



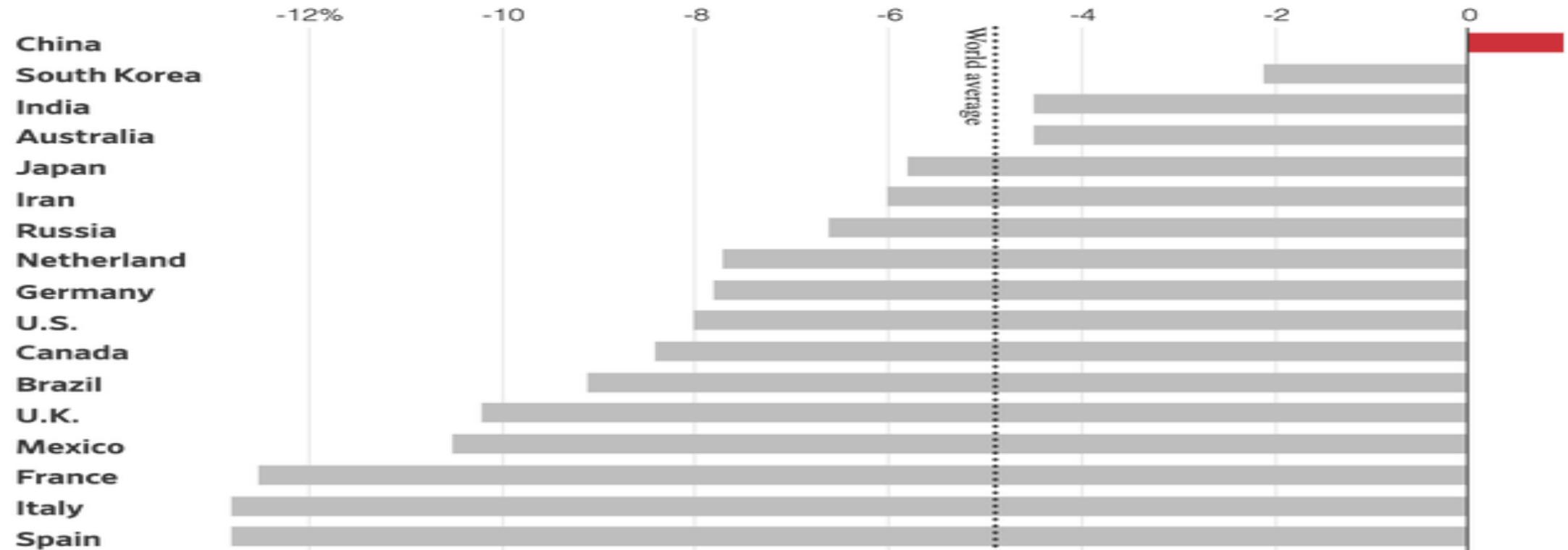
China and global capitalism in the era of the pandemic

Michael Roberts

September 2020

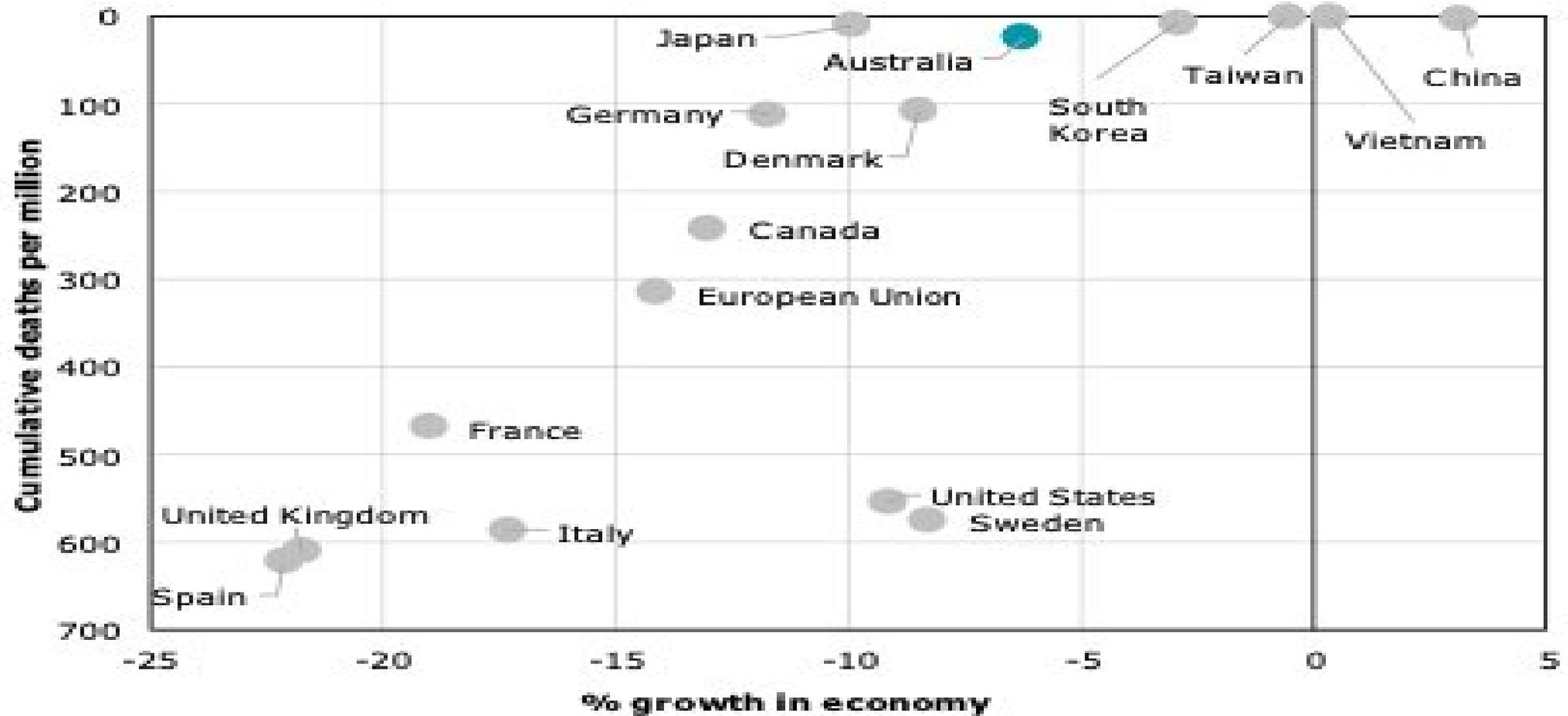
China on its own

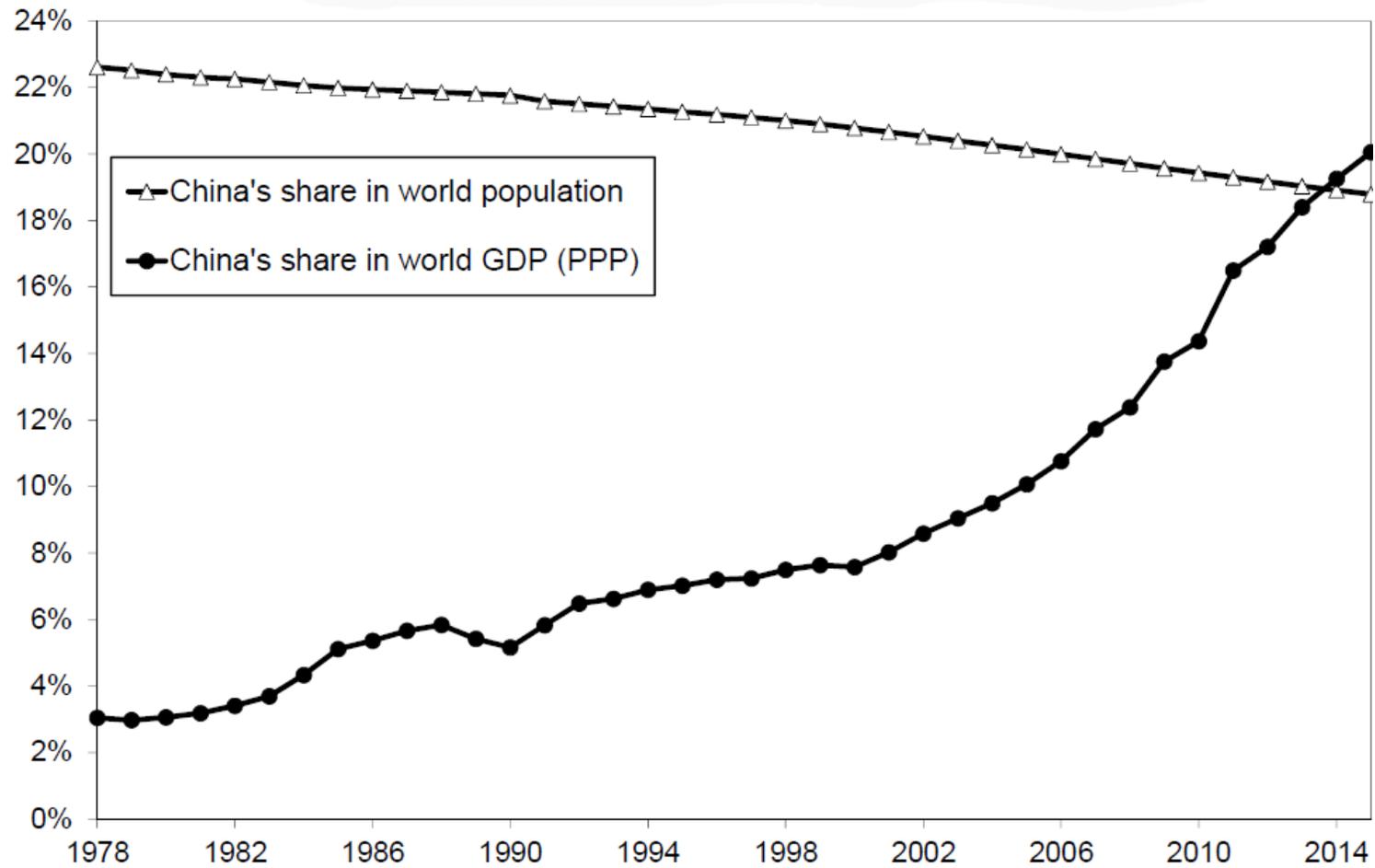
Projected GDP for 2020, change from a year earlier



