An historic crisis of capitalism Part 2: The politics of the new world order

Luke Cooper Fri, 13/11/2009 - 17:22

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The second of this three-part piece looks at the politics of the new world order, considering the increasing multi-polarity of world geopolitics and the cracks opening up inside the ruling class both in policy terms and over the speed and tempo of the attacks required on the working class. Lastly, we analyse the prospects for America?s principal rivals in Europe and Asia.

Part one is online here [1].

Cracks open up in the ruling class

As the most powerful determining feature in the world situation, we can see how the crisis is making politics more than ever take on the character of a concentrated form of economic life. The sectors of bourgeois capital behind the Obama administration further illustrate this fact. Although he would, in all likelihood, have supported the bailouts anyway, the financial sector, including the now collapsed Lehman Brothers, was a strong pillar of his campaign. The other major sector of capital behind him was, in the catchwords of US politics, ?Silicon Valley?, and they seem to be the most influential in policy terms. Google CEO Eric Schmidt was appointed not only to the administration, but also to the powerful ?transition team?. Obama?s fiscal stimulus purports to lay the groundwork for a green industrial revolution, based on public investment in renewable technology.1

His appeal to the corporations, entrepreneurs and technocrats of Silicon Valley, contrasts sharply with his rough treatment of the old industrial sectors of American capital, centred on the ?Rust Belt? of the North and Midwest; Pittsburgh, Detroit and Indianapolis. He refused to bail out General Motors or Chrysler on their terms, pushing them into a destructive restructuring through the strictures of Chapter 11 bankruptcy proceedings, and, in Chrysler?s case, even assented to a foreign takeover. As we previously predicted,2 the crisis in the financial system that forced state intervention, has made political the decision over which capitals face destruction and which are saved, whereas in a ?normal? crisis this would be a decision of the banks. Obama may appear to want to push for a fundamental restructuring of US capitalism with a focus on its more dynamic IT, technology and communication sectors and away from its stagnant heavy industry and manufacturing, but an imperialist superpower must maintain a strong, competitive foothold in core sections of industrial capital. Though Obama forced a restructuring of GM, for instance, which was hugely damaging to its workforce, it was compatible with trying to preserve a key symbol of post-war US production system in a leaner, more competitive, higher-productivity form.

When it comes to the economic policies now being pursued by governments, there is, in general, little consensus amongst the ruling classes. Neither within the United States nor in the rest of the world, is there universal support for the semi-Keynesian approach of the governments in the one time neoliberal heartlands. Differences re-emerged at the G8 finance ministers? meeting in June, where Italy?s Giulio Tremonti expressed fears that US measures could simply encourage a further speculative frenzy: ?Instead
of financing the real economy, the extra liquidity in the system has this tendency to fuel speculation. Tremonti is not wrong, for once; the danger of the Anglo-American policy is that it risks expanding liquidity without sufficiently boosting surplus value, encouraging a bout of manic fictitious capital generation. In contrast, a focus on protecting industry and trying to encourage new private sector investment through aid and low-cost loans, the ?European? approach, could undermine competitiveness by making firms dependent on state subsidy and undermine the process of capital destruction needed to make way for a new period of expansion.

Europe?s governments have also stressed affordability and maintaining the state?s fiscal position while, again in contrast, the US and Britain are both sharply expanding their public debt. In China, the crisis is being used by the regime to justify their slowness in opening up the financial sector (required under WTO rules) and more generally to underpin their claim to have a superior economic model, which gives the state a key role in managing investment. The government is now pursuing a twofold policy intended to encourage capital centralisation in the coastal-based export industries suffering from serious over-capacity while, at the same time, injecting a big fiscal stimulus aimed at developing the interior. In the European Union, the crisis has aggravated national divisions. The major imperialist powers, Italy, France, Germany, Britain, all met at the high point of the crisis last autumn outside EU structures, prompting leading EU commissioners to condemn the meeting as unconstitutional. Divisions between Britain and the others over the scale and form of the stimulus made impossible a high profile EU-wide response. Protectionist moves have also undermined the common market. The French government was sharply criticised for making the employment of French workers a condition of the government?s bailout of the car industry. At the political level, the project of a single state has been badly undermined by the crisis over the constitution and the emergence of an Atlanticist group of countries in Eastern Europe hostile to the principle of ?ever greater union?.

These arguments on bourgeois economic policy are not, however, solely international. There is also discussion within the German ruling class over the country?s dependency on manufacturing and industrial exports, and whether measures need to be taken to encourage domestic consumption to make up for a lack of global demand. Ironically, this would probably involve a liberalisation of the financial regulations that they are currently arguing should be made tighter in the Anglo-Saxon world. In Britain, the Tories have criticised Labour?s state deficit spending, in effect calling for public sector cuts. All this equates to ideological unrest in the ruling class, as the crisis has so obviously undermined the core assertions of their once sacrosanct neoliberal dogma.

