

# The U.S. Economy and China: Capitalism, Class, and Crisis

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The U.S. economy is in bad shape and people are understandably seeking solutions. Many, encouraged by mainstream media and politicians, believe that China’s trade policies bear primary responsibility for the structural decay of our economy and that recovery will require, above all, pressuring the Chinese government to implement “market-freeing” policy changes that will bring the U.S.-China trade relationship into balance.

Despite its popularity, this nation-state approach to understanding the dynamics of the U.S.-China relationship is seriously flawed. It encourages people to see U.S. industrial problems, falsely, as the outcome of a contest between China and the United States, in which the Chinese government has boosted the well-being of its citizens at U.S. expense, through “unfair” practices. As a consequence, it leads to counterproductive policy recommendations.

In this paper, I offer an alternative approach to understanding the U.S.-China trade relationship; one that relies on a class-based analysis of (global) capitalist dynamics. It leads, not surprisingly, to very different economic insights and political challenges. For example, it reveals that the threat to U.S.-based manufacturing activity comes not from China, but from the operation of a transnational, corporate-shaped, regional production system, in which China serves as the region’s final assembly platform.

It also reveals that, while both transnational capital and elites in China have greatly benefited from the operation of this system, Chinese workers have paid a high cost; in fact, Chinese workers experience many of the same negative consequences from its operation as do workers in the United States. It also explains why both the Chinese and the U.S. governments have responded to the current world crisis with strategies designed to maintain the status quo, despite the negative effects of this decision on working people.

In short, my analysis reveals that it is capitalism—not competition between China and the United States—that is the source of our economic problems. Our challenge, then, which I briefly address in the conclusion, is to draw on the above insights to develop a strategy capable of both illuminating and contesting capitalism’s destructive logic—a task that puts U.S. workers in solidarity, rather than competition, with workers in China.

## **The “Nation-State” Argument**

Those who argue that U.S. problems owe much to China’s growth strategy tend to reason as follows: Chinese state policies have transformed China into an export powerhouse, with the U.S. market its main target. Initially, Chinese exports were predominately labor intensive, low-technology products, such as textiles and shoes. However, beginning in the mid-1990s, China also became a major exporter of higher valued added, high-technology products, such as computers, cell phones, and other consumer electronics. As *BusinessWeek* points out, this is far from a “normal” development:

America has survived import waves before, from Japan, South Korea, and Mexico. And it has lived with China for two decades. But something very different is happening. The assumption has long been that the US and other industrialized nations will keep leading in knowledge-intensive industries while developing nations focus on lower-skill sectors. That’s now open to debate. “What is stunning about China is that for the first time we have a huge, poor country that can compete both with very low wages and in high tech,” says Harvard University economist Richard B. Freeman. “Combine the two, and America has a problem.” [1]

This one-two punch is said to have devastated the U.S. manufacturing sector, driving firms out of business and undermining both manufacturing employment and wages. Families were forced into greater and greater debt to sustain consumption. And, as a growing share of consumer spending went to the purchase of goods produced in China (and other countries), government efforts to boost employment and production became increasingly ineffective.

Financing the resulting trade deficit also required ever greater foreign borrowing, especially from China, which helped accelerate the financialization of the economy and put additional limits on U.S. fiscal and monetary policy. Taken together, these trends contributed to a weaker, more unbalanced and unstable growth process, laying the groundwork for the current crisis.

Logically, then, reversal of these trends is key to the revitalization of the U.S. economy, an outcome best achieved through a restructuring of the U.S.-China economic relationship. More specifically, China must be pressed to revalue its currency, open its markets wider to U.S. goods, and play by the accepted rules of “market-based” capitalist competition. These steps can be expected to boost U.S. exports to China, reduce U.S. imports from China, and, as a consequence, renew U.S. manufacturing, boost “family-wage” job creation, reduce domestic and foreign debt, and restore national policy effectiveness.

This argument promotes the view, intentionally or not, that our task is to strengthen capitalist market forces in China. As we see next, this view rests on a poor understanding of the forces at work in China (not to mention capitalist dynamics) and the consequences of those forces for U.S. (and Chinese) workers.

