

# Australian imperialism and the rise of China

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The rise of China has been of enormous significance for the Australian capitalist class. The *Sydney Morning Herald's* Ross Gittins outlines three major reasons why the East Asian giant now matters for Australian capitalism. First is its sheer size. With a population of 1.35 billion, it has 20 per cent of the world's population and is 11 times larger than Australia's second largest trading partner, Japan. Second, the Chinese economy has grown by 10 per cent a year for three decades, roughly doubling in size every eight years. It has gone from being only 9 per cent of the size of the US economy in 1980 to 60 per cent in 2009, and the IMF anticipates that it will overtake the US by 2016 (in purchasing power parity terms), although it still lags the US substantially when GDP is measured by market exchange rates.[1] Combining its huge population with its rapid economic growth, China has made a major contribution to world economic development in the past decade: about one quarter of the entire growth in the world economy in the 2000s was attributed to China. Third, Australia and China are complementary economies: each has goods and commodities that the other needs - minerals and manufactures (and capital) respectively. China is also now Australia's largest market for services as well.[2]

China's growth is having both short and long term effects on the size and structure of the Australian economy. These effects are only going to grow in coming years. In May 2011, in a speech entitled "Australia-China 2.0", Kevin Rudd told a Chinese audience that the economic relationship between the two countries was going to become far more profound: "If the changes of the last 30 years have been dramatic, this I believe is only a foretaste of what is to come".[3]

But the rise of China is not an unalloyed blessing for Australian capitalism. It also raises a key strategic question spelled out by Murdoch journalist Paul Kelly as follows:

*"A new more exacting age of Australian diplomacy has arrived. As the United States moves to balance the rise of China, the task of Australian foreign policy is to reconcile having China as its major trading partner and America as its major strategic ally."*[4]

Or, as the *Sydney Morning Herald's* Peter Hartcher put it at the time of the 25<sup>th</sup> annual ministerial meeting between Australia and the US (AUSMIN) in November 2010:

Australia's economic interest and its strategic interest are pulling in opposite directions. On one

hand, Australia has decided to double its strategic investment in the US... On the other hand, the Australian economy is daily more enmeshed in the Chinese growth phenomenon... We are giving ever deepening loyalty to the world's sole superpower yet taking ever more of our national livelihood from the potential superpower. Will the strain tear us apart?[5]

Australia is more and more enmeshed with the Chinese economy, and yet its integration into the US military alliance continues as China and America become increasingly positioned as superpower rivals. It is the tension between these two developments that lies at the heart of a series of political debates that have rippled through the Australian ruling class in recent years. These debates centre around the \$64 billion dollar question: can Australia continue to reap tens of billions of dollars as one of China's preferred providers of minerals and natural resources while signing up for a more aggressive US military presence in the Asia-Pacific aimed chiefly at containing China? So far it's doing its best and hoping that the crunch never comes.

The context for these debates in the ruling class is the common agreement by all sections that the balance of world power is shifting under the impact of the two most important developments in world politics since the turn of the century - the "war on terror" and the global financial crisis. The stalemates in both Iraq and Afghanistan and the trashing of the US's reputation following the collapse of its investment banking system in 2008 have weakened the US and emboldened the Chinese. The contrast is stark: the Chinese economy grew by 70 per cent between 2005 and 2010; the advanced Western economies by a paltry 5 per cent.[6] More and more, China is developing a military capacity befitting its status as an emerging great power. Australian imperialism is faced with the quandary that, for the first time in its history, its biggest trading partner is also a threat to the military arrangements that have secured its growth over the past century.

It is not likely that the US and China are going to be drawn into direct military conflict in the near future. But the history of modern capitalism has never known a circumstance where a dominant world economic power cedes its position without a fight, nor a situation where a new power comes to dominance except by demonstration of its military prowess. The notion that the US and China can organise some sustainable and long-term peaceful redistribution of power is ruled out. Sooner or later the rise of China and the determination of the US to hang onto its dominant position is going to lead to more military tensions.

## **The rise of the Chinese economy**

The Chinese economy has grown at a stupendous rate in the past decade. In 2010 the nation established some new landmarks, overtaking Japan as the world's second largest economy in purchasing power parity terms, Germany to become the world's largest exporter of goods, and the US as the world's largest manufacturer, ending 110 years of US dominance.[7] It is now the world's largest market for cars and the second largest producer and consumer of energy after the US. It accounts for 60 per cent of global iron ore consumption and 52 per cent of coking coal consumption. It is also the world's biggest user of aluminium and copper.[8] China is the biggest producer and consumer of steel. In 2000 it accounted for 15 per cent of global steel production; the figure today is 45 per cent. With nearly three trillion dollars in foreign exchange reserves, China is the world's largest creditor.[9] The country matters for so many others - it is now the major trading partner of Japan, South Korea, Brazil and Chile and at times during 2010 overtook the United States as the main market for Saudi oil.[10]

Most indications are that China's role in the world economy will continue to grow. The IMF predicts that China will contribute 35 per cent of growth in the world economy between 2010 and 2015.[11]

The five year plan targets adopted by the Chinese government in March 2011 give some indication of its projected economic growth. They include 36 million low cost housing units (equivalent to the entire stock of housing in the UK), a big lift in spending on health, education and welfare, increases in wages by 13 per cent per annum, a quintupling of what is already the world's largest high speed railway network, an additional 36,000 kilometres of highway (an increase of 50 per cent), a boost to spending on ports, \$300 billion on subways and the same amount again on the electricity grid, substantial investment in renewable energy, and the construction of the second new airport terminal in Beijing in a decade, as well as new airports in 54 other cities.[12]

Growth has driven serious social changes. One half of the population now live in towns and cities, up from only 20 per cent in 1980.[13] China has 170 cities with a population of one million or more.[14] Living standards have risen substantially, although so too has inequality. The proportion of China's 400 million households owning a car has gone from virtually zero to 12 per cent between 2000 and 2010. The proportion owning microwave ovens has risen from 16 to 58 per cent, while the number of computers owned per 100 households has risen from eight to 70 and mobile phones from 16 to 188.[15] Six million students graduated from universities in 2010, up from just one million in 1999.[16]

This profound domestic development has had its corollary in equally profound effects globally. As *Financial Times* columnist Martin Wolf notes, international relations have been completely reshaped:

*"If we leave aside nuclear wars, nothing seems likely to halt the ascent of the big emerging economies, though it may well be delayed. China and India are big enough to drive growth through their domestic markets if protectionism takes hold... In the past few centuries, what was once the European and then the American periphery became the core of the world economy. Now, the economies that became the periphery are re-emerging as the core. This is transforming the entire world."*[17]

China matters to the world economy not just because of its voracious appetite for imports and its role as the world's leading low cost manufacturing platform. Having accumulated massive foreign exchange reserves, it is now undertaking large scale capital export, both to developing and Western countries. In return for capital it is hoping to gain better access to international markets, privileged access to raw materials and political influence. China has helped to build commercial ports along the Indian Ocean littoral - in Sri Lanka, Bangladesh, Burma and Pakistan.[18] It has bought into mining interests across the world, including Africa, Canada and Australia. The state-owned Chinese Development Bank has teams in 141 countries and has lent money to a wide range of clients, including a \$10 billion loan to Brazilian oil giant Petrobras in 2009, and another loan of the same size to Reliance Energy of India in 2010.[19] Financial integration is accompanied by broader economic integration through energy and infrastructure projects - such as oil pipelines from Russia, Kazakhstan and Burma, or railway lines linking Vietnam, Laos and Burma with South West China. It has also been, with Russia, one of the drivers of the Shanghai Cooperation Organisation which aims to build greater regional links in Central Asia involving some of the world's major energy producers. Such investment also helps to diversify Chinese export markets away from an excessive reliance on the US. About one half of China's exports now go to developing countries.[20]

There are, however, also some important problems at hand for the ruling class. Doubts have been expressed about the sustainability of China's growth by no less a figure than premier Wen Jiabao, who described the economy in 2007 as "unstable, unbalanced, uncoordinated and unsustainable".[21] The Chinese boom in recent years has been driven by a switch of GDP from households to investment, with household consumption down to a mere 34 per cent of GDP and fixed investment at an enormous 46 per cent.[22] Such huge expansion in the production of the means of production, while keeping down the means of consumption, is a recipe for overproduction. It is only

sustainable if there are willing markets for exports, and there are limits on this.

The authorities are now trying to swing GDP back towards household consumption and the domestic market, but this transition is fraught with problems. Increased household consumption will involve both rising wages and some reduction in the very high savings ratio. Higher wages, even though already under way to some degree, pose a threat to the country's export competitiveness. Cutting the high savings ratio means addressing the reasons for its existence in the first place – chiefly the absence of a comprehensive system of social protection – health care, unemployment benefits, sickness benefits and age pensions – which forces workers to put aside money to cover personal hardship and old age. But the expenditure needed to boost social protection to this degree would require a challenge to the interests of the capitalists.[23] And workers' savings have over the years provided an enormous fund of investible resources for the state and private capitalists; reducing them would drain this pool of funds.

