

# China eclipses Japan as the world's No. 2 economy

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China emerged this week as the world's No. 2 economy, still behind the United States but ahead of Japan, which has held the position for 40 years. China's gross domestic product (GDP) for the second quarter was \$US1.335 trillion, compared to Japan's \$1.286 trillion, and appears certain to surge further ahead. China's growth rate for the quarter was 10.3 percent, as against just 0.4 percent for Japan.

Based on China's staggering growth rate averaging nearly 10 percent for the past two decades, economic pundits project that it will overtake the US to become the world's largest economy by 2030, if not earlier. China's future course, however, will neither be inexorably upward nor peaceful. Its rise is fundamentally altering the global balance of forces and foreshadows a new period of confrontation and conflict among the major powers.

There is no shortage of statistics demonstrating China's growing economic clout. Last year, the country overtook Germany as the world's top exporter. This year, China passed the US as the world's largest car market. Its output of steel is almost equal to the rest of the world combined. Last month, International Energy Agency figures showed that China is now the world's largest consumer of energy, ahead of the United States.

China's position, however, cannot be judged as an isolated national entity, but only in relation to the global economy, which dominates imperiously over every country. China's rise is intimately bound with its function as the world's premier cheap labour platform, which in turn has created explosive economic and social contradictions. While its overall GDP is the world's second largest, its per capita GDP is just \$3,600—that is, 98th in the IMF's 2009 rankings, between impoverished Albania and El Salvador.

The huge social gulf between rich and poor makes a mockery of the lingering claims of the Stalinist bureaucracy in Beijing to be socialist or communist. China has the second largest group of American dollar billionaires in the world behind the US, yet 150 million people live in abject poverty on \$US1 or less a day.

Above all, the processes that have transformed China into the workshop of the world have created a huge working class—of around 400 million. Tens of millions of young rural workers have flocked into industrial cities and zones, where they labour under oppressive conditions. The strikes in auto plants and other factories in June and July sent tremors through ruling circles in China and internationally. Workers made clear they would not continue to accept their status as sweatshop labour for global corporations.

The deepening global economic crisis will intensify these social tensions. The Chinese government only avoided a sharp economic contraction by rolling out huge stimulus packages and vastly expanding credit. These measures, which are already reaching their limits, have created rampant speculation, particularly in housing, that will inevitably implode. Chinese professor Li Daokui has warned that the housing bubble in China is “much bigger” than the housing problems in the US and Britain before the 2007-08 financial crisis.

A global slowdown will exacerbate China's internal contradictions, as well as frictions with its rivals. The flip side to China's economic rise is the relative decline in the position of Japan and the United States. Neither power will accept its relegation to an inferior status willingly or peacefully. China's huge demand for energy and raw materials is already bringing it into competition with existing powers on every continent.

The Japanese press barely noted that the country had

slipped behind China, but there is no doubt that the matter is discussed intensively in ruling circles. In the late 1980s, Japan was being hailed as the miracle economy that would eventually overtake the US. The value of land in Tokyo was said to be worth more than all of California. That was before the stock market and property bubbles imploded in the early 1990s, leading to two decades of economic stagnation and slump.

Like other Asian economies, Japan is heavily dependent on an expanding China as its top export market and source of imports. Japan and China remain rivals for political and strategic dominance throughout the region and have several outstanding maritime territorial disputes. China's military expansion, including the building of a blue water navy to protect its vital shipping routes, is regarded as a security threat by Japan, which maintains its alliance with the US and has been quietly building its own military capacities.

The Japanese government joined the Obama administration this week in criticising China's "lack of transparency" about the growth of its military. The comments followed the release of the latest Pentagon report claiming that China's defence budget was larger than publicly revealed and that its military expansion was "a major factor in changing East Asian military balances". In fact, the most destabilising factor in Asian, indeed world politics, is the attempt by the US to offset its economic decline through the aggressive use of its residual military might—most obviously in its occupations of Iraq and Afghanistan and continuing threats against Iran. The US defence budget exceeds that of all its major rivals, including China, combined.

In recent months, the Obama administration has provocatively cut across China's interests in East Asia by foreshadowing joint naval exercises with South Korea in the Yellow Sea despite Beijing's objections, and by siding with South East Asian countries in their rival claims to China's in the South China Sea. Washington's moves are directed at maintaining a strong American naval presence in waters near the Chinese mainland and thus the threat that the US could choke off essential supplies in the event of a conflict.

These dangerous military tensions are a product of the underlying economic realignments. In the midst of World War I, Lenin explained in his farsighted pamphlet *Imperialism, the Highest Stage of Capitalism* that permanent peace was impossible under capitalism.

Periods of relative calm resting on arrangements between the major powers at one point in time were necessarily upset by the uneven rates of development among contending capitalist economies. The competing interests of declining powers and rising rivals could only be decided by a test of strength—that is, by war.

Imperialist alliances, Lenin wrote, "no matter what form they may assume, whether of one imperialist coalition against another, or of a general alliance embracing all the imperialist powers, are inevitably nothing more than a 'truce' in periods between wars. Peaceful alliances prepare the ground for wars, and in their turn grow out of wars."

After two world wars that claimed the lives of tens of millions and a period of protracted social and economic upheaval, a new capitalist equilibrium was finally established in the aftermath of World War II, which rested, in the final analysis, on the economic strength of American capitalism. The decline of the US and the rise of rivals such as China signal the emergence of a dangerous new period of conflict and wars. There is only one way to prevent another descent into barbarism—the revolutionary overthrow of the profit system and the outmoded nation state system that is the root cause of war. There is only one social force capable of carrying out that historic task: the international working class.

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