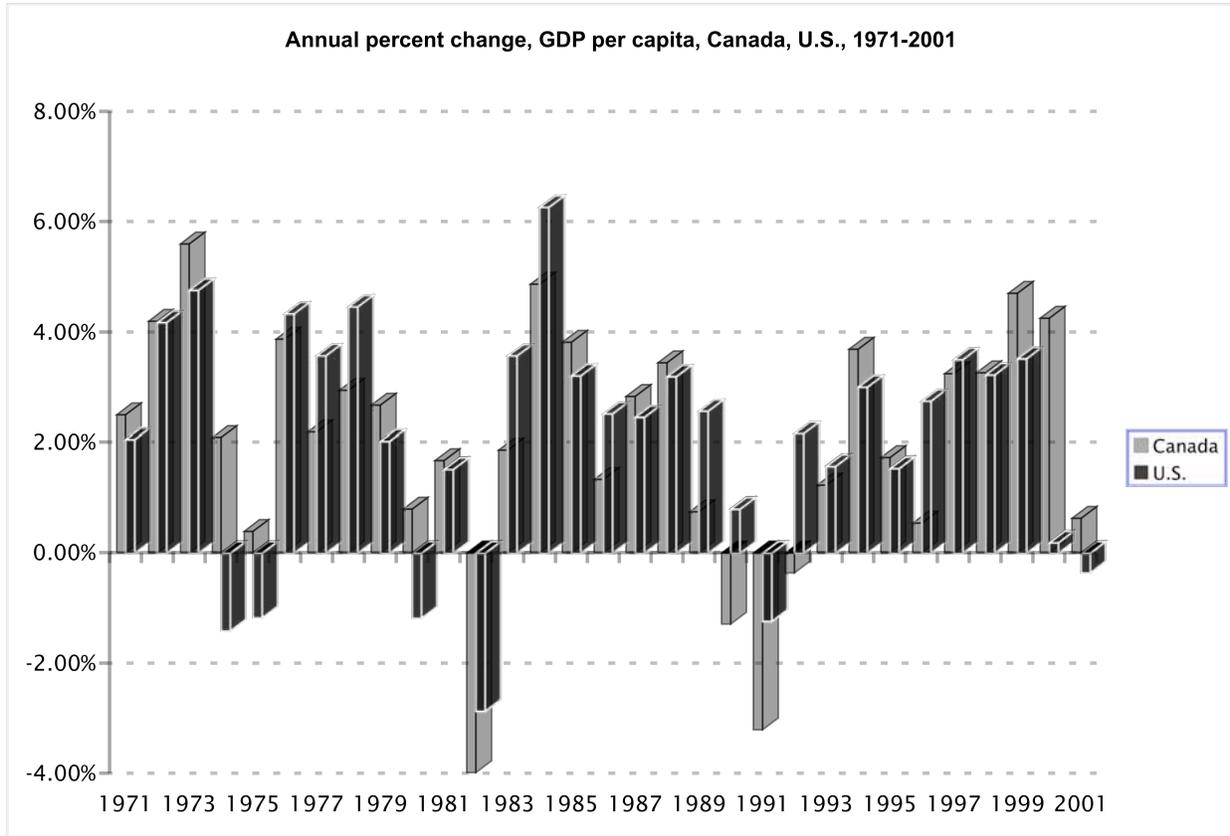
But Marx argued that this was only one, and not the most central of the tendencies inherent in capitalist production. The second, long term tendency was for the rate of profit to decline. This is not the place to investigate this argument in detail. Briefly, Marx argued that a

machine, even a sophisticated machine, is inert until animated by human labour. The only conceivable source of new value in the cycle of investment, production and consumption is human labour power, but investment in human labour power tends to be squeezed into a smaller and smaller portion of the investment process, as the competitive drive leads to more and more investment pouring into physical infrastructure. That drive to replace labour with machines tends to: a) make labour more productive; which, in turn b) cheapens the cost of goods produced; and which then, c) maximizes the possibility of winning the competitive wars with other capitalists. But as labour as a portion of overall investment falls, so too must follow a fall in the rate of profit, as the source of new value – labour – shrinks along with the proportion of labour in the investment cycle. This long term tendency of the rate of profit to fall, Marx argued, was inexorable. It would tend to make each overproduction slump deeper and longer than the one before.

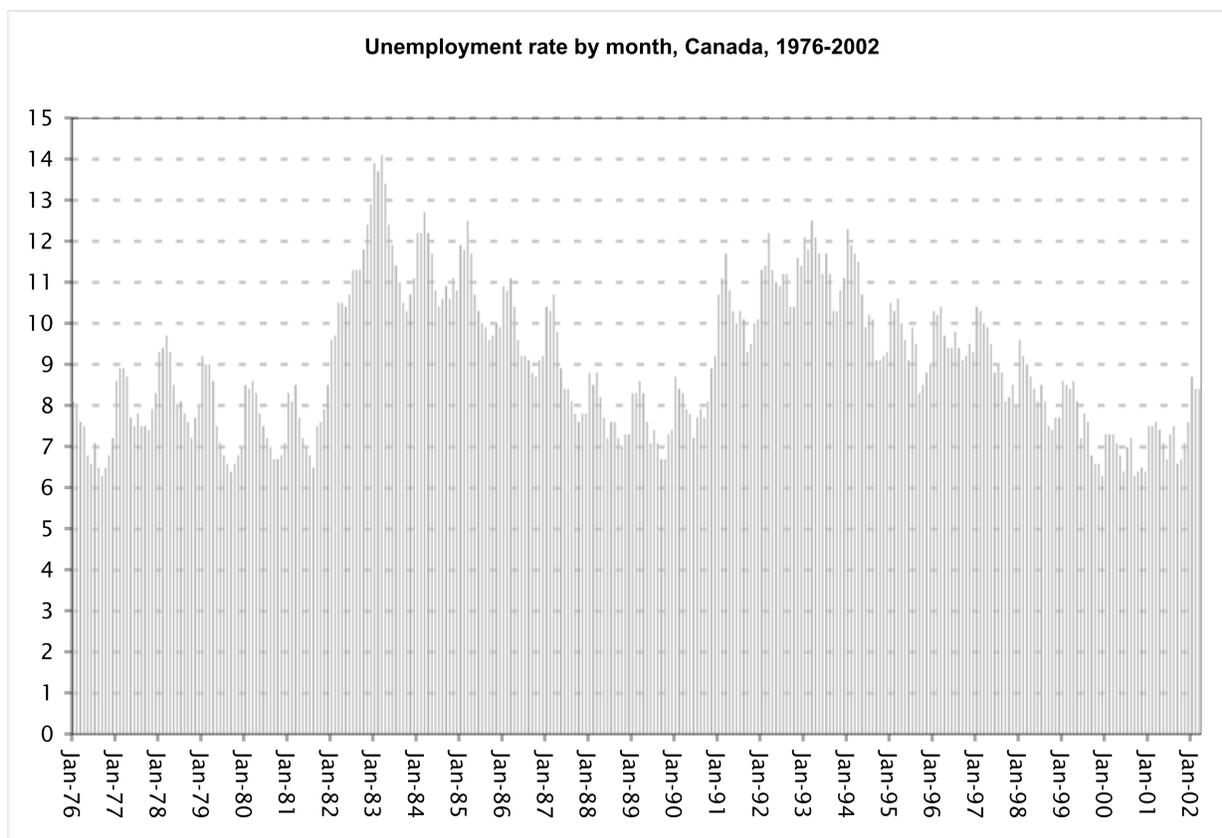
This “boom-slump” cycle of capitalist economies has been characteristic of capitalism since the industrial revolution, and is something recognized by both Liberals and Marxists. The late John Kenneth Galbraith, for instance, was a brilliant liberal economist who shared this insight with Marxism... that capitalism operates through a regularly recurring business cycle. Galbraith approached this as a liberal – focussing on how best to use the capitalist state to mitigate the effects of the inevitable slump, and during the boom, to prevent it from “overheating” and building up too many contradictions inside the economy. But while his project was different than that of Marxists, his recognition of the inevitability of the business cycle was identical.