Note: Latest estimates made in June
Source: International Monetary Fund

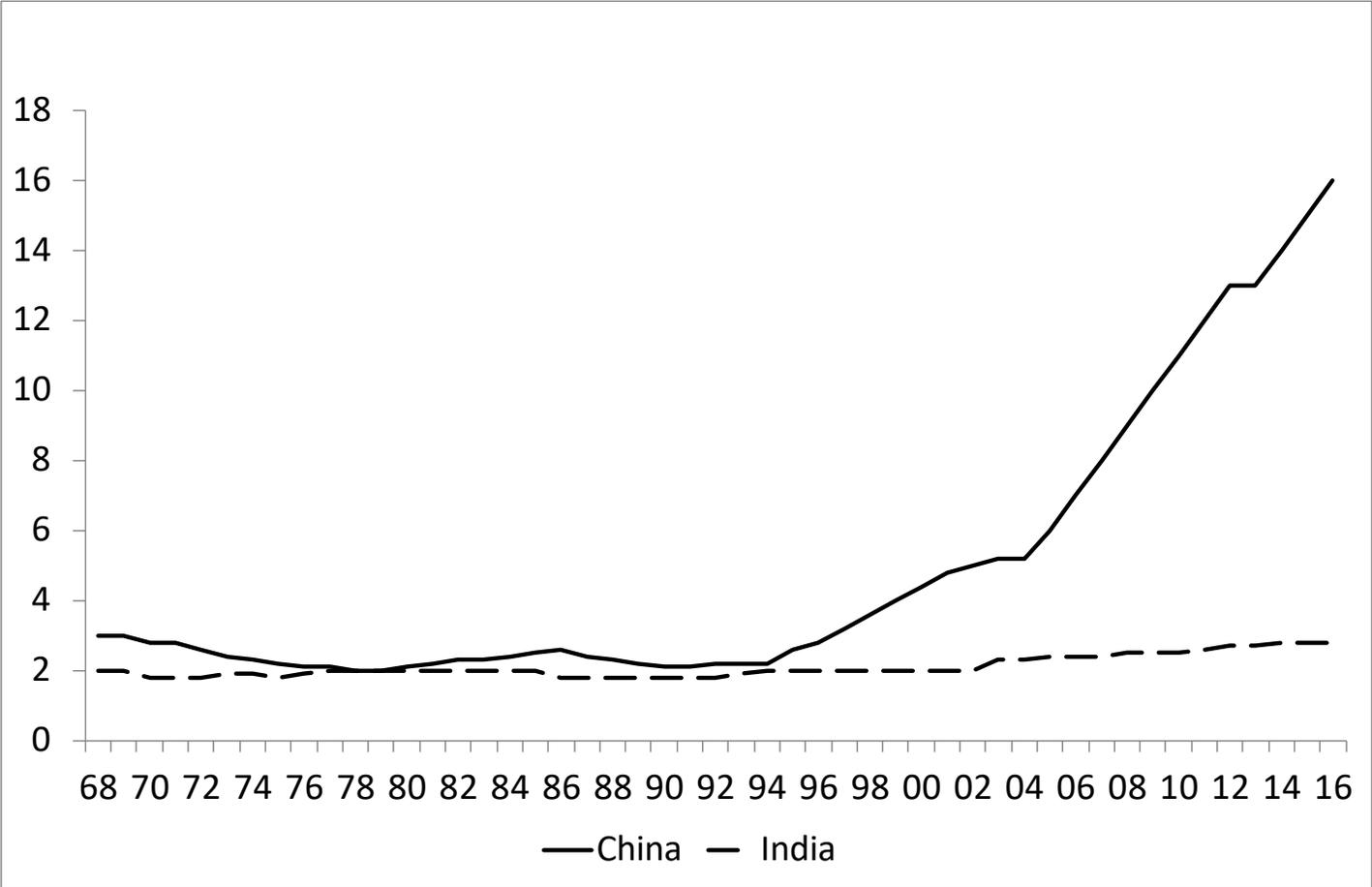
China and the COVID



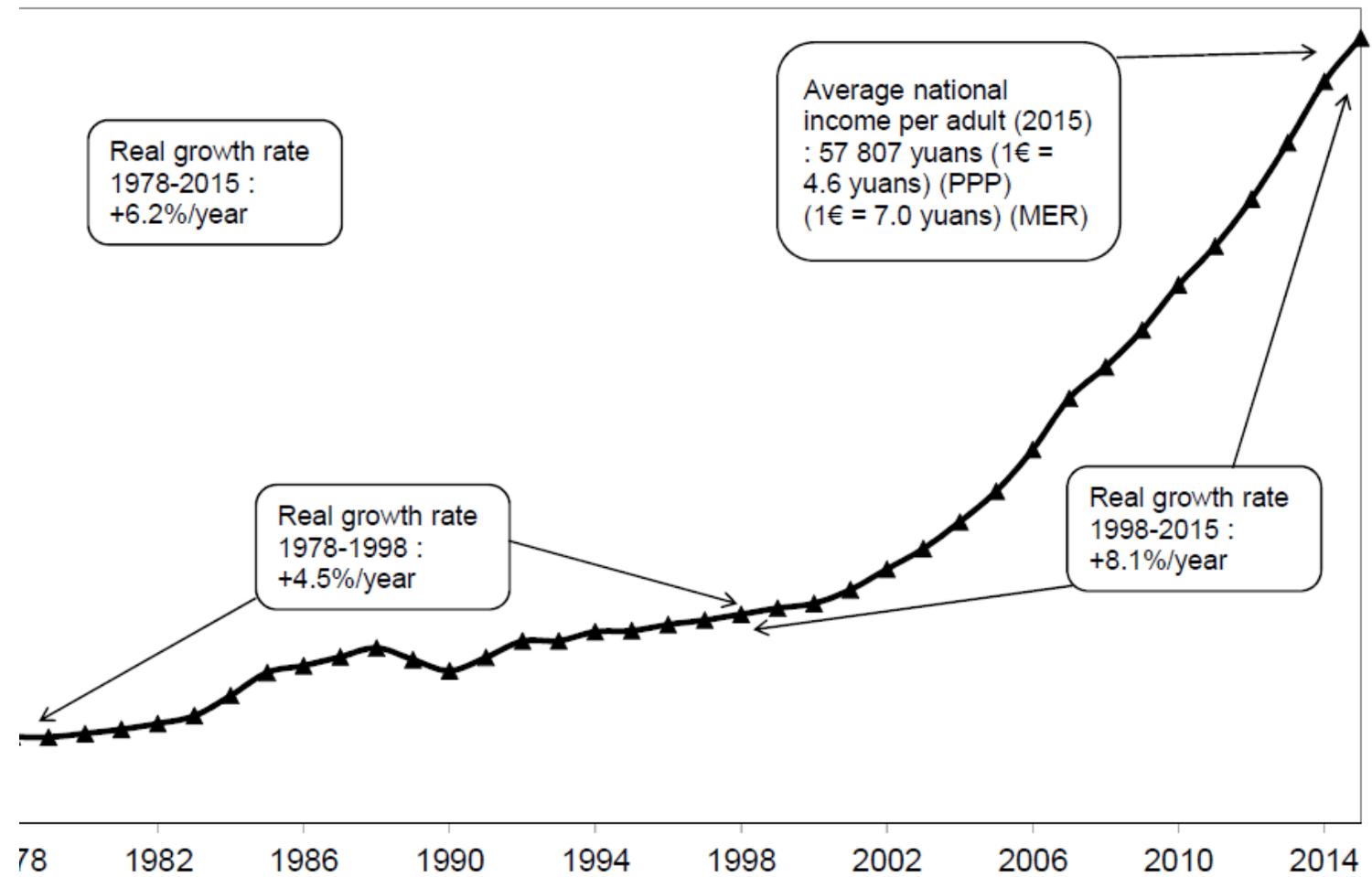


The China
growth story

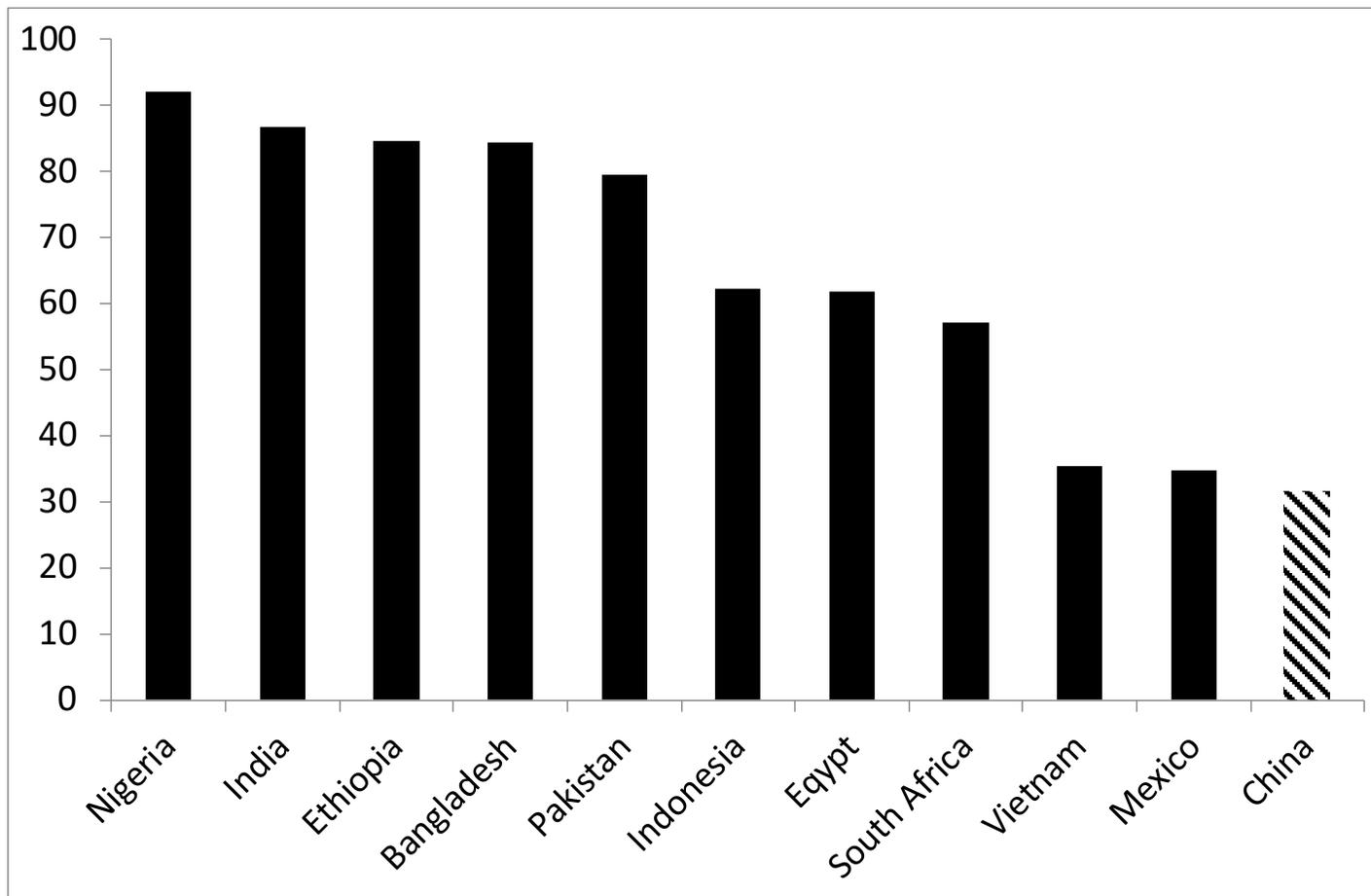
India is
nowhere



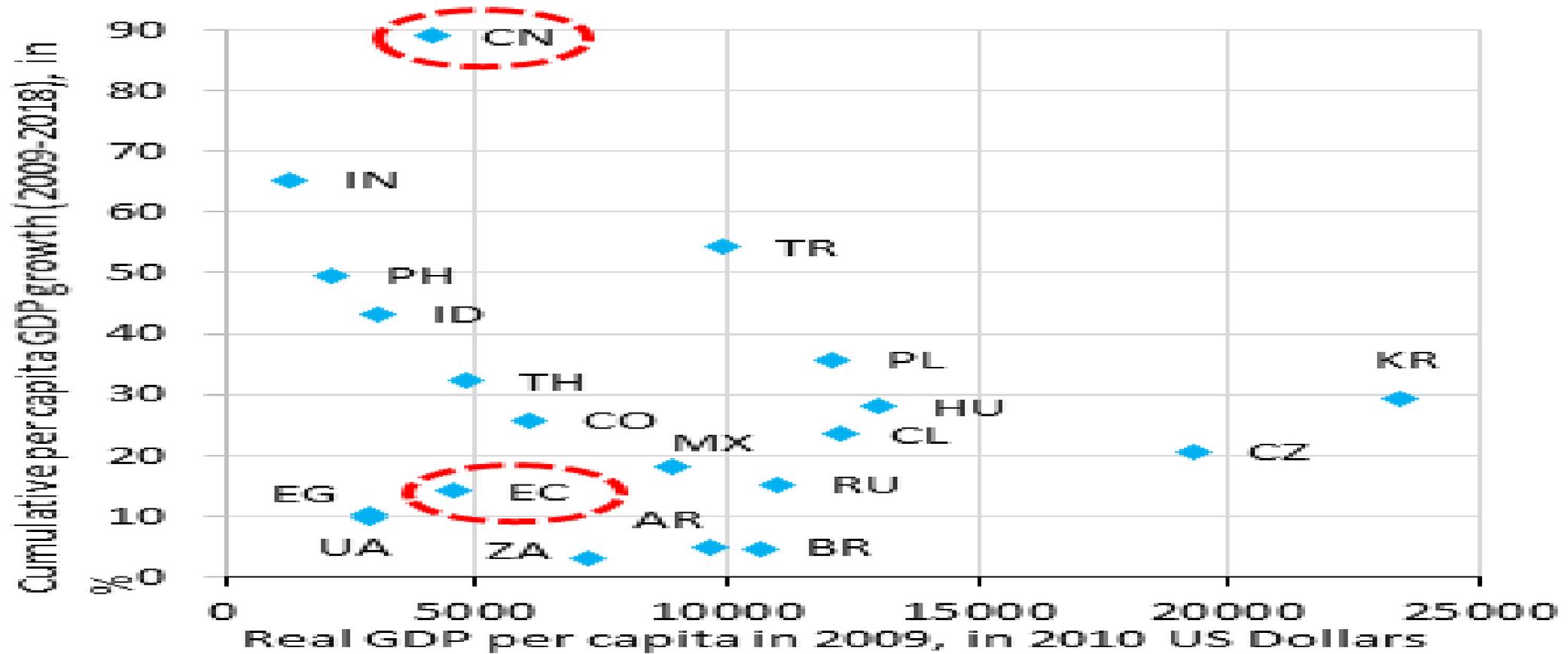
Growth of incomes



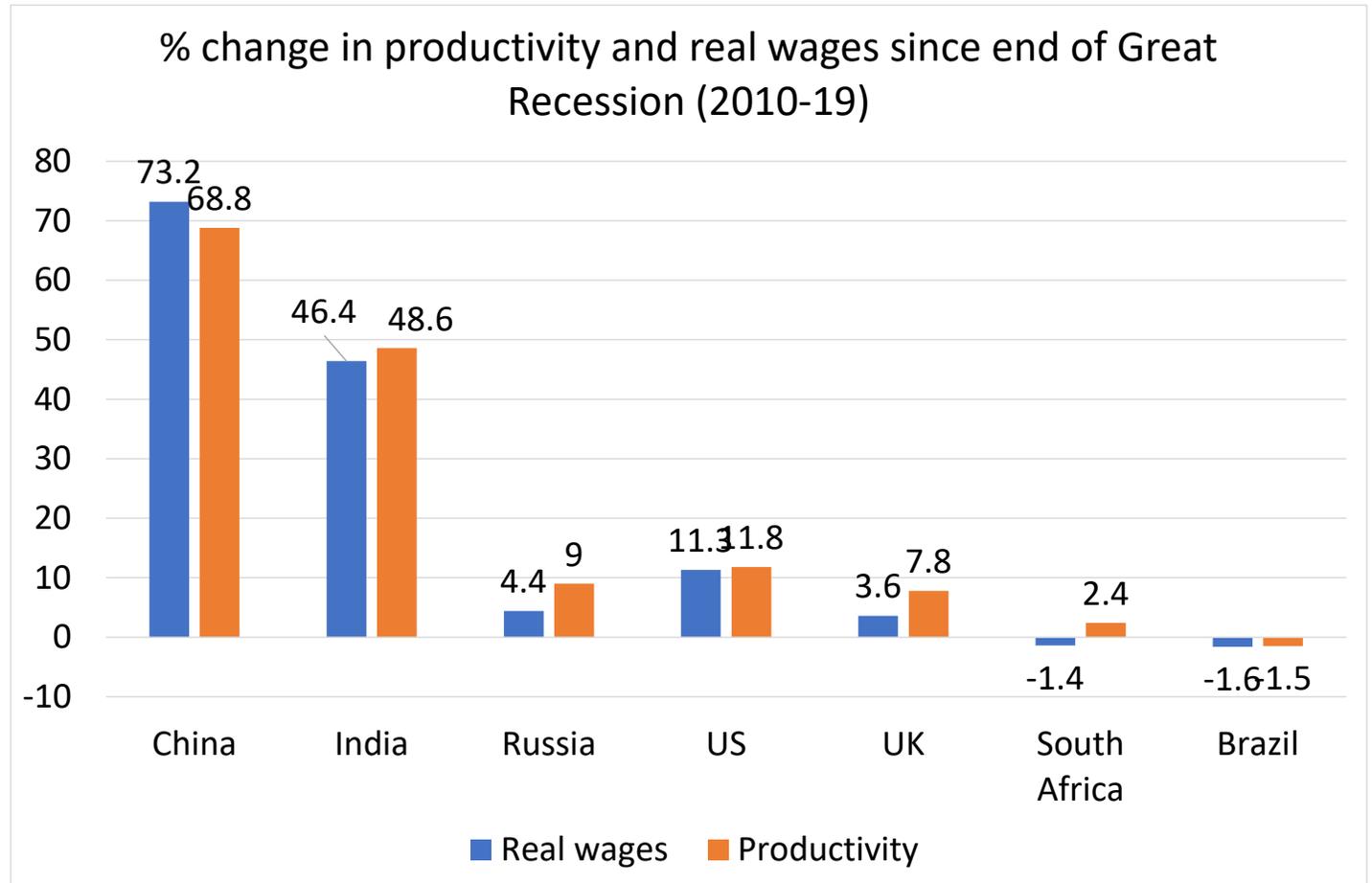
Ending
poverty: % of
popn living on
less than
\$5.50 a day