Significantly, though, the neo-Keynesian measures lack any kind of social democratic flavour. Explaining this is not difficult if we understand that the historical shift to neoliberal policy was not a move between economic paradigms decided on a terrain of political choice and argument. It reflected a shift in the balance of class forces on the national and, later, on the world, stage. When the capitalists are scrambling to save their own wealth and force down workers? share of social value, then their servants in government are not going to agree to radical, redistributive or state-capitalist measures without significant class pressure from below. Only mass struggle can change this reality. As Trotsky once commented, ?reforms are so easy in the face of revolution? and, in the 21st century, the struggle for substantive reforms and defence of workers? interests by the most militant means must be the starting point for communists fighting to unlock the revolutionary potential in the class struggle.

**Change and continuity in US imperial strategy**
To reiterate, we are at a great turning point in the world situation, one marked by an historic crisis of the system with a struggle underway over the future global political and economic order; a re-division of the world. This turning point is likely to constitute a profound shift away from the relative stability of the globalisation period towards a new segment of the curve characterised by the actual decline of productive forces, with sharper geopolitical political conflicts resulting from this. Just as the current crisis developed out of the contradictions of the world economy accumulated during the globalisation order, so we have also already seen significant geopolitical instability resulting from the aggressive US foreign policy of the last decade. Indeed, we should not lose sight of the fact that 9/11 was also a major, even historic, turning point for the world order.

The 9/11 terrorist attacks were a gift to the Bush administration, which was, even prior to the attacks, already planning a far more aggressive foreign policy. The Clinton administration had worked according to the doctrine pioneered by his head of the CIA, James Woolsey. He had said, referring to the Soviet Union: ?We have slain a large dragon. But we live now in a jungle filled with a bewildering variety of poisonous snakes. And in many ways, the dragon was easier to keep track of.?4 The military strategy resulting from this view focused upon the use of Special Forces and surgical air strikes wherever ?poisonous snakes?, that is, those forces or states considered obstructive to US interests, lurked. A discourse of multilateralism was fostered so as to allow the US to pursue its own national interests in the name of the world as a whole. The US sought multilateral cover from Nato for a bombing campaign during its wars in Yugoslavia, while the occupation of Kosovo that followed was sanctioned by the United Nations. The pursuit of Al Qaida following the bombing of US embassies in East Africa, involved Special Forces and surgical strikes against targets in Sudan and Afghanistan. Under Clinton, the US adopted an official policy in favour of regime change in Iraq, and backed this up with sanctions and a four-day bombing campaign in 1998.

The Bush Administration embodied both continuity with, and change from, this basic perspective. Although the British based security analyst Paul Rogers is wrong when he says, ?The idea of ?taming the jungle? was essentially defensive?, he is right in his conclusion that ?in 2001, a much more aggressive and proactive project ? creating the ?new American century?, in which global security is guaranteed by a single, unrivalled superpower, came to the forefront.?5 Importantly, whilst there was change in the tactics used and the sheer ambition of the US agenda, the principal adversaries identified in these conflicts were the same, particularly the Saddam Hussein dictatorship and Islamic terrorists. In Europe, continuity with Clinton era policy in Yugoslavia was also expressed by the continued push for Nato expansion eastwards. Both damaged relations with Russia; the bombing of Serbia by Clinton, indeed, was a watershed moment. The Russian ruling elite saw it as verifying its misgivings that Nato expansion was not about partnership but a drive towards their encirclement by new satellites of the US Empire.

The Bush regime had always intended to intensify US imperial aggression, but the 9/11 attacks allowed them to do so with far greater impunity. They offered a carte blanche to a new, more overtly imperial, policy that found in the terror attacks an ideal source of political legitimisation. The so-called ?War on Terror? was a conflict that from the outset suggested a long, even permanent, war. This was underlined by the fact that the chosen enemy, ?terrorism?, had no concrete specificity. This was not simply a ?war against Al-Qaida?. Rather, the term ?terrorism? grouped together disparate forces identified, in one way or another, as hostile to US hegemony, from Iraq to North Korea. It consequently threatened an unending offensive against any state or movement, new or old, which was perceived to obstruct US interests. Whilst there was considerable cynicism in this, the 9/11 attacks were, nonetheless, a real shock to the Bush regime?s worldview, which held the US to be untouchable. It also disturbed the collective psyche of the American nation as a whole, revealing to them the languor and vulnerability of the single superpower.

The new administration?s impulse was to react with almighty force against the attackers, leaving them
isolated and without refuge. The US attempted to use its overwhelming military power to foster stable client states and quash opposition to its hegemony. Today, we see how it has spectacularly failed. As Paul Rogers puts it with some insight, the Bush regime reacted with fury? [to 9/11] and prepared its military for what was intended to be a definitive and awesome demonstration of unchallengeable military might. But the outcomes of this policy choice? two bitter and lengthy wars, the risk of deep instability in Pakistan, and the continuing risk of al-Qaida attacks? only deepened its predicament and exposed its inner fragility.6 Nearly a decade of the War on Terror has borne witness to the decline in US influence and power across the world. Of the ?axis of evil? countries named by George Bush in his State of the Union Address in 2002, regime change was only achieved in Iraq. Even there, nothing resembling a stable client state exists while the conflict was extremely costly to US standing in the Middle East and the world. Few other campaigns fared any better. So, if we take a short balance sheet of the War on Terror we find only a litany of failures:

? The occupation of Iraq failed in its core aim of creating a stable, pro-American government. The US adopted a policy of divide and rule between three ethnic groups each with its own corruptible leaders, but they ultimately had to reconcile themselves to a Shia dominated Iraqi government with close ties to Iran, one of the original ?axis of evil? states.

