China's Emergence as an Imperialist Power

One of the most important issues in world politics today is China's rise as a great imperialist power. Most left-wing writers consider China either as a "socialist country," a "deformed workers' state," or as a "dependent capitalist country" exploited by Western monopolies. As I have elaborated elsewhere, I believe that such analyses, positions, and terminology deriving from Communist, post-Trotskyist, and dependency theorists fail to understand China's transformation into an imperialist Great Power during the past decade.

I am of the opinion that China has never been an *authentic* socialist country. Rather, under the Stalinist leadership of Mao Tse-tung and the Communist Party, in the early 1950s China became a state ruled by a bureaucratic dictatorship that devised and implemented a planned economy (what Leon Trotsky called a "degenerated workers' state"). However, given the worldwide decline of the Stalinist states in the 1980s, and following the repression of the Chinese workers' and students' uprising in May-June 1989, in the early 1990s leading circles in the ruling bureaucracy began the process of transforming the country into a capitalist-based economy. In contrast to the USSR and the Eastern European states, however, the Chinese leaders were determined to retain the previous state-form of a one-party dictatorship. Hence, they became what can be called a "Stalinist-capitalist ruling class."

China's Road to Capitalism

The consequences of this decision were a wave of privatizations, mass layoffs, and the emergence of private capital. In sum, China reintroduced what Marx had called the capitalist 'law of value,' i.e. that the country's economy is based on sale of labor power on the market which results in the exploitation of workers and the accumulation of capital and all its attendant side-effects and results. This becomes clear from a number of developments that resulted from the pro-capitalist switch in policy of the regime.

A major step in implementing the law of value in China's state-owned enterprises (SOEs) was a ruthless wave of layoffs. According to official figures published in the Chinese Communist Party's mouthpiece *People's Daily* (Oct. 27, 2002), more than 26 million workers were laid off from state-owned enterprises between 1998 and 2002.

Another report by a researcher working at the China Institute of Industrial Relations, the institute of the official trade union All China Federation of Trade Unions, gives the figure of "around 30 million employees, or half the total SOE workforce."

Another attack on the Chinese working class—i.e., those who don't own enterprises but only their own labor power and were forced to sell it on the labor market—was the shift from lifetime employment to a system of contract labor. Under this new system, workers had to sign and annually renew their contracts with the management on an individual basis. Despite prolonged resistance by the workers, the state bureaucracy eventually succeeded in implementing this policy. Thus, while in 1986 only 6 percent of workers in state-owned enterprises were employed under the contract arrangement, by 1994 this share increased to a quarter of all SOE workers. A further example of the regime's attack on Chinese workers was the introduction of piece-rate wages, where each worker receives varying wages depending on individual output.

The State Sector Transformed

Since the beginning of its transition to capitalism, China's state sector has substantially decreased in size. Today, most of China's production output is generated by the private sector. According to the World Bank and the Chinese Development Research Center of the State Council, non-state sectors today account for about 70 percent of the country's GDP and employment. Between 1998 and 2010, the share of State Owned Enterprises in total industrial assets fell from 68.8 percent to 42.4 percent, while their share of employment declined from 60.5 percent to 19.4 percent. The SOEs' share of China's exports also fell from 57 percent in 1997 to 15 percent in 2010.

While the state sector still plays an important role in China's economy, it has undergone a massive transformation since the (re)introduction of the capitalist mode of production in the early 1990s. This transformation was dictated by the primary goal of changing it from a state-bureaucratic into a state-capitalist sector. Consequently, a ubiquitous process of downsizing and restructuring took place during the 1990s, when thousands of the state-owned enterprises went bankrupt while many more were fused into larger units.

According to a report of the Chinese researcher Dongtao, by 2005 over 85 percent of all small and medium-sized SOEs had been restructured and privatized. The World Bank commented approvingly: "Many SOEs were corporatized, radically restructured (including labor shedding), and expected to operate at a profit.… As a result, the profitability of China's SOEs increased." (China 2030, *Building a Modern, Harmonious, and Creative High-Income Society*, p. 111.)