## **China’s Adoption of an Export-Driven Growth Strategy**

China has indeed become an export powerhouse. Between 1990 and 2008, China’s share of total world exports rose from 1.8 percent to 9.1 percent. [2] China is on pace to become the world’s biggest exporter in 2009, overtaking Germany.

This export orientation represents a major change from past Chinese growth dynamics. China under Mao Zedong (1949-1976) had a highly centralized planned economy, in which production was organized by state-owned firms and directed at meeting domestic needs. Exports were few and

undertaken primarily to pay for necessary imports.

During this period, China achieved both rapid growth and industrialization. As Maurice Meisner explains, “Starting with an industrial base smaller than that of Belgium’s in the early 1950s...China emerged at the end of the Mao period as one of the six largest industrial producers in the world.” [3] Moreover, because it was isolated from international trade and investment for most of the Mao era, China was forced to (and did) develop its own technological capabilities. Looking at the computer sector, for example, Andrew Ross notes that:

*“In the 1950s, the new communist state established a science and technology R&D network, modeled after the Soviet system, and its electronics arm went on to produce several generations of computers, in many cases with little or no gap behind the capitalist powers. China’s first computer was developed in 1958, only one year after Japan’s and its first integrated circuit was produced in 1964, only five years behind the first US patent. A microcomputer was developed by 1977 (even before IBM unveiled its PC), a microprocessor by 1980, and a supercomputer, along with an IBM-compatible PC, by 1983.”* [4]

Shortly after Mao died, the Communist Party (led by Deng Xiaoping) decided to radically increase the economy’s reliance on market forces. It claimed that such a step was necessary to overcome the country’s growing economic problems, which were alleged to have been caused by Mao’s overly centralized system of state planning and production. However, although political and economic changes were definitely desired by the majority of Chinese, Deng and his followers greatly overstated the severity of existing problems and, more importantly, ignored popular calls for an exploration of other, non-market reform responses. [5]

Regardless of intentions, the Party’s post-1978 reform program ended up dramatically transforming the Chinese economy into a capitalist one (although with “Chinese characteristics”). In contrast to the pre-reform period, almost all economic activity is now market determined. And, while the state continues to dominate in many strategic sectors, such as finance, energy, and transportation, the great majority of value added in the all-important manufacturing sector is now produced by profit-seeking, private firms. [6]

Most importantly, foreign capital now plays a leading role in the Chinese economy, especially in manufacturing. [7] Its activity has transformed China into an export-driven economy: the ratio of exports to GDP climbed from 16 percent in 1990 to over 40 percent in 2006, with the share of foreign produced exports growing from 2 percent in 1985 to 58 percent in 2005 (and 88 percent for high-tech exports). [8] Equally noteworthy, the share of total exports being produced by 100 percent foreign-owned firms has also soared. [9]

This restructuring cannot be understood simply through a nation-state lens. Rather, as China’s reforms proceeded over the 1990s, Chinese accumulation dynamics became increasingly dependent on transnational corporate investment and export activity. As a consequence, the Chinese economy became more and more enmeshed in a broader process of East Asian restructuring—one that was driven by the establishment and intensification of transnational, corporate controlled, cross-border production networks, which linked and collectively reshaped all the economies involved. In other words, the Chinese experience, and in particular, its export drive, can only be understood in the context of broader capitalist dynamics.

## **China and the Dynamics of Transnational Restructuring**

The expansion of cross-border networks was largely driven by the desire of transnational

corporations to cheapen the production cost of goods classified as “machinery and transportation equipment,” most importantly information and communication technology (ICT) products (such as computers and office machines, and telecom, audio, and video equipment) and electrical goods. [10] These two product lines together “accounted for nearly three fourths of total exports from the [East Asian] region in 2006-2007.” [11]