Labour shortages are pushing up wages for workers and are likely to do so for some years to come. However, aspirations are rising at a still faster rate, alongside increasing resentment at growing inequality. During the Maoist era, differentials between rich and poor were relatively small; today inequality is second only to the United States. The smashing of the "iron rice bowl" – guaranteed jobs, income and social assistance – in the 1980s and 1990s impoverished many millions, and the same property bubble that is making numerous millionaires amongst the wealthy speculators is taking housing out of reach of the working class. Women workers and peasants, "migrant" workers, i.e. those who work in the big cities without equal residency rights, those from national minorities and those from rural areas, have not seen significant benefits from the restructuring of the economy. By contrast, the rich have become fabulously wealthy and show no signs of embarrassment about flaunting their wealth in the faces of the poor. Membership of the swankiest yacht clubs is burgeoning, as are sales of exclusive Western brands.[24]

Class struggle from below is on the rise. "Mass incidents" have become increasingly frequent, rising from 10,000 in 1994 to 72,000 in 2004 to 180,000 in 2010.[25] At present there is no "Tahrir Square" in China: the protests tend to be localised and isolated from each other. But the class struggle presses on.[26] Strikes by Honda workers in 2010 quickly led to more than 200 copycat strikes and protests.[27] The simultaneous outburst in June 2011 of migrant workers' struggles in the industrial heartland of Guangzhou, nationalist protest in Inner Mongolia (itself involving predominantly workers and poor peasants), and ongoing peasant struggles against the seizure of their land for hotels and industrial estates indicate the stresses that accompany breakneck industrial expansion.[28] News in July 2011 that food price inflation was running at 14 per cent indicates the pressure on workers.[29]

The regime is apprehensive about resistance by workers and the poor. It has tried to buy it off with promises of further improvements in living standards, health care and social security. But the velvet glove only hides the iron fist. Spending on domestic security has now overtaken that on defence for the first time and, as *The Economist* reported in June 2011,

In the past few months the police have launched an all-out assault on civil society, arresting dozens of lawyers, NGO activists, bloggers and even artists. The Arab revolutions have spooked the leadership. From its perspective, the system looks vulnerable.[30]

And so while any notion of a "Jasmine Revolution" is not on the immediate horizon, such is the dispersed and relatively small-scale nature of the protests, it is likely that social protests will continue to escalate.

It is unlikely that working class living standards will rise sufficiently in the next five years to

rebalance the economy, projections of annual increases of 13 per cent notwithstanding. The capitalist class has to keep the export engine running at a rapid rate. Chinese capitalists have found booming export markets on their Asian doorstep. Exports to India, South Korea, Japan and the ASEAN nations are all expanding quickly. Nonetheless, export trade is still very dependent on sales to the Western advanced industrial economies, the EU and the US in particular, and these now appear to be trapped in a prolonged slump.[31]

The sheer volume of exports, and China's rate of growth, in conditions of ongoing recession in the West, is destabilising the entire world economy.[32] US industry has been operating for many years in conditions of growing excess capacity and therefore underutilisation of capital stock. Only a massive expansion of business and consumer debt and US government spending during the 1990s and 2000s prevented the US economy from wallowing in Japanese-style permanent recession in this period. China, and the broader Asian world's massive export drive in the aftermath of the Asian economic crisis of 1997-98, only worsened the situation. Markets that were already straining under the weight of unsold goods produced by the Western economies sagged further as Chinese goods flooded the world economy. China is now producing more steel than the next seven largest producers combined and exports tens of millions of tonnes.

The GFC only made the situation worse again, initially with a slump in Western demand for Chinese products, followed by the implementation of a Chinese stimulus package that went largely into infrastructure. Where this infrastructure is being used (as distinct from the ghost roads and railways that lead nowhere or the virtually uninhabited new cities being built in the interior), it is being used to move goods to the coasts for export, thereby further glutting world markets, and, by undercutting Western products, further undermining the growth of Western economies, which in turn depresses Western markets for Chinese goods.[33] China's continuing massive balance of trade surplus with the US is causing increasing tensions with the US capitalists, something that I address later in this article.

Other factors weighing on the economy include inflation running at more than 6 per cent, an asset price bubble, particularly in housing and commercial real estate, the escalation of debt held by local government investment bodies, a looming demographic bust and rapid environmental degradation. The government is trying to rein in inflation and the asset price bubble by tightening credit and is having some success at this. However, it is treading a fine line, fearing that excessive tightening will choke off investment in the manufacturing sector where profit margins are wafer thin in many areas. The central government ran a budget deficit of only 2.5 per cent in 2010 (as against 10 per cent or more in many OECD member states) but the investment vehicles established by local government boost total public sector debt to about 80 per cent of GDP, approaching the level common in Europe and the US.[34] Chinese banks have 10.7 trillion yuan exposure to these indebted local government investment bodies, meaning that the contagion factor evident with the PIIGS (Portugal, Italy, Ireland, Greece, Spain) in Europe is also a possibility in China.[35] It is not as if Chinese capitalists and foreign investors themselves are entirely convinced of the continued rapid expansion of the Chinese economy – in July 2011 the Shanghai stock exchange was less than half its all-time high in 2007.

The looming demographic bust is the other side of the demographic advantage that China has enjoyed for many years[36] – the abundant supply of young labour drawn into the cities from the countryside. The country's one-child policy is forecast to slow that influx down and the population will start to age quite dramatically in coming years.[37] And finally, environmental problems are alarming: Cheng Siwei, a leading Chinese exponent of green energy, estimates that the eco-damage is equivalent to 13.6 per cent of GDP each year, outstripping the 10 per cent growth in the economy.[38] China may face a water crisis resulting from the depletion of non-renewable aquifers of its northern plains and the receding Himalayan glaciers.

The heavily state-directed nature of economic development has played an important role in directing resources and allowing the country to recover quickly from the GFC. However, if China does slow down significantly, this will severely hurt the state. Even though, following waves of privatisation,[39] state-owned enterprises account for a much smaller proportion of value added and assets today than in 2000, according to The Economist: "Of 42 mainland Chinese companies in the Fortune 500 list of the world's biggest firms in 2010, all but three were owned by the government." [40] If these companies hit financial troubles, this could transmit into a serious fiscal crisis for the state.

Continued high rates of exploitation of the working class require the constant promotion of nationalism by the government, which ties into its increasing military ambitions.

### **China's growing military ambitions**

In their books on imperialism written during World War I, the Russian revolutionaries Lenin and Bukharin suggested that any rising economic power would need a matching growth in its military capacity to defend and advance its economic interests in competition with the dominant imperialist powers.[41] China is on the rise and it is no longer willing to allow the US to dominate its neighbourhood. China has long had a large army, primarily for suppression of internal dissent, maintaining its dominance over restive areas such as Tibet and Xinjiang, fighting wars over disputed territory with India, intervening in the affairs of neighbours Korea and Vietnam and preparing for the day, it hopes, that it might take Taiwan.

Nonetheless a large army is now fairly irrelevant to the new ambitions of the Chinese state, which are framed by its desire to protect free passage for the vital oil and raw materials needed to drive its manufacturing industry and to avoid seaborne invasion by a foreign power such as it suffered at the hands of Japan in the late nineteenth century. So China is now engaged in the rapid construction of a blue water navy, a long range missile system and an air force to defend its trade routes and to exclude the movement of hostile forces (chiefly the US Navy) in the East and South China Seas. It is trying to move beyond its traditional interest in the "first island chain" to the "second island chain", within an area bordered in the east by Pacific islands such as the Marianas, Guam and the Caroline Islands, all the way to the eastern end of the Indonesian archipelago.[42]

China's military expenditure has increased more than seven times in real terms since 1990.[43] It is shortly to launch its first aircraft carrier, albeit a reconditioned one from Ukraine.[44] It is also building more sophisticated land-based ballistic missiles capable of sinking US aircraft carriers at a distance, thereby potentially neutralising the main component of US military power in the region. The government has commissioned more than 40 new submarines since 1995 and additional ships capable of carrying cruise missiles. In January 2011, not coincidentally during a visit to Beijing by US Defence Secretary Robert Gates, the Chinese unveiled a superior new stealth fighter plane, the J-20, to complement its range of new fighter-bomber and airborne strike capabilities. The country is also spending billions on modernising and expanding its missile and fighter air defence systems, space warfare, including the capacity to intercept and destroy satellites, cyber warfare and, in collaboration with Russia, its strategic nuclear forces.[45]

As China develops its military capability, so it threatens the US and its allies and not just in the Pacific Ocean. In May 2011 Pakistan announced that it had invited China to build a naval base at a Pakistani port less than 200km from the mouth of the Persian Gulf, with prime minister Yousaf Gilani describing China as his country's "best friend". With a string of commercial ports built with Chinese help in neighbouring countries in the subcontinent, US strategists fear that China is becoming a

power to be reckoned with not just in the Pacific Ocean but in the Indian Ocean as well.[46] Also, Beijing has blocked the US from taking harsh action against Iran, on whom it is very reliant for oil.

