China: New weapons, new status ? new bubble?

Peter Main Fri, 09/10/2009 - 09:36
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For the first time in many years, Beijing celebrated the anniversary of the founding of the People?s Republic with a military parade. President Hu Jintao watched from Tiananmen, the Gate of Heavenly Peace, as the latest weaponry passed him by. Unmanned drones, cruise missiles, nuclear-enabled missiles trundled past and, as official commentators emphasised, these were not only made in China but designed in China.

The message could hardly have been clearer. China, which earlier this year unveiled its first nuclear submarine, may still call itself a ?developing country? but it is already a power to be reckoned with. And this is not just a question of military hardware, or software. Western recognition that the G20 has taken the place of the G7 as the principal global economic forum is, essentially, a recognition of China?s newfound economic clout.

As if to confirm this, the IMF?s latest six monthly outlook predicted a 9% GDP growth rate for China, in line with Beijing?s own projections. In mid-September, the National Bureau of Statistics reported a 15.4% increase in retail sales in August and a 12.3% increase in factory output. Figures like these, which contrast very sharply with those for the major imperialist economies, the US, the EU and Japan, prompted George Soros to suggest that China could now become ?one of the motors of the world economy?.

In truth, China already is such a motor. But, whether it is a motor that can pull the rest of the world with it, is another question. For a start, many economists will be sceptical of China?s statistics, which do not have a good track record. For example, last April?s GDP figures showed a year on year increase of 7.3% yet, over that period, power generation declined by 3.5%, exports were down 22% and inward investment dropped by 21%.

Similarly, official figures showed that urban income rose by 11.2% in the first six months of the year. This figure was so far distant from popular experience that the government?s own newspaper, Renmin Ribao, (the People?s Daily) questioned it. Such discrepancies have usually been taken to show that the ministries that compile statistics often massage them to maximise apparent activity in their own sectors.

There is little doubt that this happened in the past and may still happen now. However, while it might sometimes be politically useful to talk the economy up, the government itself, not to mention capitalist corporations, ultimately needs accurate figures on which to base its policies. In part, the problem stems from past accounting standards, inherited from the bureaucratically planned economy. Then, ?urban income? was a measure of wages in (government-owned) industry, which accounted for virtually all employment. Used today, this figure excludes as much as 65% of the economy in GDP terms, which is now in private hands. By definition, therefore, the often pitiful wages of migrant workers in sweatshops and on construction sites do not enter into the calculation. The salaries of managers and bureaucrats, however, are included.

Whatever their absolute accuracy, taken as a series, over time, the GDP figures do give us a clear indication of the relative performance of the economy. The most recent figures record the impact of the government?s massive stimulus package, approximately the equivalent of £400 billion, which came into force last November. Spending on that scale inevitably has a significant positive impact on an index that tries to gauge total expenditure on goods and services. More informative than the annualised growth figure, however, is the breakdown of expenditure within the economy.

Beijing?s declared aim was that the stimulus package should begin to rebalance the economy by increasing infrastructure development in the interior and boosting consumer spending to help offset a dramatic drop in exports. Latest figures certainly show a big increase in ?fixed asset investment?, up 33% year on year. However, as premier Wen Jiabao made clear at the World Economic Forum earlier in September, ?China?s economic rebound is unstable, unbalanced and not yet consolidated?. What exactly he meant was made clear by a Cabinet statement on the eve of Beijing?s celebrations. Too much of the investment has gone into expanding productive capacity rather than the investment goods themselves. Such spending threatens to exacerbate the problems that contributed to the crisis in the first place.

The government has now put a complete ban on new aluminium smelters for three years and condemned ?blind expansion? in the steel and cement industries. The Financial Times quotes the government statement, saying ?some regions act illegally, give approvals in violation of regulations or allow building before approval is granted.? This confirms the prediction made in these pages in March, ?What Beijing wants is not necessarily what Beijing gets. Although many of the biggest firms are still state-owned, they are no longer coordinated by any plan and many will pursue their own priorities.? (Workers Power, March 09) One result of this is serious overcapacity in various industrial sectors, which Beijing fears will lead to international tensions if Chinese producers dump their output on the world market.

The situation in the financial sector is equally problematic. The GDP figures reflect a massive increase in bank lending which was encouraged by Beijing to finance a substantial part of the stimulus package. However, easy credit has also fuelled speculative bubbles in the real estate market and the stock exchange. The Shanghai exchange has risen by 100% since its low point last year. In one week in July, half a million new accounts were opened, according to Bloomberg. The tripling of the price of shares in a toll-road operator, Sichuan Expressway, on its first day of trading in October, gives an idea of the increasingly frenetic atmosphere on the market.

That 15.4% figure for increased retail sales also bears closer examination. At first sight it would seem to confirm that Beijing has achieved its objective of increased consumer spending. However, in China, ?retail sales? are not the same as ?consumer sales?. These figures include government procurement and, therefore, also reflect the stimulus package. Figures from the consumer retail sector suggest a much lower growth rate, 5 or 6%.

How then should the economic statistics be understood? Certainly, economic activity has been revived to a significant degree and this ultimately reflects the fact that China is still a relatively young capitalist economy. Unlike the United States, which is burdened by over-accumulated capital and where huge government borrowing has basically been used to recapitalise the banks, it was always to be expected that after a couple of years of recession there would be a return to growth in China as the new economic cycle begins. Nonetheless, to the extent that state spending and easy credit obstruct or delay the destruction of obsolete capital they will act as a drag on recovery.

Politically, the developments that lie behind the figures show that, despite the dictatorial regime, the

Communist Party is very far from being in complete control. The restoration of capitalism has inevitably created a new capitalist class, as well as inviting back the Chinese capitalists of Taiwan and Hong Kong. This class is by no means a challenger to the regime, indeed it depends on it to maintain profits, but it clearly has its own interests and these do not always coincide with the Party?s.

The recent rapid development of speculative bubbles demonstrates this very clearly. It remains to be seen how the Party will react. If the speculators are allowed to continue, then, when the bubbles burst, as bubbles do, they could derail the whole economic strategy.

Another round of company bankruptcies, the re-imposition of another credit crunch when the recovery is still not self-sustaining, could certainly have an impact way beyond the ranks of the speculators in Shanghai and Shenzhen. However, Beijing may calculate that a quick lancing of the bubbles through, for example, tax changes, will not only protect the economy but also cut the insufficiently patriotic bourgeoisie down to size.

Ultimately even more importantly, rapid capitalist development over the last decade has also created a rapidly growing working-class and this too has begun to assert its own interests. A fascinating study of the workers? movement in China, published by China Labour Bulletin earlier this year*, details not only the scale of working-class unrest, 127,467 ?mass incidents? in 2008 alone, but also increased workplace-level organisation both within the official trade unions and separately.

Historically, the early stages of a new economic cycle have often encouraged workers to fight to retrieve what was lost in the recession. At the height of China?s boom in 2006, workers were able to force up wages in response to inflation and labour shortages, but for the last two years they have suffered a dramatic rise in unemployment and cuts in living standards.

Revolutionaries and working-class activists will now fight not only to make good those losses but to take forward the task of creating independent working-class organisations. Certainly these must include trade unions or, better still, industrial unions, but the highest priority must be the struggle to build an independent working-class party committed not only to defending workers? interests within capitalism but overthrowing capitalism in China and internationally.

* Going it Alone: The Workers? Movement in China, Published by China Labour Bulletin, Hong Kong

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