Beijing's WTO concessions signal a new stage in China's capitalist restructuring

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A little-publicised aspect of China's recently-agreed entry into the World Trade Organisation is the sweeping impact it will have on the economic, political and social life of the most populous country on earth. Chinese analysts predict that transnational banks and corporations will, through mergers, acquisitions or joint ventures, dominate the domestic economy within a decade.

Over the past 20 years the Beijing regime has wooed foreign direct investment into export-orientated special economic zones. It has used a complex array of regulations, tariffs and bureaucracy to restrict the access of transnational companies to China's national markets. These have largely remained monopolised by the state-owned enterprises—most of which are now part-owned by private shareholders—and swelling numbers of privately-owned businesses.

The WTO agreements hammered out with the United States will bring this stage to an end. By 2005, the bulk of restrictions on foreign companies to produce and sell within the domestic economy of China will have been phased out. Transnationals will be free to establish their own distribution, warehousing, marketing, customer support and maintenance networks.

From 2001 to 2006, China is to cut tariffs across the board, from an average of 24.6 percent to 9.4 percent. Tariffs levied on computers and high-tech products will be eliminated altogether. Imports into China are predicted to rise exponentially.

China's highly-protected banking, insurance and securities markets are to be opened up. Within five years the global financial conglomerates will have full market access, enjoying the same rights as China's domestic banks.

The Beijing government will reduce its stake in China's 1,000 large, politically-sponsored, share-traded corporations, many of which are preparing to list on the New York and Hong Kong stock exchanges. State ownership will fall from an average of 62 percent to 51 percent, or less in certain cases. The telecommunication sector, currently controlled by semi-privatised Chinese telecom corporations, will be opened to up to 50 percent foreign ownership.

Global giants such as Motorola, Siemens, AT&T and MCI are thought to be interested in major stakes in the telecom companies. China's airlines are prime targets for foreign acquisitions. Rupert Murdoch's News Limited is developing a major presence in Chinese television. In the oil industry, BP Amoco recently took a 20 percent stake in PetroChina, the internationally-listed subsidiary of China National Petroleum Corporation. Shell is expected to emerge as a major stakeholder in the Chinese oil company Sinopec when it is listed on Wall Street later this year. Over 80 foreign banks and securities houses are already conducting limited operations in China.

Most of the *Fortune 500* largest transnationals have long established operations in China. In many sectors they are already securing their position through joint ventures with Chinese partners. By such arrangements, transnational companies are gaining established production sites, branch and distribution networks, personnel and the patronage of the Beijing regime. Long before tariffs are reduced, they are entrenching market domination and wiping out less efficient Chinese producers.

The auto industry is a prominent example. Volkswagen's joint venture already has 50 percent of the Chinese consumer car market and it intends to make a further investment of $US1.4 billion to ward off competition. General Motor's $US1.5 billion joint venture production plant in Shanghai, at present producing luxury Buicks for China's political and business elite, will be re-tooled for consumer car production. On May 29, Toyota announced a joint venture with the Tianjin Automobile Xiali Group, a large Chinese auto company. It is aiming for 30 percent of the market.

The lowering of auto tariffs will enable the China-based joint ventures to make greater use of auto-parts manufactured internationally, cut their costs and potentially begin to compete in world export markets. Analysts predict that up to 500,000 Chinese auto jobs will be eliminated. Most local parts manufacturers and assembly companies without transnational partners are not competitive and are likely to be bankrupted by the Chinese government.

A similar scenario is predicted across the financial, service and industrial sectors, with a rush of mergers, acquisitions and joint ventures by major world companies, followed by massive restructuring and job shedding. The WTO concessions are expected to double capital inflows into China by 2005, both in increased foreign direct investment and a rapid growth in trading on Chinese stock markets.

Over $US80 billion per year is expected to flood in. The primary origin of investment into China is expected to shift to corporations from the US, Europe and Japan, with investors from Hong Kong and Taiwan playing a reduced role. The focus of transnational investment will be the centres of power like Shanghai and Beijing, where new technology and business parks have been opened up.

China's commercial law is being subjected to hundreds of amendments to protect the property rights of foreign corporations and private businessmen. Beijing is also carrying out a purge of the Stalinist state, whose multi-tier levels of bureaucracy and traditions of nepotism are viewed as barriers to investment. Over 2.5 million public servants have been laid-off in the last year and tens of thousands arrested for crimes ranging from smuggling to bribery.

Chinese policy during the 1990s was to restructure the state-owned sector of the economy into a range of corporations that were both profitable and competitive on world markets. The state banks were utilised to finance the restructuring, by extending billions of dollars in loans to companies as they carried through mergers, retooling and downsizing. Thousands of firms, deemed redundant, have been systematically bankrupted or sold off to private buyers.