In accord with the logic of these networks, a growing percentage of the region’s ever greater trade activity became limited to the intraregional exporting/importing of the parts and components used to produce these products. As the Asian Development Bank points out, “Disaggregating manufacturing trade into final products on the one hand and parts and components on the other shows...[that] intraregional trade in Asia is mainly concentrated in parts and components. The intraregional share of developing Asia’s parts and component trade rose by almost 20 percentage points over the past decade, reaching 62% in 2005-2006, as compared to an 8 percentage point increase in total trade in manufacturing over the same period.” [12]

China was not only pulled into this process of regional restructuring, it has become central to its functioning. In the words of the Asian Development Bank, “the increasing importance of intra-regional trade is attributed mainly to the parts and components trade, with the PRC [People’s Republic of China] functioning as an assembly hub for final products in Asian production networks.” [13] The share of parts and components in China’s imports of manufactures from East Asia rose from 18 percent in 1994-1995 to over 44 percent in 2006-2007. The import share of parts and components in the machinery and transportation equipment category soared over that same period from 46.1 percent to 73.3 percent. [14]

China’s unique position as the region’s production platform for final goods is highlighted by the fact that it is the only country that runs a deficit in regional parts and components trade, and whose exports are overwhelmingly final products. It is this unique position that has enabled China to increase its share of world exports of ICT products from 3 percent in 1992 to 24 percent 2006, and its share of electrical goods from 4 percent to 21 percent over the same period. [15]

## **The U.S.-China Bilateral Trade Relationship**

The transnational production dynamics highlighted above led East Asian countries (other than China) to shift their overall export activity away from the United States and the European Union and towards East Asia, in particular, China. At the same time, they led China to expand and redirect its export activity away from East Asia and toward the United States and the European Union. Between 1992-1993 and 2004-2005, the East Asian share of China’s exports of final goods fell from 49.5 percent to 26.5 percent, while the OECD share (excluding Japan and South Korea) increased from 29.3 percent to 50.1 percent. [16]

Not surprisingly, then, the value of U.S. imports from China has soared, from \$16 billion in 1990 to \$340 billion in 2007. In 2003, China became the second largest exporter to the United States, trailing only Canada. The position of these two countries has fluctuated since, with China becoming the largest exporter in 2007 and then again in 2009. U.S. exports to China have also grown, but far more slowly: from \$5 billion in 1990 to \$65 billion in 2007. As a consequence, the U.S. trade deficit with China has grown dramatically: from \$11 billion in 1990 to \$274 billion in 2007. This is the largest deficit that the United States holds with any country. [17]

While the overwhelming majority of U.S. imports from China have long been manufactures (approximately 96 percent), their composition (as previously noted) has changed over time. The share of “miscellaneous” manufactures, such as toys, clothes, and footwear, fell from 58.5 percent in

1995-1996 to 37.7 percent in 2005-2006. [18] Over the same period, the import share of machinery and transportation equipment products rose from 26.3 percent to 44.1 percent. Within this broad category, ICT products dominate. In 2005-2006, ICT products made up 37.6 percent of all U.S. manufactured imports from China. [19]

Not only are Chinese imports to the United States becoming increasingly sophisticated, China is also increasingly the main foreign supplier of such products. For example, in 1995-1996, China accounted for only 6.5 percent of total U.S. ICT imports. In 2005-6, China accounted for 33 percent of the total. [20]

These trends highlight the reason that Chinese exports have received so much attention in the United States. They also reveal, in concert with the previous analysis of East Asia's transnational accumulation dynamics, that these "sophisticated" Chinese exports are really Chinese only in the sense that they were assembled in China. This point is reinforced by the fact that China's increased share of the U.S. deficit was matched by a decline in the share accounted for by the rest of East Asia.

From 1999 to 2007, China's share of the total U.S. trade deficit rose from 20.4 percent to 32.1 percent. Over the same period, Japan's share fell from 21.1 percent to 10.2 percent. And the combined share of the rest of East Asia also fell, from 16 percent to 7.9 percent. [21] In short, the threat to U.S.-based manufacturing activity comes not from China, but from the profit maximizing strategy of transnational capital.

While East Asian corporations have played the leading role in shaping and expanding the region's transnational production networks, U.S. companies have also benefited from, and helped to expand, their operation. Some of the biggest beneficiaries are those U.S. firms that import and then market the products exported from China; Wal-Mart and Dell are among the biggest in terms of the dollar value of imports.