Mention has already been made of China's growing trade and investment interests in developing countries. This is accompanied by increased diplomatic activity in Latin America, Africa and the Middle East. And even though the aim of the Shanghai Cooperation Organisation (SCO) is primarily closer economic ties, regular military exercises conducted with Russia within the framework of SCO militates against any attempt by the US to turn that country against its eastern neighbour.

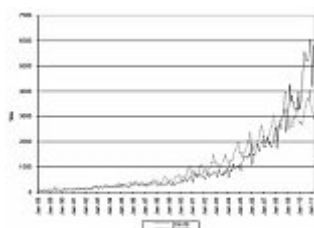
China's rising economic and military power is reshaping the world. I now turn to its impact on Australia and its US ally, starting first with the economic consequences before moving onto the military.

### **Benefits and opportunities for Australian capitalism[47]**

The growth of the Chinese economy has had massive effects on Australia, most of them beneficial. In the very period that Japan, the country's major trading partner since 1966, has languished in permanent recession, China has emerged to throw a lifeline to Australian capitalism. China has now overtaken Japan and in 2009-10 accounted for more than \$90 billion in trade, or 17.6 per cent of total Australian trade in goods and services, compared to Japan at only 11.5 per cent and the US at 9.6 per cent.[48] Twenty years ago trade with China only accounted for 3 per cent of the total. These figures underestimate the actual volume of trade with China because many Australian exports are landed in Hong Kong and then trans-shipped to the mainland. Chinese businesses buy Australian thermal coal to generate electricity and metallurgical coal and iron ore to manufacture steel. Major exports in 2010 included iron ore and concentrates at \$34.7 billion, coal at \$5.2 billion, nickel, copper and other ores and concentrates \$3.5 billion, crude petroleum at \$1.7 billion, and wool at \$1.6 billion.[49] China took 72 per cent of Australian iron ore exports, compared to Japan on only 17 per cent.[50] China also buys 70 per cent of Australia's wool exports.

The rate of increase of merchandise exports to China has been stunning (see Figures 1 and 2).

Minerals have lain at the heart of this growth. Between 2004 and 2009 minerals exports to China rose at an annual average rate of 47 per cent, as against manufactures which grew by 13.2 per cent and agriculture by a more modest 6.3 per cent.[51] Strong Chinese demand for iron ore helped push up its price by on average 23 per cent per annum between 2005 and 2010 (in A\$ terms), while coal rose by 8 per cent per annum. Volume growth of iron ore exports has been slower to rise, but has still doubled from half a million to more than one million tonnes, forecast to rise to perhaps two million tonnes per day by 2016.[52] Rapid growth is also anticipated in sales of LNG (liquefied natural gas) as China signed two big LNG contracts worth tens of billions of dollars in 2009-10, including the Gorgon LNG project off Australia's north-west coast which is expected to be Australia's largest ever resources development.



*Figure 1: Merchandise imports (from China) and exports (to China), 1988-2011 (Monthly, in \$*



million)[53]

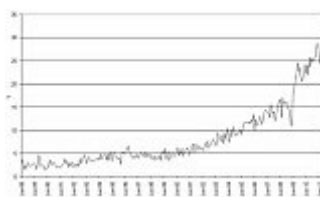


Figure 2: Chinese share of total Australian merchandise exports, 1988-2011 (%) [54]

Services trade is rather smaller but also growing quickly - by 18 per cent per year over the five years to 2010.[55] In 2010 exports of services to China amounted to \$6.0 billion, representing 11.4 per cent of the total, while imports of services from China were only \$1.7 billion, or 3.0 per cent of the total.[56] Just as minerals dominate merchandise exports, so education is central to services. Enrolments by Chinese students rose by an average of 16 per cent each year in the six years to June 2009.[57] Tourist arrivals are also surging. Over the years 1990 to 2008, Chinese tourist arrivals grew by 19 per cent per annum. China is also Australia's greatest source of migrants from Asia, second only to the UK, with the number of migrants from China rising from 15,000 to 17,000 in 2009.[58] Chinese migrants tend to come under the skilled migration category rather than family reunion, providing Australian capitalism with a regular infusion of new skilled labour without facing any training and educational costs.

Australia runs a big balance of trade surplus with China. The surplus in 2009-10 on merchandise trade was \$10.1 billion, and already \$18 billion for the 10 months ending April 2011.[59] Manufactures are the biggest item imported - \$34.2 billion in 2009, up by an average of 15.7 per cent annually over five years to 2009.[60] Major categories include clothing, computers and telecom equipment.[61] The significance of China for the Australian economy was shown both negatively and positively during the GFC. During the first months of the GFC Chinese growth contracted sharply - to only 6.2 per cent in the second quarter of 2009. Tens of thousands of factories along the eastern seaboard were shut down, 20 million workers lost their jobs and both imports and exports fell back quickly. The result was a sudden drop in minerals exports to China and, with this, contract prices for Australian resources. The Chinese government responded with a massive stimulus package and instructed banks to keep lending. The result was that the economy quickly recovered by the middle of 2009 and demand for Australian commodities resumed - between June and November 2009, Australian exports to China rose by over 10 per cent on the corresponding period in 2008.[62] The price of commodities recovered and the stage was set for what the Gillard government calls Mining Boom Mk II. Two-way investment between the two countries began to grow rapidly in the period 2006-2010, although total stocks were still very modest when compared to others [see Figures 3, 4 and 5].

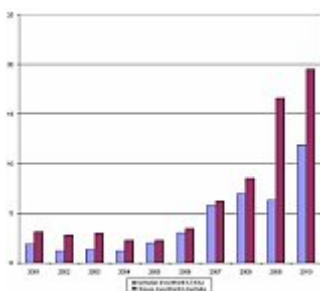


Figure 3: Investment stocks, Australia and China, 2010 (\$ billion) [63]



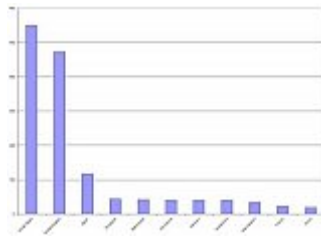


Figure 4: Investment stocks in Australia, 2010 (\$ billion)[64]

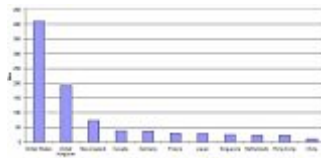


Figure 5: Stocks of Australian investment held overseas, 2010 (\$ billion)[65]

Stocks of Chinese FDI in Australia have risen very rapidly, from a mere \$550 million in 2006 (the first year for which figures are available), or less than 0.2 per cent of the total, to \$12.8 billion in 2010, or 2.7 per cent of the total.[66] In 2009, China was the third largest contributor to new FDI, with an investment of \$5.4 billion, an eighth of all FDI in Australia in that year.[67] Chinese FDI is almost exclusively for minerals exploration and development as China's capitalists endeavour to secure supplies of resources.

### **Australia's resources boom: blessing or curse?**

The Australian capitalist class sees definite benefits arising from the resources boom that has accompanied Chinese growth. Four big resource companies – BHP, Rio, Newcrest and Woodside – now account for 22 per cent of the market capitalisation of the ASX 200. With record prices for their commodities, the mining companies are making huge profits. The rise in commodity prices has also pushed up Australia's terms of trade – the price Australia receives for its exports relative to the price it pays for imports. The Australian terms of trade are now 85 per cent higher than the twentieth century average, generating an additional 15 per cent in GDP each year.[68] A substantial fraction of this additional GDP is paid off to foreign investors who own large sections of the Australian minerals industry, but the residual is still a very big boost to national income.[69] The improvement in terms of trade benefits even companies with no involvement in mining or agriculture who are now paying less for imported capital equipment and oil. State governments in Queensland and WA have also benefited from increased royalty payments by mining companies and the federal government has garnered increased tax revenue from mining company profits (albeit substantially less than the growth in profits because tax liabilities are offset by deductions for capital expenditure by mining companies).