? North Korea has succeeded in making a nuclear bomb despite continuous US efforts to obstruct this policy.

? The key US gendarme, Israel, suffered a military defeat against Hezbollah in 2006 in another sign of the fallibility of the US Empire.

? Iran?s economic and political standing within the Middle East has increased considerably. Its economy expanded sharply off the oil boom at the end of the last cycle, it has new ties to Shia-controlled Iraq, new links with Syria following the latter?s loss of its Iraqi ally, and ties to Hamas and Hezbollah.

? In Palestine, the US succeeded in forcing the Palestinian Authority under Abbas towards further concessions to Israel but only at the expense of encouraging the growth in support of Hamas. Once this support became expressed in Palestinian elections, the US pushed Fatah into a coup leaving Palestine divided between Hamas-controlled Gaza and Fatah-controlled West Bank. Then the horrific US-backed Israeli bombardment of Gaza further discredited the key US ally in the eyes of world political opinion and failed in its goal of removing Hamas.

? Most serious at the current conjuncture, is the complete failure of the US to pacify Afghanistan after eight years of occupation. Indeed, the Afghan surge (with a mounting body count for the imperialist occupiers) and the desperate search for a ?good Taliban? to negotiate with, indicate that the US military and its British allies realise they are losing the Afghan war.

? Serious fighting has also now developed in Pakistan as a result of US pressures on the new government to be harder on insurgent groups operating out of Swat and Waziristan. The reactionary actions of the ?Pakistani Taliban? enabled the government and army to mobilise massive popular support for the invasion of Swat and the displacement of almost its entire population. However, any prolongation is likely to see the situation unravel again. In the long term, this conflict is potentially far more damaging because the war divides Pakistan sharply, and these divisions also manifest themselves within the army itself.

The Bush administration also increased military spending astronomically, particularly towards the end of the second term. As the conflict in Iraq intensified in 2006, Israel suffered a military defeat in the Lebanon war and signs of a US economic slowdown developed. Bush responded by pushing through huge increases in military expenditure. In 2006, the US military budget, including its Iraq and Afghan ?war supplement?, was some $605 billion but by 2008 this had risen 16.8 per cent to $710 billion.7 This put the US in the astonishing position of investing nearly as much on its war machine as every other country in the world put together, accounting for 48 per cent of total world military expenditure.8 The failure of the War on Terror to achieve even its most basic founding aims illustrates that the US has been unable to translate its enormous military strength into tangible foreign policy gains. The huge increases of the 2006 ? 2008 period
were even justified by the reeling off of long lists of world "trouble spots". The chair of the US Joint Chiefs-of-Staff, General Peter Pace, encapsulated this mood: "You can take a lap around the globe. Start with Pakistan, Afghanistan, Iran, Iraq, Syria, Lebanon, Yemen, Somalia, Sudan, Colombia, Venezuela, the Philippines, Indonesia, Malaysia, North Korea and back around to Pakistan. And I'm sure I missed a few."9 As Paul Rogers remarks, such comments are "indicative of a feeling of uncertainty and insecurity? of a world going out of control: a very far cry from the neo-conservative dream of a ?new American century??.10

Towards the end of the Bush administration, this feeling of military retrenchment and vulnerability led to serious divisions within the US state over its Iran policy. In 2007, the Bush administration was using bellicose rhetoric towards Iran over its civilian nuclear programme and refusing to rule out a military strike. The British newspaper, The Sunday Times, reported a rebellion of the US general staff against the policy, citing a British intelligence source who had told the paper, "There are four or five generals and admirals we know of who would resign if Bush ordered an attack on Iran. There is simply no stomach for it in the Pentagon, and a lot of people question whether such an attack would be effective or even possible."11 Such a rebellion of senior US generals was unprecedented since the Cuban Missile Crisis and expressed a broader feeling of unease within the US ruling class on continuing a failing neo-conservative foreign policy. By 2008, these forces had secured a change in Iran policy. Not only would the US not attack Iran but they also blocked a unilateral strike by Israel, with Bush reported to have told the Israeli government in the spring of 2008 that the US would give no support to its ally if it attacked Iran and did not expect this to change before he left office.12

Thus, in the spring of 2009, Obama took the helm of a US state whose imperial confidence had been badly undermined by the failed promise of the "new American century". While Obama benefited from the backlash against neo-conservatism in US domestic politics, his foreign policy now had to wrestle with its consequences. Though Obama was elected on a "troops out of Iraq" ticket, the core of his argument was that Iraq was "the wrong war" and a diversion from the war against terrorism in Afghanistan that he supported. He thus proposed to intensify the war in Afghanistan, using capacity freed up by bringing the occupation of Iraq to an end. Since he has taken office, a further 21,000 troops have been put into the war in Afghanistan (an increase of one third) while US forces in Iraq have begun their withdrawal. Although the argumentation of Obama has been different, the practicalities of the policy are, in the end, a continuation of Bush's plans.