U.S.-based manufacturing firms that produce machinery and transport equipment also participate in these networks. For example, the share of parts and components in U.S. machinery and transportation equipment exports to China grew from 36.1 percent in 1995-1996 to 50.8 percent in 2005-2006. Over the same period, the share of parts and components in machinery and transportation equipment imports from China actually fell slightly, from 25 percent to 24.2 percent.

The same trend exists for ICT products. Parts and components, as a share of U.S. exports of ICT products to China, rose from 51.2 percent to 72.8 percent. Parts and components, as a share of imports in this category, fell slightly, from 23.5 percent to 20.7 percent. [22]

Thus, rather than producing final goods in the United States, U.S.-based manufacturers are increasingly dedicated to supplying the parts and components that China-based producers need to produce those final goods. Prema-chandra Athukorala and Nobuaki Yamashita describe the nuances of this strategy as follows: "[T]he share of parts and components in U.S. [ICT] exports to other East Asian economies, in particular, ASEAN countries, is much higher compared with that of exports to China. This pattern is consistent with case study-based findings that U.S. firms located in East Asian countries and regions undertake further processing and assembly of parts and components originally designed and produced in the USA as part of their engagement in China-centered regional production networks." [23]



## **A Critical Assessment of the Chinese Economic Experience**

Most analysts assert that Chinese working people have gained from their country's pivotal role as the region's export platform; they tend to equate China's export accomplishments with progress toward national development. However, a more direct examination of how Chinese economic policies and restructuring have affected the lives of Chinese workers and the country's technological capacities points to a different answer.

### **Social Conditions**

Perhaps most noteworthy is that the country's rapid export-led growth has failed to generate adequate employment opportunities. According to the International Labor Organization (ILO), total urban (regular) manufacturing employment actually declined over the period 1990-2002, from 53.9 million to 37.3 million. [24] Thus, Chinese manufacturing workers, like their U.S. counterparts, have suffered from declining employment opportunities.

Although there was a small increase in total urban employment over this period, almost all the growth was in irregular employment, meaning casual-wage or self-employment—typically in construction, cleaning and maintenance of premises, retail trade, street vending, repair services, or domestic services. More specifically, while total urban employment over this thirteen-year period grew by 81.7 million, 80 million of that growth was in irregular employment. As a result, irregular workers in China now comprise the largest single urban employment category. [25]

While the reform process has taken an especially heavy toll on state workers, private-sector employment—especially at firms producing for export—has grown. Unfortunately, most of the new jobs are low paid with poor working conditions. “Even after doubling between 2002-2005, the average manufacturing wage in China was only 60 U.S. cents an hour, compared with \$2.46 an hour in Mexico.” [26] A report on labor practices in China by Verite Inc., a U.S. company that advises transnational corporations on responsible business practices, found that “systemic problems in payment practices in Chinese export factories consistently rob workers of at least 15 percent of their pay.” [27] Workplace safety is an even greater problem. [28]

Above all, Chinese labor policies have been designed to attract foreign investment and boost the export competitiveness of firms operating in China. Their success is illustrated by wage and consumption trends. Chinese wages as a share of GDP have fallen from approximately 53 percent of GDP in 1992 to less than 40 percent in 2006. Private consumption as a percent of GDP has also declined, falling from approximately 47 percent to 36 percent over the same period. By comparison, private consumption, as a share of GDP, is over 50 percent in Britain, Australia, Italy, Germany, India, Japan, France, and South Korea; it is over 70 percent in the United States. [29] As *The Economist* magazine explains, although the share of income going to working people has fallen in many countries over the past decades, “nowhere has the drop been as huge as in China.” [30]

One of the keys to this “success” has been Chinese state policies towards internal migrants, who comprise approximately 70 percent of the manufacturing workforce and 80 percent of the construction workforce. Over the last twenty-five years, some 150-200 million Chinese have moved from the countryside to urban areas in search of employment. Although the great majority moved legally, they suffer enormous discrimination. For example, because they remain classified as rural residents under the Chinese registration system, they must not only pay steep fees to register as temporary urban residents, but they also have no rights to the public services available to urban-born residents (including free or subsidized education, health care, housing, and pensions). The same is true for their children, even if they are born in an urban area. [31]

