

## WSWS International Editorial Board meeting

# The implications of China for world socialism

## Part One

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**9 March 2006**

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*Published below is the first of a three-part report on China delivered by World Socialist Web Site correspondent John Chan to an expanded meeting of the World Socialist Web Site International Editorial Board (IEB) held in Sydney from January 22 to 27, 2006.*

*WSWS IEB chairman David North's report was posted on 27 February. SEP (Australia) national secretary Nick Beams' report was posted in three parts: Part one on February 28, Part two on March 1 and Part three on March 2. James Cogan's report on Iraq was posted on March 3. Barry Grey's report was published in two parts: Part one on March 4 and Part two on March 6. Patrick Martin's report was published in two parts: Part one on March 7 and Part two on March 8.*

The question of China is becoming one of the central issues in relation to our perspective of building an international socialist movement in the twenty-first century.

The analysis of the International Committee of Fourth International (ICFI) has long foreseen that the end of the post-war equilibrium following the collapse of Soviet Union would usher in a new period of enormous social and political convulsion for world capitalism.

Today this crisis is expressed in two interconnected phenomena—the decline of the United States as a world superpower and the apparent rise of China as new global economic force. To a lesser extent, India is also following the path of China.

The sharpest expression of America's decline is the violent eruption of US militarism. The US has waged four wars—two in Iraq, one in the Balkans and one in Afghanistan—in just 15 years, and is threatening more. As its economic power declines, the US is compelled to increasingly rely on its military might to maintain its global hegemony. This course will inevitably lead the US into conflict with its competitors in Europe and Asia. One of its principal rivals is China.

It is worth pointing out that the opening up of China's economy was part of US foreign policy in 1970s. The original intention of Washington in reaching a rapprochement with Mao Zedong in 1972 was to create to a pro-Western alliance against the Soviet Union. Three decades later, the US is facing the consequences of the economic forces it unleashed. As China's market economy expands rapidly, the US increasingly regards it as a "strategic competitor".

China's emergence as a new economic power in the 1990s is at the centre of what bourgeois economists refer to as "global imbalances". China has been a force for world economic growth but it is based on very unstable social and economic foundations and, at the same time, is developing economic and geopolitical ties that are destabilising and disrupting previous global relations.

Martin Wolf, the chief economic commentator of the *Financial Times*, commented on December 13: "Paris burned; the oil price reached new

peaks; Alan Greenspan, the Federal Reserve Board chairman spoke of the 'conundrum' of low interest rates; global 'imbalances' increased; Mexico struggled; and China's exports of textiles and clothing came under renewed restrictions. What links these very different events? The answer is: the China shock...

"With an aggregate population of more than 3.3 billion, the developing countries of east and south Asia contain more than three times as many people as today's high-income countries. The collapse in the cost of communications and the worldwide opening of markets, the two driving forces behind contemporary globalisation, multiply the impact of these numbers on the global economy."

With massive reserves of cheap labour, the entry of China and India into the process of globalised production has dramatically changed the pattern of world economy. China has been a driving force behind the intensifying competition of global industries, the raising of commodity prices and the decline in the wages and conditions of large sections of workers throughout the world.

In December, China's National Bureau of Statistics officially added almost a fifth to the estimated size of the Chinese economy. After this latest revision, the gross domestic product (GDP) was over \$US2.1 trillion in 2005, making China the world's sixth largest economy. With an annual economic growth of more than 9 percent, it is likely that China will overtake France and Britain in 2006 to become the world's fourth largest economy after the US, Japan and Germany.

Until the early 1980s, China remained a largely agrarian, self-sufficient economy. Today, the country has taken over Britain's title in the nineteenth century as "the workshop of the world". Most of the world's toys and shoes as well as large portions of its textiles and home electrical appliances are now manufactured in China. It is also becoming a major consumer of raw materials and energy. In 2004, China consumed 7.4 percent of the world's crude oil, 31 percent of its coal, 30 percent of its iron ore, 27 percent of its rolled steel, 25 percent of its alumina and 40 percent of its cement.

China's industrialisation is mainly driven by transnational corporations, which use the country as a giant export-processing zone. This is bound up with another economic phenomenon, the rise of gigantic discount retailers in Western markets, particularly in the US. These retailers, with their extensive logistic networks and outlets, provide an ideal channel for mass producers of cheap goods based in China.