Both Treasury and the Reserve Bank have tried to estimate the flow-on effects of the mining boom. Mining may only account for 2 per cent of the workforce and 8.7 per cent of GDP but Treasury forecasts that the Asian boom, with China at its centre, will create 1.5 million jobs during the 2010s, with the value of mining output growing by 65 per cent, construction by 48 per cent, services by 35 per cent and manufacturing by 6 per cent.[70] Australian mining companies are currently investing tens of billions of dollars in opening up new mines and gas facilities which boosts demand in construction and manufacturing, about half of which feeds though into domestic suppliers.[71] While the operation of mines does not use much labour, their construction does: competition for skilled

labour to build the mines and infrastructure in WA and Queensland pushes up wages for skilled workers across the country.[72] The Reserve Bank also argues that higher mining industry profits feed through to the financial sector by boosting the value of assets held in superannuation funds.[73]

Despite this rosy scenario, the resources boom has also come with costs. First, there is the obvious fact that, boosterism notwithstanding – both the Reserve Bank and Commonwealth Bank forecast growth rising rapidly to 4-5 per cent in 2011-12 – the Australian economy is not in good shape even two years after the GFC.[74] The Reserve Bank has consistently overestimated the strength of the recovery. Economic growth is anaemic as at August 2011. Investment outside the mining sector is not strong. Job growth in the first half of 2011, at just 6,000 per month, was very modest compared to growth of 29,000 in the second half of 2010.[75] The rise in the terms of trade, while benefiting the mining sector and companies that service it, is squeezing trade-exposed manufacturing firms not linked to the resource sector and the retail industry.[76] Corporate insolvencies by the middle of 2011 had rebounded to the highest level since the GFC.[77] The high Australian dollar also has a damaging impact on domestic tourism and the education sector.

Resources are extremely prone to boom-bust cycles, such is the lumpy nature of the sector's investment and the inevitable delays in new mines coming on-stream. Over the next five years the big five Australian mining companies will add 500 million tonnes of iron ore production. Further additions will come from other big minerals producers in Canada and Brazil. Over time, supply will likely catch up with demand and prices will stop rising and may even fall. The Reserve Bank estimates that with Asian demand continuing to grow rapidly, total income for the mining companies should stay secure, but with potentially serious problems in the Chinese economy outlined earlier in this article, such predictions may well fall wide of the mark.[78]

## **US response to the rise of Chinese military power**

If the rise of China's economic base has provided Australia with a variety of important benefits, its growing military profile is much more concerning to Australia and its US ally. In 2002 the Bush administration identified China as a "strategic threat" in its National Security Strategy and since that time the US has focused a large part of its great power diplomacy and military strategising on containing China.

The US is militarily by far the stronger power and it is using this military edge to curb China's expansion. China may have increased military expenditure sevenfold between 1990 and 2010 to \$114 billion, but this is still only one sixth of the \$687 billion spent by the US, bigger than the next 17 countries combined. Relative to GDP, the US spends more than twice as much on its armed forces (4.7 per cent) as China (2.2 per cent).[79] The US can also call on Japan (which spent \$51 billion on its military in 2010), South Korea (\$24 billion), Taiwan (\$9 billion), Singapore (\$8 billion) and, of course, Australia (\$20 billion). The US has 737 bases dotted around the world in every continent and has allies situated on China's southern and eastern borders. China by contrast has no foreign bases, least of all any close to the continental United States.

The US has 11 nuclear armed aircraft carriers, each carrying 85 aircraft, a vital part of any power with serious pretensions to dominate sea lanes. The Chinese are just about to launch their first and are still some way from making it fully operational.[80] The US has 18 ballistic missile submarines and 56 attack submarines, all nuclear-powered, capable of staying submerged for weeks at a time and all equipped with missiles that can strike targets from thousands of kilometres. The Chinese are only now getting under way with their own fleet of nuclear submarines with cruise missiles. China lags the US in the space race and satellites and in battlefield weapons, and its ability to develop

more sophisticated weaponry is constrained by a US arms embargo and ban on exports of high technology.[81] While the US has the capacity to invade and occupy pretty much any country outside other major imperialist powers, China is incapable even of taking over Taiwan, let alone countries further afield. The Chinese navy may be growing but it is dispersed between the seas to Japan and South Korea to its north-east, Taiwan to its east and the South East Asian region to its south, all of which are potential threats to its security.

Nonetheless, the US cannot rest easy, safe in its status as the unchallenged superpower. The London-based International Institute of Strategic Studies commented in 2010 that it is “already clear that as a result of shifts in the global distribution of economic power and consequently the resources available for military spending, the United States and other Western powers are losing their monopoly in key areas of defence technology”.[82] And it was Australia’s own intelligence and foreign policy agencies and departments that produced an assessment in 2006 that:

China’s longer term agenda is to develop “comprehensive national power”, including a strong military, that is in keeping with its view of itself as a great power. We agree that the trend of China’s military modernisation is beyond the scope of what would be required for a conflict over Taiwan. Arguably China already poses a credible threat to modern militaries operating in the region and will present an even more formidable challenge as its modernisation continues.[83]

The US is therefore carrying out an aggressive strategy to restrain China’s rising military power. While the focus of the Bush administration had been on the Middle East and Central Asia, the Obama administration has been more determined to put its stamp on the Asia-Pacific region, with Hillary Clinton announcing to the world in 2009 that “we want Australia, as well as other nations, to know that the US is not ceding the Pacific to anyone”.[84] In 2010 tours of Asia by Obama, Clinton and Gates were aimed at strengthening an anti-China coalition, involving Japan, South Korea, Australia, India, Indonesia and others.[85]

The US has used China’s claim to hegemony over the South and East China Seas to embolden its ASEAN allies, several of whom also lay claim to parts of the disputed maritime areas.[86] China argues that disputes over maritime borders be determined bilaterally, a strategy which evidently favours the much larger country. The US is attempting to interpose itself as a “third party” in these disputes.

The US has also fostered much warmer relations with India, China’s historic rival in Asia: between 2002 and 2010, the two countries conducted 50 joint military exercises. The US now supplies India with nuclear fuel and in October 2010 signed off on a \$5.8 billion sale of Boeing military transport planes.[87] The US is taking aim at China in other regions as well: Obama’s visit to Latin America in March 2011 was designed to draw Brazil and Chile away from China’s sphere of influence while US involvement in the attack on Libya in the following month was motivated at least partly by its desire to dislodge China’s growing role in the Libyan oil industry.[88]

The US has used its continued military advantage over China to push it on strategic issues as well. It tried to use the 2009 Copenhagen Summit on climate change to force China to bear the cost of reducing the rate of increase of greenhouse gases without taking any serious steps itself. It has attempted to force China to break with Iran, thereby jeopardising its energy security and has engaged in aggressive action to push China to revalue its currency.

None of this means that the US and China are about to go to war for the foreseeable future. But a series of clashes in 2010-11 in East Asia indicate that regular skirmishes are likely. The US has been ramping up its forces in Okinawa in Japan and has been carrying out regular exercises with the Japanese (and Australian) navies close to China’s major naval base. The Korean peninsula has also

seen a ratcheting up of tensions. In March 2010, according to US and South Korean accounts, North Korea, a key Chinese asset, attacked and sank a South Korean warship near the disputed maritime border, killing 46 sailors. The US made a great amount of propaganda and rattled sabres about this incident; China stood firm behind the North, and the US was eventually forced to back down.[89] In November, hostilities were resumed as North Korea shelled a South Korean military installation on a small fishing island in the Yellow Sea. The US responded by sending in an aircraft carrier strike group for joint exercises with the South Korean navy. Tensions are also rising further south, with the Philippines now upgrading its armed forces to deal with what it regards as an increasing threat from China.[90]

Clashes with the US alliance are also feeding nationalist elements inside China as more hawkish elements of the party bureaucracy find their voice. The Chinese government is not afraid to flex its muscles even in disputes with Japan, one of the US's key allies. In September 2010 China and Japan had a major diplomatic brawl which began when Japan arrested a Chinese trawler captain after his ship had, allegedly, deliberately collided with two Japanese Coast Guard vessels.[91] The dispute was resolved when after strong Chinese pressure Japan released the captain, but not before the Chinese government imposed restrictions on the export of rare mineral earths needed by Japan for the manufacture of advanced electronic equipment.[92]

### **Chinese militarism and Australian imperialism**

The Australian ruling class is completely committed to the US strategy of containing China and defending US hegemony in the Asia-Pacific region. Economic necessity may dictate a degree of diplomacy and "good neighbourliness". Thus both Rudd and Gillard have made several trips to China since 2007 and these visits have been reciprocated by senior Chinese politicians. In October 2009 the Australian and Chinese governments signed a joint statement on the bilateral relationship, the first since 1972.[93] This comes on top of negotiations over a free trade agreement, initiated by the Howard government in 2005. The Chinese government is also funding Confucius Centres at various Australian universities to deepen academic exchanges. Senior military figures from both sides have also been involved in visits to the other country.