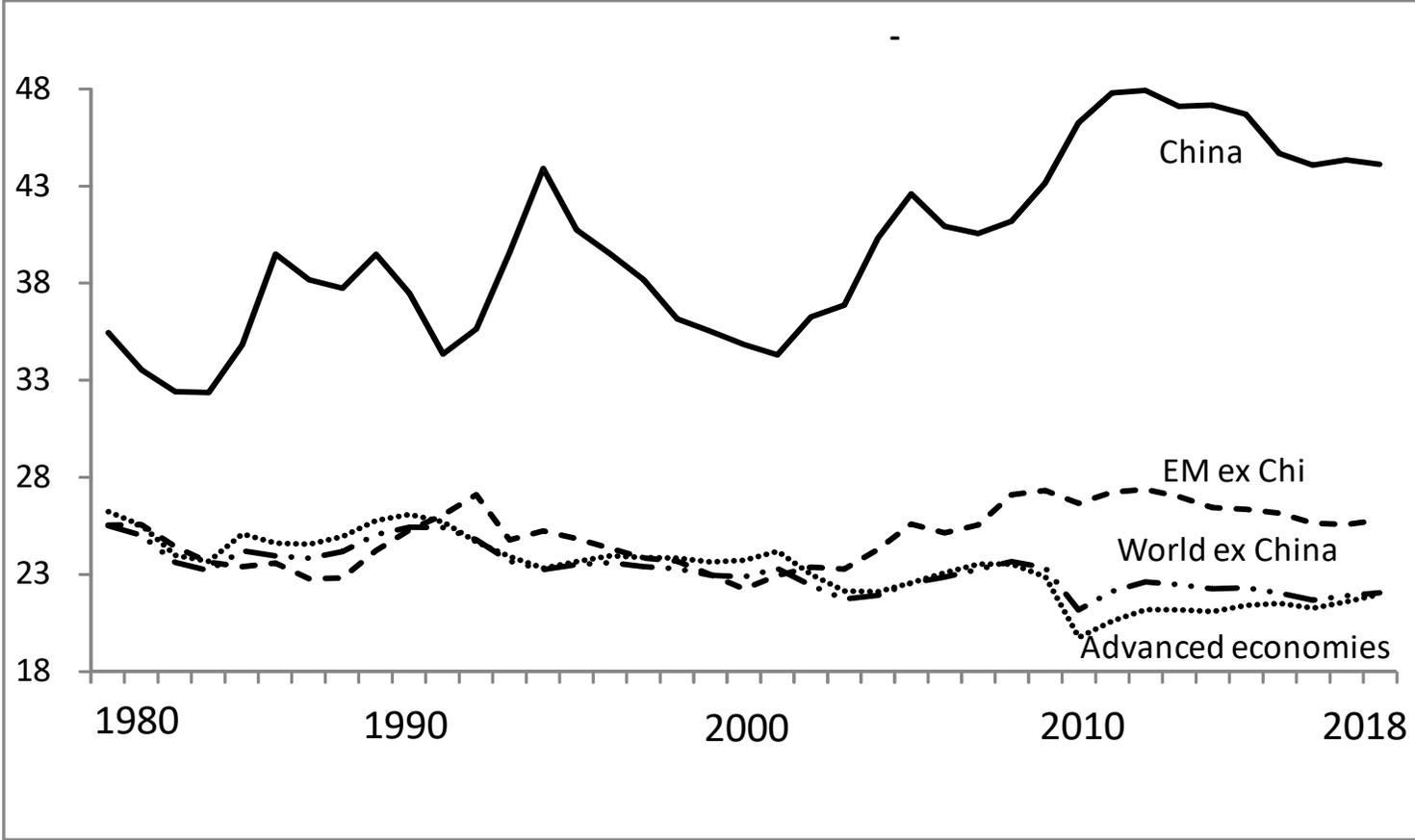
China: since the Great Recession



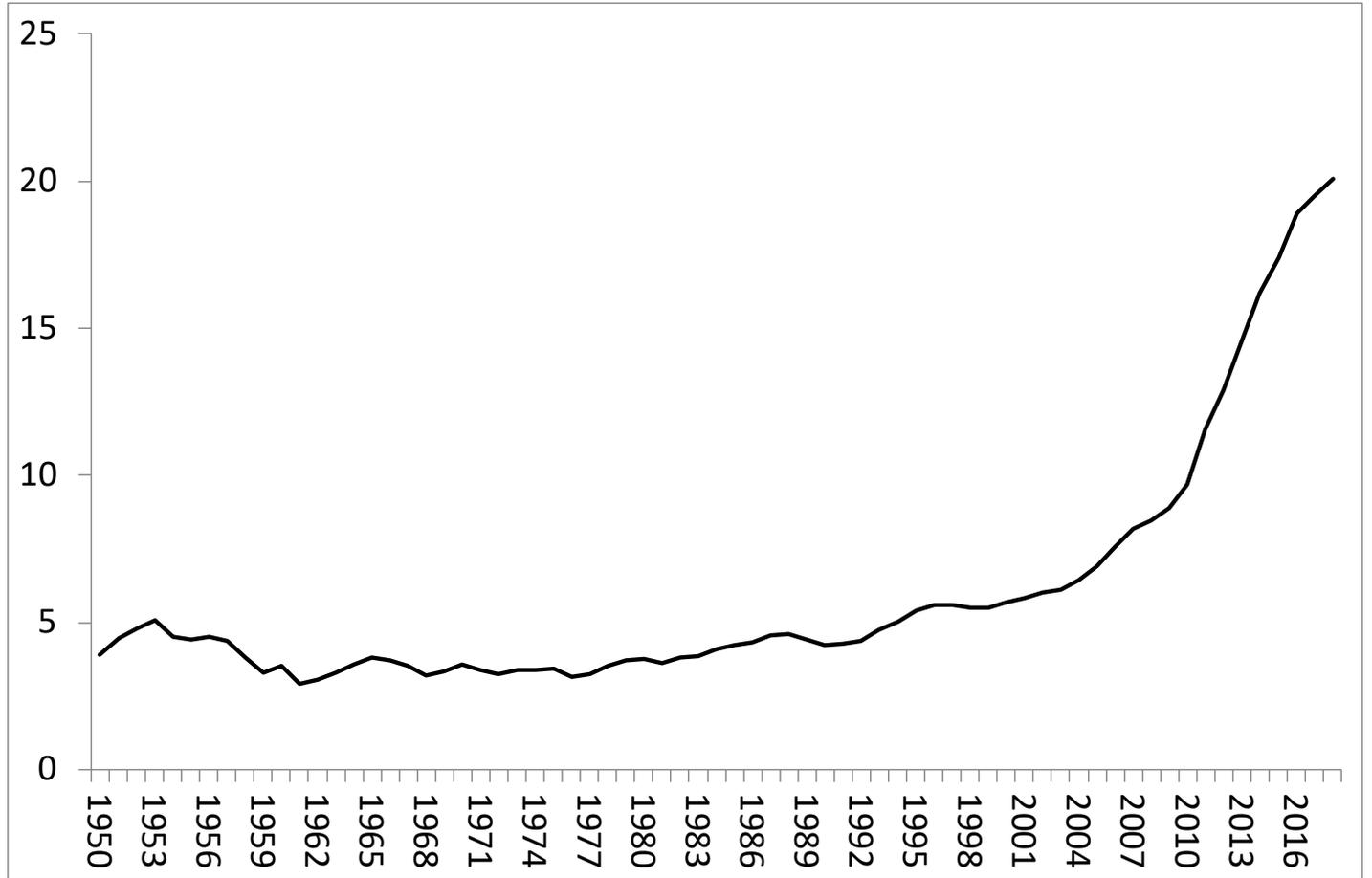
Which country has performed best since the GR ended?



