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China

# Birth of a giant

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**China is not only an immense tee-shirt factory. It is also a society that is rapidly changing, comprises a fifth of the planet's population and is bursting onto the scene of the world economy.**

[<https://www.internationalviewpoint.org/IMG/jpg/china3.jpg>]

China does not fall into the classical categories, since it is a country governed by a Communist Party, that is staking everything on liberal globalisation. We find this unprecedented combination in its economic structure, which "stacks up" several sectors and which is evolving very rapidly in a double movement of internal liberalisation and opening up to foreign capital.

It was first of all the small industrial enterprises in the towns and villages which rapidly developed in the course of the 1980s. They are still called collectives, but what they are in fact are mixed enterprises, some with the status of a co-operative, and in any case increasingly managed according to the norms of private enterprise. The 1990s saw the emergence of a new kind of enterprise, with a first phase of foreign investment coming essentially from the "diaspora": Taiwan, Hong Kong, Macao, etc. Lastly, after the 1997 financial crisis, it was investment from the major industrial countries that took over, with a massive influx of capital, which in 2003 exceeded 50 billion dollars.

A series of reforms accompanied this double movement of internal liberalisation and opening up to the world market. A first law authorised private individuals to own limited companies. In 2004, the Constitution was amended in order to reinforce the role of the non-state sector and to reaffirm the role of private property. The ban on private enterprises operating in certain sectors (infrastructures, public services, financial services) has just been abolished, in 2005.

Foreign direct investment has been authorised and encouraged by the establishment of free enterprise zones in coastal regions and by the lowering of Customs duties. The state monopoly of foreign trade has been dismantled, as has the system of multiple currency exchange rates. Following this, China has become a member of the World Trade Organisation (WTO).

## An export-oriented economy

So the private sector has expanded: today it is responsible for more than half of Gross Domestic Product (GDP) and for three quarters of exports. It is this sector that is creating the bulk of new jobs and achieving the highest levels of profitability (15 per cent in 2003, as against 5 to 10 per cent in the state sector).

Within this private sector, foreign companies - often allied in joint ventures to Chinese companies - are responsible for 75 per cent of exports. But the exports of the private sector that is under Chinese control are expanding even more quickly, as new export licences are accorded to it. At the same time the state sector is being subjected to permanent measures of reorganisation, which have led to the suppression of 45 million jobs in the course of the last five years. But 35 per cent of state enterprises are still considered unprofitable, and one in six has negative assets.

All these transformations have taken place in a context of very high growth (see Annex 1) and on the basis of a spectacular accumulation of capital: today, investment represents 42 per cent of GDP, compared to around 20 per cent in France and 15 per cent in Latin America.

Exports have been the driving force of this economic growth, thanks to very low wage costs (ten times lower than in

the rich countries) and a favourable exchange rate. China chose to establish a fixed rate of exchange between its currency (the yuan) and the dollar, following in this the precepts of the International Monetary Fund (IMF) and the World Bank. So since 2000, the yuan has accompanied the decline of the dollar, which is giving a further boost to its exports and enabling it to attract an enormous inflow of capital.

The relations between China and the United States are therefore complicated: China is responsible for nearly 40 per cent of the American deficit, but it helps to finance this by buying financial products priced in dollars. The United States would like to impose a revaluation of the yuan to make Chinese products less competitive, but it would be seriously destabilised if China stopped investing its surplus dollars.

Last July, the Chinese authorities made a semblance of being reasonable by accepting a ridiculous revaluation of the yuan (scarcely more than 2 per cent!). The undervaluation of the yuan is unquestionable, but it is not only a question of monetary manipulation: it is fundamentally the result of the non-redistribution to Chinese workers of the benefits of growth.

## Wages and inequalities

The evolution of wages is obviously fundamental, but we have only imprecise information about it. We know that there are enormous inequalities between regions: the average income in Shanghai is four times higher than the national average. The rate of unemployment is 8 per cent in the urban areas and it has been estimated that in the countryside 200 million people are under-employed. This "industrial reserve army" is leading to a big rural exodus and has a negative impact on wages, whose growth remains on average inferior to the growth of GDP.

High growth is nevertheless producing an increase in overall income, in a chaotic fashion, so that we have at the same time a growth in inequalities and a reduction of absolute poverty. An increase in wages that would be more in line with the increase in production would make it possible to readjust growth towards the internal market, to reduce the role of exports and of foreign investment, and thus to embark on a process whereby wage costs would converge with international norms.