US forces were already scheduled to cease urban patrols in Iraq in June of this year and fully withdraw by 2011. By sticking to this timetable, Obama is exposing the purely rhetorical nature of his calls for withdrawal. To the irritation of US generals, the Iraqi government declared 1 July 2009 national "Independence Day" and Maliki is pushing for a 2010 end to the occupation, not 2011. There are still 130,000 American troops in the country and the Iraqi government has no control of its airspace or borders and the US administration is resisting bringing the timetable forward and continuing to seek commitments from the Iraqi government to a permanent US military presence in the country. Maliki has to balance the anti-occupation aspirations of the Iraqi people and his alignment with Iran with his position as the chosen US figure head in Iraq, not to mention the Kurdish and Sunni minorities? aspirations. This concatenation of social and political pressures means that Iraq remains a highly unstable state. Whatever happens, the US is unlikely to leave behind a strong, stable gendarme that it could use to project power elsewhere in the Middle East on its behalf, as per its original intention.

In the other major conflict areas for US imperialism, Afghanistan and Pakistan, we also see continuity in practical policy terms between the old and new administrations. In 2007 – 2008, Bush had already sanctioned an extension of the war against the Taliban in Afghanistan (this was a factor in the huge
increase in military expenditure) and he also put more pressure on the Pakistani government to do the same with its war against insurgents on its border with Afghanistan. Under Obama’s stewardship, these plans for an escalation of the war effort on these fronts have been realised. The Pakistan army launched its biggest ever offensive against insurgents in Swat between autumn 2008 and spring 2009 creating a huge humanitarian disaster. The summer fighting in southern Afghanistan has been particularly bitter this year, with US and British forces suffering around twice as many casualties as the previous year. The fighting followed Obama’s Afghan surge announced in March in which he had invoked the 9/11 attacks in calling for US resolve in Afghanistan.

Whilst these conflicts demonstrate more continuity than change with the Bush era, in the diplomatic sphere, in relation to Iran, Obama has changed US policy. Against the highly ideologically driven and proactive approach of the “Project for a New American Century”, he has emphasised dialogue and a pragmatic engagement with states perceived to obstruct US interests, rather than the politics of regime change. He emphasised this theme in relation to Iraq during his speech to Muslim world leaders in Cairo when he described the conquest as a war of choice, which had “reminded America of the need to use diplomacy and build international consensus to resolve our problems whenever possible”. Of course, no one should develop illusions in this; it largely reflects the weakness of the US that it is forced into these compromises. Obama is pursuing a negotiated agreement with Iran and was willing to be ambivalent in his attitude to the protest movement over the stolen election that threw the Islamic Republic into crisis.

In this, Obama may well be knocking at an open door because the bourgeois forces that the US has long considered its arch opponents and fiercely anti-American, Hezbollah, Hamas, Iran and Syria, have all in the past indicated their willingness to make significant concessions, particularly over Palestine. Hamas, probably the most radical of these forces, has suggested it would accept the 2002 Beirut peace initiative of the Arab powers, based on a 10-15 year truce, in return for a Palestinian state within the 1967 borders and the recognition of Israel by the Arab states. Both the Syrian and Iranian bourgeoisies would be attracted to a deal with economic incentives that recognised their rights of strategic influence in Lebanon and Iraq respectively. There are, however, two major obstacles to such an outcome. Firstly, this would involve concessions on the part of the US. It would be a significant climb down, sending the message that the semi-colonial bourgeoisies who defy US imperialism reap rewards and concessions for their intransigence. Secondly, the key US allies in the region, Israel and Egypt, are fiercely opposed to any settlement with Iran. In the end, Obama’s pragmatism will probably result in a continuation of the chaotic status quo, with the explosive elements in the situation (in addition to the Af-Pak war) being Israel’s new right wing government, any political unrest in Egypt, and a further democratic upsurge in Iran.

**America’s rivals manoeuvre for position in the historic crisis**

If this is the state of US imperial policy in the key strategic testing ground of the Middle East, how is it relating to its larger rivals and are any of these yet in a position to challenge US hegemony? All of the major world powers are, of course, manoeuvring to protect their markets and to push the crisis onto one another. Yet, despite these competitive pressures, international relations between the great powers have not sharpened significantly in political and military terms. Each of these states, Russia, China, EU, Japan, sees an opportunity for a more multilateral partnership with the Obama regime than they had with the neo-conservatives. Thus, Obama is experiencing a certain honeymoon period with respect to international relations, insofar as he is being tested by these powers on the extent to which he is willing to make concessions that recognise their strategic concerns.