For the last three hundred years we've had a succession of booms and busts. Each boom was thought so wonderful that it would last forever and we should be aware of that fact.<sup>7</sup>

Recent generations have lived through this “boom-slump” roller coaster in real time. Since the last years of the American war in Vietnam, the world economy has been defined by the rhythms of booms and slumps, particularly those in the United States, the world’s largest economy. Indeed, from the early 1970s until the late 1990s, it looked and felt as if each slump was worse than the one before. There were three slumps in just 17 years, each one leading to high levels of unemployment and bitter attacks on wages. After the remarkable years of the long boom, roughly 1948 to 1973 – where world capitalism grew at a steady pace – the return to slump was abrupt and shocking. The years 1974 and 1975 saw a fall in output per capita in both Canada and the US, 1979-1982 a fall in most quarters, and falls again from 1989 to 1991. Through the 1990s, capitalism in North America seemed to have recovered from this boom-slump cycle, experiencing a heady wave of growth, led by the United States. But by 2001, coincident with the attack on the World Trade Centre, both the United States and Canada were clearly slipping back into slump. The chart here shows the evidence for this, tracking the percent change in Gross Domestic Product (GDP) for Canada and the US from 1971 until 2001.<sup>8</sup>



Perhaps more telling for working people, however, was the impact on unemployment. Since the very survival of workers under mature capitalism is dependent on entering the Capital-Labour relationship, it can be argued that a more accurate way of thinking about booms and slumps is by thinking about employment and unemployment. When it becomes harder and harder for working people to find a job, that is a very good measure of a slump that is growing in severity. Chart 4 documents this for the period 1976 to 2002.<sup>9</sup>

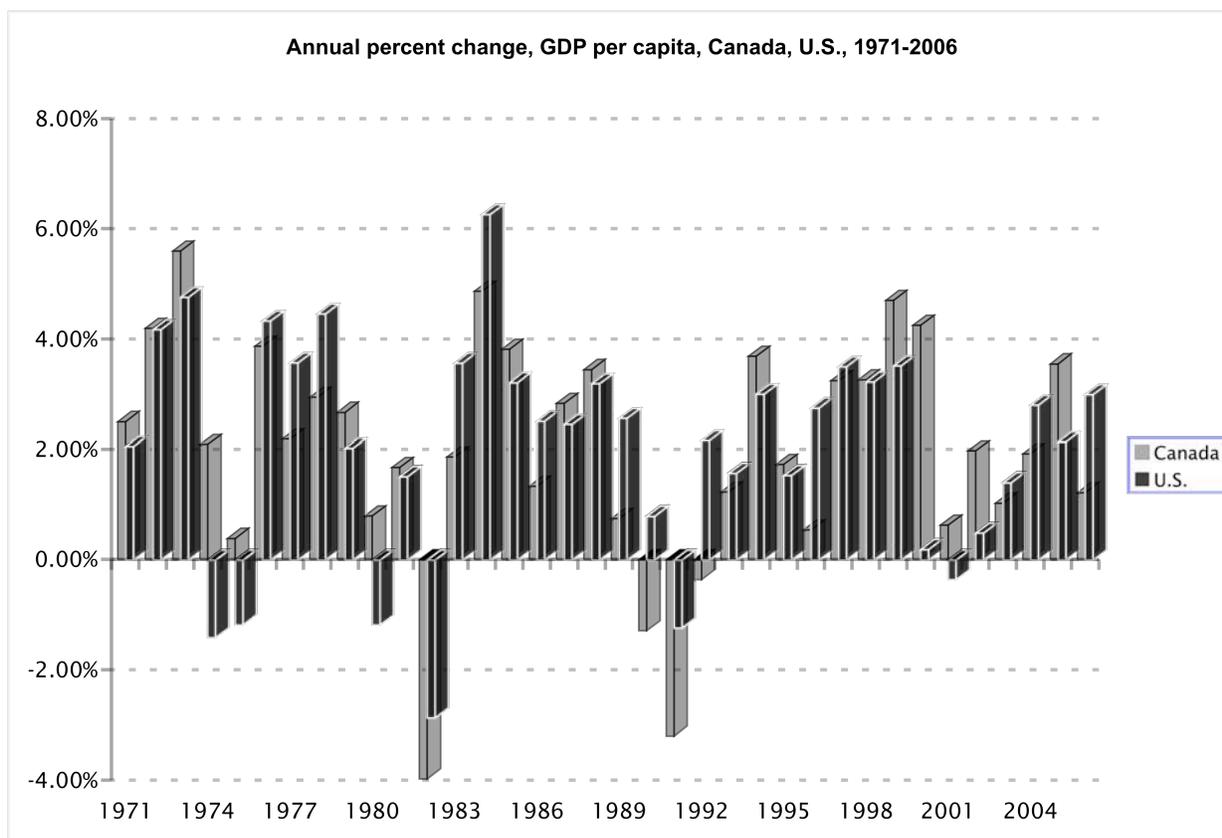


In Canada, unemployment went up to above eight percent as a result of the first slump in 1974-75, and soared to an unbearable 14.1 percent in March 1983 in the wake of the second of the modern slumps. Even in the recovery, it still felt like a slump to many. Unemployment stayed above ten percent from March of 1982 until March of 1987. In the third slump unemployment did not reach the extraordinary heights of 1983. But when unemployment reached double digits in January 1991, it remained stuck at or above 10 percent in almost every month until March 1997. Accurately nicknamed a “jobless recovery”, it dominated economic and political life. Tory Prime Minister Kim Campbell suffered a crushing defeat at the polls in 1993, in part because she said that little could be done to reduce unemployment below ten percent before “the end of the century.”<sup>10</sup> Fortunately, her complacency and arrogance led to the Tories being reduced to just two seats. Unfortunately, her prediction turned out to be very accurate.

### **2002-2006: Slump Postponed**

It is not surprising, then, that commentators both left and right would infer that in 2002, the world economy was poised, again, to slide into another deep slump in the following year. With the recent past as a guide, it was not misplaced to fear a very real up tick in unemployment as a result of a sharp slowdown in the economy.