These and other legal distinctions make it easy for companies to exploit their workers. Conditions at Foxconn, a large Taiwanese-owned subcontractor for firms such as Apple and Dell, are representative. Foxconn's assembly line workers in Shenzhen (a major manufacturing center in south China) earn approximately \$32 for a 60-hour workweek (along with company-provided dormitory housing and meals). Apple-hired investigators of a Foxconn plant that builds iPods found that managers routinely used corporal punishment to discipline workers, "and that workers labored more than six consecutive days 25 percent of the time," despite the fact that Chinese law "requires at least one day off each week." [32]

Angered by steadily deteriorating living and working conditions (including the market reform-driven dismantling of national health, housing, and retirement protections), growing numbers of people (in both urban and rural areas) have demonstrated a willingness to confront their employers and governing officials in defense of their rights. The number of large-scale "public order disturbances" has increased from 58,000 in 2003 to 74,000 in 2004, 94,000 in 2006, 120,000 in 2008, and to 58,000 in the first quarter of 2009 (on pace for a record of 230,000 by the end of 2009). [33] Public order disturbances generally include strikes, street protests, roadblocks, and other forms of mass protests involving 25 or more people. Particularly worrisome to the Communist Party leadership is the changing nature of labor actions: workers are increasingly taking direct action, engaging in regional and industry-wide protests, and broadening their demands. [34]

With repression alone unable to stem the rising tide of protest, the Communist Party has tried introducing a number of reform policies designed to ameliorate the worst excesses generated by China's growth strategy, without radically changing its orientation. Among the most important was the implementation of a new Labor Contract Law in January 2008. [35] The law requires, among other things, that businesses provide their workers with a written contract (something a majority of workers do not have or have never seen) and premium pay for overtime and weekend work.

While the law has generated a sharp increase in arbitration cases, its impact on employment conditions has been limited. [36] Regardless, the Party's determination to sustain the country's export-oriented growth strategy means that it can do little to respond positively to popular discontent. The state began rescinding many of the law's worker protections even before the end of 2008. It did so to protect corporate profits hard hit by the downturn in exports caused by the growing world economic crisis. It also ordered local governments to freeze locally established minimum wages. [37]

## **National Technological Capacities**

The social conditions noted above are unlikely to prove short-term sacrifices. One reason is that China's national technological capacities are also being eroded by the country's transnational corporate-shaped restructuring.

As noted above, China had a strong national research and development infrastructure in place before the start of the reform period. However, given the country's system of highly centralized planning, most of the gains supported prioritized military and heavy/chemical industry sectors. Few, if any, applications were shared with or designed to benefit consumer industries, and enterprises within these industries had no incentive (or resources) to develop their own innovations. This was one of the limitations of China's economic system that needed to be addressed in the wake of Mao's death.

Early decentralizing reforms did encourage new technological dynamism and improve the standard of living of working people. However, the gains were not sustained. As the reform program progressed, the resulting foreign domination of industrial activity began steadily eroding the

country's development capacities. [38] This outcome is illustrated by the post-reform evolution of China's high-tech industries, especially its computer industry.

In the early 1980s, the Chinese government started reducing the direct funding of its various state research institutes with the goal of forcing them to become self-financing. In response, and with government encouragement, these institutes created new, profit-making enterprises. To enhance their chances of success, these new enterprises were granted managerial independence and, more importantly, free access to the personal and (pre-reform) research findings of their parent institutions. Four computer companies were among the most successful of these new enterprises: Legend (now Lenovo), Founder, Great Wall Computer, and Stone. Lenovo, for example, was started by the Chinese Academy of Sciences. [39]

These firms were able to expand rapidly and dominate the domestic computer market for two interrelated reasons. They were able to combine innovations related to Chinese language word processing developed by their parent institutions with foreign-purchased hardware and technology, to produce affordable computers, capable of processing Chinese characters. [40] And they were able to obtain the needed hardware and technology from foreign firms on relatively favorable terms, thanks to state policies that restricted the direct access of these firms to the Chinese market. [41]

By the middle of the 1990s, conditions had changed. The Chinese economy had become dependent on foreign capital and enmeshed in its regional networks. Unwilling to change its growth strategy, the Chinese state had little choice but to abandon its restrictions on foreign access to the domestic market. The resulting competition has taken its toll on leading Chinese firms, including those in the computer industry.