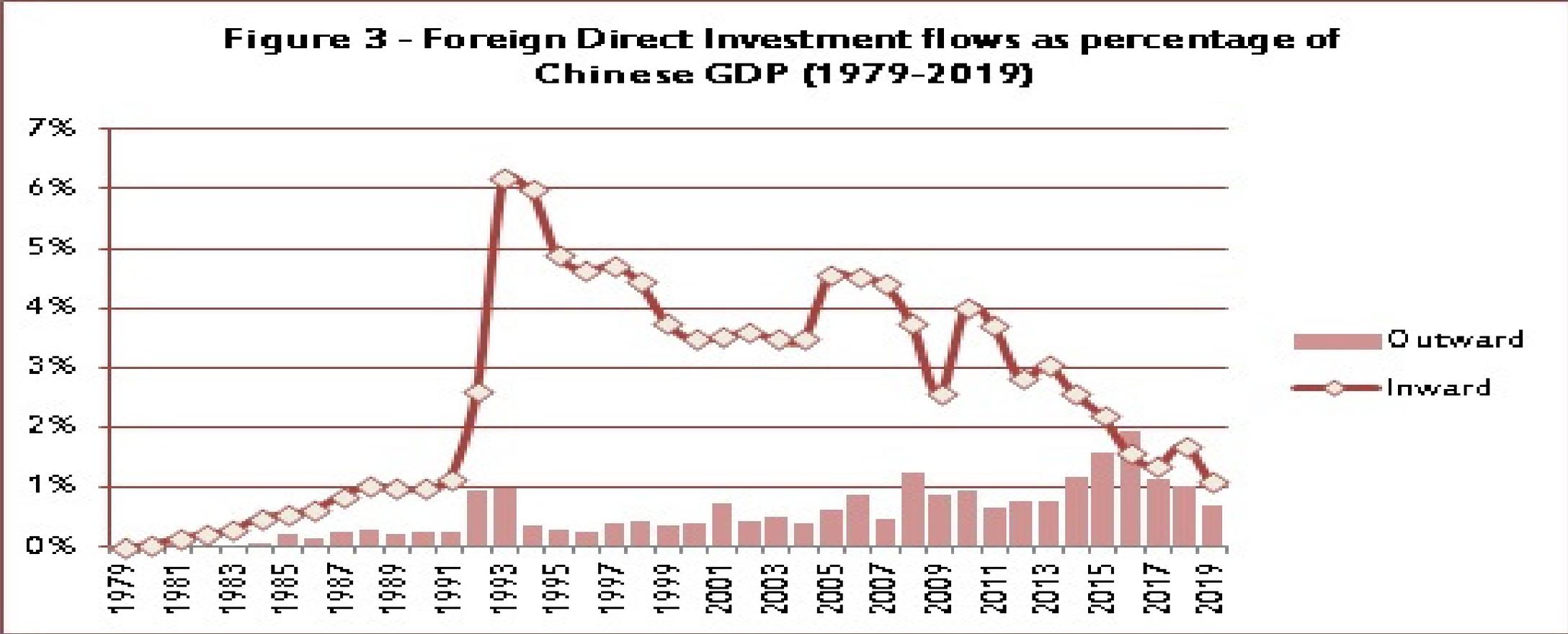
Investment
to GDP %



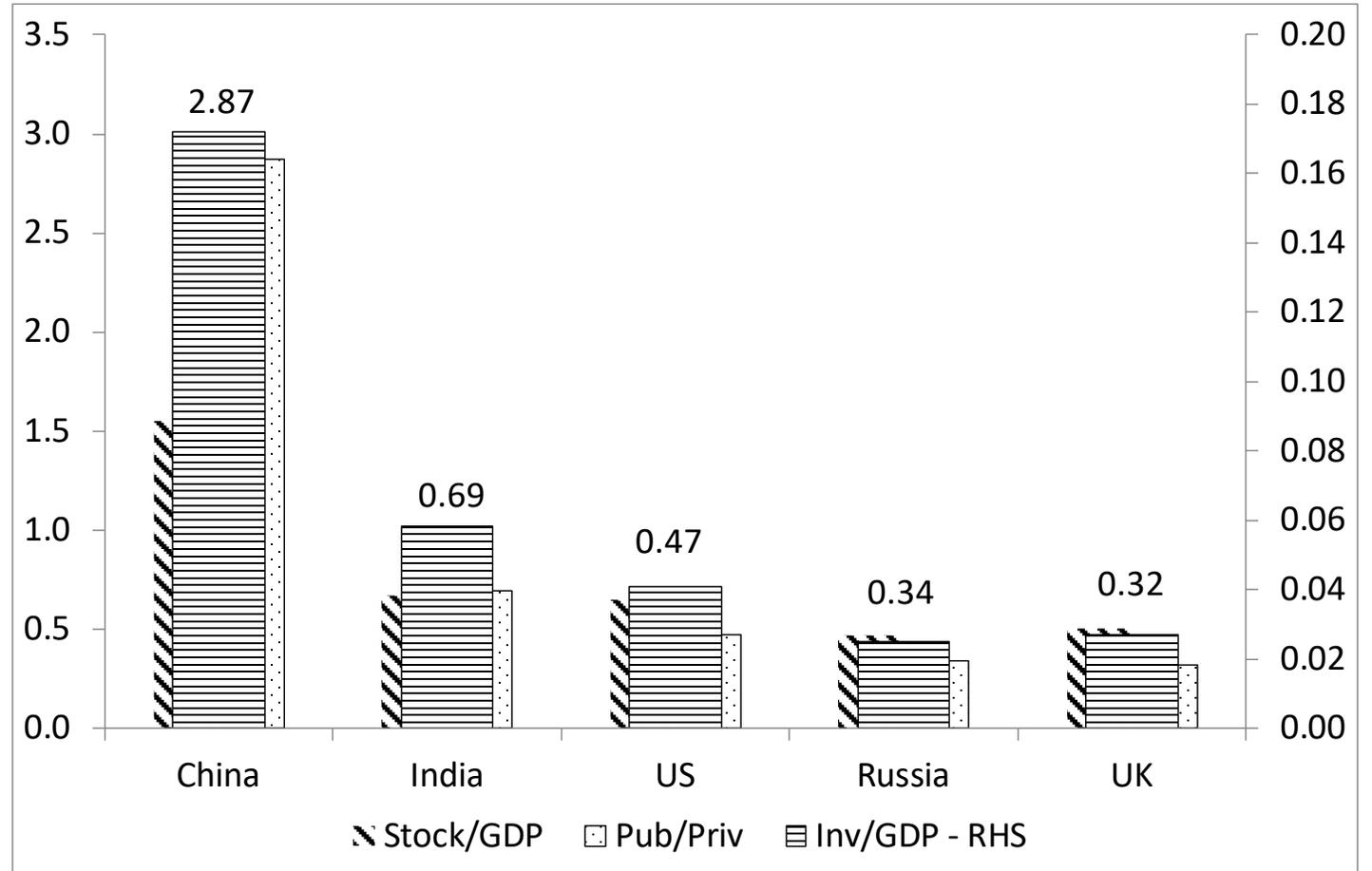
Comparative
ratio of
productivity
of labour
China-US (%)



The role of foreign investment



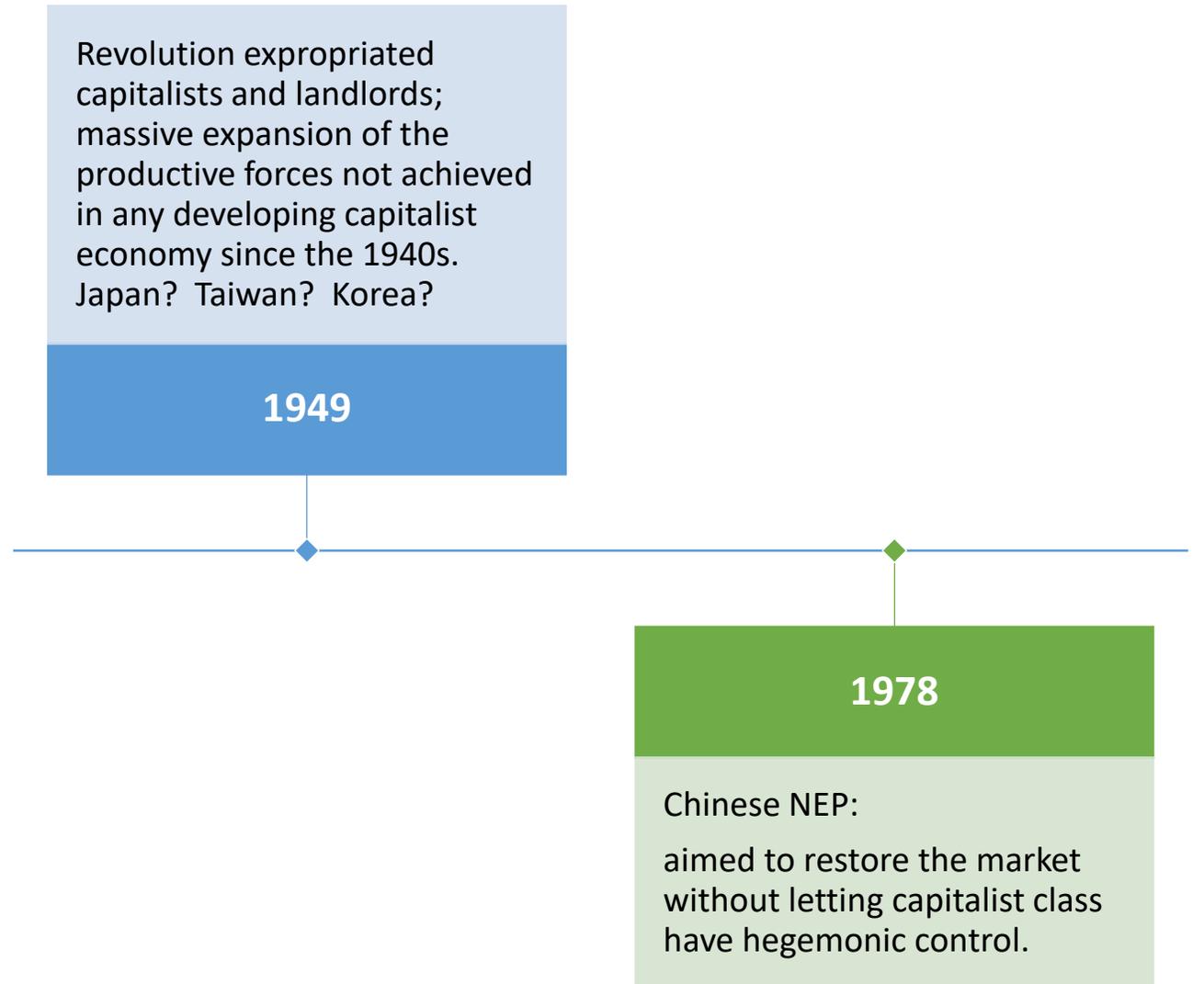
Public sector
leads in
China



State direction of all sectors

- SOEs and SHEs account for the majority of investments in most major sectors in the Chinese economy and for 40 percent of China's GDP and 45 percent of non-agricultural GDP. SOEs still make up a substantial part of the national economy – controlling roughly 30 percent of the total secondary and tertiary assets, or over 50 percent of total industrial assets. The average size of SOEs is much bigger than their non-SOE peers, with average assets of the former equalling accounting for over 13 times of the latter.
- 95 out of the top 100 private firms and eight out of the top 10 internet firms had a founder or de facto controller who was currently or formerly a member of central or local political CP. 68% of China's private companies had party bodies by 2016, and that 70% of foreign enterprises had
- The CCP Organization Department (CCP OD) manages all senior promotions in all major banks, regulators, government ministries and agencies, SOEs, and even many officially-designated non-SOE enterprises.
- Among the Fortune Global 500 list, China had 115 companies. All but four of the 115, and all the big ones, were state-owned. The government also owns 51 percent or more of the thousands of joint-venture export-oriented industries with multinationals. Of China's top 500 companies, SOEs overwhelmingly dominate: SOEs account for 63 percent of all companies, 83 percent of all revenues, 90 percent of total assets.

Not an
abstraction,
also depends
on history





What is
China? It is
not
capitalism,
but it is not
socialism

- The market is not dominant but China is not socialist. The law of value still operates.
- Two modes of production co-exist but also as antagonistic opposites: a dialectical process
- The planning mechanism and the law of value and production for exchange.

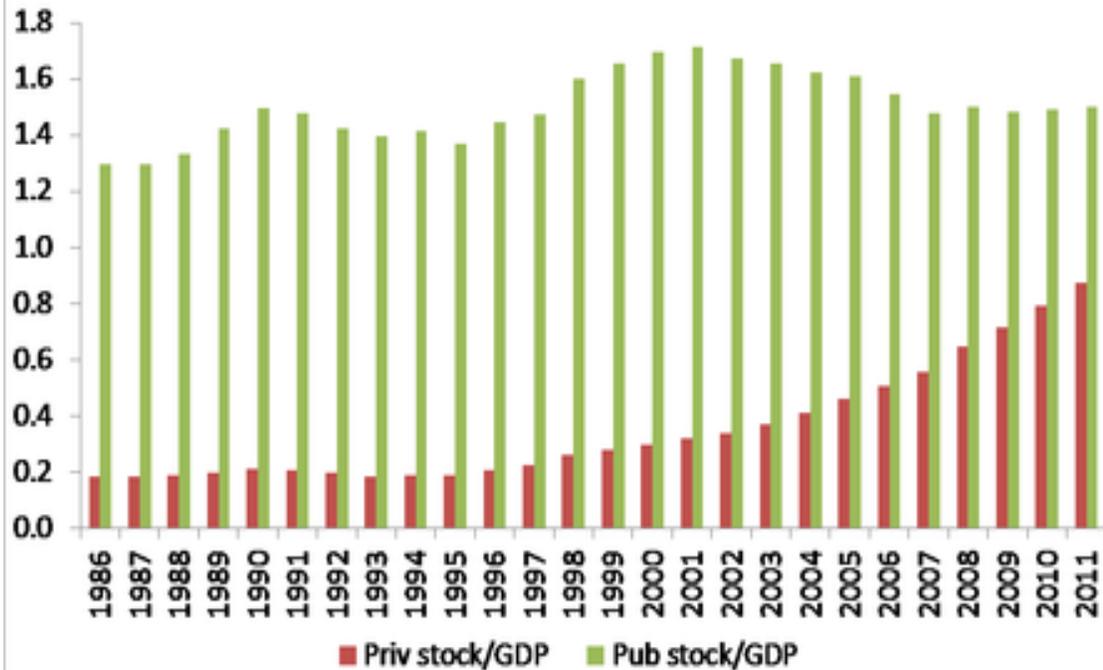
What's in a name?

- Milanovic: political capitalism vs liberal capitalism
- State capitalism
- Market socialism
- A 'socialist economy with Chinese characteristics'
- **A planned economy with Chinese characteristics?**

