The China resources boom and the gathering clouds of global recession

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"Sound economic management" and "fiscal responsibility" are buzz words that have featured heavily in the Australian election campaign. Prime Minister John Howard has boasted of his government's record of presiding over a protracted economic boom and warned of the dangers of "inexperienced" leadership if Labor wins office. Labor opposition leader Kevin Rudd has responded by insisting that he too is "an economic conservative" and accusing the government of "lost opportunities" and the lack of future vision.

The reality of global capitalism in the twenty-first century, however, is that national governments have no control over the vast movements of capital that determine the fate of millions. "Economic management" consists of following the dictates of the market to remove all barriers to private profit—an endless process of slashing public spending, cutting corporate taxes, opening up state bodies to private investment and profit—and driving up the exploitation of the working class. That is the meaning of "economic conservatism" and "commitment to reform".

The growth of the Australian economy over the past decade rests on factors that have nothing to do with Australian government decisions. For all of the "debate" about the economy, there has been virtually no discussion of the extent, significance and consequences of the booming resource trade with China. Yet it is the rise or fall of the Chinese economy, along with the growing financial instability in the US and the dangers of a global recession that will determine the fate of the Australian economy, not the policies of the next government.

Like gamblers on a winning streak, many analysts assume the resources boom will go on forever. The *Sydney Morning Herald* commented on October 24: "It is the boom that won't go away. China's relentless drive to industrialise and modernise continues to flow through to our own economy." The newspaper paper cited Philip Mitchell, the managing director of Rio Tinto Iron Ore Development, who marvelled earlier this year: "China is building from scratch a city the size of Brisbane every month. Every month. And our iron ore is fuelling that phenomenon."

The Reserve Bank of Australia (RBA) this month predicted "moderate growth" for the Australian economy in 2008, given the instabilities in the US and global financial system: "The world economy is still expected to grow at an above-average pace, however, led by strong growth in China and other parts of Asia. High global commodities prices remain an important source of stimulus to Australian spending and activity." Driven by the expansion in the resources sector, total investment projects being planned or under construction reached $A356 billion in the September quarter, an increase of $40 billion over the same period last year.

Sales to China by the world's largest mining giant, the Melbourne-based BHP Billiton, grew almost 50 percent to $6 billion in the second half of 2007, compared to the same period last year. China now purchases 12.5 times the amount of resources from BHP than it did in 2003. To boost its economic leverage, BHP is now attempting to take over the world's second largest mining group Rio Tinto for a massive $160 billion to form a $400 billion behemoth.

China, the so-called "workshop of the world", now consumes about 40 percent of the world's iron ore and is the world's largest steel producer. Its steel production for 2007 is estimated at 495 million tonnes, greater than the combined output of North America, the EU and Japan, which, taken together, totals 463 million tonnes. China and India will account for 73 percent of the world's extra 100 million tonnes of steel manufactured this year. As a result, the price for this single commodity has jumped 140 percent in the last five years, and is expected to rise 50 percent this year. Other minerals have experienced similar growth.

The resources boom has buoyed the Australian economy as a whole, boosted share prices and massively enriched a significant layer of the business elite, along with those who serve it—lawyers, financial advisers, stock brokers, etc. Macquarie Bank strategist Rory Robertson recently summed up Australia's economic dependency on China: "A key reason why the Australian economy is strong and the US economy is weak—why the RBA is hiking [interest rates] while the Fed [US central bank] is cutting—is we are enjoying the biggest boom in Australian commodities prices in maybe a century."

As a result of the China boom, the Howard government has enjoyed a massive boost in revenue. This has been used to slash taxes for the rich and to heavily subsidise private corporations and businesses. The ANZ bank chief economist Saul Eslake has estimated that since the acceleration of the resources boom in 2002-03, the federal government has reaped additional revenues of at least $A398 billion. The extra money has been particularly useful during election campaigns for Howard's "pork barrel" promises.

In mineral-rich Western Australia and Queensland, the state Labor governments have also been able to cash in on the boom. Western Australia now supplies 40 percent of China's iron ore imports and accounts for 60 percent of all Australian exports to China. But, as in Australia as a whole, working people in Western Australia have seen no benefit from this frenzy of economic activity. Like the Liberal-National government in Canberra, the state Labor government in Western Australia has continued to starve essential social services of funds. Moreover, the state's heated economy has led to skyrocketing housing costs, compounding the economic problems facing workers.

Amid a looming recession in the US there is growing unease in financial circles about the dangers facing the world economy. In a rare candid moment Australian treasurer Peter Costello last month pointed out that a radical readjustment in China's financial situation had the capacity to "set off a huge tsunami that will go through world financial markets". While Costello argued for retaining "experienced economic leadership", the very term that he used—a global financial tsunami—highlights the fact that the government has no power to influence, let alone control, what has the potential to be the equivalent of an immense natural disaster.

