

# China's economic rise destabilises world capitalism

## Part two

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*The following is the second part of a report delivered by World Socialist Web Site correspondent John Chan to a membership meeting of the Socialist Equality Party (Australia) from January 25 to January 27, 2007. Part one was posted on February 19.*

*SEP national secretary Nick Beams's report was posted in three parts—Part one on February 12, Part two on February 13 and Part three on February 14. James Cogan's report on Iraq was posted on February 15. Peter Symonds's report on Iran was posted in two parts—Part one on February 16 and Part two on February 17.*

The danger of imperialist war is compounded by the deepening economic crisis of world capitalism. After three decades of globalised production, the advanced capitalist countries, the US in particular, have discovered that the economic crisis that they sought to avoid by diverting manufacturing to cheap labour countries has returned home on a much larger scale.

China's foreign currency reserves surpassed the \$1 trillion mark last year, while the US trade deficit with China reached a new record of \$230 billion. The American and Chinese ruling elites have no progressive means for resolving these massive economic imbalances. Beijing needs to keep foreign capital flowing in and exports expanding, in order to create millions of jobs to maintain social stability. The US economy requires the supply of \$2 billion a day from the rest of the world, especially from Asian central banks, to finance its massive trade deficits.

If this process continues indefinitely, the financial system must collapse at some point with incalculable consequences for the world economy. The solution offered by the Democrats in the US Congress to "correct" these imbalances is to promote protectionist legislation against China, which will only heighten political tensions and threaten financial stability.

A new book *China Shakes the World: The Rise of A Hungry Nation* by James Kyngé, a veteran China correspondent for the British-based *Financial Times*, provides some insights into the global impact of China's enormous economic contradictions. His study found that China resembles, to some extent, the US in the late nineteenth century, in terms of its infrastructure development.

In the 1990s, after discovering that the US interstate highway system had saved American companies \$1 trillion over the past four decades, Beijing bureaucratic planners copied the US system across China. When this plan is finished by 2030, China will have 830,000 kilometres of expressways—a little longer than the existing

the US system. China is also building railways that duplicate much of the American railroad boom at the turn of twentieth century, including a rail line to Tibet—the "roof of the world". The scale of China's electricity power construction is also unprecedented. Every year since 2004, China has been building enough power plants to supply a major European country such as Italy or Spain.

On the other hand, Kyngé pointed out, the wages of Chinese workers are far worse when compared to English workers during the Industrial Revolution or an American worker in nineteenth century. Some 200 years ago, a British Weavers Minimum Wage Bill proposed to pay eight shillings a week. After adjusting for time and converting into Chinese currency, Kyngé estimated this was double the average wage of a semi-skilled rural migrant worker in China today. A Chicago worker in a lumber yard in the 1850s would have earned between one and half to three times more than a modern Chinese worker doing a similar job today.

The marriage between modern infrastructure and the country's vast pool of cheap labour is the key to China becoming the new manufacturing centre for global capital. But China is no longer just a cheap labour platform. It is also rapidly developing as a more sophisticated industrial power. According to the Organisation of Economic Cooperation and Development (OECD), mainly due to growing international investment, China last year surpassed Japan to become the world's second largest spender on research and development. China has also overtaken Germany as the fifth most prolific nation in filing patents for new processes and technologies.

Although its overall capacity for technological innovation still lags far behind industrially developed countries, these figures demonstrate that China is rapidly catching up. Coupled with rampant violations by Chinese companies of intellectual property rights—ranging from DVDs to cars—China's economy is growing not just at the expense of jobs in South East Asia and Latin America, but increasingly replacing skilled labour in the advanced capitalist countries.

China now exports not only shoes and clothes, but also car components and machine tools that still form the manufacturing basis of Western economies. It is not coincidental that after China's entry into the WTO in 2001, there has been a continuing drop in wages and a loss of jobs in both advanced and developing countries. In the US, some three million manufacturing workers have lost their jobs. In Europe, China's impact on small and

medium-sized firms, which employ the bulk of workforce, contributed to the continent's 9 percent unemployment rate.