Clearly, friendlier relations with other major powers in Europe, Russia and China, are a subjectively held goal of the administration as it seeks to distance itself from the politics of unilateralism. The question is how quickly the increasingly sharp economic antagonisms between each of the major world powers will
undermine their formal commitment to new partnerships. Obama has taken on advisors from the Clinton team, as well as Hilary Clinton herself as his Secretary of State, and he certainly seeks to position himself within this legacy which, rightly or wrongly, is considered more multilateralist and cautious in its pursuit of American interests. Nonetheless, much has changed since the Clinton era, which came so closely after the uni-polar moment of 1992, and there is a certain resignation behind Obama’s discourse of cooperation with the other great powers. A similar conservatism (not neo-conservatism) and caution to that found in Obama’s approach to the Palestine and Iran questions, is also found at the level of relations with the other major powers.

While US reversals in the Middle East have been serious, the Bush regime could once point to Nato expansion and its influence in Eastern Europe and the Caucasus as a foreign policy success story, but even this has been thrown backwards by Russia’s victory in the war against Georgia last year. Towards the end of the last cycle, Russia had already used its oil and gas reserves as a weapon in its relationships with both Europe and the United States, in particular to punish those regimes on its periphery that had moved politically between pro-Moscow and pro-Washington wings of the bourgeoisie. A series of Cold War-style rows over espionage had also preceded the breakdown over Georgia. The US and the EU punished Russia economically. On top of the $500 million military expenditure, flight by Western capital reached $10 billion and Russian currency reserves decreased by $16 billion. Estimates suggest the war cost Russia $27.7 billion. But, as The Economist notes, the first two or three years of the Putin regime had been marked by a continuation of a profoundly pro-western foreign policy. Putin gave open and public support to the Afghan war effort in 2001 and was even sanguine about US withdrawal from the Anti-Ballistic Missile (ABM) treaty in 2002. As Alexander Vershbow, a former ambassador to NATO and to Russia, puts it, ?Bush? had this attitude that Russia did not matter and that America should take advantage of any support they offered in Afghanistan and not give them anything in return.?15

In his first six months, Obama has attempted to repair relations with Russia. In February, he announced the beginning of talks on a new bilateral nuclear arms reduction treaty with Russia with both states promising around a one-quarter reduction in nuclear warhead stockpiles. In May, Obama visited Russia for talks on nuclear arms reduction, the Middle East, Afghanistan and Pakistan, and the world economy. Just a week before Obama’s speech about an ?excellent opportunity? to improve relations ?on a whole host of issues? Russia had expelled two Nato diplomats in retaliation for Nato military exercises in Georgia. The key sources of tension in US-Russian relations remained whether Georgia and the Ukraine were to be made members of Nato and the American missile defence shield with its bases in Poland and Czech Republic. On both issues, Obama inherited positions from the previous administration from which it was difficult to retreat without losing face. It is a measure of the changes that have taken place that, while still unwilling to be seen to abandon Ukraine and Georgia, the US has felt obliged to dispense with the missile defence project. Russia?s ruling class, meanwhile, wants its own sphere of influence in its periphery within a multi-polar world, where it is one pole, and has come closer to realising this goal through its aggressive stance than it previously did through conciliation.

The new realism of the Obama administration has attracted criticism from America?s Atlanticist allies in Eastern Europe who favoured the neo-conservatism of the Bush era. In an open letter from politicians and intellectuals in nine countries to the new US administration, they fiercely attacked Russia, arguing:

?It challenges our claims to our own historical experiences. It asserts a privileged position in determining our security choices. It uses overt and covert means of economic warfare, ranging from energy blockades and politically motivated investments to bribery and media manipulation in order to advance its interests and to challenge the transatlantic orientation of central and Eastern Europe.?16
They went on to describe their “deep indebtedness to the United States” while adding that, “without Washington’s vision and leadership, it is doubtful that we would be in Nato and even the European Union today” but expressed concern at the “realism” and “pragmatism” which had marked the first six months of Obama in power. The unseemly fawning on US imperial power by these bourgeois who, let us remember, oversaw a total destruction of workers’ living standards by the market in the name of “pax-Americana” in the 1990s, was only matched in its wretchedness, by the formulation that made their intentions clear. “Our region suffered when the United States succumbed to “realism” at the Yalta conference (February 1945)? a reference to the “failure” of the US to attack the Soviet Union after the Second World War. While these figures are probably extreme, none are in government, most are former ambassadors, in the degree of their support for US imperialism, they nonetheless do represent a real trend of thinking amongst the eastern-European semi-colonial bourgeois and political establishment. This is not only an issue in America’s relationship with Russia, but also for the project of the European Union. For instance, in the same letter, they expressed concern over EU membership: “there is a danger that instead of being a pro-Atlantic voice in the EU, support for a more global partnership with Washington in the region might wane?, an issue we return to later.