Despite such public displays of cordial relations, the Australian capitalist class perceives a growing threat from China in its own "backyard". Australia has long used foreign aid as a tool to win influence in the South Pacific. In 2009, the Australian government paid \$1.08 billion in aid and soft loans to the 14 members of the Pacific Island Forum. Such aid, combined with the activities of Australian multinational capital, backed up where necessary by military and police intervention, have usually been enough to keep the island nations under Australia's thumb. China is now extending soft loans to Pacific Island states for a wide range of infrastructure projects, ranging from tuna processing plants to road upgrades. At \$208 million, Chinese aid to Forum members is still only one fifth of the Australian total, but it is beginning to register in the region. The former Fretilin government of East Timor under Prime Minister Mari Alkatiri was keen to establish greater autonomy from Australia and established closer relations with China. In 2005 his government awarded a \$400 million contract to a Chinese government-owned company to build two power plants. The fear that Timor would over time slip away from Australian control helps explain Australia's decision to send troops back to the island in 2006. Similarly, the Bainimarama military regime in Fiji has survived years of sanctions and diplomatic isolation by Australia, partly thanks to aid and investment from China.[94] The Chinese government is also striking up extensive aid and trade relations with PNG, with \$121 million pledged in 2009, up from the \$5-15 million more typical in previous years.[95]

And so, beneath the politeness that characterises formal relations between the governments of the two nations, the Australian government has responded aggressively to the rise of Chinese military and geostrategic power in the Asian region. In December 2010 WikiLeaks revealed that in 2006 then Labor Opposition leader, now Australian ambassador to the US, Kim Beazley told US ambassador Robert McCallum that Australia would always side with the US in any confrontation with China. The US embassy recorded the gist of Beazley's comments:

In the event of a war between the United States and China, Australia would have absolutely no alternative but to line up militarily beside the US. Otherwise the alliance would be effectively dead and buried, something that Australia could never afford to see happen.[96]

The whole record of the Rudd and Gillard governments has been to confirm this aggressive military posture towards China. The first clear signal was the 2009 Defence White Paper. With a commitment of \$100 billion, this represents the biggest boost to military spending since Vietnam. The government will completely overhaul the submarine fleet and put into service 12 new submarines armed with Tomahawk cruise missiles capable of hitting targets 2,500 kilometres away. There will be a new fleet of 11 frigates and air warfare destroyers equipped, like the submarines, with cruise missiles. The government is buying 100 new F35 Joint Strike Fighter-Bombers each with the capacity to refuel in mid-air, giving them the ability to strike distant targets. Under the Rudd-Gillard Labor government, military expenditure has risen from \$21.2 billion in 2007 to \$26.9 billion in 2010.[97]

The Defence White Paper was a signal to Australia's neighbours that it is prepared to strike at great distance to enforce the interests of US and Australian imperialism in the face of the growing strategic threat from China. The Chinese government well understood this, with Chinese officials describing the White Paper as little more than a "crazy", "stupid" and "dangerous" document that "risked inciting an arms race across the region".[98] The message was reinforced eighteen months later in November 2010 at the 25<sup>th</sup> annual AUSMIN meeting of the foreign and defence ministers of Australia and the US when the Australian government reaffirmed its commitment to US domination of the Asia Pacific region in the face of some US concern that Australia might want to hedge its bets given its ever closer economic relationship with China.[99] AUSMIN signalled that the US would step up its military relations with Australia.[100] And the US committed to more frequent naval visits to Australian ports and more regular joint exercises with the Australian military. The Australian's Greg Sheridan explained that "This helps serve a longstanding fundamental Australian strategic interest, namely locking the US ever more deeply into a forward military, political and diplomatic presence in South East Asia".[101]

As part of a more general build-up of US military capacity in the south-east Asian region and Indian Ocean, the US will "pre-position" supplies of arms and equipment on Australian territory to allow it to respond more quickly and decisively to any threats to its interests.[102] The Pine Gap spy base outside Alice Springs will be complemented by an expanded US communications facility at Exmouth in WA, which will focus specifically on crippling China's nascent satellite and missile defence programmes. Australia has already been involved in assisting the US to develop new ballistic missile defence satellites, hosting two teams of US Air Force personnel in 2009.[103] And in 2011 WikiLeaks revealed that Australia was taking steps to acquire its own surveillance satellite to work in cooperation with the US.[104] The Sydney Morning Herald reported that "Depending on its path, an Australian satellite could contribute to strategic surveillance of countries including China, North Korea, Russia, India and Pakistan, Iran and other parts of the Middle East".[105]

In an opinion piece in the *Sydney Morning Herald*, Clinton and Gates said that:

*"The US military partnership with Australia will continue to play a vital role, defending against*

*present threats while preparing for those on or beyond the horizon... The importance of the US-Australia alliance extends to all elements of national power and international cooperation, efforts that will shape a more stable, prosperous region, governed by international norms and the rule of law.*"[106]

Clinton went on to declare that "The United States has no better friend than Australia".

Shortly after the 2010 AUSMIN meeting, the *Sydney Morning Herald* reported a US embassy cable revealed by WikiLeaks which indicated that despite the Coalition's jibe that the Mandarin-speaking Rudd was "soft" on China, the former Prime Minister was actually a hawk. The cable to Washington reported that at a lunch involving Rudd and Clinton in March 2009, Rudd had told Clinton to be prepared to "deploy force if everything goes wrong" in relations between China and the US.[107] Rudd confirmed that the build-up of Australia's navy projected in the White Paper was "a response to China's growing ability to project force" and that he intended his proposed Asia-Pacific Community to be a means to curb China's dominance and lock the United States into the region.

Labor's red-blooded enthusiasm for the US was demonstrated clearly during Gillard's visit to Washington in March 2011 marking the 60<sup>th</sup> anniversary of the ANZUS Treaty. Gillard told a joint meeting of the US House and Senate of her commitment to US efforts to encircle China:

You were indispensable in the Cold War and you are indispensable in the new world too. So your growing engagement with key countries in the region - like Japan, India, South Korea, and Indonesia - is enormously welcome. We will work closely with you to strengthen the fabric of these relationships and underpin regional stability... Australia in the south, with South Korea and Japan to the north, form real Asia-Pacific partnerships with the United States. Anchors of regional stability.[108]

The *Sydney Morning Herald* noted that Gillard "laid it on with a trowel, pledging undying loyalty to the US which made 'all the way with LBJ' look like a cold shoulder".[109] Gillard praised the butcher Ronald Reagan as a symbol of American optimism and assured those present:

You have a true friend Down Under. You have an ally in Australia, an ally for war and peace, an ally for hardship and prosperity, an ally for the 60 years past...an ally for all the years to come.[110]

Gillard also met Senator John McCain, the leading Republican on the Senate armed services committee. McCain told the US press that China had been "acting very assertively in the region". He warned: "That doesn't mean to me that there's going to be a conflict...but it does mean to me that Australia and the United States must ensure that basics like freedom of the seas are observed by the Chinese." [111] "Freedom of the seas" is US code for its untrammelled right to dispatch its navy to every corner of the Pacific without hindrance. Gillard for her part emphasised her support for an expanded US presence in Australia:

Australia and the US need to co-operate on strategic challenges and what is happening in our region is largely determined by the rise of China. We currently have joint facilities, joint exercises. We welcome American ships to our ports and those things can be a very big part of our future.[112]

Gillard followed up her visit to Washington with a trip to South Korea, Japan and China.

She used the occasion of an Anzac Day memorial service in Seoul to bait China. At the ceremony, commemorating the 60<sup>th</sup> anniversary of the battle of Kapyong, in which Australian forces fought Chinese, she described the Korean War as a war "to defend the young republic against North Korean aggression" and "an important war in fostering and keeping democracy", overlooking the fact that

South Korea laboured for decades under a US and Australian-backed military dictatorship.[113] Gillard met with South Korean president Lee Myung Bak and agreed on the need to deepen military ties, including regular meetings between the two countries' defence ministers, something that Japan and Australia had already established. The Chinese press described these commitments as "a signal for drawing in Japan and South Korea to restrain China".[114]

In June 2011, the Gillard government announced a review of the location of its military hardware and bases in order to, as the *Sydney Morning Herald* put it, "counter emerging threats in the region, such as China" and to protect what Defence Minister Stephen Smith called "a significant petroleum resources energy belt" off the north-west coast of WA and off the coast of the Northern Territory. It was not mentioned but clearly the future threat was believed to be Chinese naval power.[115]

### **Debates within the Australian ruling class**

Consideration of the economic benefits of the relationship underpin an ongoing debate amongst the Australian ruling class about how openly aggressive Australia should be in response to rising Chinese military power. There have been occasions when leading ruling class figures argued that a more dovish approach is warranted. For example, in 2004 Howard government foreign minister Alexander Downer suggested that a conflict between the US and China over Taiwan would not necessarily trigger Australia's obligations under the ANZUS Treaty. This statement caused some alarm at the US embassy. And in February 2008 the Rudd government declined to participate in a proposed four-way "dialogue" between Australia, the US, Japan and South Korea out of deference to China's concerns that the summit would be used to prepare for confrontation with it.[116]

The most vocal advocate of a dovish approach to China within the ranks of the ruling class and their advisors has been Hugh White, former senior Defence Department bureaucrat, principal author of the 2000 Defence White Paper and director of the Australian Strategic Policy Institute. White argues that the US should make space for China in order to prevent any escalation of military tensions between the two sides from which Australia could only lose:

The larger the role America plays in Asia, the better it will be for Australia, as long as that role is accepted rather than contested by the other major powers. That makes it clear that the best outcome for Australia would be for the US to relinquish primacy and share power with China and the other major powers in a Concert of Asia.[117]