[<https://www.internationalviewpoint.org/IMG/jpg/china4.jpg>]

That is to some extent what happened in South Korea, on a different scale, and through very violent social struggles. Although such an evolution appears to be inevitable, it is likely to take a long time, during which the competitive advantages of China will be considered as intolerable by the major industrialised countries.

It is these inequalities of income which mean that the model is not in the end "sustainable". One of the dimensions of the problem is the aging of the population. In 2030, a quarter of the population will be over 65: that is the paradoxical result of a brutal birth control policy. Now, the public pension system only covers 14 per cent of the active population. Since it was reformed in 1997, it provides for the payment of a basic pension at a uniform rate and for the payment of a supplementary pension that is proportional to the contributions paid, indexed on the rate of bank deposits. The government would like to transform this second component into individual private pension fund accounts. An experimental reform along these lines has been launched in several provinces. This question will weigh heavily on the social situation for a long time.

## Where is China going?

Everything depends on the relative speed of several phenomena. In the imperialist camp, the crocodile tears about non-respect for social rights can be transformed into more or less aggressive retaliatory measures. However, the imperialist camp is divided. For some, competition from China represents a deadly threat, which extends to the high technology sectors. But for others, China presents a double advantage: it offers possibilities for exports, with one of the rare big domestic markets domestic that is expanding, and it also provides low-price consumer goods, which makes it possible to lower the value of labour power.

It should be said in passing that this characteristic - already analysed by Marx in *Capital* - annihilates the argument of the advocates of globalisation, according to which low-priced imports coming from China benefit consumers. If present trends continue, it is likely that these advantages will progressively become secondary in relation to the negative aspects of competition. We will see the unleashing of the aggressiveness of several imperialist powers, with a new extension of protectionist measures, similar to the European quota system, and the reaffirming of the demand for a revaluation of the yuan, all this wrapped up in rhetoric about the rights of man and protection of jobs.

But at the end of the day it is the Chinese workers and peasants who hold the key to the way things will evolve in the future. That is not simple a piece of rhetoric. If they manage, in spite of the repressive apparatus of the party and the only trade union (which is, very classically, the transmission belt for the party), in organising and in imposing a new redistribution of income and control over economic priorities, then a great step forward will have been taken. They will then have put an end to the double Chinese paradox: a economy that is growing rapidly and redistributing little, and a kind of "bureaucratic state capitalism" which will not be able for long to succeed in combining the most repugnant traits of wildcat capitalism and of a totally degenerate "communism".

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### Annex 1

## Environmental disasters

The growth of the Chinese economy is often presented as in itself an ecological catastrophe. Thus, six out of the ten most polluted cities in the world are in China, acid rain falls on a third of its territory, contaminated water kills more than 30,000 children every year. There are many other examples of the ills of chaotic economic growth. The level of productivity of energy is very bad: for every dollar produced, China expends 4.7 per cent more energy than the United States, and 11.5 per cent more than Japan. After the improvement that took over the last two decades, energy consumption has begun to increase more quickly than GDP since 2002. Coal and oil - of which the purchase by China contributes to increasing the price - are the main sources of energy.

The government has invested a lot of money in the environment (85 billion dollars in the course of the last five years), thus opening up an enormous market for foreign enterprises. But it is incapable of controlling the disastrous practices of these enterprises, which are above all preoccupied by their turnover. The key question is to know whether the government will be capable of imposing on enterprises a rate of growth that is more respectful of the environment and of carrying out adequate energy policies. So it is in China, taking into account its scale and its rate of growth, that to a large extent the fate of the environment of the planet will be decided.

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### Annex 2

## The weight of China

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With 1.3 billion inhabitants, China has about a fifth of the world's population. This effect of scale makes its economic performance all the more spectacular: in the course of the last two decades, GDP has increased by an annual average of 9 per cent and has thus been multiplied by six. The absolute scale of the economy today surpasses those of some of the main countries of Europe. But per capita GDP is still very low (4,000 dollars a year in comparative buying power, as against 25,000 dollars in France).

The active population comprises 757 million people, of whom 490 million are in the rural zones. 46 per cent are employed in agriculture, 18 per cent in industry and 36 per cent in services.

Chinese exports have increased considerably, going from 10 billion dollars in 1978 to 226 billion in 2002, and they represent about 4 per cent of world exports. At 450 billion dollars, the accumulated stock of foreign investment in China is the fifth biggest in the world (in the United States the figure is 1,300 billion).