China: Foreign capital controls three-quarters of industry

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As of 2004, foreign capital controlled 76.6% of Chinese industry, a study produced by academics from Beijing's Communication University has found. The findings of the report, which was released in March, are consistent with a November 2006 report by the Development Research Centre of the State Council, China's cabinet.

The State Council study revealed that foreign capital controls the top five firms in every industry where Beijing allows foreign investment. Additionally, in 21 out of China's 28 leading industrial sectors foreign capital controls most of the assets. [See additional statistics in the box below]

Foreign assets within China were nationalised in the early 1950s, following the country's 1949 revolution. Foreign capital has only been readmitted since Beijing's open-door policy began in the early 1980s. Following Beijing's pro-capitalist "reforms" in the early 1990s, foreign investment has accelerated, especially since the big push on privatising state firms in the second half of the 1990s. Such firms, usually sold at knockdown prices, were gobbled up by foreign capital and China's own nascent capitalist class. This new bourgeoisie is typically nourished by, if not drawn directly from, officials of the ruling Communist Party of China or their cronies.

The increasing weight of foreign capital started to spark concern when top firms in one consumer goods industry after another sold significant, sometimes controlling, stakes to foreign corporations, resulting in the gradual disappearance of some long-standing trusted brand names from the former state firms.

In October 2003, for example, US-based Eastman Kodak, which had already acquired three of China's four domestic photographic film producers, was given the green light to acquire 20% of the remaining domestic film company — Lucky Film, which is very strong in China's rural market. According to Li Deshui, former head of China's National Statistics Administration, by 2005, foreign multinationals were controlling more than 80% of China's large-scale supermarkets and were holding virtual monopolies in sectors such as skin-care products.

The alarm was raised in the last few years when this creeping control was extended to industries involved in the manufacture of capital goods (equipment — machinery, tools, etc.), which possess China's core institutions of strategic technology.

In a 2005 study published by ChinaAffairs.org, Gao Liang, director of the state assets research centre of the National Development and Reform Commission for Restructuring the Economy, highlighted the fragile base of China's equipment industries, which rely on imports to meet two-thirds of their needs — equivalent to some 10% of China's GDP. Such dependency, wrote Gao, is particular bad in industries such as fibre manufacturing equipment, which in 2005 relied 100% on imports. Eighty per cent of the equipment for the integrated circuit and petrochemical industry, and 70% for the equipment for automobile manufacturing, textile production and the CNC (computer controlled) machine tools industries.

Gao quoted Wang Shengtong, general secretary of China's Gear Association, as arguing that the central government has a poorly defined policy in relation to foreign capital's inroads in the industry. In addition, local governments had engaged in an aggressive push to sell off even key firms.

Gao argued that a key motivation driving this push was that it boosted local GDP, based on which a local government's performance is assessed. There was a virtual race among the local governments to bring in the world's top 500 firms, wrote Gao, resulting in deals often being struck at "seriously deflated prices". Of these top firms, 470 have established a presence in China.

According to Gao, examples of leading firms in key industries falling into foreign hands include:

* Dalian Electric Motor, China's biggest firm of its kind, is now fully owned by Singapore-based Lindetoves-Jacoberg.

* Jiamusi Combine Plant, China's only producer of big-scale combine harvesters (holding 95% of the product's Chinese market share), became fully controlled by US firm John Deere, after starting out as a joint venture in 1997.

* Wuxi Weifu Group Co Ltd, the biggest diesel-injection system producer in China, became two-thirds owned by Germany's Bosch in 2004.

* FAG, owned by Germany's Schaeffler Group, took control of Northwest Bearing, one of the biggest producers of its kind in China, after purchasing 51% of the company's shares in 2001.

* Liaoning Jinxi Chemical Equipment, a leading manufacturer, sold 70% of a strategic unit in Huludao city to Germany's Siemens, in a deal that Gao wrote had "shocked the industry".

In addition, the US-based Caterpillar Inc, the world's biggest producer of construction equipment, having bought Shandong SEM Machinery in 2005, sought to buy Xugong Construction Machinery Company, Xiamen Engineering Machinery and Shanghai Diesel Engine — all major enterprises. This sparked a major outcry in China.