The Obama administration's aggressive posture, White argued, ill served both US and Australian interests. Obama "refused to acknowledge China as a nuclear 'peer' with whom it has a relationship of nuclear deterrence". The result was that:

China is responding by building more missiles to preserve its ability to strike at the US. And inevitably, the US in turn sees this as threatening, and the risk is that it will redouble its efforts to neutralise China's deterrent. The result is likely to be an escalating arms race.[118]

Australia, as the US's oldest ally in the region, had a special responsibility to bring the US and China together "to settle for shared leadership". The alternative, maintaining the status quo, would become very dangerous because as military tensions between the US and China rose, so the US would make greater demands on Australia to boost its military commitment, including hosting US bases and, "if war came, sending big contingents of our armed forces to fight". But even short of all-out war, "In an intensifying conflict, our trade relationship with China would, of course, collapse." [119] White is joined in his concerns by Ross Crotwell, former head of Strategic and International Policy in the Defence department, who also criticised the White Paper for targeting



China in what he called a “partly confused and partly offensive analysis”:

What is clear, however, is that casting China in a negative light is not essential to the pursuit of such an extension of Australian influence. On the contrary, to the extent that China has now and is likely to have in the future, rather more strategic influence and diplomatic leverage in Northeast Asia than Australia, this approach could be counterproductive even to maintaining such influence as we have.[120]

Alan Dupont, former security analyst and now head of Sydney University’s Centre for International Security Studies, also criticises the military build-up projected in the 2009 White Paper and promotes diplomacy instead.[121] There is certainly an internal logic to the more dovish position – with the US a weakening power, both economically and militarily, and China apparently on an inexorable rise, there is no obvious reason why Australia should plump so forcefully for the US as Rudd and Gillard have done. Likewise, the growing integration of South-East Asian nations into the Chinese economy mitigates their desire for a forceful resolution of their territorial disputes with their giant northern neighbour. White points out a major weakness with the Labor government’s approach: even though China relies on Australia for minerals at the present juncture, this will not always be the case as “it has more supply options longer term than we have wealthy customers”. [122] If China is sufficiently provoked by Australian aggression towards it, it will eventually be in a position to dump Australia as a favoured supplier of minerals and foodstuffs, costing the Australian capitalist class very dear.[123]

Opponents of the hawkish position on China are by no means pacifists. They argue that instead of developing naval power to confront China, Australia should instead devote more resources to enable it to look after the immediate defence of the country and to prevent China “from projecting armed force towards us”. [124] These concerns notwithstanding, at present the Australian ruling class appears determined to press ahead with its “all the way with the USA” strategy. The White Paper represented the victory of the hard-line faction within the ruling class, comprising the senior Defence bureaucrat in charge of drafting the White Paper, Mike Pezzullo, along with Nick Warner and Angus Houston, at the time the Defence department secretary and Chief of the Australian Defence Force respectively.[125] Diplomatic and public service niceties prevent such figures arguing their case forcefully in public and so it is left to former veterans of the Defence department to take up cudgels in support of the hawks. Chief amongst these is Paul Dibb, former Defence department deputy secretary, who argues that China must be forcefully contained before its power reaches the point where it could come to the view that it might win a conflict with the US. Dibb accused China of “throwing its weight about” by, for example, refusing to fall into line with Australian and US demands at the Copenhagen Climate Change conference that it bear the brunt of reducing carbon emissions, or that it allow the yuan to appreciate significantly. But it was Chinese military moves that most irked Dibb. Dibb listed the various clashes with Japan and China’s claims to greater power over the East and South China Seas, describing these as “a growing challenge to regional security” before warning that “one day China will have to be taught a military lesson at sea”. [126] Similarly, Ross Babbage, advisor to the White Paper and founder of the Kokoda Foundation security think tank, wrote in 2011 that:

*“Australia cannot overlook the way that the scale, pattern and speed of People’s Liberation Army’s development is altering security in the Western Pacific... Australia has to develop an effective response. The challenge posted by the rising PLA is arguably one of the most serious that has confronted Australia’s national security planners since World War II. China is for the first time close to achieving a military capability to deny United States and allied forces access to much of the Western Pacific Rim.”*[127]

Babbage called on the government to acquire 12 nuclear powered attack submarines as well as

conventionally armed cruise and ballistic missile capability. The Australian's Greg Sheridan, a fervent advocate of US imperialism and well integrated into Washington policy-making circles, slapped down Hugh White, arguing that his 2010 essay was "the single, stupidest strategic document ever prepared in Australian history by someone who once had a position of some responsibility".[128] ALP MHR Michael Danby and director of the national security program at the Australian Strategic Policy Institute (and former spook) Carl Ungerer joined Sheridan a few days later in *The Australian* accusing White of "appeasing" China.[129] White's critics are firmly opposed to any questioning of the primacy of the US alliance in Australian foreign policy even if this leads to increasingly strained relations with China.

In the short term the hawks clearly have the upper hand. They too have a certain logic on their side. White's proposal for a "Concert of Asia" is utopian: no imperialist power, least of all the US, is going to tolerate sharing power with a rising competitor. The entire history of the twentieth century demonstrates that the only way established imperialist powers deal with their rising competitors, if they cannot be drawn into an alliance in opposition to a common enemy, is by war. Likewise, the only way that rising imperialist powers can dislodge their more established rivals is by military means (or by bankrupting them in the course of a war). Rudd's 2008 proposal for an Asia-Pacific Community, in which China and the US would be brought together, foundered precisely on US opposition to any notion that it might share power.

Nonetheless, the fact remains that Australia is currently not forced to choose between the two sides. The US and China are not about to go to war with each other. Why then is the Australian ruling class positioning itself so aggressively towards China? At some level this question cannot be answered by reference to material facts and interests which would suggest a more balanced approach or some hedging of bets. Australia's hawkish posture can only be understood at the level of ideology and the ruling class's perception of itself as a white redoubt in Asia defined by its dependence on another "white" power. As Hugh White argued, even pressuring the US to make more space for China would involve a confrontation with Australia's "oldest and deepest foreign policy principles":

We have always believed that our security required the domination of the Western Pacific by an Anglo-Saxon maritime power... We can hardly imagine what it would be like to live in an Asia that is not led by the US. All our history and instincts therefore incline us to push the US to contest China's challenge and maintain the status quo for as long as possible. Yet our interests and our future should incline us to push the other way.[130]

To the extent that even today the ruling class conceives itself, and thereby promotes amongst the population at large, the notion that Australia is essentially a European country, while the vast bulk of trade is with Asia and an increasing proportion of immigrants come from Asia, is testimony to the resilience of ruling class ideology even when faced with changing facts on the ground. The ideology that defined the Australian white colonial settler state - fear of the "Yellow Peril" - is likely to persist until a fundamental social rupture within the ranks of the capitalist class or a socialist revolution from below destroys it.

The ruling class is, however, rather more relaxed with Chinese foreign investment which, as we have seen, is growing quickly. Nonetheless, the fact that Chinese investment in the Australian resources sector is something that benefits both parties does not mean that it does not raise tensions. Some recent examples demonstrate the salience of the "China bogey". In February 2009, China Minmetals made a bid for the zinc and copper assets of Australian resources company OZMinerals for \$1.4 billion. The bid was rejected by the government on national security grounds - the proximity of OZMinerals' Prominent Hill mine to the Woomera weapons testing range. Only once Prominent Hill was excised from the deal did the sale get government approval.

Much more significant, both financially and politically, was the \$19.5 billion bid, also in February 2009, by Chinese company Chinalco for a minority stake in Rio Tinto. This would have been by far the biggest Chinese investment in Australia. With Rio in deep strife and the Australian dollar falling sharply, Chinalco moved in. The Chinese bid triggered panic by BHP Billiton which feared that a major Chinese customer for Australian iron ore would also hold several seats on the board of a company which was one of Australia's big two suppliers of iron ore, allowing it to push down contract prices.[131] BHP lobbied the government to delay any announcement by the FIRB. With the price of commodities recovering after the GFC, taking Rio out of financial difficulties, BHP and Rio Tinto announced a joint venture to combine their WA iron ore operations, strengthening their near monopoly position and thus their bargaining hand with Chinese steel producers.[132] Although BHP's objections to Chinalco's bid could be understood in terms of cold hard cash, the government's reluctance to sign off on the deal was undoubtedly underpinned by fear of China amongst sections of the ruling and middle classes – Nationals Senator Barnaby Joyce and Independent Senator Nick Xenophon kicked off a public campaign to have Chinalco's investment in Rio Tinto rejected.[133] It is very unlikely that Joyce or Xenophon would have uttered any concern had Chinalco been a US or British company.

