Chinese capitalism: industrial powerhouse or sweatshop of the world?

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When Beijing entered the World Trade Organisation (WTO) in December 2001, it undertook to remove most of the remaining barriers to the operation of foreign corporations inside China by 2006. The resulting flood of investment into the country has given rise to glowing predictions in international financial circles that China is emerging as the new industrial powerhouse of world capitalism.

The October issue of the British-based *Economist* magazine, for example, lauded the southern Chinese province of Guangdong, which is adjacent to Hong Kong, and the country's major export region, as "the contemporary equivalent of 19th century Manchester—a workshop of the world".

In similar vein, the *Los Angeles Times* enthused: "Poor and isolated 30 years ago, China is emerging as the world's factory floor. The country's middle class, though just a sliver of the population, is estimated at more than 100 million and growing rapidly. Even now, China buys more cell phones than any other country. Its expanding industrial sector is becoming a major buyer of raw materials, machinery and high-tech equipment."

Nicholas Lardy, a professor from the US-based Brookings Institution, told the *Los Angeles Times*: "The pace of China's industrial development and trade expansion is unparalleled in modern economic history. While this has led to unprecedented improvements in Chinese incomes and living standards, it also poses challenges for other countries."

The *Wall Street Journal* noted that some 50 percent of cameras, 30 percent of air conditioners and televisions, 25 percent of washing machines, and 20 percent of refrigerators in the world are now being produced or assembled in China. Andy Xie, a Hong Kong-based economist for the investment house Morgan Stanley, told the newspaper: "China's rise as a manufacturing base is going to have the same kind of impact on the world that the industrialisation of the US had, perhaps even bigger."

But the claim that China is undergoing an economic transformation analogous to Britain in the 19th century or the US in the 20th century ignores some basic facts. The impressive rates of growth and statistics on industrial output are dependent on a huge flow of foreign direct investment into the country and a flood of cheap manufactured goods out of the country. Far from being the new workshop of the world, China is more like a giant sweatshop for the world's major corporations.

The high rates of economic growth in China during the 1990s were not driven by the expansion of an internal consumer market or native industrial development. The combination of plentiful cheap labour, low tax, low cost infrastructures and brutal police-state repression made China one of the most attractive investment sites for transnational corporations.

Since the mid-1990s, more than $US500 billion have been invested, overwhelmingly in a string of free trade zones located along China's coast. The US retail giant Wal-Mart Stores, for example, purchased about $14 billion in products from its Chinese subsidiaries last year, which represents about 13 percent of total US imports from China. The electronic conglomerate Philips operates 23 plants in China and exports $5 billion worth of goods each year to Western markets.

Foreign firms now account for 81 percent of China's technology exports—a global market share of 54 percent of DVD players, 28 percent of cellular phones, 13 percent of digital cameras, 30 percent of desktop computers, 12 percent of notebook computers and 27 percent of colour televisions. Transnationals and their local contractors also dominate in other major exports such as machinery, toys and textiles.

Up to December, China's volume of foreign trade increased by 21 percent from 2001 to $620 billion, ranking it as the world's fifth largest trading nation. China's exports stood at $266.2 billion for the year to December and its imports at $212.6 billion, a 17.2 percent increase. However, the character of China's trade is demonstrated by the fact that more than half the imports were associated with export processing—in other words, the materials or ready-made components needed for manufacturing export goods.

A study published on January 15 by a US-based think tank, Hale Advisors LLC & China Online, noted: "Fifteen years ago, intra-Asian trade inflows were simple. Capital goods and components were shipped from Japan to newly industrialising countries for processing and then re-exported to industrialised countries. The opening of China has added a new link to this chain. Capital goods are now shipped to Taiwan and Korea, which in turn send capital-intensive inputs to China and [South East] Asia for labour-intensive processing and assembly before re-export to developed markets."

The chief function of the Stalinist bureaucracy in Beijing has been to offer terms and conditions that have transformed China into the world's most attractive sweatshop. Many transnationals have shifted their labour-intensive operations to China from South East Asia or Latin America, because of favorable labour costs and other financial concessions—with devastating results in many countries. Mexico, for example, is estimated to have lost 230,000 manufacturing jobs since 2001, most of them to China.

At the Association of South East Asian Nations (ASEAN) meeting in November, many governments and business leaders expressed hostility to China's cutthroat competition for investment and export markets. Two-thirds of Chinese people are living on less than $1 a day and the average factory wage is just 40 US cents an hour—one-sixth that of Mexico and one-fortieth of the US.