But it has not happened. Charts 5 and 6 duplicate the evidence of Charts 3 and 4, but extend the timeline into 2006. The slump of 2001, in Canada and the US, proved to be very brief. By late 2006, both economies had returned to growth. And far from unemployment soaring, in Canada it has steadily declined. In fact in six of the last seven months of 2006, unemployment in Canada was less than six percent.





Stephen S. Poloz is the senior vice president of Export Development Canada. His description of this recent history is different than that developed here, but worth outlining as an insight into the way these events are portrayed in some of the intelligent commentary by those who advance the agenda of capitalism itself. He says that the last time the world economy “seemed normal” was in 1995/96. “But then the trouble started. First there was the Asian crisis in 1997, then the Russian crisis in 1998, then the crises in Brazil and Ecuador.”<sup>11</sup> These catastrophes, he notes, did not trigger recession in the core of the system. However, we have since experienced “the global tech wreck and the associated stock market carnage. And then the capper of them all, the terrorist attacks of September 11, 2001.” Catastrophe did not seem very far off.

Between 1997 and 2001, in various sectors of the world economy, we experienced moments typical of every phase in the overproduction cycle – hesitation and beginning of decline, with the return of slump seemingly not far behind. The cycle was timed differently depending on where you sat inside the world economy, but it was real nonetheless. However, rather than being a sign of a slide into deeper slump, from 2002 on the recovery began. Poloz states, “2002 and 2003 were global rebuilding years. We finally saw Asia come back on track, then Russia and finally Latin America.” And he argues that from 2004 on, we are back into a period of boom. There are signs of economic expansion everywhere. Unemployment levels in Canada are at their lowest in 30 years. In Alberta, there is “negative unemployment”, which means a real labour shortage that has capitalists worrying about a wage explosion. The steady economic expansion is one of the factors behind the low wage and undocumented worker rebellions in the US.

Perhaps Canada and the US are unique. Perhaps the slump has simply been postponed, and a day of reckoning awaits in the not too distant future. Perhaps the neoliberal turn of capitalism’s ruling classes has put capitalism back on a stable footing at least for the present. All of these are ideas that are on offer in the discussion about these facts. What cannot be disputed, however, are the facts themselves. The economies of Canada and the US entered 2007 in better shape than most commentators would have predicted just two or three years previous.

### **China’s Industrial Revolution**

I want to suggest another explanation of the seeming stabilization of the mature capitalisms and the mildness of the recent slump. Stelco was not saved by some brilliant, internally generated restructuring. It was saved by a huge increase in demand for steel from China. Similarly, mature

capitalisms in general have not been “saved” by developments internal to their economies. They have been saved by an external factor – a “primitive accumulation” industrial revolution in the world’s biggest, and for a long time one of its poorest countries – China.<sup>12</sup> It would not be wrong to say that what we are witnessing in China and throughout much of Asia, is a new industrial revolution. Its consequences will be widespread, and will be with us for some years to come.

### **Revolution in the Countryside**

It is not surprising that economists, on the left and right, have ignored such a factor. In the 1950s, 1960s and 1970s, it was possible to pretend that China did not exist and still successfully analyze the world economy. Its statistical impact on the world economy was within the “margin of error.”

This was not because the Chinese economy was not growing. “From the mid-1950s, through to the mid-1970s, China’s GNP growth rate was faster than that of most developing countries.”<sup>13</sup> But that growth was from such a low starting point, that it hardly registered. The key reason China could be ignored was because of its terrible poverty. One of the greatest and oldest civilizations of the world had been raped and pillaged so thoroughly by European and Japanese imperialism that its economy, in terms of its international impact, seemed inconsequential.

The effect of western imperialism on the development of China is consistently underestimated. It should be humbling to Eurocentric writers, that while the American, French and industrial revolutions were underway, Europe and the US were bit players on the stage of the world economy. “In 1750, China’s share of global manufacturing output stood at around 33 percent, compared with 25 percent in India/Pakistan and just 18 percent in the ‘West.’”<sup>14</sup> It took

force of arms, in particular by Britain, to open up China to the opium trade, and strip the country of the wealth accumulated through thousands of years of civilization. Writing a hundred years ago, Rosa Luxemburg noted that, in China,

[e]very European advance was marked ... by the smouldering ruins of the largest and most venerable towns, by the decay of agriculture over large rural areas, and by intolerably oppressive taxation for war contributions. There are more than 40 Chinese Treaty Ports – and every one of them has been paid for with streams of blood, with massacre and ruin.<sup>15</sup>

This pillage was not simply an effect of the expansion of European capitalism. It was central to the very construction of that capitalist system. Jairus Banaji has argued that”

From the sixteenth to the nineteenth centuries ... colonial plunder constituted the dominant mode or mechanism of primary accumulation, for the imports of British capital which were a key element in the industrialisation of the white colonies (USA, Canada, etc.) constituted a secondary mode of primary accumulation, given that a large proportion of the capital which flowed across the Atlantic derived ... from Britain’s exploitation of India.<sup>16</sup>

This “primary” or “primitive” accumulation – a term introduced into the literature by Karl Marx – will loom large in this paper. By the time national sovereignty was finally re-acquired through the victory of the Chinese Revolution in 1949, the primitive accumulation facilitated by imperialism had reduced China to a terrible condition.