In the past, the symbol of American capitalism was General Motors, now it is Wal-Mart—the world's largest retail company. Wal-Mart's sourcing from China accounted for more than 10 percent of all US imports from China in 2002. Chinese exports have been a major factor in the growing US trade deficit, which was likely to exceed \$200 billion with China last year.

The trend is similar with Europe. The EU-China trade has increased more than 40-fold since 1978, making China the EU's second largest trade partner after the US. The EU has gone from a trade surplus with China in early 1980s to a deficit of €78 billion in 2004. According to the Chinese Ministry of Commerce, bilateral trade in the first 11 months in 2005 reached \$US196.78 billion—an increase of 23.6 percent from the previous year.

China's growing exports to the EU, particularly of textiles, has created tensions with Brussels, because of the threat to sections of European business and millions of jobs. But China will not remain just an exporter of clothes, shoes and DVD players. Driven on by the imperatives of the market, transnational corporations will increasingly establish more capital- and technology-intensive industries, such as auto and chemical, in China.

The latest example is Airbus. After signing an agreement with Beijing in December to sell 150 passenger jets to China worth €9 billion—the company's biggest ever sale—Airbus is considering build an assembly line in China. If that happened, it would be the first-ever production base established by the aerospace giant outside Europe. China has become the world's third largest travel market after the US and Europe, with 120 million air passengers in 2004. It is currently buying one sixth of all new planes in the world.

According to the China Association of Automobile Manufacturers, China overtook Japan last year to be the world's second largest auto market, with total sales of 5.92 million units—more than double the market size in 2001. With massive investment by transnational car companies, China's auto-making capacity has reached 5.7 million units.

Volkswagen, for example is already producing more cars in China than in Germany. General Motors is threatened with bankruptcy in the US and closed factories in North America and Europe. In China, however, GM has become the largest auto company. GM is planning to double its production in China by 2007 with additional investment of \$3 billion. The company is considering the export of low-cost cars (about \$US5,000) from its Chinese division to emerging markets such as India, Indonesia and Middle East. As its auto capacity is already far above domestic demand, the coming years could see the export of cheap Chinese-made cars around the world.

Prospects for China's auto exports are anticipated by its current exports of information technology goods.

An OECD report on December 13 noted that China has become the world's largest exporter of IT products such as mobile phones and personal computers. With an export volume of \$180 billion in 2004, China surpassed the United States by more than \$30 billion. The figure would be even bigger if goods shipped through Hong Kong were included. "Worth less than \$35 billion in 1996, China's [information and communication technology] goods trade reached almost \$329 billion in 2004, growing at almost 38 percent a year since 1996," it explained.

Nearly 90 percent of China's IT exports is generated by foreign firms that also have production or supply bases elsewhere. China had a trade deficit in IT goods with Taiwan of \$20 billion in 2004, while its deficit with South Korea was \$11 billion and \$6 billion with Japan.

## **Global re-division of labour**

Behind China's skyrocketing industrial output is the reality that it has become a giant assembly line, using components and parts made in other countries. The decline in tariffs, following China's entry into the World Trade Organisation in 2001, has lowered the costs for transnational companies to assemble goods in the country. The consequence is a radical

reorganisation of the division of labour in the Asia-Pacific region.

Before the Asian financial crisis in 1997-98, the so-called Asian "tigers" were independent cheap labour platforms exporting to the US and Japan. Now China has concentrated most of the region's export-processing, leaving South East Asia, South Korea, Japan, Taiwan and Australia as suppliers of capital goods, components and raw materials. China has become the largest export market for most of these economies. Because export volume is calculated according to the total value of finished products, China brings together the values produced in other Asian countries in the form of a huge trade surplus with the US.

This transformation is the one of the main factors behind the massive accumulation of US dollars in the East Asian central banks. China alone held \$819 billion in foreign currency reserves in 2005, mostly in dollar-based assets, which it continues to amass at the rate of about \$15 billion per month. By the end of 2006, China is likely to overtake Japan as the world's largest holder of foreign currency reserves.

This concentration of financial and economic resources in China has alarmed sections of the US ruling elite who fear that Beijing may form a trade bloc that could potentially undercut US interests in the region.