China is also seeking to use the crisis to position itself as a key force within an emerging multi-polar order. Whereas Russia has, to a degree, the military capability but lacks the economic basis to really back up this aspiration, China’s position is like a mirror image of this. Thanks to its “economic miracle” of the last two decades, it has developed a dynamic domestic accumulation regime with a strong industrial base that gives it a highly competitive position in the world market. However, it lacks the military strength and political influence on the world stage that Russia inherited from the Soviet Union. The new Obama regime has been inconsistent in its relations to China. The US was initially downright bellicose on the question of the valuation of the yuan, accusing the Chinese of deliberately holding it low to boost exports, but has since announced a new “strategic partnership” with China following Hillary Clinton’s visit to Beijing. This was a conscious echoing of the words Bill Clinton had used towards the end of his presidency.

As it stands, China and the US appear, on paper at least, to be largely in agreement on key macro-economic questions; both agree on boosting Chinese consumption; both agree that the US should consume less and save more; both are pushing through big stimulus programmes. China continues to buy US treasury bonds despite being formally committed to a new reserve currency. However, these apparent agreements obscure a developing contradiction. The combination of China’s sheer size and political weight, coupled with the strength of its growing productive forces, makes it a far more powerful creditor nation than, for example, the Gulf states. When Bill Clinton invoked the language of partnership with China in 1999, Republican presidential candidate, George W Bush, attacked him for sending “bad signals” to the communist regime. There remains an unresolved argument in the US ruling class on China, which reflects a real social contradiction between those who see China as a huge potential market and investment opportunity, and those who see in its rise a challenge to US hegemony.

China, meanwhile, has made use of the opportunity provided by the crisis. Although massive opposition from other shareholders thwarted the proposed doubling of the Chinese stake in Rio Tinto, Chinese overseas investment has generally gone ahead. The construction of port facilities in Pakistan, Sri Lanka and Myanmar confirms that investments are not driven simply by financial calculations but are also part of the geo-strategic planning of a proto-imperialism. The reported modernisation of the armed forces, including an ocean-going navy, reinforces this. Similarly, as noted above, China has adopted a higher profile within the international financial negotiations that agreed to structural changes in the World Bank and IMF over the next couple of years and at which Beijing first raised the prospect of a new international reserve currency to replace the dollar.

Europe: “ever greater union” still a distant dream?
In Europe the crisis has provided compelling evidence of the failure to realise the project of a European super state. When the crisis broke last autumn, the leaders of the big four, Italy, France, Germany and Britain met outside EU structures to discuss a response to the crisis, attracting criticism from the European Commission for this ‘unconstitutional meeting’. As noted above, no common response to the crisis was agreed, but the meeting was symbolic of how the European Union remained in essence a federation of allied nation states rather than a single state in its own right.

The arguments over financial regulation also saw divisions between France and Germany on the one hand and Britain on the other, with a particular focus on the role of hedge funds (80 per cent of Europe’s are located in London and only 3 per cent in Paris). Protectionist tensions have also surfaced; in the car industry, French and German government loans and subsidy were implicitly linked to maintaining production at home. As it stands, the EU has effectively waived its competition rules as all governments are looking to save their own core sectors of capital from the peril of devaluation. The real test will come as economies enter the cyclical recovery phase. Tensions will mount if those firms that have received aid from their national governments are able to seize market share from other European competitors who have not, or have received support but not on a level sufficient to restore their balance sheets and competitiveness.

In addition to the competitive pressures flowing from the crisis, the EU has been dogged by the now two-year-old failure to ratify the Lisbon Treaty. The Treaty was drafted in 2007 as a replacement for the failed European Constitution, which had been rejected by French and Danish voters in 2005. The failure to adopt the Constitution was, and remains, a major defeat for the super-state project, because it was rejected by one of the core nations, France, considered to be, with Germany, the main driving force behind full political union. The Lisbon Treaty faced similar ratification problems, with Ireland initially rejecting the treaty in a referendum and both Poland and the Czech Republic resisting the drive towards greater political union. However, although little could have more clearly demonstrated the undemocratic nature of the EU, the Irish were pressurised into a second referendum in which they voted as required. This is likely to have finally cleared the way for the implementation of the Treaty in the course of 2010.

For now, there is a powerful tendency towards maintaining the status quo, that is, a Europe of allied nation states within an economic union, as the moves towards ever greater union have stalled but the union itself does not appear, at the moment, to be under threat. The bourgeoisie of the Eastern European countries are closer to the US and more in favour of a common economic area model, not full political union. At the same time, they tend to be economically dependent on the core imperialist capital at the heart of EU, something alluded to in the letter of eastern European Atlanticists cited earlier. In the final analysis this, the economic dependence of the smaller states, particularly those in the euro area, makes the contradictions between the imperialist countries the biggest barrier to full-scale political union.

