China Fantasies – Capitalist contradictions & New Chinese Geopolitical Ambition

Monday 11 April 2016, by HUNG Ho-Fung (Date first published: September 2015).

Illusions on both the Left and Right about China miss how the contradictions of capitalism are shaping that country's development..

Contents

When it comes to China, Donald Trump has nothing good to say publicly.

Yet Trump has been a secret admirer of Chinese businesses for some time. At a 2008 international hospitality conference in New York City attended by tourist industry executives, the business magnate attributed the United States's falling competitiveness to government regulations and painted China as a veritable corporate paradise [1]:

"In China, they fill up hundreds of acres of land, constantly dumping and dumping dirt in the ocean. I asked the builder, did you get an environmental impact study? He goes, "What?' I asked, "Did you need approval?" No, the Chinese said. And yet if I am the last guy to drop one pebble in the ocean here in this city, I will be given the electric chair."

Trump isn't the only one smitten with China. Hailed by the business press and industry consultants, veteran hedge fund trader Ann Lee's bestselling book *What the U.S. Can Learn From China: An Open-Minded Guide To Treating Our Greatest Competitor As Our Greatest Teacher* [2] portrays China as a place where political elites care about the long-term national interest, cherish meritocracy, and value education and a strong work ethic — unlike the partisan rancor and negligence of long-term economic development in the US.

The Chinese economic boom has also captured the imagination of many on the Left, who view the country as capable of ending Western hegemony and global neoliberalism. One such thinker is Martin Jacques — former editor of Marxism Today (the official periodical of the Communist Party of Great Britain) — who wrote the bestselling book When China Rules the World: The End of the Western World and the Birth of a New Global Order. In it, Jacques claims that China's economic miracle is eroding the long-term dominance of Western capitalist countries and creating a new, more egalitarian global order.

Jacques's book was published in the aftermath of the 2008 financial crisis, when many investment bankers were desperate to retain their equities-averse customers. Selling them exotic funds tied to the China growth story became a profitable gamble, so it is not surprising that the book received widespread acclaim in major financial newspapers and magazines. Indeed, during the Great

Recession there were plenty of commentaries celebrating China's heavy state intervention as a superior alternative to the neoliberalism the US had pushed on the developing world.

But with the recent stock market crash, China's hyper-growth machine has lost some of its luster, and the post-recession euphoria over a distinct "Chinese capitalism" has started to seem positively quaint. The country's economic woes demonstrate that it is very much a part of the global capitalist system — that capital accumulation in China follows the same logic and suffers from the same contradictions of capitalist development in other parts of the world.

To understand the recent booms and busts of Chinese capitalism, in other words, we first have to understand capital's international trends and cycles.

The "Workshop of the World"

China's economic boom of the past two decades is the culmination of a political-economic solution that the US and other core countries pursued in response to the economic crisis of the 1970s.

Beginning in the late 1960s, manufacturing profits in core countries declined significantly due to competition from a rebuilt Europe and Japan and the demands of an increasingly militant labor force.

In an attempt to revive profitability, manufacturers in the core began offshoring and outsourcing production to low-wage economies in East Asia — first South Korea, Taiwan, Hong Kong, and Singapore, followed by other Southeast Asian countries like Malaysia and Thailand. This hemorrhaging of manufacturing jobs accelerated after the Reagan administration began to aggressively promote global free trade.

But the supply of rural, low-wage labor in these economies was shallow. When "Asian Tigers" became middle-income or even high-income countries, they also became far less attractive as manufacturing platforms.

Fortunately for Western capital, China was just starting to implement a series of rural-oriented and domestic-consumption-driven market reforms to revive its entrepreneurial peasantry and rural industries. The measures were a response to the stalling of the Mao-era primitive accumulation, which relied on coercive collective farms to transfer rural surpluses to the urban-industrial sector in order to facilitate rapid growth in heavy industries.