However the politically-backed corporations and grasping private businessmen have not entered into a world market with ample room for their expansion. Rather they have confronted a deflationary economic environment of over-production, falling prices, intense competitive pressures and low profit rates. Additions to inventory, or stockpiling, averaged 5.7 percent of Gross Domestic Product (GDP) in China from 1990-1998, compared with 0.4 percent in the US.

China's second largest steel company, Anshan Iron and Steel, based in the north-eastern Liaoning province, is a microcosm of the contradictions of Chinese capitalism. The company has reduced its workforce from 380,000 in 1995 to 172,000, utilising loans of over $US1 billion. Its exports of rolled steel have increased 12-fold and its revenue is over $US2 billion. Anshan profits, however, are not expected to reach $US25 million until next year. Though Anshan has dispensed with many non-core industries, only 50,000 of its workforce is involved in steel production and it is still responsible for paying pensions to 120,000 retired employees.

The logic of the capitalist market dictates that companies like Anshan must continue to restructure. To assist it and other key steel producers, Beijing announced on April 24 the forced closure of 103 small Chinese steel companies, with a combined workforce of 129,000. The intention is to slash steel production by 4.5 million tons and push up prices, but it will not be enough to finance ongoing upgrading and downsizing.

China's new capitalist elite has had to turn to international capital. China's banking system is struggling with non-performing loans to state-owned enterprises of over $US200 billion, over 20 percent of total lending. Foreign lenders have raised interest rates or curtailed foreign currency loans in response.

Beijing has also been compelled to pour billions of dollars into public works programs to stave off depression in whole areas of the country. It is establishing minimal social welfare provisions in an attempt to head off a social explosion. Yet government revenue has fallen to just 13 percent of GDP, compared with over 25 percent in 1985. The result is rapidly growing public debt.

At the same time, the government has been forced to take $US120 billion of debt from the banks and transfer it to four asset management companies. Current predictions are that Beijing will recover no more than 15-20 percent by selling off the assets of indebted state-owned firms.

Nicholas Lardy, an economist for the Brookings Institute, has postulated that on current trends and including liability for the state banks, government debt in China would soar from 19 percent of GDP to an untenable 100 percent of GDP, or $US1.4 trillion, by 2008. The entire national budget could not even pay the interest.

The WTO concessions are the result. The transnational banks and companies will direct the next decade of restructuring in the China. Assisting them will be the burgeoning social layer of stock market investors and private entrepreneurs spawned by the last two decades of free market measures.

This new Chinese capitalist class is being driven toward the status of its pre-1949 predecessors—a junior partner or the comprador in the exploitation of China's working class and resources. In that way it hopes to cling to the property and privileges it has built up, against the opposition of the masses.

Most of the wealthy have intimate connections with the Stalinist Communist Party. Some three million private businessmen, with 1.5 million enterprises and assets of $US120 billion, employ about 18 million workers. There are reportedly 47 million individual investment accounts in the Shanghai and Shenzhen stock markets, with a collective market capitalisation of $US440 billion. One percent of the population, about 12 million people, earn incomes over $US24,000—90 times the average rural per capita income of $US268.

The victims of Beijing's capitalist restructuring have been the Chinese workers and peasants. In the last three years alone, at least 30 million jobs have been shed by state-owned enterprises. Some 10 million more state sector jobs are likely to be axed this year. A large proportion of the job shedding has been in non-core parts of companies—such as hospitals, clinics, schools, farms, bakeries and shops—once owned by industrial firms to provide low cost services to their employees. Many non-core businesses have been sold to well-connected private buyers, such as managers, who operate them as profit-making concerns.

State-owned enterprises now employ less than 40 percent of the urban workforce, compared with 78 percent in 1978. In recent years, most have begun to show profits—at an immense social cost. By reliable estimates, urban unemployment and underemployment is as high as 50 million, or over 25 percent, concentrated in the north eastern and central provinces where state-owned heavy industry was centred.

In rural China, ignored by policy makers, agricultural incomes are stagnating or falling in cases where government subsidies are being cut. Recent surveys indicate that over 20 percent of peasant households depend upon one or more family member having other work. Rural underemployment is estimated at 150 million and can only grow as greater mechanisation is introduced. Migration to the cities is continuous, with landless peasants supplying low-cost labour for industry.

Among Chinese workers, the WTO concessions can only further undermine the myth of Mao Zedong and his successors that there was some separate national Chinese road for development. Like workers around the world, their future is inseparable from developing a unified movement of the international working class against globally-organised capital.