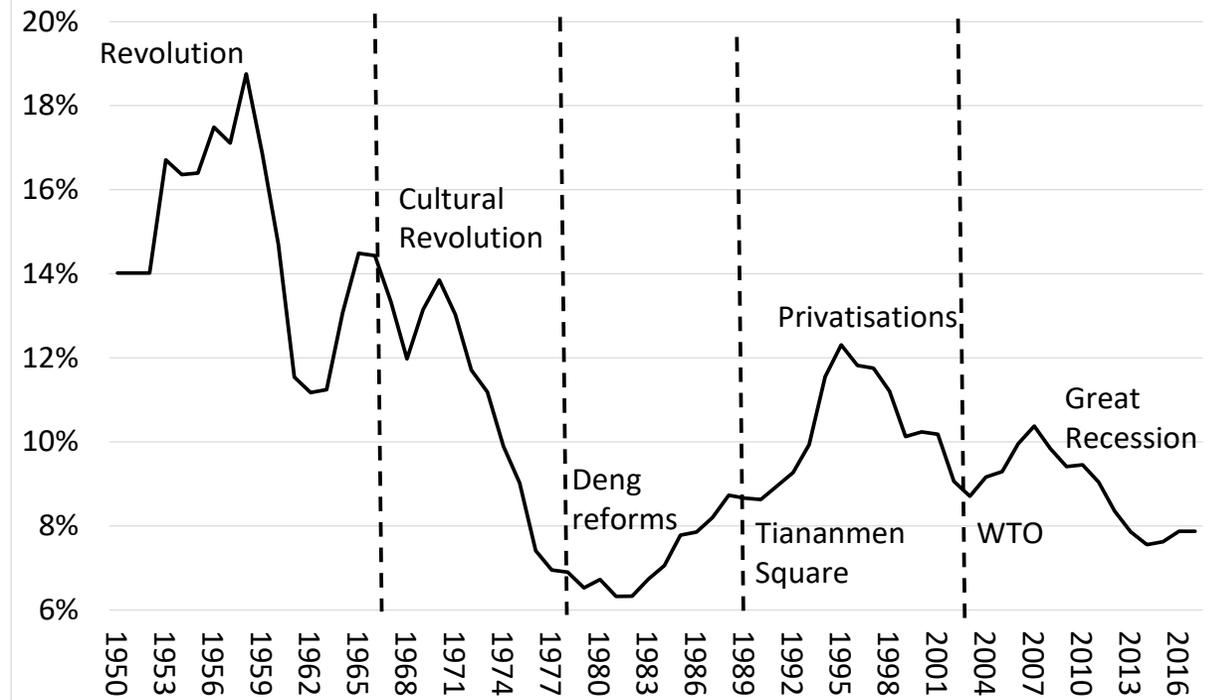


Trapped transition

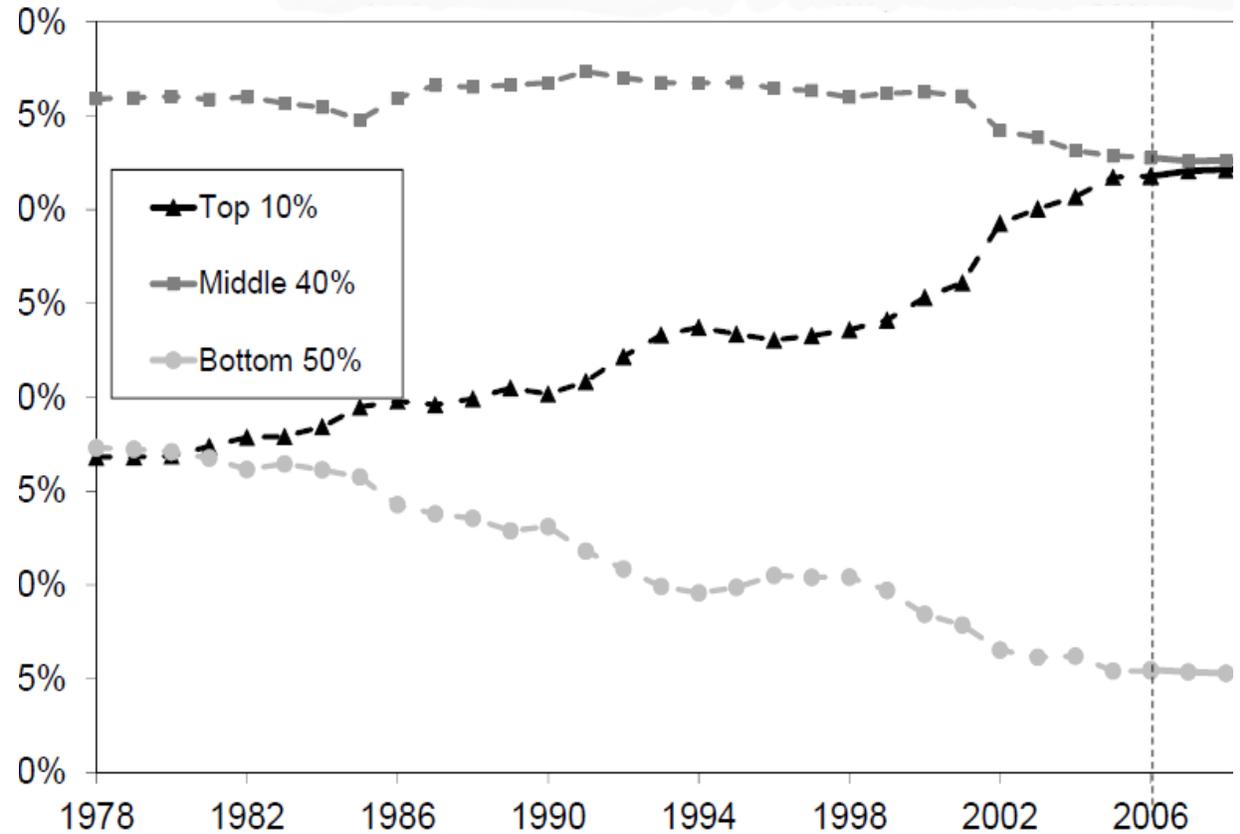
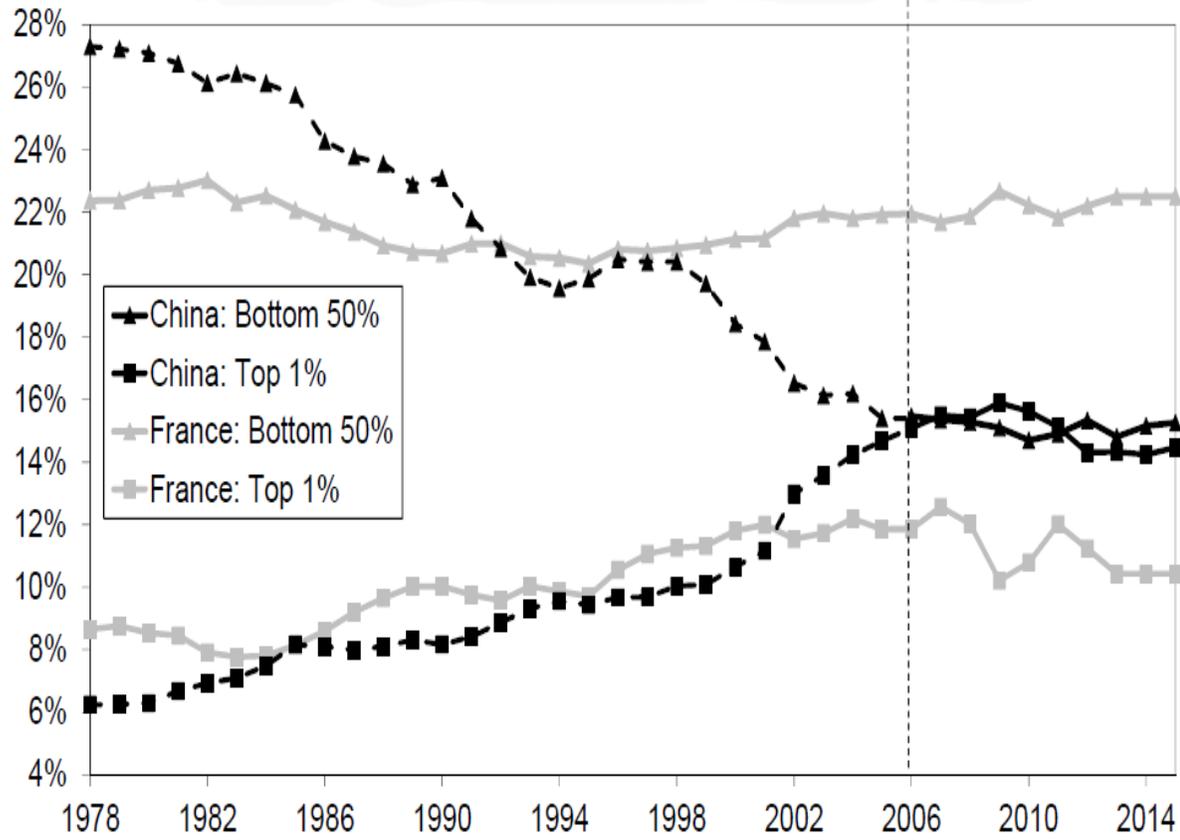
China: public and private sector investment stock to GDP - ratio