As a result of this transition, both the state capitalist and the private capitalist sectors significantly increased their rate of profit. According to calculations by two Chinese socialist economists, Zhang Yu and Zhao Feng, the rate of profit in Chinese manufacturing industries tripled between the late 1990s and 2004.

According to figures from the World Bank and the Chinese Development Research Center of the State Council, profits of SOEs and even more so of non-state enterprises continued to grow in the first decade of the 2000s. SOEs reported an increase in average return on equity from 2.2 percent in 1996 to 15.7 percent in 2007, before declining somewhat to 10.9 percent in 2009. During this period, the return on equity of non-state enterprises climbed to more than 20 percent. As we will see below this is the result of the massive drop of the workers' wage share in national income.

Despite its substantially lower share in the economy, the state-capitalist sector still plays an important role in the Chinese economy. Today, state-owned enterprises account for approximately 35 percent of the fixed-asset investments made by Chinese firms. More than two-thirds of Chinese companies in the global *Fortune* 500 are state-owned enterprises. The biggest state-owned enterprises, excluding banks and insurance companies, are directed by means of controlling stakes owned by a central holding company known as the State-Owned Assets Supervision and Administration Commission (SASAC). The majority of banks and insurance companies are owned by other agencies of the state.

As we have said, these state-owned enterprises are operated as capitalist units, i.e. each company is run according to the principle of profitability (which was not the case before the 1990s). They are mostly stock companies for which the state holds the majority of shares (similar to what exists in many Western European countries). Their operation based on the capitalist law of value also finds expression in the fact that for these enterprises dividends—which have increased since a reform introduced in 2007 to between 5-15 percent of profits—do not go to the Finance Ministry, the formal majority shareholder, but are funneled into a special fund reserved for financing state enterprises, i.e., to themselves. As *The*

Economist has accurately written, "SOE dividends, in other words, are divided among SOEs." (May 26, 2012). This shows again that the state enterprises function according to the capitalist law of accumulation for profit.

China Becomes a Major World Economic Power

Since the former bureaucracy introduced capitalism in the early 1990s the Chinese economy has grown rapidly. In terms of total world output measured by GDP, China's share has grown massively in the past two decades. While China produced in 1991 4.1 percent of global output, this figure rose to 14.3 percent in 2011. This makes it the world's second-largest economy. At the same time, the U.S. share declined from 24.1 percent to 19.1 percent in 2011.

In manufacturing—the core sector where capitalist value is produced—China has even become the world's leading economy. Doing so, it displaced the United States as the leading industrial commodities producer, a position which it had held for 110 years. By 2011, a fifth of world manufacturing came from China (19.8 percent) while 19.4 percent originated in the U.S. economy. Parallel to this, China has become the world's leading exporter.

China's economic strength is also reflected in its low level of indebtedness to the global financial market. As a share of its Gross National Income, China's external debt stands at only 9.3 percent and its debt service to exports is 2.5 percent. In fact, as we shall see below, other countries are indebted to China's financial capital. Hence, from this angle too, we see that not only is China not a dependent, super-exploited semi-colony, as some theorists have argued, but rather an emerging imperialist power.

Of course, this analysis cannot ignore the gap that still exists in labor productivity between the old imperialist economies and China’s. While the manufacturing output of the United States and China is nearly the same, in 2010 U.S. capitalists produced this output with only 11.5 million workers compared to the 100 million workers needed by their Chinese rivals. China lags behind the old imperialist economies in technological development, having a substantially lower use of machinery in the production process. This is reflected in China’s level of capital stock per worker which is less than a tenth of that of the United States (converted at market exchange rates). This does not, however, alter the fact that China has become one of the world’s largest capitalist economies.

