WikiLeaks cable highlights fears in Beijing over social fragility

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A diplomatic cable from the US embassy in Beijing during 2007, leaked by WikiLeaks, has provided an insight into the concerns within the Chinese regime over continuing economic and social problems, as well as the relatively friendly relations between Chinese officials and American diplomats prior to the 2008 global financial meltdown.

The Chinese leader named in the cable was Li Keqiang, now vice premier, who is widely seen as the successor to Premier Wen Jiabao or even President Hu Jintao in 2013. Li was at the time the Chinese Communist Party (CCP) secretary of the northeastern Liaoning province. During a dinner with then US ambassador Clark Randt on March 12, 2007, Li remarked on the challenge of running Liaoning province, with its legacy of failed state-owned enterprises and large numbers of laid-off workers.

Reporting on the dinner, Randt's cable portrayed a friendly Chinese leader who was preoccupied with rising social unrest over unemployment, lack of housing and a widening gap between rich and poor. At the same time, Li was anxious to assure the US ambassador that American investment remained extremely welcome. The cable described Li as an "engaged and well-informed" leader.

Li told Randt of his nervousness about the political impact of the deepening social inequality in Liaoning province, despite its 12.8 percent growth in 2006. The cable said: "Liaoning ranks among the top 10 Chinese provinces in terms of per capita GDP, yet the number of its urban residents on welfare is among the highest in the country and average urban disposable income is below the national average. By contrast, rural disposable incomes are above the national average. Even so, incomes for Liaoning farmers are only half that of urban residents."

Li said there was widespread discontent among ordinary people over unaffordable education, health care and housing, "but it is corruption that truly incenses them," the cable said. The point was repeated twice in the cable.

The situation in Liaoning is a microcosm of China as a whole. Corrupt officials have plundered state-owned industries through wholesale privatisation and transformed the region into a vast cheap labour platform for Chinese, US and other international corporations.

Li reassured Randt of his support for the property law that was about to be passed by the National Peoples' Congress. The law, the main item at the congress, was designed to protect the private wealth of China's new bourgeoisie and the huge investments of multinational companies. "The property law, which will impact the foundation of China's economic system, demonstrates just how far China has come in 30 years of reform," the cable noted approvingly.

Specifically welcoming the investment of US corporate giant Intel in Dalian, a major port city in Liaoning, Li reportedly said there "will be absolutely no obstacles to the investment".

Li also impressed the US ambassador with "a spirited defence of free trade". He argued that just as the US should not resort to protectionism against Chinese exports, China had to open up its banking, retail and distribution sectors to foreign capital. Li said China could offer the "excuse of protecting jobs" to lobby against market opening "given the millions of workers in state-owned sectors" as well as "service, distribution and retail sectors".

Li opined that US-China relations were "developing smoothly". He agreed with Randt that "our common interests had led to increased cooperation in a number of areas, including on North Korea”. While at that time, the Bush administration was pressuring China for a revaluation of its currency, Washington was happy to have a massive influx of cheap exports from China that lowered US interest rates. In a so-called virtuous circle, the export earnings Beijing made were reinvested in US bonds, worth hundreds of billions of dollars, helping to prop up the US housing bubble and debt-driven consumption.

The conversation took place just months before the eruption of the US subprime crisis, which ultimately led to the full-blown global collapse from September 2008. Even then, the fragility of Chinese capitalism was underscored by Li’s acknowledgement that many of China’s GDP statistics were “unreliable”.

Instead of relying on the official data, Li said he evaluated Liaoning’s economy by looking at 1) electricity consumption; 2) volume of rail cargo; and 3) amount of bank loans disbursed. The cable said: “By looking at these three figures, Li said he can measure with relative accuracy the speed of economic growth. All other figures, especially GDP statistics, are ‘for reference only’, he said smiling.”

His comments point to the dubious methods by which local Chinese officials inflate GDP statistics in order to impress their superiors. Beijing never seriously challenges these figures, because they also serve to deceive the working class, by creating the impression that the economy is powering ahead. In 2009, a scandal erupted when the total of local economic output figures in the first half of the year was 10 percent higher than the national GDP announced by the National Bureau of Statistics.

Li’s candid statement has confirmed the concerns expressed by many analysts after the 2008 financial meltdown. These commentators pointed to sharp falls in electricity and oil consumption to suggest that the blow to China’s economy was worse than its official figures showed. China’s lowest official growth rate fell only to 6.1 percent in the first quarter of 2009, when more than 20 million migrant workers lost their jobs, mainly from export industries.

While a flood of state-ordered bank lending later generated a recovery, the social tensions described by Li have only sharpened. This October, Premier Wen appealed to European business and political leaders not to join the US push for a rapid revaluation of the yuan. “Should China have problems in its economy and society, it would be disastrous for the world,” he said, warning a currency revaluation would lead to massive layoffs in China, possibly triggering a social explosion.

Over the past three years, relations between the US and Chinese elites, symbolised by the friendly dinner, have shifted from cooperation to antagonism. The mutually beneficial “dollar cycling” process has broken down. In both countries, governments are resorting to protectionism and whipping up nationalism to divert rising discontent at home. The US House of Representatives passed a bill in October that would allow the Obama administration to impose tariffs on China, and the White House has repeatedly threatened to name China a “currency manipulator”.

Behind the backs of ordinary people, discussions have already been held about preparing for war against China, as revealed by another US cable published by WikiLeaks last week. Far from seeing China’s continued holding of US debt as a benefit, US Secretary Hillary Clinton asked Australian Prime Minister Kevin Rudd in March 2009: “How do you deal toughly with your banker?” Rudd replied that if they could not integrate China as a cooperative partner, the US and its allies would need to prepare to “deploy force if everything goes wrong”.

This chilling exchange, which envisages a war between two nuclear powers, highlights how the drastic deepening of the global capitalist crisis over the past two years has created immense and volatile tensions between China and the US, leading to the prospect of nuclear war, whatever the intentions in Washington and Beijing.