The process of China moving up the technological ladder, Kyng's study found, is driven by the necessities of the market. Boeing, the US aircraft manufacturer, for example, initially had to send some production to China and other low-wage countries to maximise the returns to its shareholders. "But in doing so," Kyng wrote, "it threatened to put out of business many of its small, long-term suppliers [in the US]... The process was self-reinforcing. The more Boeing outsourced, the quicker the machine tool companies that supplied it went bust, providing opportunities for Chinese competitors to buy the technology they needed, better to supply companies like Boeing. Boeing makes money, but ultimately at the expense of the industries and jobs that sustain Middle America."

Chinese and Indian cheap labour is having an impact on more than just semi-skilled factory jobs or basic call centre services. IT companies now can outsource even the most skilled professional jobs to any geographical location. According to McKinsey Global Institute, some 9.6 million jobs in the US service sector could theoretically be outsourced overseas. If that happened, it would double the US unemployment rate from around 5 percent to more than 11 percent.

Every year, China produces more university graduates than the US and 60 percent of them cannot find a job. National language no longer offers protection to US workers from global competition. There is already a large pool of English-speaking, educated Indian workers. In China, an estimated 200 million people are learning English. The mere existence of these vast reserve armies of labour has created a huge downward pressure on wages and conditions, even for middle-class professionals in Western countries. In the final analysis, the integration of a new labour force of more than two billion low-cost workers in the global capitalist economy is a major factor behind the eruption of social unrest in France and other countries in 2006.

Kyng wrote in his book that the existing European welfare states are incompatible with competition from China. "Intellectually, many in Europe may find it distasteful that the EU runs a subsidy under which cows get more than \$2 a day—more than the average daily income of 700 million Chinese...

"China was able in the five years from the onset of the Asian financial crisis in 1997 to lay off more than 25 million workers from its inefficient and heavily subsidised state-owned enterprises. The fruits of that stern therapy are now evident in the competitive shock that is hitting Europe and America. But China is not a democracy... When workers rioted, protested, petitioned or dissented, it answered with well-honed authoritarian tactics. The result has been that state-financed social welfare has in the space of less than a decade ceased to be a millstone for the corporate sector. The housing, schooling, healthcare and pension obligations that over 300,000 state companies used to meet on behalf of their workers have now been eliminated, reduced or privatised. China today is a great deal less socialist than any country in Europe; the 120 million or so migrant workers, for instance, receive no welfare at all."

The social costs of this anarchic "market reform" in China is huge. More than 110,000 Chinese workers were killed in industrial

accidents last year. Most of the country's rivers and lakes have been severely contaminated by toxic chemicals. Most major Chinese cities are facing water shortages. The lack of public funding in education has produced huge hardships for students and their families. According to official figures late last year, the cost of university education in China has increased 25-fold since 1989, while average real urban incomes have increased only 2.3-fold in the past 18 years. While China's counterfeiting businesses has created a profitable, multi-billion underground economy, its fake goods, including drugs and foods, have damaged the health of tens of millions of people.

The "rise of China" does not signal a new golden age for capitalism. Long before China becomes a mature capitalist power, it will confront violent struggles with other powers for raw materials and geopolitical influence. The US and Japan have already expressed their open hostility toward a more assertive China. Last year Indian Prime Minister Manmohan Singh told Chinese President Hu Jintao that Asia was big enough for the two countries. In fact, the economic dynamism of the two rivals is placing them on a collision course for regional dominance.

China's socially destructive industrialisation is not based on a historic upward expansion of world capitalism, but is the product of its decay. China's economic growth will deepen class tensions around the world by intensifying the downward global pressure on wages and working conditions. Within China, harsh social conditions and political repression must inevitably generate a social explosion among the country's hundreds of millions of workers and rural poor.

The world capitalist system has already produced the objective conditions for revolutionary upheavals across the globe. Our next step is to reach out to the most advanced layers of young people, workers and professionals to equip them with an international socialist perspective. This will be the most decisive factor in the struggles against war, militarism and social inequality.

*Concluded*



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