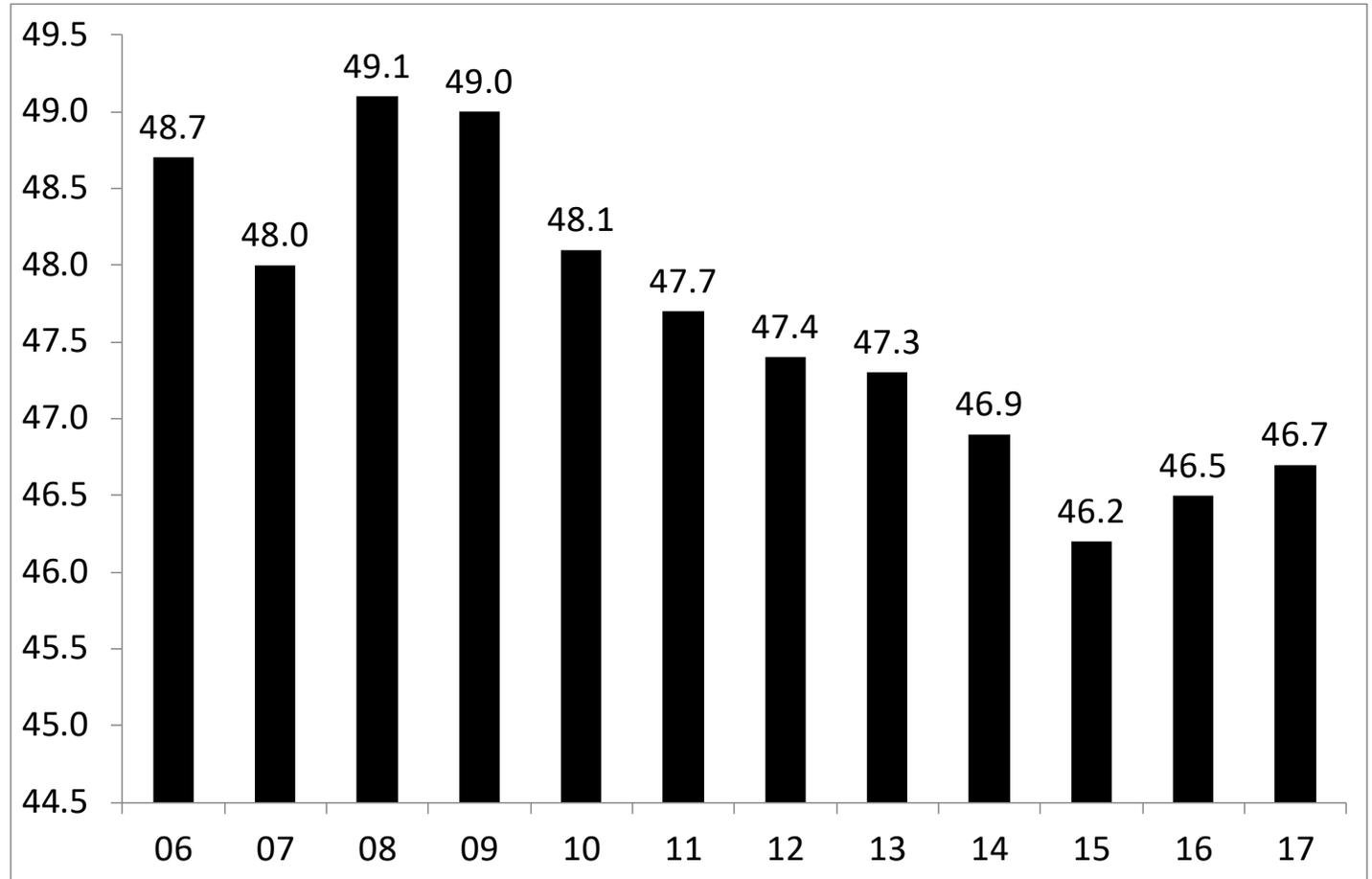
China rate of profit (IRR) %



Rising inequality of incomes

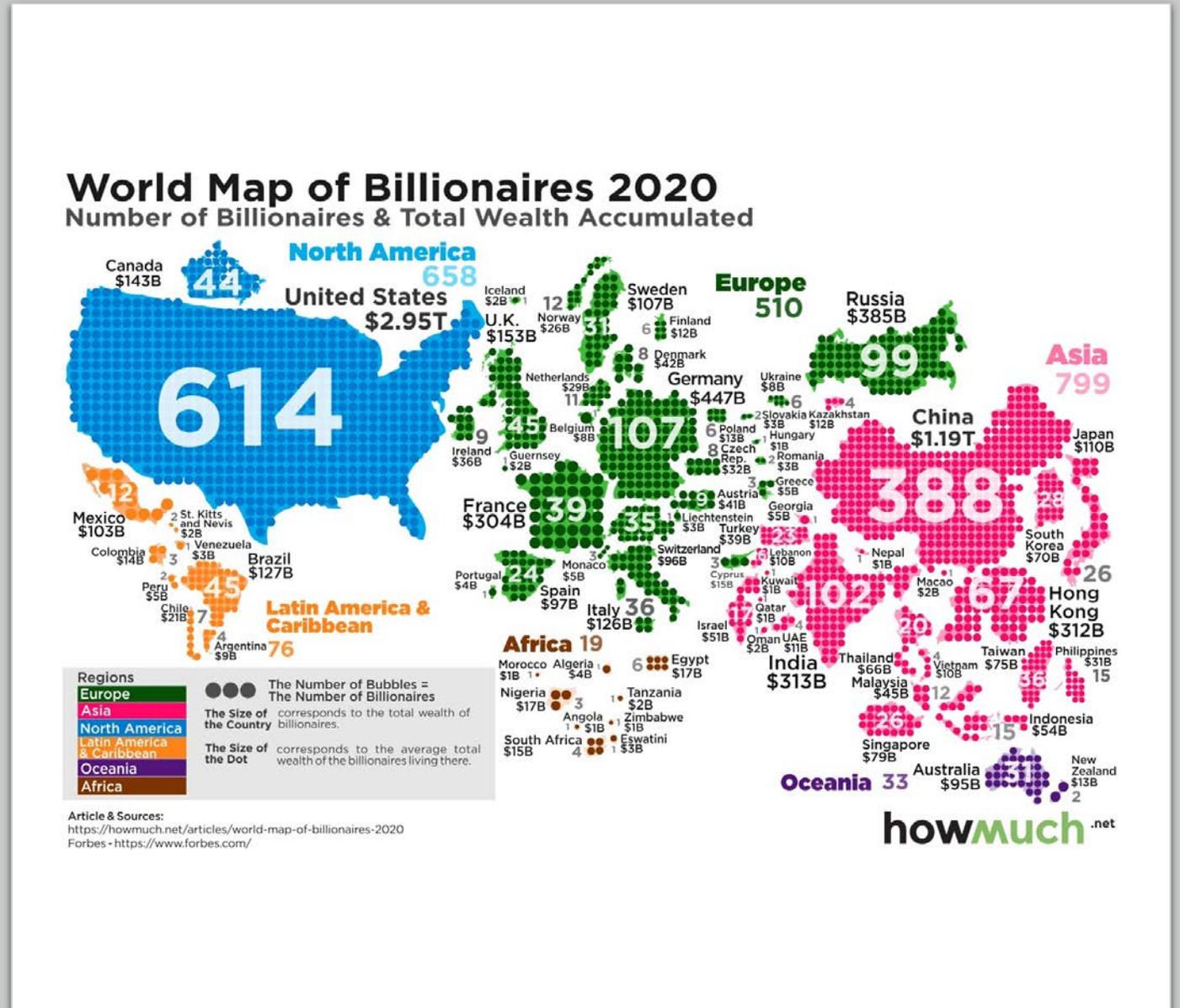


High
inequality of
income - gini

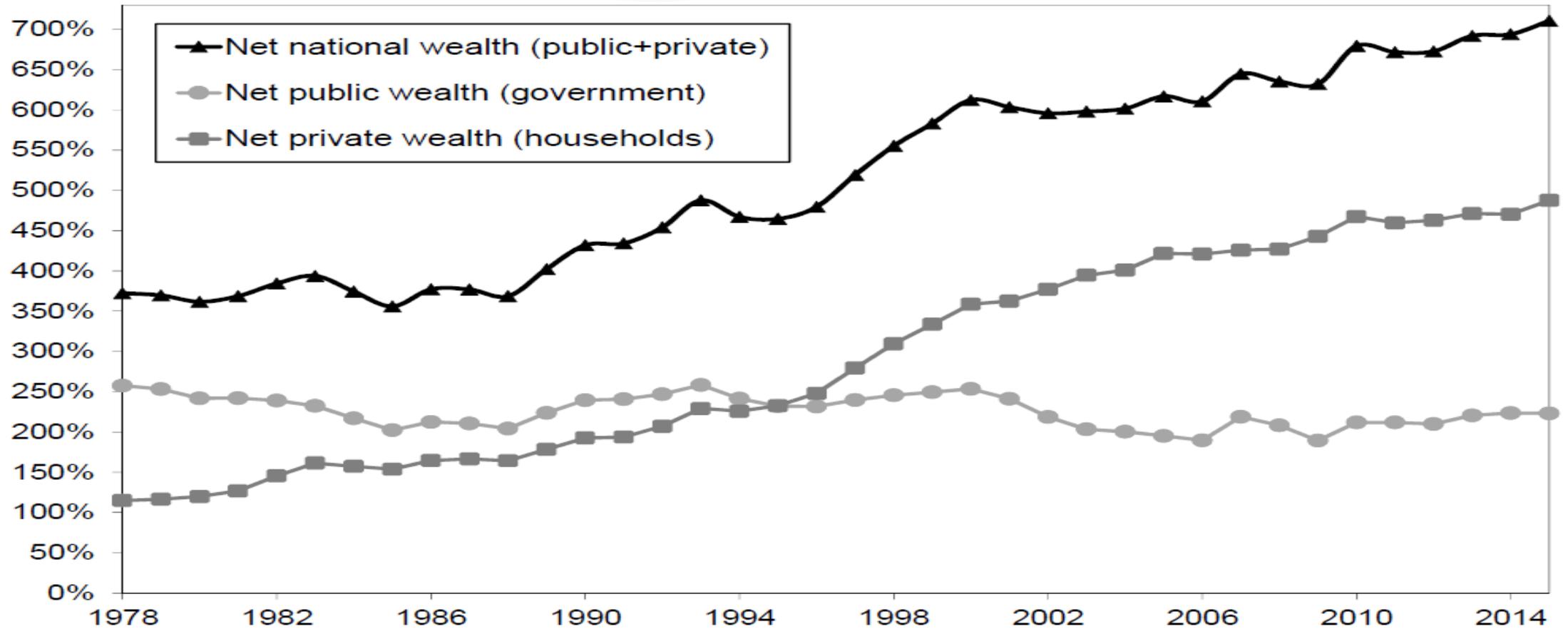


Billionaires – US has seven times more per head

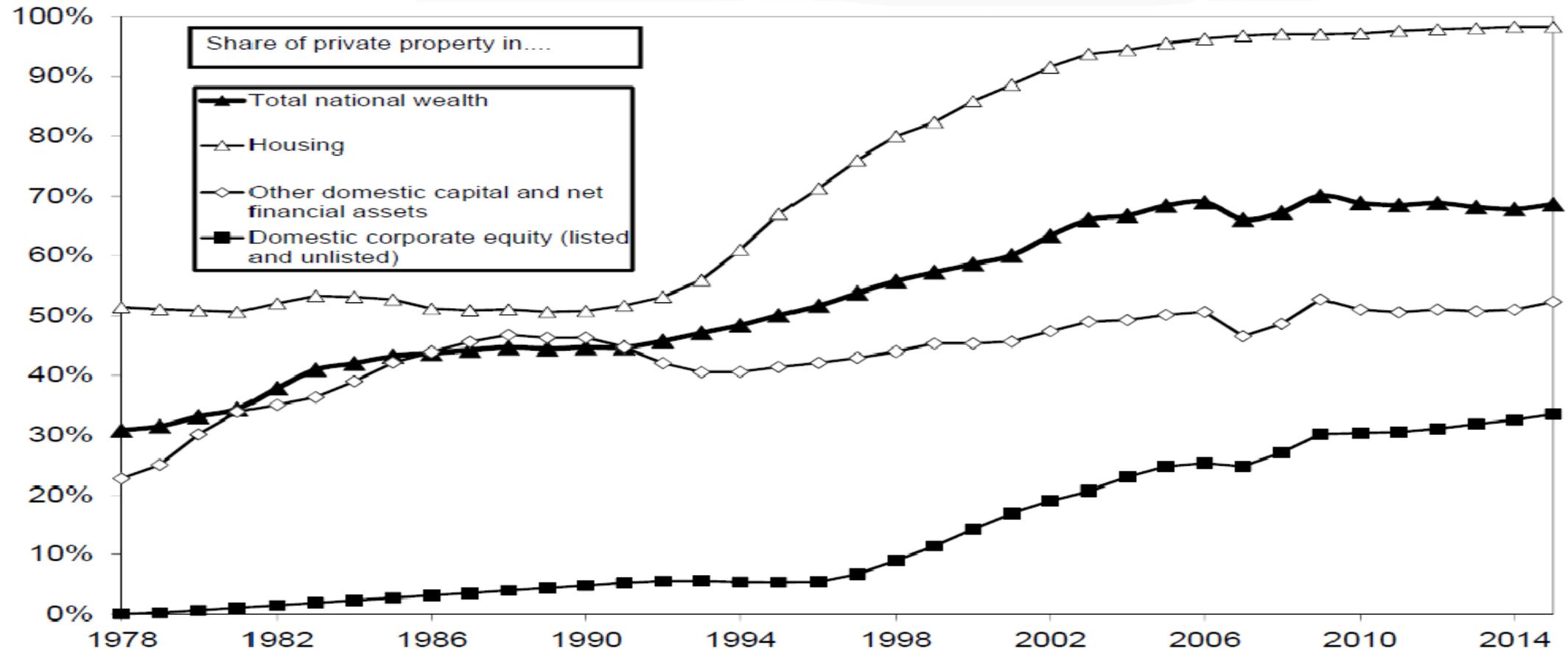
- **Top 10 Countries with the Most Billionaires**
- 1. United States: 614
- 2. China: 388
- 3. Germany: 107
- 4. India: 102
- 5. Russia: 99
- 6. Hong Kong: 67
- 7. Brazil: 45
- 8. United Kingdom: 45
- 9. Canada: 44
- 10. France: 39



Rising private wealth



It's all in housing not means of production



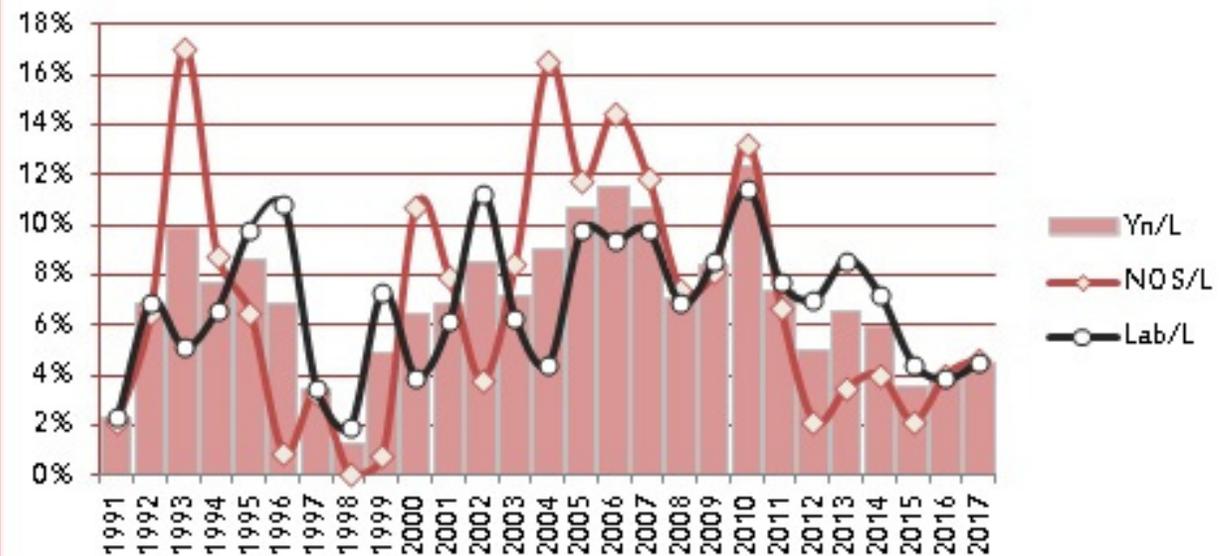
Why such inequality?

- **Private wealth in today's China has taken two distinct forms: capital concentration and conversion of socialist housing benefits. The former is market-based and favours more inequality. The latter was originally government-based and promoted more equal distribution. The current state of wealth distribution in contemporary China as being a product of this hybrid social process.**
- The wealth/income ratio was 9.2, much higher than that in European countries and the United States.
- The wealth Gini coefficient was 0.45 in 1995 and 0.55 in 2002. It reached 0.73 in 2012. The richest 1 percent of households owned more than one-third of the total household wealth, while the poorest 25 percent owned less than 2 percent of the total household wealth.
- Although the richest 1 percent of households in China owned a similarly large share of total national household wealth to that owned by the richest 1 percent in United States, wealth was more equally distributed in China for the remaining 99 percent of households.
- Housing assets accounted for 79 percent of urban and 61 percent of rural household wealth. Over half of the wealth growth from 2010 to 2012 was due to the growth of housing assets, and housing inequality was the main contributing factor to wealth inequality.
- Structural factors, such as the rural-urban divide and regional disparities, were major contributors to wealth inequality in China. Specifically, the rural-urban divide accounted for more than 10 percent of the total wealth variation, while regional disparities accounted for about 23 percent.

Productivity versus profitability

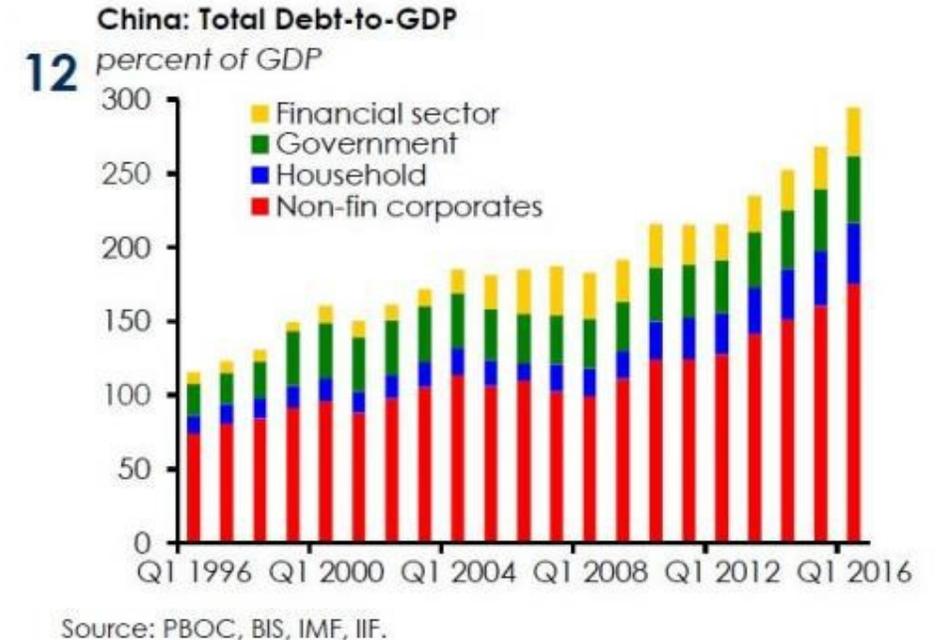
- With China's population peaking in this decade and the working age population falling 20% by 2050, the aim of investment must be towards job creation, automation and productivity growth.

Figure 4 - Real growth rate of productivity (Yn/L), net operating surplus (NOS/L) and labor income (Lab/L) per worker (1991 - 2017)



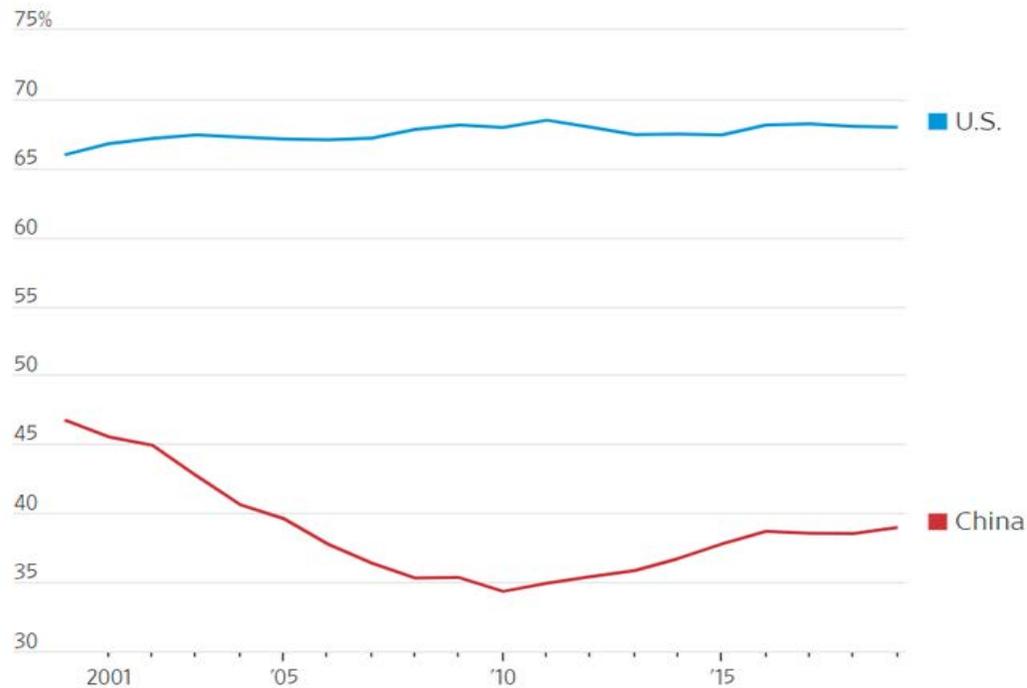
The debt risk?