Lenovo (which acquired IBM's PC unit in 2005) remains the largest PC seller in China, but is facing a profit squeeze and losing ground to HP and Dell (both of which are rapidly expanding their own distribution networks). Lenovo's market share fell from 36 percent in 2006 to 29 percent in 2007. [42] China's other computer makers (labeled "also-ran computer makers" by BusinessWeek) are in real trouble, including Founder, which used to hold second place in the Chinese market. [43]

While leading Chinese firms continue to battle for survival in the domestic market, they are largely missing in action as far as high-technology exports are concerned. For example, China is now the world's leading computer exporter, assembling approximately 80 percent of the world's notebook and desktop computers. However, China's main contribution to this activity is limited to providing cheap labor and land.

China's export dominance is due to the fact that Taiwanese original design manufacturers (ODMs)—who dominate worldwide computer manufacturing—have shifted their production to the mainland. In 2001, Taiwanese computer makers manufactured only 4 percent of their computers in China. Five years later, it was 100 percent. Reflecting this shift, eight of China's top ten exporters are now Taiwanese ODMs that supply "branded PC sellers such as Dell with unbranded computers and components....There are no Chinese ODMs and there are no significant Chinese suppliers to the Taiwanese ODMs, or to their suppliers." [44]

Lenovo's operations underscore this situation. By purchasing IBM's PC unit, Lenovo instantly became a major player in the global PC industry. Yet this purchase has done little to advance Chinese technological capacities. Lenovo continues to use the same (mainland-based) Taiwanese ODM's previously used by IBM, and has even moved its headquarters to the United States, where it employs U.S. engineers for product development. [45]

Surveying China's situation five years after the country's 2001 accession to the WTO, the Chinese



economist Han Deqiang recalls that he had “argued the greatest damage [of membership] would be to China’s capacity to control its industrial and technological development autonomously. I think it’s safe to say these last five years have more than proven that true. In China, any industry that wants to develop its own technology or markets has encountered increasingly great barriers.” [46]

*BusinessWeek* proves supportive evidence for this point, noting: “delve beneath the muscular statistics and hype about advances in strategic industries, and China doesn’t seem so prepared to catapult into a role of global economic leadership. Experts familiar with highly touted Chinese achievements such as commercial jets and high-speed trains say the technologies that underpin them were largely developed elsewhere.” China exported \$416 billion worth of high-tech goods in 2008, “but subtract the mainland operations of Taiwanese contract manufacturers and the likes of Nokia, Samsung, and Hewlett-Packard, and China is an electronics lightweight....Most mainland companies mine existing technologies and compete on high volume and low cost in commodity goods.” [47]

Some Chinese firms, like Lenovo, have (thanks to mergers and acquisitions) already established themselves as major international competitors. No doubt there will be others. But such accomplishments are not an adequate indicator of whether a country is successfully strengthening its own national development capacities. And, on this measure, China does not appear to be succeeding. Rather, in line with its ever deepening integration into transnational capital’s regional production networks, the Chinese economy is slowly but steadily increasing its dependence on foreign technology, production, and markets—a trajectory that bodes ill for Chinese working people.