Rudd has also hinted at the possibility of a collapse of the resources boom. His so-called "education revolution" has nothing to do with rebuilding run-down public schools or providing free access for young people and workers to colleges and universities. Rather, it is a warning to the corporate elite that the good times that have flowed from high commodity prices will inevitably come to an end. Critical of the Howard government for "squandering opportunities", Rudd argues that Australian capitalism can remain competitive only by exploiting a better trained labour force and a more technologically-savvy economy.

The extent of the looming crisis, however, dwarfs all of these plans and calculations. China's huge export sector is heavily dependent on the US, European and Japanese markets, where financial instability and trade protectionism have been rising. There are increasing signs of the emergence of a US recession, which will reverberate internationally. China especially will be hard hit by any drop in investment from, and exports to, the US, which will, in turn, impact on China's demand for Australian minerals.

Economic analyst and chairman of Morgan Stanley's Asia operations, Steven Roach, warned on November 14 against the widespread assumption that China's rapid growth meant it had escaped the impact of the US subprime crisis. "Asia will not receive special dispensation from a US recession" that might happen next year, he commented to Reuters. Roach predicted that a US recession would see China's growth rates decrease to 8-9 percent—far lower in Japan, the world's second largest economy and also a major market for Australian mineral exports.

Roach took no account of China's domestic situation, where investment bubbles in property and share markets are increasingly unstable. China's share market is so inflated that it has produced some of the world's largest companies—on paper. State-owned PetroChina is now the world's first trillion (US) dollar company, twice the size of the next largest, Exxon Mobil ($488 billion)—even through PetroChina's production is much lower than Exxon Mobil's. PetroChina's share price is 60 times its earnings per share—compared to the world average for the oil industry of 18 times.

American billionaire share investor Warren Buffett recently sold his stake in PetroChina—after making a huge profit—and advised other investors to be "cautious" about Chinese stocks. The *Wall Street Journal* warned: "PetroChina isn't alone. In the resource sector, China Shenhua Energy, the country's largest coal company, is valued at almost $200 billion, more than 10 times the market capitalisation of the largest US coal producer, Peabody Energy. Baoshan Iron & Steel, China's leading steel company, has a market value of $40 billion, three times that of US Steel, despite similar annual steel production."

Australian economic analyst and director of Access Economics, Chris Richardson, told the Australian Broadcasting Corporation (ABC) last month: "Twelve months ago, it was probably not likely that China would blow a tyre, but it's picking up speed and clearly travelling unsustainably fast. As, and when, China eventually stumbles, that will prove a major problem for Western Australia." And the impact would certainly not stop with Western Australia.

China's giddy, uncontrolled economic growth is not so different from that of the "Asian tigers", which came crashing down during the Asian financial crisis in 1997-98. Howard and Costello continue to pat themselves on the back for having pulled the Australian economy through the turmoil of the late 1990s. In fact, it was the explosion of exports to China that saved the day for the government. A similar crash in China, or even a significant slowing of its growth rates, would trigger a "tsunami" that would rapidly engulf the Australian economy.

Whether Labor or the Coalition wins the election on November 24, the next government will place the full weight of any global economic downturn onto the backs of working people. The vast majority of the population, whose social position has been severely eroded during the past decade of the resources boom, faces the prospect of ever greater economic uncertainty as jobs, conditions and essential services come under further assault. The fact that sections of business are leaning towards Labor is a sign that its political services are once again required—as they were during the period of the Hawke and Keating governments in the 1980s and 90s, to ram through the next round of free market restructuring and reform.

Workers around the world face the same dangers. In China, the basis for the staggering economic growth has been the super-exploitation of tens of millions of workers, many of whom have only recently come from impoverished rural areas. Protests and riots by workers and the rural poor against social inequality, official corruption, pollution, economic hardship and other social evils are already frequent, as are the police-state measures used to suppress them. Any economic recession will have a devastating impact on the lives of millions, who are already barely surviving from day to day.

The present economic and social order stands indicted for its incapacity to guarantee a decent standard of living to working people, despite the huge advances in science, technology and production. The only answer to the anarchic operations of the global market, which engulfs all in its path like an uncontrollable tsunami, is to bring the world economy under the rational and planned control of humanity to provide for its social needs, rather than the profits of a few. The only social force capable of carrying out such a vast transformation—from global capitalism to global socialism—is the international working class. That is the basis of the program for which the Socialist Equality Party is fighting in the Australian 2007 election campaign.

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