- The idea that China is heading for a crash because of under consumption and over investment is not convincing. It's true that according to the Institute of International Finance (IIF), China's total debt hit 317 per cent of gross domestic product (GDP) in the first quarter of 2020. But most of the domestic debt is owed by one state entity to another; from local government to state banks, from state banks to central government. When that is all netted off, the debt owed by households (54% of GDP) and private corporations is not so high, while central government debt is low by global standards. Moreover, external dollar debt to GDP is very low (15%) and indeed the rest of the world owes China way more, 6% of global debt. China is a huge creditor to the world and has massive dollar and euro reserves, 50% larger than its dollar debt.



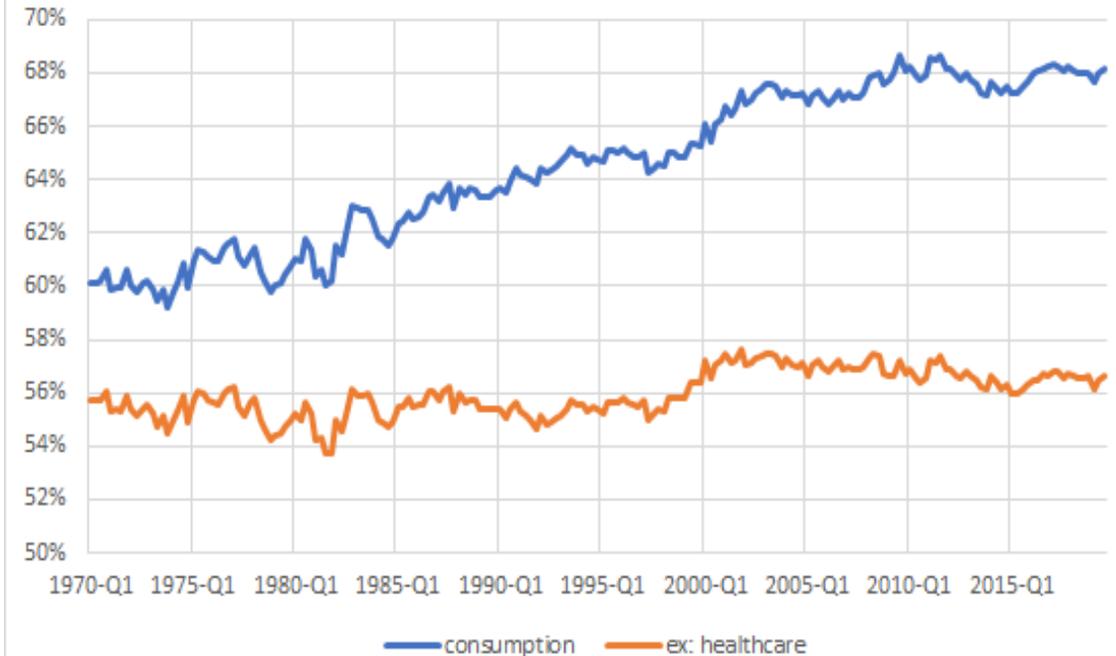
Turn to the market and consumer?

Consumer spending as share of gross domestic product



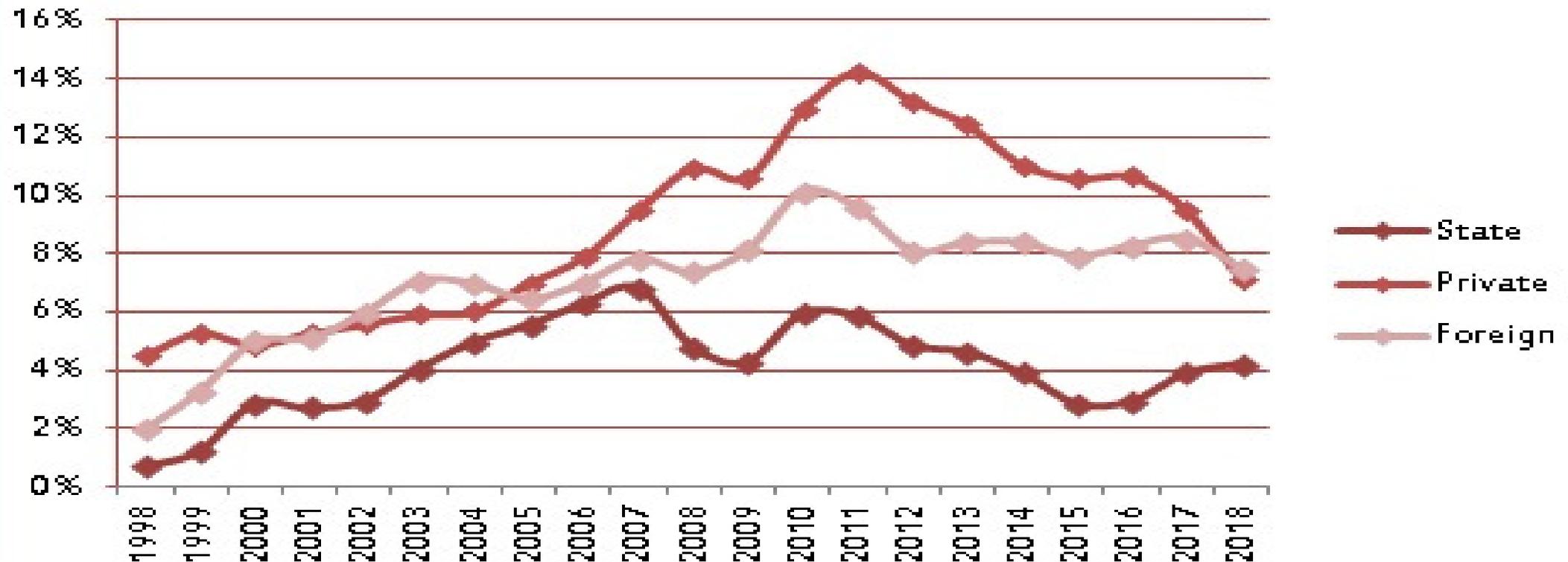
Source: U.S. Commerce Department via Federal Reserve Bank of St. Louis (U.S.); CEIC (China)

Consumption and consumption ex: healthcare as percentage of GDP

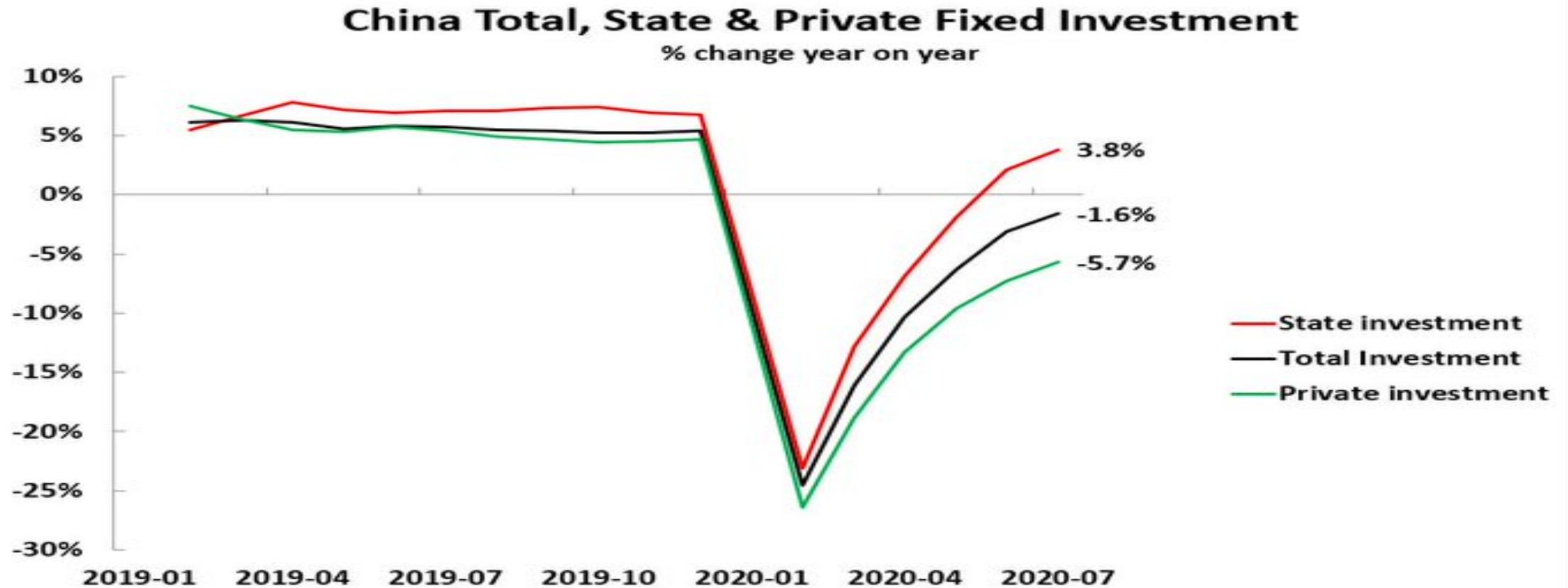


State versus capitalist sectors

Figure 6 - Profits on assets in state, private and foreign enterprises operating in China's secondary sector (2001-2018)

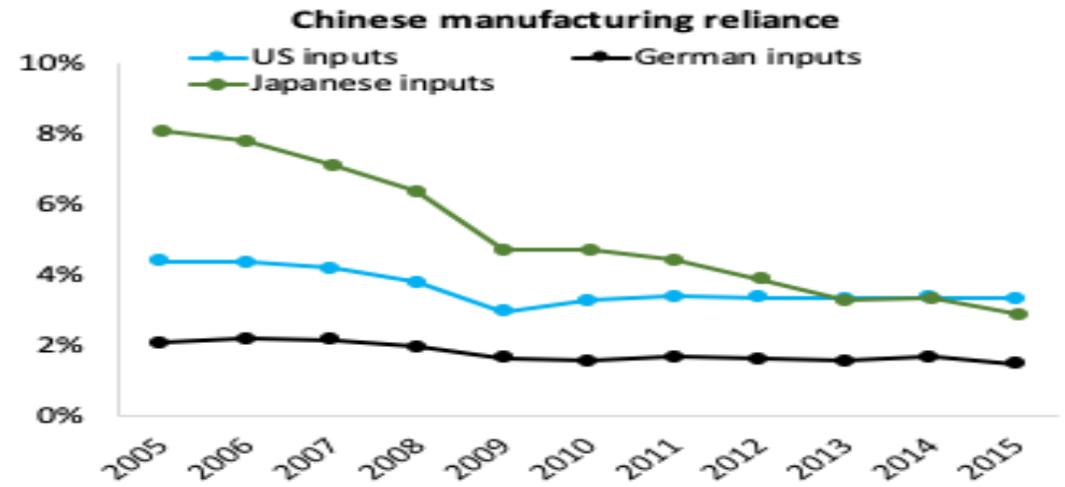
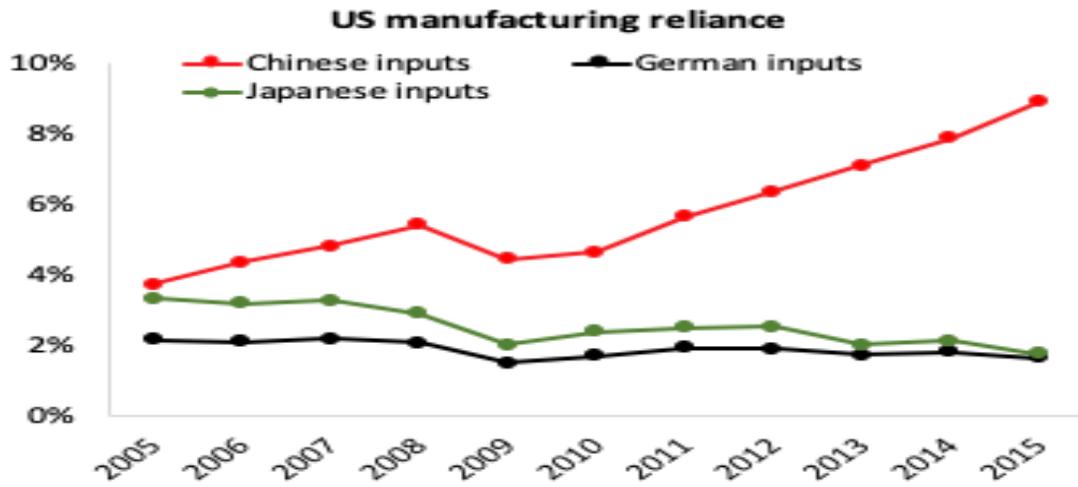
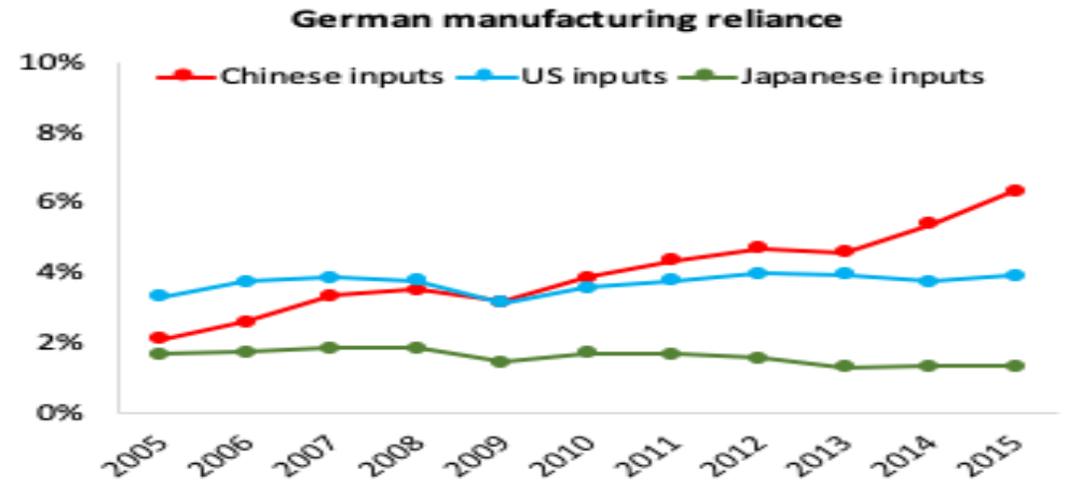
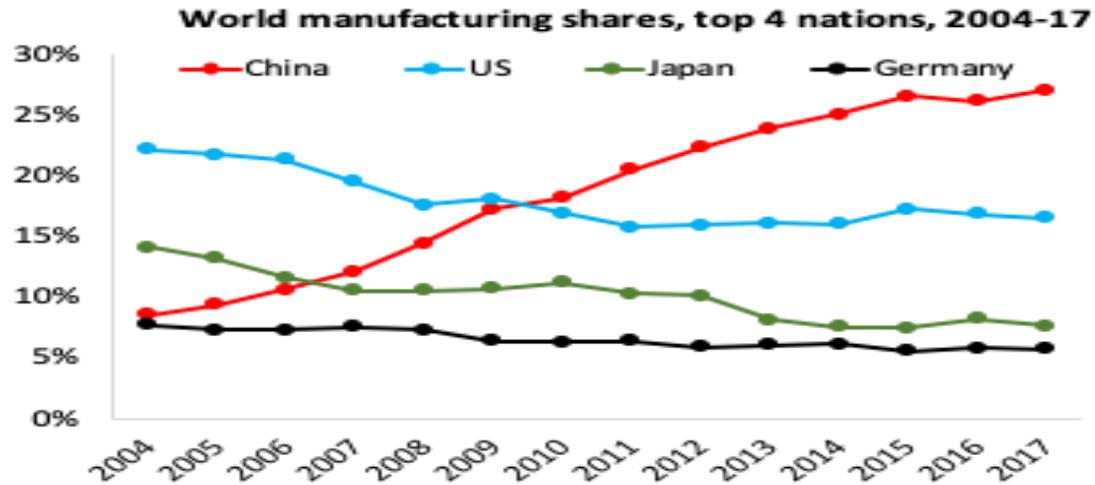