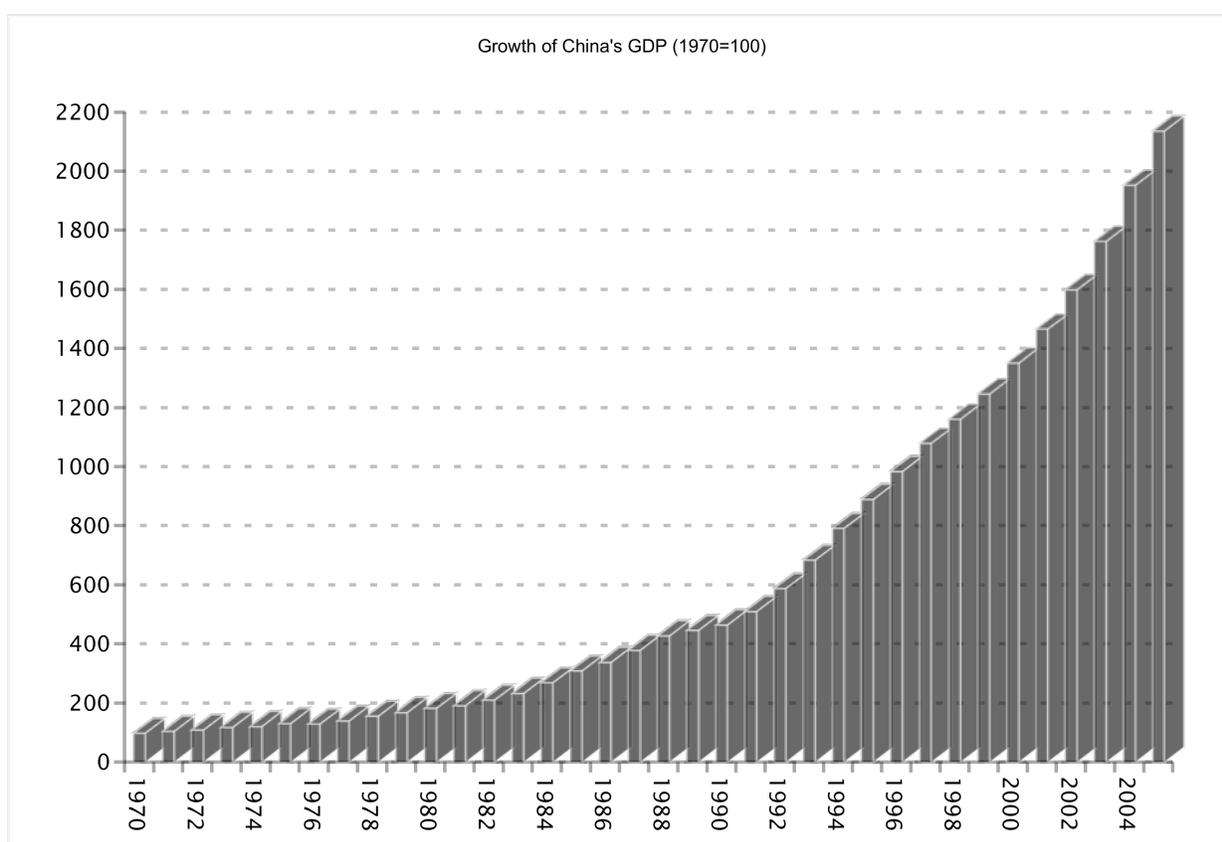
By the 1970s, however, the Chinese economy again started to make its appearance in the world economy. Central to the change were the agrarian reforms instituted by the regime led by Deng Xiaoping, upon coming into office in July 1977. David Zweig has summarized these

reforms as “decollectivizing and commercializing agriculture.”<sup>17</sup> Zweig sees the reforms as a product of pressures from below and above.

From below, there had been a long dialectic between the lives and work of the Chinese peasantry and the new Maoist regime. To begin with, an extraordinary 46.6 million hectares of farmland were taken over from the old feudal landlords after the victory of Mao’s movement.<sup>18</sup> This smashing of the semi-feudal land ownership structure was the great achievement of the 1949 revolution, and was enormously popular among the oppressed peasantry. But the recurring attempts to “collectivize” agriculture were not. This collectivization was being attempted in a situation where the productivity of labour in agriculture was incredibly low. With only a tiny surplus to redistribute, it was impossible for accumulation to take place in such a way as to encourage and sustain the investment necessary to raise the productivity of labour. Deng felt the pressure from below – the sullen resentment of millions of peasants who longed for family control of at least some of the product of their labour. He also, however, sensed the pressure from above – an imperious world economy with an inexorable logic to capitalize production and increase the productivity of labour. The result was a series of reforms, between 1977 and 1979 in particular, which allowed Chinese peasants to keep a portion of the products of their labour, bring it to sale on the market, and so begin the process of accumulating capital.<sup>19</sup> The effects in terms of advancing production were spectacular. A huge and steady increase in labour productivity in the countryside ensued, raising incomes and creating the conditions for more accumulation.

This revolution in the countryside began a cycle common to periods of industrial development. It was not different in kind, for example, to that which happened in Upper Canada (today Ontario) when the canal systems built under Lord Simcoe allowed the province’s peasants

to bring their wheat to market. In both Ontario in the early 19th century and China in the 1980s, the conditions were laid for a classic home market development of industry. But Upper Canada under Lord Simcoe was not a country of one billion people. Because of the very size of China's economy, its evolution into an industrializing power, with a self-expanding home market economy, has an impact on the world economy far greater than any other such development in history. The chart below captures the impact of this revolution in the countryside on overall growth in the Chinese economy.<sup>20</sup>



Between 1970 and 1978, the Chinese economy doubled in size. By 1987 it had doubled in size again. By 1994 it had doubled again, and by 2002 doubled again. If the average rate of growth for the last 10 years continues for the next few years, the economy will have doubled in size

again by 2010. Growth rates like this are reminiscent of Japan in the 1950s and 1960s, the era of the post-war boom.

So small was the Chinese economy in the 1960s and 1970s, that the country made it on to no lists of the leading economies of the world. We were used to talking about the G7 – the US, Japan, Germany, Britain, France, Italy and Canada – as the seven biggest economies in the world. But by 2005, China had leapfrogged past Canada, Italy, France and Britain to sit officially as the world's fourth largest economy in spite of the terribly low wages earned by its working class.<sup>21</sup>

The revolution in the Chinese countryside is not visible from the streets of North America. But every worker in North America knows a related aspect of the Chinese boom. The vast outpouring of “Made in China goods” that dominate the shelves of Wal-Mart, Future Shop, and Best Buy, the computer you use, the television you watch, the DVD burner you purchase – all are likely to be a product of China's new, giant manufacturing industries. Between 1971 and 2005, new value added from manufacturing in China grew at an astounding average of 11 per cent per year.<sup>22</sup> . This, the world's most populous country, is increasingly deserving of a title once held by Great Britain and later by the United States – the workshop of the world.

Tracking the growth of this new manufacturing giant is not simple. The official statistics coming out of China are far from perfect. The surprising announcement, for instance, that China was suddenly the fourth largest economy in the world, was the result of a “statistical revision”. China's National Bureau of Statistics, after completing the country's first ever nationwide economic census, concluded that they had been understating China's GDP by about \$300 billion. In other words, an economy equivalent to one-third of Canada's had been “overlooked”.<sup>23</sup>

Other things are overlooked in the official statistics. The explosion of manufacturing in China, according to official statistics, has been accompanied by a decline in the number of manufacturing workers. In 1987, just under 84 million Chinese workers were employed in the manufacturing sector. That number increased to 98 million in 1995. But ostensibly, there was a one year 13 million loss of manufacturing jobs in 1998, so that by 2002, there were just 83 million workers employed in that sector.<sup>24</sup>

This is a puzzle. Either Chinese manufacturing is automating at an unprecedented rate, or something very peculiar is happening with the statistics. I suggest it is the latter. China's industrialization is being accompanied by the dramatic privatization of its industrial sector. The old, bankrupt state run enterprises are being shut down, laying off thousands, and the slack is being picked up by private investment. The statistics machine was designed to count the state run economy only; it is very poorly equipped to handle the new era of Chinese privatization. Foreign Direct Investment (FDI) drives one of the largest components of the new private sector. "China is now the world's largest developing country FDI recipient and the world's 2nd largest FDI recipient overall after the US."<sup>25</sup> This FDI has led to the establishment of one-half million Foreign Invested Enterprises (FIEs). As of 2006, just under half, 242,000, were still functioning – and 160,000 of these were industrial enterprises. However, "only 43,000 FIEs with annual sales income of over 5 million Yuan (\$610,000 US) are tracked by statistical agencies in China for data purposes."<sup>26</sup>

This might help to account for the seeming disappearance of millions of manufacturing workers, just as manufacturing production is going through the roof. There is one category of the statistics that is growing at an exceptional rate. In 1987 there were 37 million workers in China in the category "activities not adequately defined". By 2001, this figure had grown to 181

million, declining slightly to 163 million in 2002.<sup>27</sup> This is the size of the entire US workforce, though unaccounted for in the statistics. These “not adequately defined” workers are probably, in their large majority, members of the vast army of low wage workers pouring into the new industries after being made surplus in the countryside.