Is China immune to economic crisis and slump? Such a view has been spread by various Western authors praising China as the new economic model (before it was Japan, Germany, etc.). On the other hand, Paul Krugman has raised the issue of a coming slump of China’s economy (“Hitting China’s Wall,” *New York Times*, July 18, 2013). Discussing this issue in detail is beyond the scope of this article, but it is clear that China, as a capitalist country, is subject to the law of value. Thus, sooner or later, it will inevitably face a sharp recession. This, however, is also true for the other Great Powers. In addition, China has accumulated sufficient economic and military power to remain a Great Power even if it experiences a slump. Remember Japan, which remains an economic power even after two decades of stagnation and slump.

China’s Monopolies

Despite significant Western and Japanese foreign investment in China, the ruling class in Beijing has avoided having its economy dominated by foreign monopolies. Quite to the contrary, it has developed strong Chinese monopolies that today have become so-called “global players.” This becomes obvious when one examines the advance of Chinese monopolies among the largest global corporations. In *The Forbes Global 2000*—an index of the biggest, most powerful companies in the world—China already ranks third: 121 companies on this list are Chinese, being surpassed only by the United States (524 companies) and Japan (258 companies). In 2012, these 121 Chinese monopolies had an aggregate profit of $168 billion (7 percent of the total profit of the world's 2,000 largest companies).

In the *Fortune Global 500*—another index of the world's largest corporations that uses different criteria—we can see the same dynamic of China's important and growing share among the world's super-monopolies. Of the ten largest global corporations—the ultra-super monopolies as it were—three are Chinese: the petroleum corporations Sinopec and China National Petroleum and the energy corporation State Grid. If one examines the home country of these top 500 global corporations, we see that China has overtaken Japan and is now ranked in second place: 73 of these corporations are Chinese, 132 are American, 68 are Japanese, and France and Germany have 32 each. (For comparison: in 2001, only 12 corporations from China were listed.) Again, as was the case when we examined China's advance in its share of the world's output and exports, here too its advance has been paralleled by a decline in the leading position of U.S. imperialism. While in the early 2000s, 197 corporations among the *Fortune Global 500* were headquartered in the United States, by 2012, this figure was down to 132.

In short, we see that China's monopolies are among the world's most powerful. This is yet a further indication that China has become an imperialist Great Power.

Exploitation and Super-Exploitation of the Working Class

The material basis for China's leap to imperialist power has been the creation of a massive amount of surplus value through the super-exploitation of its working class. Throughout the twentieth century, with the exception of the imperialist fascist regimes, there has been no other capitalist power that could so effectively both exploit its working class as well as extract huge extra-profits by the super-exploitation of the majority of its proletariat. This is the “secret” behind the Chinese economic miracle.

As we described above, the regime successfully transformed the Chinese worker’s labor power into a commodity by means of mass lay-offs, restructuring and shrinking the state sector, and the parallel nurturing of the private sector. However, the ruling bureaucracy also utilized specific laws promulgated during the Stalinist era to ensure the super-exploitation of the Chinese working class.

A decisive instrument for this was the utilization of the old household registration system set up by the Stalinist bureaucracy in 1958. According to this system (called *hukou* in China),

residents were not allowed to work or live outside the administrative boundaries of their household registration without approval of the authorities. Once they left their place of registration, they would also leave behind all of their rights and benefits. For the purpose of surveillance, everyone, including temporary residents in transit, was required to register with the police of their place of residence and their temporary residence. By the 1970s, the system became so rigid that “peasants could be arrested just for entering cities.” (“Migrant workers in China,” *China Labour Bulletin,* June 6, 2008.)

Given extreme rural poverty and the opportunity for jobs in the cities, millions upon millions of mostly young peasants moved to the cities to seek employment. In China, these former peasants or peasant youth who moved to the cities are called “migrants.” While this category is somewhat misleading, since the word “migrant” is most typically applied to those who move from one country to another, it is true that these rural-to-urban migrant workers move to cities where they often live illegally and—because of the *hukou* system—have no access to housing, recognized employment, education, medical services, or social security. Their living conditions are very poor; most of them reside in decrepit housing, tents, underneath bridges, inside tunnels, or even in the trunks of cars.