A two-tier Europe, in which France, Germany and the Benelux countries and, perhaps, Italy, (and thus all the original founding signatories of the Treaty of Rome) go forward to a greater degree of unification, could develop out of the current paralysis. Even this would not be free of national antagonisms and pressures; there have only been limited moves towards creating a truly European capital based on the key corporate monopolies of these states and a further centralisation of capital on a European basis would mean that the stronger would have to absorb the weak. Thus, as German capitalism is the strongest amongst these nations, the other states would, in all likelihood, have to reconcile themselves to its dominance of most sectors of capital. All of this is contingent upon the outcome of struggles ahead of us: major economic events in particular could change this state of affairs. If the measures Britain has taken in response to the financial crisis, for example, lead to an even greater debt crisis further down the road, then a bail out from Germany would come with political and economic conditions, which could fundamentally reshape Europe. There is plenty of combustible material in these contradictions; the future of Europe is far from certain.
The rise of China in the historic crisis

China’s dramatic expansion over the last two decades has accumulated significant political contradictions; most importantly, the decisive turn to the market in the early 1990s and the privatisation and restructuring of state owned industries along with encouraging investment activity from overseas Chinese, has gone alongside the continued existence of the Chinese Communist Party regime. There is certainly now a new bourgeois class in China, but it remains divided between the overseas, essentially Taiwan and Hong Kong, strata, and a developing indigenous bourgeoisie emerging out of the smaller scale industries that flourished in the 1980s and 1990s, and, finally, an important stratum from the bureaucracy and party that straddles state capitalist trusts and banks and privatised companies. The world crisis is an important moment in the development of this class.

When the stimulus package of some £400 billion was announced by the Chinese government in autumn 2008 we drew attention to its primary emphasis on infrastructure development in the interior and recognised that, although many of the projects were not genuinely new, bringing them forward would clearly mean real support for civil engineering-related industries and labour.20 There was always a question mark over whether the Chinese state would be able to compel provincial authorities to adopt its national priorities or whether ties to the local bourgeoisie might mean that local priorities won out. A similar issue existed for bank lending where, again, the central government has much less control than it once had over supervising and directing credit into the economy as a whole. Another potential source of friction was the need to restructure manufacturing in the export industries to allow for the centralisation of capital and the Chinese government have, indeed, pursued rationalisation policies across a range of industries that confirms this goal. At the same time, Beijing’s stated aim of increasing consumer spending in the interior was unlikely to provide an alternative market for previously export-oriented industry within the time scale of the crisis.

Ever since the stimulus package, Beijing has insisted that annual growth rates will be in the region of 8% for the current year, although most commentators thought this over-optimistic and drew attention to China’s long history of unreliable statistics. April’s figures, for example, showed a 7.3% increase in GDP, year on year, even though power generation declined by 3.5%, exports were down 22% and overseas investment (that is, inward) was down 21% in the first quarter. Most significant is the dramatic, indeed, huge, increase in bank loans from December last year onwards. In the first quarter this amounted to 4.58 trillion yuan, up more than 244 per cent from the previous year, and already 91 per cent of the planned lending for the whole year. In March alone, the banks loaned 1.89 trillion yuan.

In China, bank loans themselves enter into the calculation of GDP and this may help to explain the anomalies. The loans probably also explain the rapid rise on the Shanghai stock exchange. In other words, a significant proportion of these funds is finding its way into speculation on equity prices. The most recent official figures give GDP growth of 7.1 per cent for the first half of 2009, the same series shows an increase in wages of 13 per cent, a figure that has even been questioned in the People’s Daily. The main areas of growth are reported to be textiles, cement, tractors and cars, most of which would clearly have been beneficiaries of the stimulus package. Consumer spending in general is said to be up by 15 per cent with, according to Beijing, housing sales up 31.7 per cent and cars 18.1 per cent. The government says it has increased spending on social security and employment by 29.2%. It expects urban fixed asset investment to grow by 30% this year. Nonetheless, Beijing recognises that the upward trend has not been secured, balanced or enhanced?. Bank loans reached 7.7 2 trillion yuan in the first half, although the annual target is only 5 trillion. It also points to overcapacity as a major problem, made worse by the lack of foreign demand (Beijing Review). Goldman Sachs’ analysts are more optimistic: they are predicting 8.3 per cent this year, 11.9 per cent next year. They point to property sales up 60 per cent by value, January to July, and a 78 per cent rise in the Shanghai stock exchange. Currently, the official projection is for 9 per cent
growth in the 3rd quarter and 10 per cent in the 4th, meeting the target of 8 per cent for the year as a whole.

Domestically, there has certainly been no shortage of political unrest, ranging from large-scale protests by unemployed workers through to the nationalist movements in Tibet and Xinjiang as well as protests prompted by the disastrous aftermath of the earthquake in Sichuan and the killing of a would-be steel plant privatiser by angry workers. It is, as yet, impossible to know the longer-term political consequences of all these events including the state’s economic policies described earlier. The sharp increases in employment subsidies and social security payments are presented as part of the stimulus package but also suggest a fear of further discontent. An apparent lack of rapidly growing unemployment in the state-owned sector may also point to government fear of a still-organised workforce.