### **Primitive Accumulation or ‘Labour surplus economy’?**

Jeffrey Sachs and other mainstream economists see developments in China in dispassionate terms. They say that China faces the “classic problem of normal economic development.”<sup>28</sup>

Some of the most influential theories used to describe this “normal economic development” are theories of the “labour surplus economy”. The influence of such approaches is widespread. Chen Jiyuan of the Chinese Academy of Social Sciences, wrote in the late 1980s that:

The transfer of the surplus agricultural labour force (TSALF) to non-agricultural lines of production and urban areas represents a common law of economic development shared by all countries throughout the world. It is the only way to achieve the goal of modernizing a country’s economy. China is no exception.<sup>29</sup>

The most developed theoretical framework for such theories comes from John Fei and Gustav Ranis. Some of their observations are prescient and insightful. Writing more than 40 years ago, long before China’s emergence as a major economy, they argued that:

Perhaps, in the long run, the major consequences of World War II will be recognized not in terms of the realignment of political power among the major warring countries ... but in terms of the birth of a large number of independent political entities in the so-called less developed world. Virtually without exception the nationalistic fervor in these poor countries manifests itself in a

desire for economic development, in general, and industrialization in particular.

.... Such economies are characterized by the coexistence of two sectors: a relatively large and overwhelmingly stagnant subsistence agricultural sector in which institutional forces determine the wage rate, and a relatively small but growing commercialized industrial sector in which competitive conditions obtain in the input markets ... the related criterion of “success” in the development effort is thus a rate of industrial labor absorption sufficiently rapid to permit the economy to escape the ever-threatening Malthusian trap.<sup>30</sup>

The observation that the winning of national independence and sovereignty – in particular by India and China in the wake of the Second World war – are events of epochal importance in terms of economics, is an observation that is clearly bearing fruit. But the weakness of this approach is that it remains at the level of observation. The winning of independence and sovereignty were important events because independence and sovereignty had been denied India and China by generations of imperial dominance. The discussion of the way in which imperial domination and primary accumulation had reduced the world’s two biggest economies to extreme poverty, is simply excluded from the picture. A large part of the development project which faced India and China after independence, is development to undo the effects of their long encounter with European capitalism.

Secondly – it is one thing to observe that a transfer of population from the countryside to the city is a hallmark of modernization. It is another thing to explain it. “Labour surplus” theories do not make the attempt. Again it is the Marxist Banaji whose work is very helpful in filling in some of the gaps. He first insists that the term “mode of production” unusefully conflates two very different concepts – *Produktionsweise* (mode of production) with *Arbeitsprozess* (labour

process).<sup>31</sup> In an earlier article, Banaji used the terms “relations of exploitation” and “relations of production” to make this distinction.

We may define relations of exploitation as the particular form in which surplus is appropriated from the direct producers ... Relations of production, on the other hand, are the specific historically determined form which particular relations of exploitation assume due to a certain level of development of the productive forces ... Thus, in a strict, i.e., scientific or marxist sense, ‘feudalism’ is not the ‘same as’ serfdom, though the latter constitutes the dominant relation of exploitation in the feudal mode of production ... Similarly, wage labour and the capitalist mode of production are concepts based at different levels ... capitalism cannot be defined in terms of the existence or non-existence of wage labour ...<sup>32</sup>

It is useful to revisit the reforms of 1977-79, with this analytic framework in mind. The accumulation that these reforms allowed did not happen in a vacuum. China was inserted into the world economy, and could not escape the imperious laws of the capitalist mode of production which dominated that economy. In this sense it was subject to the laws of capital accumulation. It is the capital accumulation dynamic of that mode of production which forced the internal changes inside the Chinese economy. But that does not mean that the trajectory of the Chinese economy can be reduced to these laws. The vast majority of the population remained outside the Labour-Capital relation. China was inserted in the capitalist mode of production because of its location in the world economy, but its relations of exploitation were very far from being dominated by wage-labour. To develop a modern economy capable of competing on the world stage, the freeing up of labour was necessary – the creation of a reserve army (to use a term coined by Marx and Engels and now almost universally adopted by economists) a necessary step

in the creation of a new class of wage-labourers. This in the first instance, demanded “reform” in the countryside – encouraging capital accumulation, and the replacement of farm labourers with machines – and hence the 1977-79 “market” reforms. This pressure from the world economy, dominated by the capitalist mode of production, created a huge pool of potential labourers – in terms of their “relations of exploitation”, outside the Capital-Labour relationship, but by their millions trying to get in.

The class implications are profound. Accumulation comes from some and goes to others. The accumulation process in the Chinese countryside created a new class of capitalist farmers on the one hand, and a large and growing population of displaced labourers on the other. Capital accumulation on the countryside is driving peasants off the land. Exactly the same process took place in England, Scotland and elsewhere in earlier periods. If one half of primitive accumulation is as described above – the pillage of the colonies – this, for Marx, was the other half – the transformation of peasants into wage-labourers.

In the history of primitive accumulation, all revolutions are epoch-making that act as levers for the capitalist class in course of formation; but, above all, those moments when great masses of men are suddenly and forcibly torn from their means of subsistence, and hurled as free and “unattached” proletarians on the labour market. The expropriation of the agricultural producer, of the peasant, from the soil, is the basis of the whole process.<sup>33</sup>

Such an epoch making revolution is central to developments in China today. At first millions, then tens of millions and today hundreds of millions are being pushed off the land in China. The human casualties of the capital accumulation process are immeasurable, human fodder for the urban industries. There is a massive army of rural unemployed, which cannot be absorbed by the

labour process in the countryside. Masses of displaced peasants have no choice but to try to seek employment in the cities. Their long march – a march that is now in full force – is the greatest ever migration of peoples in human history.

This boom is of a type seen before in capitalism, different not in kind but in sheer volume. It is driven by the terrible oppression of a very poor peasantry, being ripped off their land in the millions, and thrown into mines, factories and mills in terrible conditions. China's labour force, both rural and urban, is in the order of 700 million strong. But its real unemployment rate is something in the area of 23 percent – because there are 150 million peasants who cannot be absorbed into the rural economy, and for whom there are no jobs in the cities.<sup>34</sup> This is in addition to the 200 million rural workers who have, in recent years, migrated to cities “in search of employment.”<sup>35</sup>

England's primitive accumulation period – including the enclosure movement driving peasants off the land and into the new industrial cities – lasted 300 years. China is doing in a generation what it took England three centuries to accomplish. A new industrial power is emerging on the backs of the suffering of the largest reserve army of labour in world history.