These migrants rapidly became a major source of grist in the capitalist mill of super-exploitation. According to the *China Labour Bulletin*, the total number of migrant workers from the countryside is somewhere between 200-300 million, of whom some 140 million are working in the cities. In the capital city, Beijing, migrant workers constitute about 40 percent of the total population, while nearly 12 million of Shenzhen's 14 million people are migrants. These migrant workers are usually pushed into work-intensive, low-wage jobs. Migrants make up 58 percent of all industrial workers and 52 percent of service sector workers.

Related to this predominance of migrant workers is the existence of a huge so-called informal sector that, given its precarious conditions, is a breeding ground for super-exploitation. According to official figures, the informal sector accounted in the first decade of this century for 30-37 percent of the total urban labor force.

This super-exploitation of the workers—in which the Stalinist-capitalist ruling class depressed workers' wages way below their value—is the main reason for the spectacular growth of Chinese profits. The other side of this same coin is the rapid decrease of workers' wage share in the national income. The share of industrial workers' wages in China's manufacturing value added dropped from 52.3 percent in 2002 to 26.2 percent in 2008. Total wages declined as a share of GDP from 57 percent in 1983 to just 37 percent by 2005.

The Chinese researcher Dongtao has published figures indicating a huge rise of the rate of exploitation of China's working class in the past two decades:

Wages constitute less than 10 per cent of total cost of Chinese enterprises, while that for developed countries is about 50 per cent. In the Pearl River Delta, productivity is about 17 per cent that of the US, but workers' wages are only about 6.7 per cent that of the US. From 1990 through 2005, labor remuneration as proportion of GDP declined from 53.4 per cent to 41.4 per cent in China. From 1993 through 2004, while Chinese GDP increased by 3.5 times, total wages increased by only 2.4 times. From 1998 to 2005, in SOEs and large scale industrial enterprises, the percentage of total wages/profit dropped significantly from 240 percent to 43 percent. (Qi Dongtao, "Chinese Working Class and Trade Unions in the Post-Mao Era: Progress and Predicament," *International Journal of China Studies*, Vol. 1, No. 2, October 2010, p. 420.)

The New Bourgeoisie

Based on such intensive super-exploitation of its working class, the Chinese Stalinist bureaucracy was able to create a new indigenous bourgeoisie from among its own ranks. A major result of this process of rapid capital accumulation has been the growth of a significant private capitalist sector.

The creation of a Chinese capitalist class is also reflected in the prominent place the country's super-rich increasingly take among the world's exclusive club of multi-millionaires. According to the *Hurun Report*, the number of millionaires in China surpassed one million for the first time in 2010. Of these, 251 are dollar billionaires, up from as few as only 15 billionaires six years ago. About half of the millionaires are business owners, and the rest are investors in stocks or real estate or are high-level executives. China's super-rich are mostly business owners.

This growing Chinese capitalist class is, of course, still substantially smaller than its U.S. rival, but it is already on an equal footing with other Great Powers. This reflects the rapid rise of China’s super-rich. According to the *World Wealth Report 2012*, published by Capgemini and RBC Wealth Management, China ranks fourth in the number of super-rich, trailing behind only the United States, Japan, and Germany, but leading Britain, France, and Canada. The general picture, however, is pretty clear: China’s emergence as a new imperialist power has been accompanied by the formation of a super-rich class of monopoly capitalists. To summarize, China’s new capitalist class is playing in the top league of the capitalists alongside the super-rich of other imperialist Great Powers.

However, as we showed above, China’s state sector remains important. Here too, the top positions in the state-owned enterprises are dominated by the sons and daughters of the leaders of the party bureaucracy. A study prepared by two scholars, Li-Wen Lin and Curtis J. Milhaupt, described the very close relations between and intermeshing of the party, state, and the state-owned enterprises. Justifiably, they conclude: “We call the organizational structure of state capitalism as practiced in China a networked hierarchy.”

Capital Export as Bond and Loan Capital

One of the most important characteristics of an imperialist bourgeoisie, as Lenin and other Marxist theorists have argued, is its formation of monopolies that export capital. Indeed, such a development has been taking place in China during the last decade. Above, we have already given the figures for the Chinese monopolies that have become among the largest global corporations, which has resulted in China’s enormously increased capital export.