Clearly reacting to this growing public concern, Caterpillar's latest three bids have either been rejected or disallowed by the authorities. Similarly, the US Carlyle Group made an October 2005 bid to buy 85% of Xugong. It was pressured into downsizing its bid to a 50% stake, then down to 45% in March.

China's fledgling capitalist class has also felt threatened, warning of the growing grip of foreign capital. Zong Qinghou, CEO of the Hangzhou-based Wahaha drinks firm, which is the target of a hostile takeover bid by France's Donone, used his other position as a deputy in China's parliament to air his concerns in March.

Beijing has had to respond, but has done so half-heartedly. For example, in reaction to the widely reported claim that most of China's 2000 equipment-manufacturing firms with sales exceeding 100 billion yuan (US$12 billion) are foreign-funded, the April 11, 2006, China Daily quoted Wang Zhile, a researcher on multinationals, as claiming that "it means that the market is fully competitive" and it isn't "a threat to national economic security".

A September 11, 2006, article by China's Xinhua news agency quoted Song Heping, deputy director of the commerce ministry's Industrial Damage Investigation Department: "Foreign acquisition of [China's] leading companies are a new problem in China … the ministry is trying to balance protection of indigenous industries with the investment enthusiasm of foreign companies."

One such “balancing” act is a regulation issued in September 2006 that requires companies to seek official approval when merger and acquisition deals involve large or economically significant firms, such as those with more than 2000 employees or possessing a 25% market share.

However, at the 2006 International Investment Forum in Xiamen, in southern China, vice-premier Wu Yi made clear that “Even if China has accumulated abundant capital”, “international investment will continue to play an important role in supplying technology, talent and employment in promoting structural adjustments to the economy [i.e., continuing the push to restore capitalism and eliminate the remnants of the country’s socialist revolution — EC]”.

Recognising the danger of China’s downward spiral to a neo-colonial economy, Li Deshui told China Daily last year: “If China lets multinationals’ malicious mergers and acquisitions go ahead freely, China can act only as labour in the global supply chain.” Quoting Professor Oded Shenkar of Ohio State University, the September 18, 2006, edition of the US magazine Time reported that “almost two-thirds of China’s exports are generated by companies with foreign investors, a figure that rises to nearly 80% in high-value-added sectors like IT”.

China’s role, dictated by foreign capital, as the world’s sweatshop, ramping up a huge appetite for energy in the process, is encapsulated by a October 5, 2006, Beijing Review report. It revealed: imports and exports account for 60% of China’s GDP (a result of its import-dependent, export-oriented, low-value-added sweatshop industries); foreign direct investment amounts to 10% of China’s GDP ($60.3 billion in 2005, $63 billion in 2006); 40% of China’s basic energy is imported; the country possess only 4% of the world’s independent intellectual property rights.

Box

Foreign capital in Chinese industry

Based on the Statistics Yearbook of China 2005, the Communication University study revealed the following extent of foreign capital control of Chinese industries in shareholding terms: 82% in agriculture, forestry, cattle and fishery, 67% in mining, 77% in manufacturing, 56% in electricity, fuel gas and water production and supplies, 66% in construction, 76% in transport, warehousing and posts, 92% in telecommunications, calculator and software, 77% in wholesale and retail, 70% in accommodation and restaurant, 66% in finance, 78% in real estate, 81% in leasing and commercial services, 82% in scientific studies, technical services and geological studies, 66% in irrigation, environment and public infrastructure management, 75% in services for residents and other services, 64% in education, 69% in public health, social security and social welfare, 78% in culture, sports and entertainment, and 88% in miscellaneous industries.

In terms of market share, the study reveals in the following extent of foreign control during the same period: 82% in communications, calculator and related electronics, 72% in instrumentation products, cultural and office machinery, 48% in textile apparel, footwear and hats, 49% in leather, fur, feather and related industries, 51% in furniture, 60% in educational and sports products, 41% in plastics, and 42% in transport equipment.

P.S.

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