As an article in the *Financial Times* noted: "In Singapore, Malaysia and other South East Asian countries, wage inflation followed as labour resources were stretched. In China, the supply of labour seems almost inexhaustible." This "inexhaustible" labour supply has been created at enormous social cost. Over 40 million workers once employed in state-owned enterprises have been sacked due to restructuring or bankruptcy. Millions more have been made redundant by the entry of foreign competition into virtually every area of the domestic market.

In rural China, the deregulation of agricultural prices and production has forced tens of millions off the land since the mid-1980s. In the largest internal migration in human history, an estimated 150 million rural Chinese have flooded into urban areas in a desperate search for work—at any wages. At the same time, five to 10 million youth graduate from schools each year, joining the labour market.

Despite its huge population, China's internal market remains relatively small, as most people are unable to afford the goods being produced. Only a small social layer has profitted from the exploitation of the world's largest cheap labour force. According to official figures released last November, there are now just over two million private firms in China, employing 70 million workers and with an output of $232 billion—compared to only 800,000 private companies in 1988.

While the average annual urban income is just $1,200, some five to seven percent of the Chinese population—predominantly the owners of small businesses, well-to-do farmers, professionals and state functionaries—earn between $3,000 to $12,000 a year. One percent—some 12 million people—earn over $20,000. An even smaller number of capitalist entrepreneurs, those with close ties to the global corporate giants and also to Beijing, have amassed staggering levels of wealth. There are now some 10,000 individuals in China whose assets exceed $10 million.

Urban and rural inequalities are also widening because 88 percent of foreign investment occurs in the coastal cities of China's south and east. Only 9 percent goes to the underdeveloped central region and 4.6 percent to the west. As a result, 57 percent of China's gross domestic product is produced in the east, compared to only 26 percent in the central region and 17 percent in the west.

China's economic development is completely geared to the requirements of transnational corporations. In fact, the domination of foreign capital over economic life is assuming dimensions far greater than when China was a semi-colony of the major capitalist powers in late 19th century and early 20th centuries.

A senior economic official commented on China's economic dependency in the *Peoples Daily* on September 3, saying: "First is the great technological dependence on developed countries. Second, China's manufacturing is still at a low level. Third is the lack of resources and a big demand for foreign material supply. Among these are 100 percent of fibre optics imports and integrated circuits, 80 percent of oil and oil processing and 57 percent of mechanical products. Fourth is a lack of large international [China-based] enterprises."

China's dependency on international capital was the overriding reason for opening up its domestic markets to foreign investors as part of the WTO agreements. Beijing is desperate to ensure that the rate of foreign investment does not fall. In the first nine months of last year, the Chinese government approved 24,771 foreign investment projects, a 33.4 percent increase over the same period of 2001. The official figures of the Ministry of Foreign Trade and Economic Cooperation valued new foreign investment in the last 10 months at a record $55 billion.

The owners of foreign-financed companies operating in China are reaping huge profits. Their owners were paid $27 billion in dividends in 2002 compared to just $6 billion in 1996. Transnationals now dominate the domestic markets for a range of industries—from auto and mobile phones to retail.

China's entry into the WTO has dramatically increased the ability of foreign firms to operate in its stock and financial markets. The previously protected domestic A-index shares for China's largest domestic companies are now open to overseas investors. These include large, flagship industrial corporations in "strategic sectors" such as energy and natural resources. The State Administration of Foreign Exchange announced in late November that it was setting an investment minimum of $50 million for China's stock exchanges—a measure that directly favours the major global investors.

China is highly vulnerable to any international downturn. Already analysts have pointed to a plunge in the growth of China's exports following the collapse of the US stock market bubble—from 27.8 percent in 2000 to just 6.8 percent in 2001. Growing economic difficulties in US, Japan and the EU are expected to see further falls in world demand and a sharp contraction in China's export sectors. Cong Liang from China's State Statistics Bureau told the *Dow Jones Business News* last month that he predicted a drop in the official economic growth rate to 7.5 percent this year from 7.9 percent in 2002 due to "a US war with Iraq, as well as rising unemployment and weak consumption by the rural population".

Any economic slowdown will rapidly expose the myth that China is the world's new industrial powerhouse and have far-reaching economic, social and political consequences. Above all, it will bring to the surface the underlying tensions created by the vast social gulf between the impoverished masses and the tiny minority who have benefitted from the regime's embrace of international capital and its needs.