The US Congress accuses Beijing of artificially depressing the value of yuan to gain "unfair" competitive export advantage and, thus, being responsible for the growing US trade deficit. The union bureaucracy and sections of business blame China's low-cost labour for millions of workers in the United States losing their jobs and for the cutting of wages and conditions. They advocate a protectionist solution, demanding Beijing revalue the yuan against the dollar or face US trade sanctions.

Such a response to the crisis of American capitalism starts from the wrong end. The rise of China, India and Asia as a whole as a cheap labour platform, is not the cause but the consequence of the deepening economic crisis of world capitalism.

In the past 30 years, in order to offset falling profitability, transnational corporations have used the advances in technology and communications to shift or set up operations in places around the globe where labour is cheaper and the return is higher. Consequently, countries that were once of marginal importance to the world economy have been transformed into vital bases of production and service providers.

At the same time, the exploitation of the working class is being vastly intensified in every country, creating a widening gulf between rich and poor. There is an objective necessity for the international unity of the working class against global capital. Wal-Mart makes its profits from thousands of sweatshops in China, on the one hand, and by imposing low-wage jobs in the US, on the other, demonstrating the need for a common front between American and Chinese workers.

The accumulation of huge financial reserves in the Asian central banks and huge debts in the US is inseparable from the decline of the US as an industrial power and its growing dependence on imported production and services, especially from Asia. The volatility of such economic and financial relations has been clearly explained in the report on world economy by Nick Beams.

I want to add two points. Firstly, while massive funds are flowing into the US for more and more risky forms of speculation, the economic foundations of China, which will soon be the largest holder of US dollars, are no more solid. China is completely dependent on the ongoing inflow of foreign direct investment and expanding exports to the US and other markets.

More than \$60 billion in foreign investment is flooding into China annually to exploit the pool of cheap labour being created by the proletarianisation of hundreds of millions of peasants. But the economic law driving global capital to invest in China does not stop there. From the standpoint of capital as a whole, this vast reserve army of labour helps to maintain a constant downward pressure on wages. However, from the standpoint of each firm, there is a pressure to improve productivity, such

as through automation, and so use less labour to produce more.

As a result, ever more investment is required to build new factories and expand production in order to provide enough jobs. Investment and exports account for most of China's economic growth. But there is a limit to the demands of the world market for China's exports and its domestic consumption is severely constrained by the necessity to keep labour cheap to attract investment. Falling US demand for Chinese exports, or even a slow down in economic growth, will lead to massive unemployment.

That is why the Chinese government has never celebrated the extraordinary 9 percent average annual growth rates—the leadership knows this is the minimum needed to ensure the survival of the regime.

The investment and export-driven growth has its own contradictions. As local governments compete with each other for investment for their regions, this has led to the duplication of industrial projects and massive overcapacity. The US pressure for the revaluation of the Chinese currency has worsened the investment bubbles as “hot money” has flowed into China's property market. Any bursting of these speculative bubbles will cause a huge financial crisis in China, where the banking system is already struggling with staggering levels of bad debts.

More fundamental than the immediate economic problems is the social disaster created by the anarchy of the market and the concentration of wealth in the most privileged layers of the society. A UN Development Program reported in December that China's Gini co-efficient—the internationally-recognised measure of social inequality—has increased to 0.45, the same level as American society. The UN report pointed out that this gulf between rich and poor was created in just a generation and warned that the process has generated enormous hardship and dislocation for hundreds of millions of people.

Important social gains of the 1949 revolution, such as public education and universal healthcare, have been cut to the bone. The deregulation of industry has caused some of the worst pollution and safety records in the world. By 2010, China is likely to become the world's biggest producer of greenhouse gases. The human carnage of capitalist production is best exemplified in China's coal mining industry. China is the world's largest producer of coal, which it achieves through mass low-cost labour rather than the use of machinery. As energy demands have skyrocketed, so has the annual death toll in the mines. Many other Chinese industries are no less barbaric.

This is Chinese capitalism: labour intensive, oppressive to workers and socially unjust as well as being completely anarchic and environmentally destructive. Official corruption, drug addiction, prostitution and all the other social evils from the pre-revolutionary era have been brought back. As China and India become the new benchmarks for wages and conditions around the world, these economic processes are rapidly intensifying class tensions within China and internationally.

*To be continued*



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