### **Absolute and Relative Surplus Value**

A primitive accumulation boom is subject to different pressures and different laws than the booms we have become used to in the advanced capitalist world. In Western Europe, North America and Japan, we are long past the point where masses of peasantry existed as a surplus labour pool, to be exploited as a low-wage workforce. That kind of exploitation is based on what Marx called the production of absolute surplus value – literally working people to death.

In the modern era, we are well into the age of the production of relative surplus value. In short, to produce new wealth, the existing workforce must be made to increase productivity through the increasing use of technology and machines. It is this era of relative surplus value that is the era of mature capitalism proper. It is here that the laws of capitalism as outlined by Marx operate with full force: recurring crises of overproduction and a tendency for these crises to continually worsen, as the rate of profit slowly declines.

Since the early 1970s we have seen the inexorable logic of economies based on the production of relative surplus value. So productive are the workforces, that periodic crises of overproduction are inevitable. We can produce far more cars, trucks, fibre optic cables, office buildings, etc. than can ever be used. This drives down prices, threatens profits, leading to bankruptcy and layoffs in periodic crises.

But an economy driven by absolute surplus value – or to put it another way, an economy that has at its disposal tens of millions of desperate unemployed willing to work in miserable conditions for very low pay – can for a time avoid these periodic crises. The best modern example is Stalinist Russia, which from the time of the first five-year plan at the end of the 1920s, until well into the 1960s, was able to experience much higher growth rates than the G7 and avoid the periodic crises that seemed built into capitalism. Many on the left attributed this to the virtues of planning. But such an explanation is highly misleading. To the extent there was planning in the USSR, it was no different in kind than the “planning” undertaken by Ford and General Motors as they determine how to win market share and destroy their competitors. The secret to growth in the Stalin era was not planning, but primitive accumulation. Stalin had access to tens of millions of peasants who could be forced off the land, driven into the mines and factories, and literally worked to death. As long as that pool of labour existed, growth could

continue. When that pool of labour began to dry up, all of the contradictions of state capitalism quickly came to the surface. This led to a generation-long series of explosions which culminated in the fall of the Berlin Wall in 1989, and the collapse of the Soviet Union in 1991.

The geography of capitalism is largely the geography of the city; as capitalism develops, societies universally urbanize on a vast scale. In 2001, 80 percent of the Canadian population lived in cities. In the US and Japan the figure was 79 percent. But in China, in spite of the hundreds of millions who have migrated from the countryside to the town, only 41 percent of the population live in urban settings. Perhaps, however, the adverb “only” should be qualified. If “only” 41 percent of Chinese live in urban areas in 2004, the figure in 1995 was “only” 29 percent. What is significant here is not just that the percentages are considerably lower than in the mature capitalisms, but that these figures are growing at an extraordinary pace. In 1995, 347 million Chinese lived in cities. By 2004, the figure was 534 million.<sup>36</sup> In other words, 187 million more Chinese lived in cities in 2004 than in 1995, just nine years previously. This gives some sense of the monumental scale of the shift underway in the world’s most populous country. The presence of a mass of displaced rural labourers allows for a kind of economic growth that appears to defy the logic of capitalism as laid out by Marx. But what I have argued here is that the logic of capitalism was a logic centred on the Capital-Labour relation at the point of production. The phenomenon of primitive accumulation – displacing labourers from an earlier mode of production, and super-exploiting them – was something Marx saw as part of the pre-history of capitalism – part of the pre-condition for establishing the dominance of the Capital-Labour relationship. The fact that this prehistory co-exists with actually existing capitalism makes it necessary to step back from the laws of capitalism as developed by Marx, and study the

way in which this really existing primitive accumulation can modify and to some extent suppress those laws.<sup>37</sup>

Other Marxists have noticed this, most notably Rosa Luxemburg: “[t]he existence and development of capitalism requires an environment of non-capitalist forms of production.”<sup>38</sup> There have been many criticisms of the theory of imperialism she developed on the basis of this insight taken from her monumental *The Accumulation of Capital*. But whether or not she properly understood the roots of imperialism, she was certainly right to focus on the centrality of non-capitalist areas of the world as contributors to the stability of capitalism. More precisely, the logic of an economy reduced to its Capital-Labour essence, is a logic of inexorably recurring crises. One way in which that crisis can be offset is if the mature capitalism can “encounter” an economy at an earlier stage of development, an economy not yet reduced to the Capital-Labour relationship. This is not exactly the way in which Luxemburg framed her argument, but it is clearly inherent to it. David Harvey has done a tremendous service to contemporary theory by reviving interest in both Rosa Luxemburg and in the centrality of primitive accumulation to the contemporary dynamics of the world economy.<sup>39</sup>

The argument can be run in reverse: there is a way in which economies that come to rely on the existence of a huge pool of displaced peasants go into crisis when that pool is absorbed. The example of the Soviet Union has already been cited as a contemporary case of industrialization based on primitive accumulation. Eugene M. Kulischer, writing in 1944, noted that in 1914,

Russia was a predominantly agricultural country. On the eve of the First World War less than 15 percent of its population lived in cities and towns. According to

the latest census, that of 1939, the urban population of the USSR constituted nearly one third (32.8 percent) of the total.

Kulischer goes on to document developments remarkably similar to those in contemporary China. “This new urban concentration”, he states, “is a result of the tremendous growth of the industry which had its birth in the late twenties.” This growth had two sources. First, “industrial development by mechanizing agriculture, yielded a surplus population in the rural areas.” Second, “as ever, prosperous industrial centres attracted new masses of workers from the countryside.”<sup>40</sup>

By 1959, urbanization in the USSR reached 47.9 percent. By 1970 the figure was 56.3 percent, by 1979 the figure was 62.3 percent, and 69.1 percent for the most developed section of the USSR, the Russian Federation. But the rate of growth was slowing, reaching 73.4 percent in 1989. What is interesting is that economic growth is in direct inverse relationship to the growth of the urban population. As the rural labour pool was absorbed, growth in the USSR slowed, until the great crisis of the 1980s led to the collapse of the federation itself.

It is possible that the late 1980s and early 1990s crisis in Japan has a similar root. It is only in the 1950s that urbanization in Japan reached 50 percent; through the 1960s, it grew steadily, reaching 72.1 percent in 1970. But when urbanization reached the 75 percent mark in the mid-1980s, the cheap labour pool was gone, and suddenly Japan at the end of the 1980s and through most of the 1990s experienced a classic crisis of overproduction – something from which it seemed immune in the previous decades.<sup>41</sup>

We are nowhere near such a denouement in China. There are still many hundreds of millions of peasants yet to embark on the long trek to the cities. To put it another way, there remain tens of millions, hundreds of millions still to be “enclosed” and driven into the new

working class. This process is not without its own periodic crises, and contradictions, but it can go on for some time. It will be a determining factor in the world economy for the foreseeable future, although exactly how long it can last is extremely hard to say. One commentator has argued that, “it is very likely that China may maintain around eight percent of GDP growth rate for another 20 to 30 years.”<sup>42</sup>

And in a certain sense, it is problematic to be talking just about China. China is the representative of a phenomenon that is worldwide. India, Indonesia and Africa are all experiencing a similar long march of their peasantry. China’s industrial revolution should be seen as a symbol of a revolution that is, in fact, sweeping the entire Global South.