## **The Reality of Class in China**

There is no disputing the fact that Chinese production has also generated massive new wealth. Unfortunately, as in the United States, much of this wealth has flowed to a relative few, causing an explosion of inequality and the formation (or solidification) of new class relations in China. An Asian Development Bank study of twenty-two East Asian developing countries concluded that China had become the region’s second most unequal country, trailing only Nepal. This is not surprising, considering that, over roughly a ten-year period (from the early 1990s to the early 2000s), China recorded the region’s second highest increase in inequality, again trailing only Nepal. [48]

While the results of the Asian Development Bank study are striking, they do not adequately convey the real concentration of wealth that has accompanied and motivated China’s evolving reform strategy. According to the Boston Consulting Group, China had 250,000 U.S. dollar millionaire households (excluding the value of primary residence) in 2005. Although this group made up only 0.4 percent of China’s total households, it held 70 percent of the country’s wealth. [49] According to Rupert Hoogewart, the publisher of an annual list of China’s one thousand richest people, the number of U.S. dollar billionaires has grown from zero in 2003 to 260 in 2009 (more than in any other country except the United States). [50]

And, embracing the realities of the new China, the country’s “nouveau riche” have not been shy about spending their money. “LVMH Moët Hennessy Louis Vuitton, the world’s largest luxury goods maker, plans to open two to three stores a year in China, where sales are rising 50 percent annually. Financier Richemont, the world’s second-biggest, expects to quadruple sales in China within five years by selling more Cartier jewelry and Piaget watches.” [51]

An obvious reason that those in the leadership of the Communist Party have steadfastly pushed and defended China’s growth strategy—despite its accompanying inequalities and structural distortions—is that they have been among its biggest beneficiaries. They have been able to take

advantage of the reform process (and the country's resulting international embeddedness) to use state assets for personal gain, place family and friends in lucrative positions of authority in both the state and private sectors, and ensure that the rapidly growing capitalist class remains dependent on the Party's good will. This, in turn, has led to a fusion of party-state-capitalist elites around a shared commitment to continue the advance of China's capitalist restructuring.

Many of the children of leading Party officials (known as the "princelings") were appointed to key positions in "China's most strategic and profitable industries: banking, transportation, power generation, natural resources, media, and weapons. Once in management positions, they get loans from government-controlled banks, acquire foreign partners, and list their companies on Hong Kong or New York stock exchanges to raise more capital. Each step of the way the princelings enrich themselves—not only as major shareholders of the companies, but also from the kickbacks they get by awarding contracts to foreign firms." Thus, more than 90 percent of China's richest twenty thousand people are reported to be "related to senior government or Communist Party officials." [52]

The Party leadership has been willing to share the fruits of the country's production with international capital—although struggles over distributional issues are growing sharper, as international capital strengthens its position within China—because international capital's participation is critical to the operation of China's new political economy. However, China's elite appear determined to ensure that they will be the primary national claimant. Thus, at the same time that the "Chinese Communist Party has opened up an unprecedented number of sectors for foreign-equity participation...the authorities have...tightened control over other aspects of the economy. This has resulted in the truncation, if not atrophy, of thousands of [small and medium sized] private firms." [53]

The world recession has done little to induce Chinese leaders to reorient their country's growth strategy. Although China has suffered a significant decline in exports, it has done much better than most other countries. In fact, as already indicated, it has likely passed Germany to have become the world's biggest exporter in 2009.

However, China's gains during this period of collapsing world trade have come largely because it is "winning a larger piece of a shrinking pie." In other words, although it is selling less than the year before, China has raised its import share in both the United States and Europe by taking market share from other countries. The reason, as the New York Times points out, is that "because of the recession consumers are demanding lower-priced goods and Beijing, determined to keep its export machine humming, is finding a way to deliver." "Delivering," in this context, means that the Chinese government is doing whatever is necessary to ensure the "ability of Chinese [based] manufacturers to quickly slash prices by reducing wages and other costs in production zones that often rely on migrant workers." [54] Among other things, this includes rolling back recently approved labor protections and freezing minimum wages, as noted above.

## **The U.S. Economic Situation Revisited**

As we have seen, the United States and Chinese economies have become intertwined in complex ways. Conventional wisdom is that this outcome was largely shaped by an aggressive Chinese export policy that has benefited China but left the United States with a weakened and unbalanced economy. In reality, as argued above, this outcome was forged by global capitalist dynamics and, as such, it reflects core class realities: transnational capital and those allied with it (in both countries) have gained, while workers (from both countries) have been forced to compete against each other, to

their collective detriment.