There have been rumblings too around the issue of Chinese purchases of farm land. In July 2011, Liberal MPs held a "robust discussion" about the news that Chinese state-owned coal company Shenhua Watermark had spent \$213 million buying 43 farms in rural NSW. Country Liberals raised concerns about "sovereignty and food security".[134] Nonetheless, with big profits at stake and more to come, neither the Coalition nor Labor leadership was willing to encourage opponents of Chinese investment. Shadow Treasurer Joe Hockey cautioned against the Liberals taking up the issue, as did the leaders of the Labor federal caucus. Treasury has vehemently opposed the establishment of a more detailed register of land ownership, something proposed by the Greens, also fearing that it would deter Chinese investment. It might also point out that the whole thing is something of a racist beat-up. Just as many figures in the ruling class have the opposite concern – that "red tape" is scaring away Chinese investors who are opting instead to invest in South America.[135]

## **The Marxist theory of imperialism**

I have argued that a war between China and the US is not likely in the foreseeable future. Does such a prognosis vitiate Lenin and Bukharin's theory of imperialism, which suggests that intensifying economic and geopolitical competition between the major imperialist powers of the day is likely to spill over into war, as occurred with such drastic consequences in 1914 and 1939? Does my prediction, by contrast, give credence to the argument that monopoly capitalism is more likely to create conditions of peace than war?

The notion that growing economic competition would lead to peace was put most forcefully in the early twentieth century by Karl Kautsky of the German Social Democratic Party. Kautsky argued that imperialism expressed the interests of the finance sector and some other monopolies, but that most sections of industry had an interest in peace. Moreover, he also developed the theory of "ultra-imperialism" which suggested that the major powers could agree to exploit the world jointly, rather than fighting to divide it up. Famously, and unfortunately for Kautsky, World War I broke out shortly after he published an article in which he argued that the time for wars had passed. However, Kautsky still maintained that there was no necessary connection between imperialism and war:

There is no economic necessity for continuing the arms race after the World War even from the standpoint of the capitalist class, with the possible exception of certain armaments interests. On the

contrary, the capitalist economy is seriously threatened precisely by the contradictions between its states. Every far-sighted capitalist today must call on his fellows: capitalists of all countries unite! [136]

Kautsky has his modern day equivalents, including US academic Michael Hardt, who wrote on the eve of the US attack on Iraq in late 2002:

*"The common interests of the global elites are most visible in the economic sphere. Business leaders around the globe recognise that imperialism is bad for business because it sets up barriers that hinder global flows. The potential profits of capitalist globalisation...depend on open systems of production and exchange. This is equally true for the captains of capital in the US. Even for the US industrialists drunk on oil, their real interests lie in the potential profits of capitalist globalisation."* [137]

Lenin was scathing towards Kautsky's conception that war could be replaced by peaceful coexistence. The capitalist states could not organise some peaceful sharing (and expansion) of the world market for the same reason that the capitalists cannot organise themselves into sustained cartels: there is always an incentive for one of their number to break the cartel for short term advantage. They could form alliances but, Lenin wrote:

*"Peaceful alliances prepare the ground for wars, and in their turn grow out of wars; the one conditions the other, producing alternating forms of peaceful and non-peaceful struggle on one and the same basis of imperialist connections and relations within world economic and world politics."* [138]

Lenin and Bukharin's theory of imperialism served as a crucial guide for revolutionaries in the years from 1914 to 1945. [139] It suggested that economic tension between the great powers would constantly give way to wars. It provided yet another reason to overthrow capitalism as the two great wars led to tens of millions of deaths. It also explained why any international body that might emerge to regulate competition between the great powers, such as the League of Nations, could not bring about peace between nations but would serve only to divide the spoils of war between the victorious powers and keep down the defeated powers, thereby only preparing the ground for new wars, as occurred in 1939.

After 1945, the Marxist theory of imperialism seemed to have less to say. There was superpower competition between rival state monopoly capitalist powers, just as the theory predicted, but no new outbreak of war between them. Had the theory therefore lost its relevance? Two factors help explain the absence of any hot war between the two Cold War rivals. First was the prospect of a thermonuclear war and the destruction of the contending sides. There was a kernel of truth in the imperialists' argument that the build-up of nuclear weapons on both sides preserved the "peace". But absence of a direct clash did not mean peace in any genuine sense – their imperialist rivalry was spun off to the edges of their empires in the form of proxy wars designed to preserve influence, or block the rise of the other, in Africa and Asia. The result of these wars was millions dead; hardly peace! And the preservation of "peace" in the heartlands of imperialism also meant class war at home, with the working class on both sides of the Cold War divide exploited at an intensified pace to pay for the immense military apparatuses piled up by both superpowers and oppressed politically, as opposition to their own ruling classes was ascribed to treachery and "aid to the enemy". Nonetheless, the feared nuclear exchange did not happen.

It was not just that there was no war between the USA and the Soviet Union, but there was also no revival of the Franco-German military competition which had produced three major wars in the previous three quarters of a century. Nor was there a fresh war over the Pacific between the US and

Japan. The second factor explaining the prolonged absence of war between members of the Western bloc was the overwhelming economic and military hegemony of the US. For several decades, US leadership of the Western bloc, expressed in the form of the Bretton Woods system and NATO, allowed all of the Western “free market” capitalist economies, including Japan, to expand under Pax Americana. The US encouraged France and Germany to resolve their differences in the framework of the European Economic Community. In circumstances of the long post-war boom, individual European capitalist states and Japan could prosper without recourse to war.

These developments, while they were certainly not predicted by Lenin and Bukharin, did not mean that the Marxist theory of imperialism had been rendered invalid. It just meant that war in the imperialist heartlands was suppressed for decades. And, as I have argued, it certainly did not mean peace.

And so, today, the framework provided by Lenin and Bukharin helps to point to the fault-lines in the world imperialist system. It demonstrates why the world capitalist system has inbuilt tendencies to fresh wars, as is obvious with the growing rivalry between the US and China and the relocation of potential hot war flashpoints from Europe to Asia. And, with the fundamental reordering of the world economy as the US declines and China rises, and with US hegemony even over its own sphere of influence in the Western hemisphere much less assured, the potential for the US to use military muscle instead of relying simply on economic leadership is heightened. But there are also important counter-tendencies which need to be recognised.

Both China and US capitalists benefit from an open world economy. For China, the internationalisation of the world economy under US hegemony that has occurred over the past 30 years has created an economic space in which it can find markets. And thus, it is not just the US, but China and, for that matter Russia and the EU too, that have been keen to extend the world trading system underpinned by the US dollar. China is a member of APEC, the WTO, the G20 and all the other neoliberal international forums. China has benefited from the decision in 1998 by the US to play the role of “importer of last resort” in order to prevent Asia sinking into a prolonged recession. The US’s large domestic economy, engorged by debt, provided a huge market for Chinese exporters over the following decade. Even though Chinese bosses have been increasing trade relations with Asia, it is still the case that one third of all Chinese merchandise exports go to the US. Chinese capitalism also benefits from the inflow of foreign investment which brings not just funds but also managerial and technical expertise which is absorbed into the broader Chinese business sector.

If Chinese capitalists benefit from the status quo, so too do the American. China recycles its huge trade surpluses into purchases of US Treasury bonds, thereby enabling the US to fund its public debt and keep interest rates low. Low interest rates in turn helped sustain the consumer debt bubble of the 1990s and 2000s which sucked in further Chinese exports. And it is not just the US that has been living off Chinese foreign investment – China is also buying European government bonds, including those of the PIIGS, thereby helping to shore up the international financial system.[140]

China also provides US capitalists with a low-wage platform for outsourcing operations. Total foreign direct investment in China rose from \$1 billion in 1985 to \$106 billion in 2010 and this has generated billions of dollars in profits for Western (and East Asian) investors. Nearly 60 per cent of “China’s” exports are actually exports by US multinational companies with operations in China; for high tech exports, the figure is closer to 90 per cent.[141] A portion of the surplus value produced by Chinese workers is thereby appropriated by US capitalists. Cheap Chinese exports of household goods, by reducing the cost of living for US workers, have also helped American business cut wages at home. And, finally, China has provided an important market for US exporters, in particular aerospace companies such as Boeing and the IT industry.

The interdependencies between the great powers help to explain the coordinated stimulus action and the decision by the major powers to avoid recourse to higher tariffs at the height of the GFC in early 2009. The capitalist states appeared to have come to the conclusion at the time that any short term gains that each could have won by acting in a unilateral manner would have been outweighed by the damage that such action cost to the system as a whole. The US and China are locked into Mutually Assured Financial Destruction just as the US and Soviet Union were earlier locked into its thermonuclear version. The Chinese government holds \$1.2 trillion in US government bonds but it is this very storehouse of wealth that is now also a source of weakness. The Obama administration is now trying to pursue the same mercantilist strategy followed very successfully by China in the 2000s: keep wages low and keep the currency cheap in order to boost exports. Austerity and unemployment are taking care of the first. Quantitative easing – the flooding of world markets with hundreds of billions of US dollars – was designed to take care of the second, albeit without much success.[142]

The Chinese government is now feeling the heat because the intended dollar devaluation threatens not only its export machine (by pushing up the value of the yuan) but also the value of its holdings of dollar-denominated securities. It can retaliate by shifting out of US bonds and replacing the US dollar with yuan in trade with its Asian neighbours, thereby reducing its exposure to this currency risk.[143] The US is extremely susceptible to such a threat – this is the first time in world history where the leading superpower is also the largest debtor. Any Chinese withdrawal from US bond markets would have devastating effects on the US as it would lead to a collapse in market confidence in the US dollar and would force up bond yields to PIIGS-levels. The Congressional deadlock over extension of the US debt ceiling in July 2011 would be a minor tremor compared to the earthquake that would follow from China dumping the dollar. This gives China enormous leverage; as Hillary Clinton remarked to Rudd in 2009: “How do you get tough with your banker?”.