### **Prospects**

This paper has explored events in China as a possible contributing factor to the surprisingly mild and short-lived economic slump that greeted the new century. It is a modest contribution to a larger discussion. What has been argued is that, at the moment, there has been a moderation in the intensity of recurring capitalist crises, and that this moderation is not because of some new “virtuous” development inside mature capitalism, but as a spin-off from developments in the Global South. On the backs of the Chinese former peasants, a new round of capital accumulation can begin. The subject matter is far too vast to pretend that the outline suggested here can be anything more than a sketch. There are many, many areas that have been left out. This paper has focused on the demand side of the Chinese industrial revolution. There is also a supply side. Cheap exports from the new workshops of China are literally flooding the world. The enormous trade deficit that has built up in the US, largely as a result of this, is a source of instability that is too great for anyone to ignore.

The more important missing piece is the human dimension. Sachs and others see the transfer of workers from the countryside to the city as “normal” economic development. But this development is savaging the lives of tens of millions. Just as in the enclosure movement in Britain, just as in Stalin’s forced collectivization, and in every instance of primitive accumulation, a huge pool of bitterness is accumulating at the base of society as wealth accumulates at the top. Increasingly that bitterness is leading to open protest movements. In the estimate of David Zweig, a protest begins in China every five minutes. According to Peter Kwong, China’s Public Security Bureau has reported that in 2004 “the number of ‘mass incidents’ had risen to 74,000. In 2005 the number jumped another 13 percent.”<sup>43</sup>

That is one of the implications of this analysis – the implications internal to China. There are at least two others. With the opening up of a new demand centre in the world economy, certain areas of the Global South have a sudden and unexpected opportunity to break from dependency on the United States. In part this is what is happening in Latin America. Oil, copper, soy and coffee are the four most important exports from Latin America. For the first three, China has an almost unending appetite. The sudden return to growth of the major economies in Latin America is in large part based on this new Chinese-based demand for key commodities, and is allowing a certain independence from the United States. This reprieve from economic crisis has given confidence to millions, whose entrance onto the stage of history has propelled left governments into office in country after country.

The final set of implications are for the Global North. This paper documented the way in which this primitive accumulation boom has saved advanced capitalism in the Global North from its own contradictions. The new demand centre in the most populous part of the world economy is without question the driving force of certainly the Canadian economy. That does not mean that

direct trade with China is the cause of Canadian growth. However, Chinese demand for goods that Canada produces – oil, copper, aluminum, steel, etc. – is creating the possibility of ratcheting up production for all these commodities and in the process rescuing what seemed to be dying industries. Stelco’s turnaround is an exemplar of the whole process.

This is now without contradictions. The roaring Canadian economy has put massive upward pressure on the dollar – appreciating 40 per cent since its low point at the turn of the century. For manufacturing industries in the central Canada, the pressure created by this upwardly appreciating currency is very severe. We have without question embarked on a process of severe restructuring in central Canada where layoffs in certain manufacturing sectors are inevitable. But for the moment, the job losses in the centre are being offset by the massive job creation in the new “boiling mud” centre of the economy – the oil sands boom in Alberta.

This is, clearly, a restructuring of the Canadian economy that is not without enormous risks. The demand created by the Chinese economy has been premised on growth rates of above 10 per cent – this year reaching towards 12 per cent. No economy can grow at this pace forever, and a correction when it comes will reverberate around the world, not the least in Canada. And in the longer term, if the analysis of this paper is correct, then the whole expansion is predicated on the absorption of rural labour into the new urban industrial economy. This process is finite. If the world economy’s reprieve is predicated on the absorption of surplus labour from the Chinese countryside into the cities, and hence into the Capital-Labour relationship, then we have to be soberly aware of the limitations of such a reprieve. As that pool is absorbed, the laws of capitalist crisis that we lived with in the 1970s, 1980s and 1990s will tend to re-assert themselves, but this time not in a mature capitalist world bounded by Japan, Western Europe and North America, but one that is truly global. A Canada restructured to adapt itself to a primitive accumulation

industrial revolution will not necessarily be well-equipped to cope with the disappearance of such a phenomenon. And on a world scale, it does not take a great imagination to imagine the potentially vast and debilitating nature of a crisis that could unfold if a) China's boom is underpinning the current expansion of global capitalism; b) that boom is predicated on the existence of a massive pool of surplus rural labour and c) that labour pool "dries up". All of these, however, are questions to be pursued at another time. What we can say, is that understanding the dynamics of the world economy today – and the role of China's primitive accumulation industrial revolution – can help prepare us for the world which will be shaped by these profound forces.