China’s rapid growth as a capital exporter has taken place on two levels: productive investment and finance capital (bonds, loans, etc.). As a result of its tremendously rapid accumulation of capital from production, Chinese imperialism has also accumulated huge volumes of finance capital. This finds expression in the extraordinarily rapid growth of the country's foreign exchange reserves. These reserves skyrocketed from $165 billion in 2000 to $3,305 billion in March 2012. As such, China's foreign exchange reserves equal the combined sum of the next six largest foreign exchange reserves holders! Of course, foreign exchange reserves are not bundles of paper money stuffed in a safe, but money capital which is put in circulation as loans to return to the holder a share of the surplus value created by the borrowing country. Usually, foreign exchange reserves are invested in relatively secure deposits like government bonds, deposits in the Bank for International Settlements, or Special Drawing Rights (SDRs) maintained by the International Monetary Fund. In fact about 83 percent of China's total assets of $ 3.4 trillion are foreign exchange reserves, and most of these are invested in foreign governmental bonds.

Recently, China's U.S. bond holdings have made it the largest foreign funder of the U.S. debt. Of all U.S. debt holders, with $1.73 trillion China ranks third behind only two U.S. domestic government institutions. Recently, China's state capital has also begun purchasing shares of the Eurozone's public debt.

China is also an active lender in bilateral loans. According to the *Financial Times*, Chinese banks have emerged as a major financier over the past few years. It is already lending more money to so-called developing countries than is the World Bank. In 2009 and 2010, the China Export Import Bank and China Development Bank signed loans of at least $110 billion to the governments and companies of developing countries. (By comparison, from mid-2008 to mid-2010 the World Bank made commitments of $100.3 billion.)

Capital Export as Foreign Direct Investment

However, China’s capital is active not only in the international loan and bond markets, but also in the form of foreign investments in the industrial and raw material sector. As China has only recently emerged as an imperialist power, it is still a weaker player in the global market than those imperialist powers that have dominated international finance for more than a century. Thus the old imperialist powers have an outward stock of Foreign Direct Investment (FDI) larger than China’s (as share of global FDI stock: United States: 21.1 percent, Britain: 8.1 percent, Germany: 6.8 percent, France: 6.4 percent, Hong Kong: 4.9 percent, China: 1.7 percent). However, the last is already not far behind imperialist Italy (2.4 percent).

Moreover, one must bear in mind that China started its massive foreign investment drive only a few years ago. While China’s share of global FDI stock was only 0.2 percent in 1990 and 0.4 percent in 2000, since then it has more than quadrupled to 1.7 percent.

This phenomenal increase is attributable to China’s rapid catch-up during the 2000s, its outward FDI having rapidly grown since 2005. According to official Chinese statistics, the country’s FDI from 2005 to mid-2012 was $344.8 billion. In 2009-2011 China’s annual FDI outward flows already surpassed those of rivals like Canada and Italy, and more recently has already reached the level of countries like Germany.

In which regions and countries is China investing abroad? Let us look at the destination of China’s non-bond investments. According to the Heritage Foundation, the most important countries are (in billions of U.S. dollars, 2005-2010): Australia ($45.3), the United States ($42), Brazil ($25.7), Indonesia ($23.3), Nigeria ($18.8), Canada and Iran (each $17.2), and Kazakhstan ($12.3). Also important are investments of about $5 billion in Greece and about $8.9 billion in Venezuela.

Super-Exploitation of the Semi-Colonies

As we have seen above, China's monopolies channel a significant proportion of their foreign investments to semi-colonial countries like Nigeria, Indonesia, Iran, Kazakhstan, Greece, and Venezuela. One can conservatively estimate that 800,000 foreign employees of Chinese corporations are located in semi-colonial countries.