Nonetheless, if it is true that it was migrant workers who were hit hardest by the economic crisis then it is also true that the dispersal of many of those migrants to their villages has dissipated the energy that could have fuelled protests that went beyond the local. The introduction of an agrarian reform? which effectively allows the sale of land (and not just the produce of land) could mark the beginning of an extremely important change in the countryside. On the one hand it will allow migrant workers still registered in their home villages to sell the plots that they hold by virtue of that registration, this may help to offset the effects of unemployment at least temporarily. On the other, and this is its real purpose, it will allow the consolidation of plots to form decent sized farms that can be more commercially operated. This will lead, in time, to the emergence of a layer of more prosperous capitalist farmers as well as further emigration of displaced labour to the cities. However, whether the peasantry as a whole will allow this programme to be implemented has yet to be seen and it could spark serious class conflict.

Nearly three years after the peak of the last cycle, some recovery of growth rates is only to be expected and some aspects of the stimulus package will certainly have boosted production. We have noted in the past that the export trade is very largely based on the processing of imported semi-finished goods and should not be equated with the ?Chinese economy? as a whole. There can be a recovery in that economy even though exports to the imperialist countries remain in the region of 25% below previous levels. At the same time, the export industries do constitute a very important component of the economies of the most advanced regions within China and Beijing’s strategic policy is to move away from over-reliance on exports by boosting urban consumer demand at home. Although it will take years for this export substitution? model to alter the profile of the Chinese economy, the sheer size of the urban population means that it is not an entirely utopian programme. The technologies that have been copied or imported from the imperialist countries (such as car plants) were designed for production for markets of tens of millions in North America, Western Europe and Japan and, with much lower costs for both variable and fixed capital, should be a viable basis for profitable production in China.

Meanwhile, the upturn in the domestic economy will give rise to increased imports of raw materials at least and, thereby, allow China to continue to strengthen its trading links with supplier countries particularly in Africa and Latin America at the same time as its own export of capital into Southeast and Central Asia further consolidates its emergence as a regional power. The policy of overseas asset purchase also helps to wind down the famous reserves of foreign exchange, particularly US dollars. China cannot risk a precipitate decline in the value of the dollar but is reportedly shifting the balance of its reserves from long-dated bonds to short as well as doubling the value of its own gold reserves in the last year. This, together with the steady increase in the use of the yuan and the repeated proposals for a new internationally backed ?trading currency?, make clear that China intends to escape from any subordinate role to America.

If the strength of Beijing’s policy is its overall strategic coherence, its weakness may lie in an inability to
enforce that strategy either abroad or at home. We can expect the imperialist powers to take steps to at least slow down China’s rise both by directly thwarting Beijing’s plans, as we saw with Rio Tinto, and by invoking WTO rules to hinder China’s advance and to increase their own penetration of a Chinese economy in the process of restructuring. China’s role as a possible new locomotive for the world economy, again being hinted at by commentators over impressed by stock exchange and real estate advances, may be endangered, and that quite quickly, by domestic considerations. Beijing will have to move to restrict bank lending and if this punctures the bubbles already developing in the stock exchange and real estate it could well drain confidence in any economic recovery around the world and, thus, prompt a further downturn, the so-called ‘double dip’ recession. Given the still low level of exports, however, this would not necessarily have a major impact on the Chinese economy itself. Indeed, mindful of its supposed role as guardian of the national interest, the party leadership might not be averse to cutting the speculators down to size and enforcing discipline on an insufficiently patriotically-minded nascent bourgeoisie.

This underlines the point that although a new Chinese bourgeoisie is developing as a class in itself it is still some way from being able to generate an alternative political leadership for the country. For the foreseeable future it will remain dependent on the Communist Party bureaucracy to guarantee the social conditions necessary for successful capitalist development and cannot offer an alternative to Beijing’s increasingly chauvinist nationalism. This is the source of the continued rivalry over Taiwan. Since the restoration of capitalism on the mainland, there are no principled disagreements between the Chinese bourgeoisie in exile based in Taiwan and the restorationist bureaucracy in Beijing. Both deny the right of the Taiwanese to determine their own future. Unification under the party’s dictatorship, however, would represent the formal subordination of the bourgeoisie while any kind of power sharing could only result from the bureaucracy recognising that it cannot continue to rule alone, in which case its forcible removal en bloc would be on the agenda. Overall, it seems most likely that the bureaucracy will come out of the present economic crisis with its strategy intact and, therefore, its prestige enhanced. For some time, however, the economy will be weakened by the reduction of its biggest export markets and both the working class and the bourgeoisie can be expected to learn lessons both from the earlier boom and the scale of the downturn. To hold the society together we can expect a rather more assertive, possibly belligerent, policy on the international stage from Beijing.

ENDNOTES
1 For an interesting survey of the American elections, whether they are a defining turning point in US politics, and analysis of the class alliance behind Obama see Davis, M. March-April 2009 ?Obama at the Manassas?, New Left Review, no. 56 Verso: London
2 Cooper, L. autumn 2009 ?The Crisis of Globalisation? Fifth International vol. 3. no. 1
4 https://www.cia.gov/library/center-for-the-study-of-intelligence/csi-pub... [3]
6 ibid
8 ibid
10 ibid

13 http://www.whitehouse.gov/the_press_office/Remarks-by-the-President-at-Cairo-University-6-04-09/ [7]


17 ibid

18 ibid

19 ibid