Nonetheless, the Chinese government dare not use this weapon of mass financial destruction. A sudden collapse of the US dollar and its domestic market would also hurt China by slashing the value of its foreign exchange reserves and depressing its major export market. The Chinese government may blame the US for the GFC but it has no wish to see the US economy collapse. US academic R. Taggart Murphy writes:

China now faces much the same dilemma that Japan began to wake up to some 35 years ago: its economy is now so intertwined with that of the US and it has such a huge position in dollar markets that it cannot walk away from its support for the existing order without doing irreparable damage both to that order and to its own short- and medium-term economic prospects.[144]

Such is the interdependence of the US and Chinese economies that both sides understand the consequences of a major disruption to bilateral trade, but each side continues to nigger at the other. The G20 forums are used not just to oil the wheels of international financial and economic exchange but also for each imperialist, both global and regional, to push its own interests. China and the US have also been trading accusations at the WTO, each blaming the other for dumping product onto their markets or subsidising their domestic producers. And if the capitalists could act “rationally” from the perspective of the stability of the system as a whole during the GFC, this has not been the case since the worst of the crisis passed. The decision by every Western state to slash government spending in 2010-11 in a wave of austerity budgets only depresses the world market. The very anarchy of the capitalist market means that individual states are willing to wreck the entire world economy if they perceive some sectional benefit in doing so.

China is not just hostage to the US financially. Its relative military inferiority means that it also depends on the power of the US in several areas of mutual interest. China is dependent on US military power in the Middle East to guarantee the free flow of oil to world markets. While it may not

fall into line with the US in relation to Iran, Libya or North Korea it is also not openly boasting of its ambition to challenge the US empire. China is not willing to aggressively back enemies of the US, whether in Latin America, the Middle East or Central Asia. A stark contrast can be drawn with US-Soviet relations in the Cold War when the Soviet Union trained, armed and financed guerrilla movements fighting US allies around the world, or when the two sides fought bloody and sustained proxy wars, as in Korea in 1950-53. In short, Chinese imperialism is growing, but it is doing so very much in the shadow of the US empire.

For its part, the US sees no need to launch an immediate attack on China. It evidently cannot seize the Chinese land mass and is content to draw a red line around Taiwan. A Chinese attack on Taiwan, however, would definitely change the equation – but this is not in any way an immediate prospect; far from it. The Beijing and Taipei administrations are currently enjoying warm relations. And a war with China would immediately jeopardise the billions of dollars of US investment that US corporations hold in that country and, not least, wreck the entire world trading system that provides great benefits for both sides.

None of this means, however, that Kautsky was right, albeit perhaps a century too early. Inter-imperialist competition is fraught with tension with possibly bloody consequences, just as it was during the Cold War. Rational calculation by both sides tells each that now is not the time to rush to war against the other. Nonetheless, this is only a tactical judgment based on the current balance of forces, not a renunciation of the principle of war for the settling of capitalist competitive rivalry. The clout that each national state can bring to bear on behalf of “its” capitalists in negotiations with its rivals is ultimately determined by its capacity to wage war. Even if this is not expressed in the actuality of war, the possession of substantial means of war-making fundamentally shapes the outcomes. It is still the power of the US armed forces that allows US companies to set up operations in China on the best commercial terms. And if there were several reasons for the US invasions of Afghanistan and Iraq, asserting US power in the centre of world oil production was certainly one of them. As it happens, the failure of the US to achieve decisive victories in both those theatres of war has allowed China to make ground in Asia, Africa and Latin America negotiating long-term energy deals in areas long dominated by US interests.

Extensive trade and investment links have historically been no barrier to war. Business between the US and Germany and Japan was rising rapidly in the interwar years and only began to taper off once the US government realised that these countries were encroaching on its interests. And the US government had no hesitation in ordering the US Air Force to bomb Germany in World War II even though it was home to hundreds of millions of dollars of investments by Ford, General Motors, Standard Oil and ITT. When the clash between imperialists reaches a point of no return, any short term calculations of the cost of war are pushed into the background: the very survival of the imperialist power has to be defended regardless of the expense.

### **Tasks for the Australian working class**

The rise of China is upsetting the dominance that the US alliance has enjoyed in the Asia-Pacific for decades. As the US stumbles in its military ventures, as it is challenged by the rise of democratic movements in the Arab world, and as it remains mired in a prolonged recession, the US is all the more determined to use its status as the world’s only military superpower to contain China. Military tension in the Asia-Pacific region is rising as the US struggles to hold onto its leading role.

This situation suggests a series of tasks for the Australian working class. We may not be on the eve of a third world war, but this does not mean that military conflict between the US and China or the



allies of each is unthinkable. The ruling class is willing to spend tens of billions of dollars every year on the military to project the interests of Australian business in the Asia-Pacific region. But there is no reason why workers should support such spending (money that could otherwise be spent on health, education and pensions), as its purpose is to defend the interests of the very same big businesses which rip them off every working day. The main enemy of Australian workers is not the Chinese government but our own capitalist class and its state. We have no interest in supporting attempts by our rulers in their efforts to improve their position as part of the broader US alliance against China, and therefore Australian workers must refuse to take sides in the debates between different wings of the capitalist class about how best to pursue Australian imperialist interests. Military rivalry is built into the system of capitalist competition and opposing militarism and war means opposing the capitalist system under which such conflicts are inevitable. The Australian workers' movement has every interest in defending the interests of workers both in Australia and around the region in opposition to the various military strategies put forward by the capitalist class.

Running counter to the tradition of imperialist manipulation of our region has always been an alternative tradition which is worth keeping alive – one of working class internationalism. Examples include the wharfies' black ban on BHP shipments of iron ore to Japan during its invasion of China in 1937 and their support for the Indonesian struggle for independence after World War II. They include the action taken by the wharfies and seafarers to halt the shipment of military equipment to Vietnam in 1966 and 1967, and the call in 1969 by Victorian trade unionists for Australian soldiers serving in Vietnam to mutiny. Australian workers demonstrated their solidarity with the anti-apartheid struggle in the 1970s and 1980s by refusing to handle goods and air transport to South Africa and in the same decade, the wharfies repeatedly refused to handle US nuclear-armed warships visiting Australian ports.

The working class today has to reject claims that we cannot afford a decent welfare state when the government outlays \$36 billion on a new fleet of submarines. It also has to reject the racism that has been used since the establishment of the colonial states and express solidarity with every struggle by the Chinese working class for their freedom. As Marx and Engels argued in the conclusion to *The Communist Manifesto*: "The proletarians have nothing to lose but their chains. They have a world to win. Workers of all countries unite!"[145]

## **Tom Bramble**

### *Notes*

[1] Ross Gittins, "The giant that keeps Australia a lucky country", *Weekend Business, Sydney Morning Herald*, 29-30 January 2011. There are two methods of making international comparisons of GDP, both with their strengths and weaknesses. The conventional "market exchange rate" method simply compares GDP with currencies all converted to US dollars. Using this measure, the IMF estimated US GDP in 2010 at \$14.7 trillion and China at only \$5.9 trillion. US GDP by this measure was equivalent to that of China, Japan and Germany combined. Evidently such a measure is very susceptible to changes in exchange rates – if the Chinese yuan rises, its market exchange rate GDP rises automatically without any more goods and services produced. This measure also does not take into account that \$US100 spent in China converts to a much bigger basket of goods and services than \$US100 spent in the US because goods and services are cheaper in the former. The "purchasing power parity" measure takes relative prices in each country into account so that the comparable GDP figures give a more accurate guide to the actual volume of goods and services produced in each country. Such a measure substantially lifts Chinese GDP relative to the US. Predictions of China overtaking the US in the near future rely on the purchasing power parity method of estimating GDP.

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[3]Peter Hartcher, "Best pals act puts the wind up the world", *Sydney Morning Herald*, 24 May 2011.

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## **P.S.**

\* Marxist Left Review, No.3 Spring 2011.

[http://www.marxistleftreview.org/index.php?option=com\\_content&view=article&id=65:australian-imperialism-and-the-rise-of-china&catid=40:number-3-spring-2011&Itemid=79](http://www.marxistleftreview.org/index.php?option=com_content&view=article&id=65:australian-imperialism-and-the-rise-of-china&catid=40:number-3-spring-2011&Itemid=79)