Enacted when Deng Xiaoping came to power in 1978, the reforms were successful in that they brought prosperity to the countryside and reduced rural-urban inequality. But they also led to hyperinflation and a balance-of-payments crisis at the national level in the late 1980s and early 1990s, which contributed to social upheaval and political crisis between 1989 and 1992.

This multi-dimensional crisis pushed the struggling Chinese Communist Party (CCP) to make a drastic shift toward an export-oriented model of development — through a massive one-off devaluation of the yuan in 1994 and a series of reforms that precipitated rural economic decline and triggered a flood of rural migrant labor into coastal export-processing zones.

The most significant upshot of the CCP's policy change was that China became firmly plugged into the global free trade order. It became the "workshop of the world," sucking in manufacturing jobs from abroad.

Still, most export-oriented factories in China have remained tightly controlled and exploited by transnational corporations (TNCs) headquartered in the Global North. The value composition of an iPhone — shown in the accompanying table — perfectly illustrates the subordinate relationship between China's workshops and TNCs in core countries.

Benefiting tremendously from moving manufacturing to China, US capital persistently lobbied Washington to make sure political differences between China and the US would not stand in the way of further profit-making. Their efforts usually paid off: the Clinton administration decided in 1994 not to make renewal of China's Most Favored Nations status conditional on addressing human rights concerns, made that status permanent in 2000, and welcomed China into the World Trade Organization in 2001.

The wave of manufacturing outsourcing to China, as well as the race to the bottom among developing economies desperate to attract manufacturing capital from the Global North, helped TNCs rake in super profits — which over the past two decades were funneled into core countries' swelling financial markets, fueling further demand for consumer goods from China. This led to rapidly expanding manufacturing capacity in China and financial bubbles and debt-driven consumption in the US and other core countries.

By the 2000s, with overproduction in China and debt-driven consumption in the US reinforcing each other, there was talk of "Chimerica" or "G-2" — the foundation of a new global economic order.

A Dead Cat Bounce

Everyone knows how this story ended: the bubble popped. The US economy gave out in 2008, and China's soon followed. Beijing engineered a strong rebound, however, opening the floodgates of state bank lending to restore growth relatively quickly. The US, meanwhile, was stuck in the economic doldrums.

This juxtaposition — robust recovery in China, persistent downturn in the US — caused some to argue that China had displaced the US as the sole engine of global capitalism.

Some also concluded that the Chinese economy was not so export-dependent after all — despite the Global North's sluggish export market, China resumed double-digit growth in 2009–2010, mostly by relying on domestic investment.

This contention is shortsighted. During the boom years, China's exports, together with the influx of export-oriented manufacturing capital, accounted for a large part of the growth of China's foreign exchange reserves (mostly in the form of US dollar assets). Without its expanding reserves, Beijing would not have been able to increase money supply growth in the form of lax state bank lending.

As such, the robust export sector and the rising reserves it brought made a debt-financed investment spree possible in China between roughly 2000 and 2008 without falling into the economic malaise that plagued many Southeast Asian economies on the eve of the 1997–98 Asian financial crisis, when years of debt-fueled investment unmatched by adequate growth in foreign exchange reserves crippled their currencies and unleashed capital flight.

But the situation changed after 2008. China's weakening export engine and reckless investment expansion during the 2009–2010 recovery created a gigantic debt bubble that was no longer matched by a commensurate increase in foreign exchange reserves. Between 2008 and early 2015, outstanding debt in China skyrocketed from 148 percent of GDP to 282 percent, exceeding the level most other developing countries and the US. By 2014, China's foreign exchange had actually started to shrink.

The redundant construction and infrastructure projects — apartments, coalmines, steel mills, etc. — resulting from the debt-fuelled economic rebound are unprofitable and not likely to turn around anytime soon. China's ability to repay and service the debt is also doubtful, putting the country in a difficult situation — its export sector is still struggling, but it has run out of room for growth through fixed asset investment, leading to a falling profit rate and serious excess capacity.