While it is true that China still lags substantially behind the old imperialist powers in outward foreign direct investment stocks, its role in the semi-colonial countries is rapidly increasing. In 2010, China became the third-largest investor in Latin America, behind the United States and the Netherlands.

Among other strategic investments like oil companies, Chinese monopolies focus on the control of vitally important infrastructure projects like ports. For example, China has already invested $200 million in building a modern port in Gwadar in Pakistan's southwestern province of Baluchistan, whose national minority is severely repressed by the Pakistani state (with the support of both U.S. and Chinese money and weapons).

Another example is the take-over of Papua New Guinea's $1.37 billion Ramu Nickel mine by the China Metallurgical Construction Corporation (MCC)—one of the largest and most profitable of China's state-owned enterprises—together with three Chinese steel companies. This represents China's largest investment in the South Pacific. During the next twenty years, this mine is expected to annually produce 31,650 tons of nickel and 3,352 tons of cobalt, all of which will be shipped to China. Local communities have resisted these projects as strongly as was possible, because they devastate the area and poison the water. Basamuk Bay located in this region is in danger of becoming the dumping area for a hundred million tons of tailings from the Ramu mine over the next two decades. This will destroy the living conditions of the local population.

Similarly, China's state-owned shipping giant Cosco recently took over Greece's largest port, Piraeus, one of the most important ports in the Eastern Mediterranean region. Cosco signed a 35-year lease and paid $4.2 billion for the rights. According to reports, Cosco is seeking to transform Piraeus into a much larger port to rival Rotterdam in the Netherlands, currently the largest European port. It aims to double the traffic at Piraeus to 3.7 million containers by 2015. Cosco has also recently expanded in Italy, acquiring the port of Naples.

China's Military Forces

China is a rising power not only economically, but also politically and militarily. Between 2002 and 2011, China increased its military spending by 170 percent. According to the Stockholm International Peace Research Institute (SIPRI), China today has the world's second largest military budget, surpassed only by the United States. In addition, China is the world's fifth largest nuclear power behind the United States, Russia, Britain, and France. China's military has undergone rapid modernization during the past decade, and today possesses serious military capabilities for launching offensive wars. It recently proved that it can shoot down satellites. China is not only the second largest military spender and the fifth largest nuclear power; it is also home to large arms manufacturers. SIPRI ranks the Chinese arms monopolies as fifth among all competitors in the global armament market.

The background for this massive drive to arm itself is that China, as a new, emerging imperialist power, is plagued by an historic weakness: it is a latecomer to the arena of imperialist power. Consequently, its immediately neighboring areas are already within the spheres of influence of other hegemonial powers. To its north and west the main rival is Russia, while—and today, this is the more important theater—to its south and east are its rivals, the United States and Japan. The significance of this is that China can only create its own (semi-)colonial sphere of influence by openly confronting other Great Powers. In this respect, its fate is not dissimilar from the historic situation of Germany in the late nineteenth and the first half of the twentieth centuries, which could only create its empire by challenging existing Great Powers like France, Britain, and Russia. It is this background that explains the increasing friction between China and neighboring countries like Japan, Vietnam, and the Philippines in the so-called East China and South China Seas.

Summary

To summarize, the continued existence of a strong, centralized Stalinist bureaucracy and the brutal suppression of China's working class enabled the new capitalist ruling class to subjugate and super-exploit the majority of the country's massively growing proletariat. On this basis, capitalists—both Chinese and foreign—were able to extract huge amounts of surplus value destined for capital accumulation. While foreign imperialist monopolies also profited from this super-exploitation of the working class, it was primarily the Chinese bourgeoisie that benefited. As a result, Chinese capital was able to develop monopolies that play an important role not only in the domestic market but also increasingly in the world market. Today China's monopolies are among the most important exporters of capital. China is not only an emerging economic power, but a political and military power as well. It already has the world's second largest military budget. In addition, it is the fifth largest nuclear power and the fifth largest exporter of arms. Thus China has become a capitalist Great Power on an economic, political, and military level. It is hardly surprising that the United States, the strongest Great Power until now, fears China's rise more than anything else.