## Notes

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- <sup>1</sup> Earlier versions of some of this research have appeared in Kellogg, “Regional Integration in Latin America: Dawn of an Alternative to Neo-liberalism?”, *New Political Science*, 29:2, June 2007, pp. 189-211 and Kellogg, “Contours of the World Economy Today,” *Marxism 5, 2007: Solidarity, Resistance, Liberation*, pp. 12-22.
- <sup>2</sup> Company reports, Bloomberg, cited in Tony Van Alphen, “Amazing Turnaround in Quarter” in *Toronto Star*, (May 11, 2005), p. E1.
- <sup>3</sup> UNCTAD (United Nations Conference on Trade and Development), “Handbook of Statistics On-line: Structure of International Trade by Product,” <[www.unctad.org](http://www.unctad.org)>
- <sup>4</sup> Derived from “BP Statistical Review of World Energy”, June 2006, <<http://www.bp.com/statisticalreview>>
- <sup>5</sup> John Bellamy Foster, “Is Overcompetition the Problem?,” *Monthly Review*, vol. 51, no. 2 (June, 1999), p. 36
- <sup>6</sup> Paul Frölich, *Rosa Luxemburg*, (London, 1967), p. 154.
- <sup>7</sup> John Kenneth Galbraith quoted in Michael Carey, “Business cycle unswayed,” transcript from *The World Today* ([www.abc.net.au/worldtoday/stories/s55701.htm](http://www.abc.net.au/worldtoday/stories/s55701.htm)). See also Galbraith, *The Great Crash* (New York: Houghton Mifflin Company, 1997).
- <sup>8</sup> US population figures: US Census Bureau, 2004, “U.S. Interim Projections by Age, Sex, Race, and Hispanic Origin,” <<http://www.census.gov/ipc/www/usinterimproj/>>; Population Estimates Program, Population Division, US Census Bureau, “Historical National Population Estimates: July 1, 1900 to July 1, 1999. Source, US GDP figures: Bureau of Economic Analysis, “National Income and Product Accounts Table 1.16: Real Gross Domestic Product, Chained Dollars”, <[www.bea.gov](http://www.bea.gov)>. Source, Canadian population figures: CANSIM II, Table Number 510005, Vector Number V1, Statistics Canada. Source, Canadian GDP figures: United Nations, “National Accounts Main Aggregates Database: GDP, at constant 1990 prices – National currency,” <<http://unstats.un.org>> and CANSIM, Table Number 3790018, Vector Number V14182969, Statistics Canada
- <sup>9</sup> CANSIM, Table Number 2820001, Vector Number V209177, Statistics Canada
- <sup>10</sup> Jordan Bishop, “The Tories Say Goodbye – 1993 Canada Election Results,” in *Commonweal* (Nov. 19, 1993)
- <sup>11</sup> Stephen S. Poloz, “EDC Economics,” March 8, 2000
- <sup>12</sup> There have been many debates over the class nature of the society that emerged from the 1949 Chinese Revolution. Regardless of whether it is seen as communist, bureaucratic collectivist, deformed workers’ state or bureaucratic state capitalist (the most common frameworks used in analyses of the economy), the key thing from the standpoint of this analysis is the extent of the penetration of the “Capital-Labour” relationship. All of the above analyses would agree that, the nature of the post-revolutionary state aside, the vast majority of the Chinese population has been outside the Capital-Labour relationship – they do not work for a wage. The fact that this is changing, with the great migration to the cities from the countryside, is the dynamic this paper is examining. For the most developed analysis of the bureaucratic state-capitalist analysis (which seems to me to be the most persuasive of the frameworks), see Nigel Harris, *The Mandate of Heaven: Marx and Mao in Modern China*, (London: 1978), available at <[www.marxists.de/china/harris/index.htm](http://www.marxists.de/china/harris/index.htm)>
- <sup>13</sup> P.H. Nolan, “China at the Crossroads,” *Journal of Chinese Economic and Business Studies*, vol. 3, no. 1 (January 2005), p. 12
- <sup>14</sup> Research of P. Bairoch, cited in P.H. Nolan, “China at the Crossroads”, p. 14.
- <sup>15</sup> Rosa Luxemburg, *The Accumulation of Capital* (New York: 1968), p. 394
- <sup>16</sup> Jairus Banaji, “For a Theory of Colonial Modes of Production,” in *Economic and Political Weekly*, VII: 52, December 23, 1972, p. 2499.
- <sup>17</sup> David Zweig, *Agrarian Radicalism in China, 1968-1981* (Cambridge: 1989), p. 174.
- <sup>18</sup> Yan Rui-zhen, “Changes in the System of Ownership in Rural China,” in John W. Longworth, ed., *China’s Rural Development Miracle* (Queensland, Australia:1989), p. 11.
- <sup>19</sup> See Zweig, *Agrarian Radicalism*, pp. 169-189.
- <sup>20</sup> United Nations, Department of Economic and Social Affairs, <<http://unstats.un.org>>
- <sup>21</sup> Robert J. Saiget, “China to become 4<sup>th</sup> biggest economy with expected revision to 2004 GDP,” *The Globe and Mail*, December 19, 2005
- <sup>22</sup> Derived from United Nations Statistics Division, National Accounts Main Aggregates Database, “Estimates of Value Added and Selected Components at constant 1990 prices in Million national currency,” <<http://unstats.un.org>>
- <sup>23</sup> Saiget, “China to Become Fourth Biggest Economy”

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- <sup>24</sup> Derived from International Labour Organization, LABORSTA Labour Statistics Database, “Total Employment, by Economic Activity,” <<http://laborsta.ilo.org/>>
- <sup>25</sup> John Whalley and Xian Xin, “China’s FDI and Non-FDI Economies and the Sustainability of Future High Chinese Growth,” National Bureau of Economic Research, Working Paper 12249 (May 2006), p. 3.
- <sup>26</sup> Whalley and Xin, “China’s FDI”, p. 4.
- <sup>27</sup> Derived from International Labour Organization, LABORSTA Labour Statistics Database, “Total Employment, by Economic Activity,” <<http://laborsta.ilo.org/>>
- <sup>28</sup> Jeffrey Sachs, Wing Thye Woo, Stanley Fisher and Gordon Hughes, “Structural Factors in the Economic Reforms of China, Eastern Europe, and the Former Soviet Union,” *Economic Policy*, Vol. 9, No. 18, (April 1994), p. 103
- <sup>29</sup> Chen Jiyuan, “China’s Transfer of the Surplus Agricultural Labour Force (TSALF)” in Longworth, *China’s Rural Development Miracle*.
- <sup>30</sup> John C. H. Fei, Gustav Ranis, *Development of the Labor Surplus Economy: Theory and Policy* (Homewood, Illinois, 1964), pp. 1 and 3).
- <sup>31</sup> Jairus Banaji, “Modes of Production in a Materialist Conception of History,” in *Capital and Class* 3, Autumn 1977, p. 4.
- <sup>32</sup> Jairus Banaji, “For a Theory of Colonial Modes of Production,” in *Economic and Political Weekly*, VII: 52, December 23, 1972, p. 2498.
- <sup>33</sup> Karl Marx, *Capital*, Vol. I, in Karl Marx and Frederick Engels, *Collected Works*, vol. 35, p. 707.
- <sup>34</sup> Nolan, “China at the Crossroads”, p. 2
- <sup>35</sup> Rodger Baker, “China: Riding the Rural Tiger,” *Stratfor Geopolitical Intelligence Report* (March 7, 2007) <[www.stratfor.com](http://www.stratfor.com)>
- <sup>36</sup> United Nations, *Demographic Yearbook 2004*, “Table 6: Urban and total population by sex: 1995-2004,” <<http://unstats.un.org>>
- <sup>37</sup> Banaji would put it another way. He argued that there is a tendency among some, including Marxists, to look for over-arching laws of history abstract from the concrete social formations in which history is played out. “Marx had been emphatic that abstract laws do not exist in history, that the laws of motion which operate in history are historically determinate laws.” In other words, we must begin not with the “laws of motion of capital” but with a concrete analysis of the actual conditions created by a specific social formation, and work out the laws from there – from the concrete to the abstract. Banaji, “Modes of Production,” pp. 2 and 3.
- <sup>38</sup> Luxemburg, *Accumulation of Capital*, p. 368
- <sup>39</sup> David Harvey, “Accumulation by Dispossession,” ch. 4, *The New Imperialism* (Toronto: 2003), pp. 137-182; Harvey, “A Theory of Uneven Geographical Development,” in Harvey, *Spaces of Global Capitalism: Towards a Theory of Uneven Geographical Development*, (New York: 2006), pp. 91-5
- <sup>40</sup> Eugene M. Kulischer, “Recent Migration in the Soviet Union,” *American Sociological Review*, vol. 9, no. 3, (June 1944), p. 223.
- <sup>41</sup> United Nations, *Demographic Yearbook, Historical Supplement*, “Table 2: Population by Sex, Residence, and Intercensal Rates of Increase for Total Population, each Census: 1948-1997”
- <sup>42</sup> Justin Yifu Lin, “Is China’s Growth Real and Sustainable?,” *China Center for Economic Research Working Paper Series*, 2004-2, p. 20.
- <sup>43</sup> Peter Kwong, “China’s Neoliberal Dynasty,” *The Nation*, (October 2, 2006)