To make matters worse for the CCP, the escalation of peasant resistance and labor unrest since the 1990s [3] has forced the party state to improve rural economic conditions [4] (hence curtailing flows of rural migrant labor to coastal export sectors) and labor conditions in manufacturing. These concessions have increased wage levels, putting further pressure on capital's profitability.

All of this has led China to a typical overaccumulation crisis, epitomized by the ghost towns and shuttered factories across the country. The gravity of the slowdown can be seen in the movement of the manufacturing purchasing manager index (PMI) — a PMI higher than fifty signals industrial expansion, whereas a value lower than fifty shows contraction.

After the 2009–2010 recovery, the index kept falling. It is currently fluctuating around the stagnation line of fifty — a significant departure from China's vigorous and continuous growth before 2008.

This overaccumulation problem is the source of the recent stock market meltdown and the capital flight that caused the sharp devaluation of the Chinese currency and accelerated the evaporation of China's foreign exchange reserves.

The Highest Stage of Capitalism

Overaccumulation crises are as old as capitalism itself. As Russian revolutionary Vladimir Lenin explained long ago in his *Imperialism, the Highest Stage of Capitalism* [5], severe overaccumulation within a national economy pushes capitalists to look overseas for more profitable places to invest. Lenin's theory of imperialism has been critiqued and qualified by many later writers, but history has corroborated his assertions about the catalyzing role of overaccumulation crises. Indeed, it was the reason why manufacturing capital from the core relocated to Asia and China in the first place.

Now China finds itself beset by overaccumulation and feels the urge to export capital to more auspicious locations. This isn't a sudden development — China's capital exports have risen spectacularly since the early 2000s. Stock of China's outward foreign direct investment jumped from $28 billion in 2000 to $298 billion in 2012 (though it is still meager compared to smaller advanced capitalist economies such as Singapore).

State-owned corporations, mostly energy firms and infrastructure construction firms backed up by mammoth foreign exchange reserves originating in the export sector, have been at the forefront of Chinese investment in the Global South — most notably in Africa and Southeast Asia. Chinese manufacturing has recently started relocating to lower wage countries like Tanzania and Vietnam, as well. The drive to export surplus capital also undergirds China's recent ambition to create a "One Belt, One Road" network of ports, railroads, and highways linking China to Europe across Central Asia and the Indian Ocean.

But as Lenin warned, the drive to export capital overseas, and the need to protect that capital, pushes states to project their political, and sometimes military, power abroad, leading to imperialist expansion and inter-imperial rivalry with other capital-exporting countries.

Beginning in the 1970s, the CCP adopted a docile geopolitical position relative to the United States in exchange for space for economic development and trade expansion. The CCP helped the US curb the rise of Vietnam as a Soviet proxy in Asia by supporting Cambodia’s Khmer Rouge [6] in the 1970s and going to war with Vietnam in 1979. China also refrained from escalating any territorial disputes it had with the US’s Asian allies.

But as China’s investment in, and trade with, Southeast Asia has risen, its affinity for the geopolitical status quo has weakened. China has become increasingly assertive over territories contested with its Asian neighbors. Meanwhile, the ruling elite of many Asian countries, while profiting from closer economic ties with China, have become wary of the country’s growing geopolitical leverage and are now tightening their links to the US as an insurance policy.

Take Myanmar. The country’s military junta, which Beijing has supported ever since Western countries imposed sanctions following a 1988 political crackdown, has felt increasingly insecure about its reliance on Chinese investment. This insecurity, coupled with popular discontent over Chinese mining projects, motivated the regime to seek normalization of relations with the United States by promising political reform.

Although the Myanmar government remains cozy with China — as demonstrated by the 2013 opening of a gas pipeline constructed by the China National Petroleum Corporation that connects the Bay of Bengal to China’s southwestern Yunnan province — its relations with the United States have warmed considerably. It was even invited to be an observer in a US–Thailand military drill in early 2013.