Reflecting this reality, the current world crisis has had, at best, minor effects on current U.S. and Chinese economic strategies and, by extension, bilateral trade relations. Governments in both countries have implemented stimulus programs that were designed to sustain growth without transforming existing patterns of economic activity. In fact, both have engaged in major efforts to reinforce those patterns. The Chinese government has actively intervened (restructuring labor markets) to strengthen the competitiveness of its exporters, and the U.S. government has actively intervened (with massive subsidies) to support leading financial enterprises.

How, then, should U.S. economic problems be addressed? As previously noted, those who argue that China is the main cause of current problems promote the following policy answers: force China to revalue its currency, open its markets to U.S. exports, and play by the rules of competitive capitalism. Unfortunately, these are counterproductive policies. For example, revaluing China's currency will not bring production back to the United States. Rather, it will either encourage the Chinese government to intensify its repression of workers in an attempt to offset the currency change, or it will lead transnational capital to shift parts of its production process to other countries within its networks.

Demanding that China open its markets to U.S. exports will also likely have minimal economic effect. Most large U.S. firms are structurally tied to transnational networks, and unlikely to restructure their production. In addition, Chinese workers remain too poor to purchase enough U.S.-produced goods to reduce the bilateral trade deficit significantly. Total Chinese personal consumption is only 16 percent of total U.S. personal consumption.

Finally, there is little to be gained by demanding that China play by the accepted rules of capitalist competition. The Chinese government has already transformed the country's economy along capitalist lines. Industrial production is primarily undertaken by private firms (most of it organized by transnational corporations) and motivated by the pursuit of profit. Labor markets are already highly "flexible." Workers are largely unorganized (or unrepresented, even when an official union exists) and have minimal protection, either on the job or off. Given the nature of capitalist competition in the United States, this demand can only mean that U.S. capital seeks more advantages from producing in China.

These types of policies encourage U.S. workers to believe that the root cause of existing problems lies not in the functioning of the U.S. economic system, or capitalism more generally, but rather in the behavior of a foreign government. Unfortunately, too many workers in the United States are already too quick to blame other workers—Chinese and/or Latin American—for their declining living and working conditions.

An appropriate response to the current crisis will, by necessity, have to challenge capitalism and its imperatives. One target has to be capital mobility. We have seen the destructive consequences of capital's freedom of movement. We therefore have to find ways to strengthen those movements that seek to dismantle free trade agreements and the broader global institutions, such as the WTO and IMF, which underpin them.

Another target has to be production for profit. Capital's pursuit of profit has created an economy that is not responsive to our needs, whether as individual workers or as members of broader communities. In terms of the former, we have to intensify our efforts to achieve a radical transformation of labor laws, thereby helping to ensure living wages and the right to unionize.

In terms of the latter, we have to build support for the demand that all who want to work should be

employed in the production of needed goods and services (as determined democratically by communities). This will require, among other things, not only transforming and strengthening the public sector so that it is capable of regulating private (production, investment, and trade) decisions, but also planning, organizing, and directly engaging in production itself. This, in turn, means that we must fight to reverse the long-term decline in tax payments by the wealthy and corporations, and work to strengthen the ability of public sector unions to represent and defend the broader public interest.

Significantly, these general demands are ones that increasingly motivate the activism of growing numbers of Chinese workers. This should not be a surprise since, as I have tried to demonstrate, they are oppressed by the very same system that oppresses U.S. workers. If we can successfully incorporate that understanding into our own organizing, we are likely to find ourselves with valuable allies.

**By Martin Hart-Landsberg**

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## **P.S.**

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## **Footnotes**

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[5] For a critical examination of the reform process, highlighting policies, contradictions, and consequences, see Martin Hart-Landsberg and Paul Burkett, *China and Socialism* (New York: Monthly Review Press, 2005), chapter 2.

[6] Martin Hart-Landsberg, "The Realities of China Today," *Against the Current*, 137 (November/December 2008). See on ESSF: [Tunisie : le peuple s'organise](#)

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[18] Miscellaneous manufactures comprise SITC 8.

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