Myanmar is not alone. Singapore, Taiwan, South Korea, the Philippines, Vietnam, and others have all strengthened their economic and political-military ties with the US even as they benefit from economic integration with China.

Asian countries’ desire to maintain American influence in the region to counterbalance China has created the conditions for the Obama administration’s Pivot to Asia policy aimed at containing China’s geopolitical ambition. It also aided the administration’s push for a Trans-Pacific Partnership that increases the US’s economic links with, and subordination of, its former Cold War allies in Asia.

Beijing has responded by more confidently flexing its political and military muscle in the region. China’s attempted push for its own free-trade agreement with its Asian neighbors, its increasingly bold military incursions into ocean territories claimed by other and monitored by US navies [7], and its open competition with India to influence Sri Lankan politics are all part of this shifting geopolitical context.

Just as China’s capital exports are not restricted to Asia, China’s new ambition to project its geopolitical power is not confined to Asia either. The connection between the global expansion of Chinese capital and China’s desire to expand its military power overseas was laid out in the state’s 2013 National Defense White Paper, which for the first time explicitly stated that protecting China’s global interests was now a core mission of the People’s Liberation Army.

With the gradual integration of China’s economy into the world economic system, overseas interests have become an integral component of China’s national interests. Security issues are increasingly prominent, involving overseas energy and resources, strategic sea lines of communication, and Chinese nationals and legal persons overseas.

Chinese nationals have become the number one kidnapping target for terrorist and rebel groups in Africa, and Chinese facilities are valuable targets of sabotage. But China is not yet ready for a US marines–style overseas troop deployment. Instead, Beijing has turned to some of the most brutal international mercenaries to defend its interests in Africa. Among them is Frontier Services Group, a Hong Kong–based firm with close ties to China's biggest state-owned conglomerate and whose chairman is Erik Prince, the founder and former CEO of the US security firm Blackwater.

Heading to War?

With a deepening economic crisis, China's need to export capital, and hence to project its political and military power globally, will continue to grow. Such ambitions have and will put China on a crash course with the US, which has maintained a unique global military umbrella since the end of the Cold War.

The nascent rivalry is reminiscent of past inter-imperial acrimony. When Germany was a growing capitalist power a century ago, it justified its aggression toward the British-dominated international status quo by citing old injustices. Whether the China-US dispute will escalate into conflict approaching the scale of the World Wars, especially given the emergent China-Russia alliance, remains to be seen.

But just as the turn-of-the-century rivalry sparked fierce discussions within the international communist movement, so too will the intensifying geopolitical competition between US and China (and Russia) foment debate about China in progressive circles around the world.

Overcoming the different variants of orientalist China fantasies — coming from both the Right and Left — while addressing the China question critically and holistically is a daunting task. But given the stakes, it's one the Left must be ready for.

Ho-fung Hung

P.S.

* "China Fantasies". Jacobin, Issue 19: Uneven and Combined, Fall 2015: https://www.jacobinmag.com/2015/12/china-new-global-order-imperialism-communist-party-globalization/

* Ho-fung Hung is an associate professor of sociology at Johns Hopkins University. He is the author, most recently, of China Boom: Why China Will not Rule the World.

Footnotes

[1] http://www.eturbonews.com/2914/donald-trump-dismayed-us-and-economy

[2] https://www.bkconnection.com/books/title/what-the-u-s-can-learn-from-china

[3] ESSF (article 27186), China in Revolt.

[4] ESSF (article 37670), Marketing China – Factory relocations, land privatizations & migrant workers.

[5] https://www.marxists.org/archive/lenin/works/1916/imp-hsc/

[6] https://www.jacobinmag.com/2015/04/khmer-rouge-cambodian-genocide-united-states/

[7] http://www.nytimes.com/interactive/2015/07/30/world/asia/what-china-has-been-building-in-the-south-china-sea.html?_r=0