State leads out of slump



Source: China National Bureau of Statistics

China's manufacturing dominance



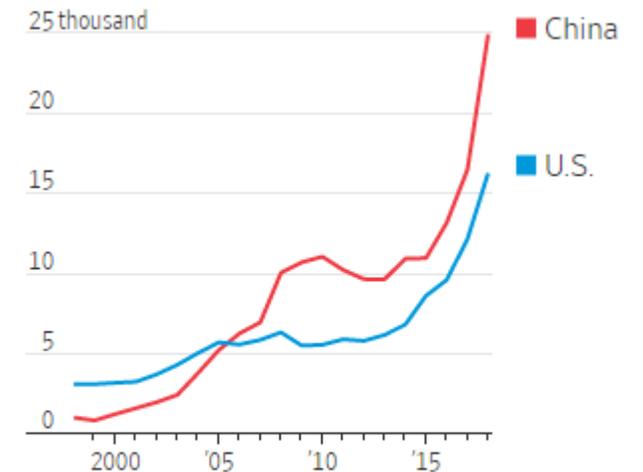
Technology world beater

- As an emerging tech giant, China has demonstrated it can be a leading innovator both globally and domestically.
- The country is [making gains](#) in four broad categories of innovation, including:
 - 1) manufacturing,
 - 2) digital platforms and associated markets (spurred by new apps and small money-based transactions);
 - 3) the [utilization](#) of apps and other technologies designed “to solve societal problems” (and reconfigure existing businesses in the process, such as bike share apps and unstaffed convenience stores); and
 - 4) basic science R&D in fields such as computing and biotechnology.

R&D

- China is leveraging these advantages and striving to become a global technological leader using state-led policies such as Made in China 2025 or the New Generation of Artificial Intelligence Development Plan.
- One of Beijing's [objectives](#) is to raise the domestic content of core components and materials in high-tech manufacturing to 70 percent by 2025. To help achieve this, China is eclipsing the United States as the world's largest overall (public and private) R&D investor. The Chinese government already [outspent](#) the U.S. government on intramural funding in 2017 (\$67.4 billion to \$47.1 billion), and Beijing likely [exceeded](#) U.S. gross domestic spending on R&D in 2018 (after sitting at roughly one-third below U.S. spending levels a decade ago).
- By comparison, Japan's total R&D investment is about where China's spending was in 2008 (roughly \$150 billion), and its intramural government spending only amounts to \$12.1 billion.

Number of AI papers tracked by Scopus*

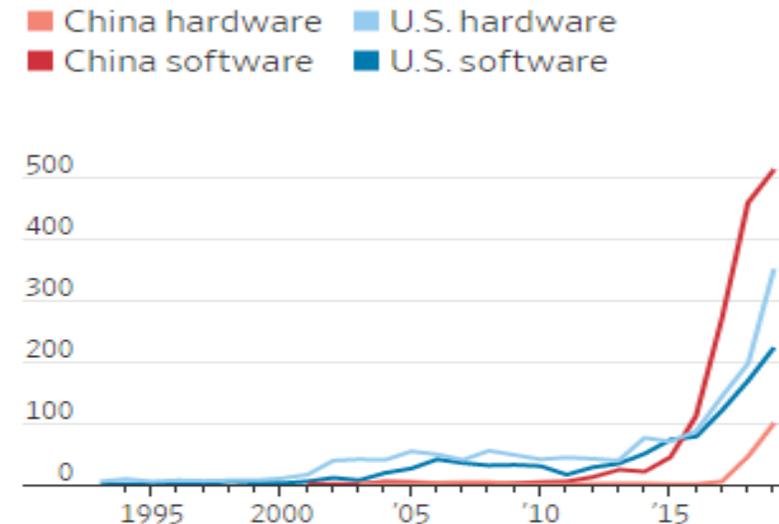


*Scopus collects data on abstracts and citations.
Source: The AI Index 2019 Annual Report

Patents

- In addition, China is the [world leader](#) in patent applications with 40 percent of the global total, a share more than two times larger than that of the United States and four times larger than that of Japan.
- China is also poised to [overtake](#) the United States in the most-cited 1 percent of published AI papers by 2025, if current trends continue.
- Though there are some questions about the [efficiency and effectiveness](#) of Beijing's push to become a leader in tech, it is undeniable that Washington and Tokyo face mounting competition in innovation.

Number of QIT patent families* by priority country and technology type



*By earliest publication year. A patent family is a set of patent applications covering similar technical content.

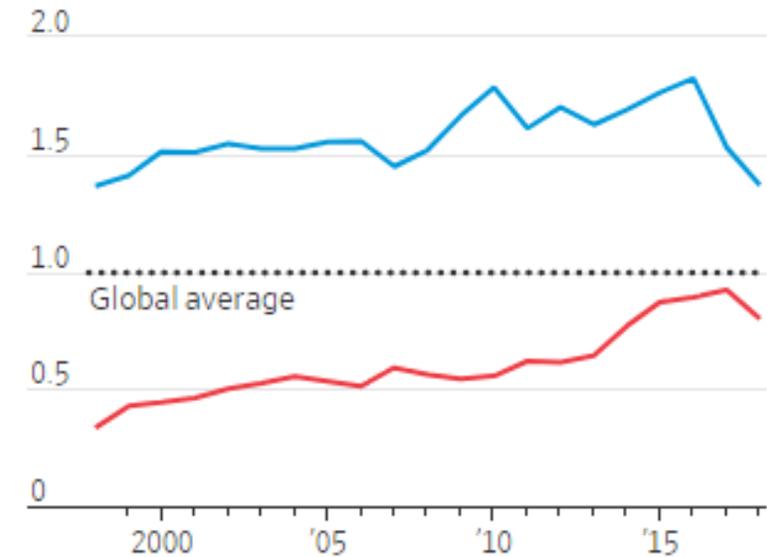
Source: Patinformatics

What 'the West' fears

- A Chinese monopoly on global technology standards:
- A Chinese military edge in dual-use sectors
- The commercialization of a Chinese technological lead
- Fallout of Chinese economic countermeasures:

Field-weighted citation impact (FWCI) of U.S. and Chinese AI authors, indexed to global average

■ U.S. ■ China



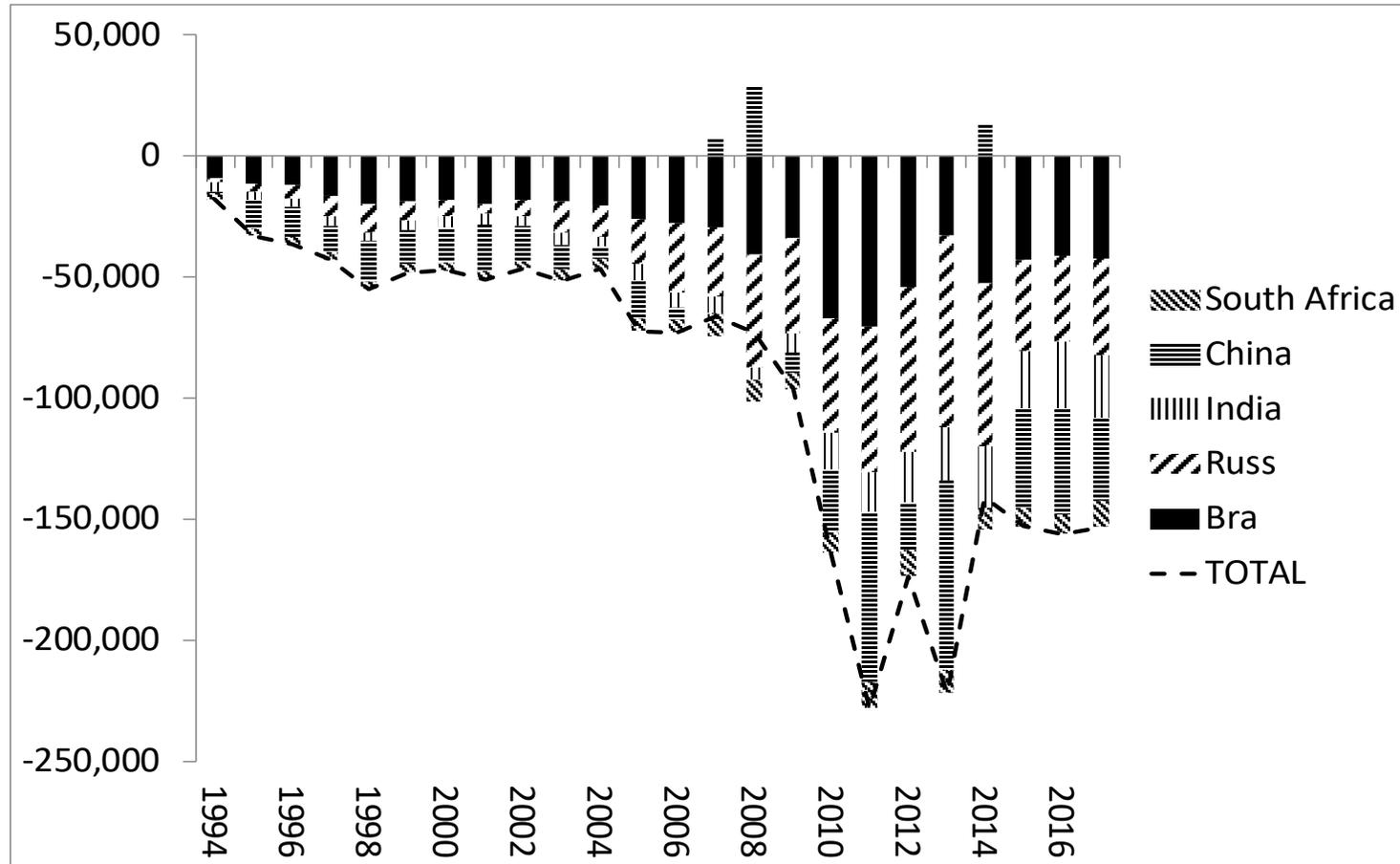
China's 'dual circulation' economic strategy

- Internal circulation - the domestic cycle of production, distribution, and consumption - for its development, supported by innovation and upgrades in the economy.
- External circulation: exports, investment and technology abroad.
- Increased demand is met by domestic production, rather than imports - a corollary of the government's previous Made in China 2025 program for upgrading China's technological capacities

Xi and Wang on the private sector

- “The non-public sector of the economy is an important part of the socialist market economy, and it is of great significance to promote the healthy development of the sector and personnel engaged in the sector,” Xi said.
- “it is an important task to unite and guide people in the private sector.”
- Wang: “united front work personnel should stay on top of the development and demands of private enterprises, and make concerted efforts to fully implement the policies of the CPC Central Committee to support the private sector.”

China is not imperialist



Net primary
income flows
\$bn

Unequal exchange

- Transfer of value, US-China \$bn



One Belt One Road (OBOR)



OBOR versus FOIP

- According to [Carmen Reinhart](#), the [World Bank](#)'s chief economist, 60% of the lending from Chinese banks is to [developing countries](#) where sovereign loans are negotiated bilaterally, and in secret. Loans are backed by [collateral](#) such as rights to a mine, a port or money.
- The [United States](#) proposes a counter-initiative called the "Free and Open Indo-Pacific strategy" (FOIP).

From engagement to containment

- The aim is to weaken China's economy and destroy its influence and perhaps achieve 'regime change'. Blocking trade with tariffs; blocking technology access for China and their exports; applying sanctions on Chinese companies; and turning debtors against China; this may all be costly to imperialist economies. But the cost may be worth it, if China can be broken and US hegemony secured.
- The reemergence of "great power competition" referenced in the [National Security Strategy](#) of U.S. President Donald Trump's administration as it applies to China is predominately about technological rivalry, or as Vice President Mike Pence [described](#) it: a battle for the "commanding heights of the 21st century economy."

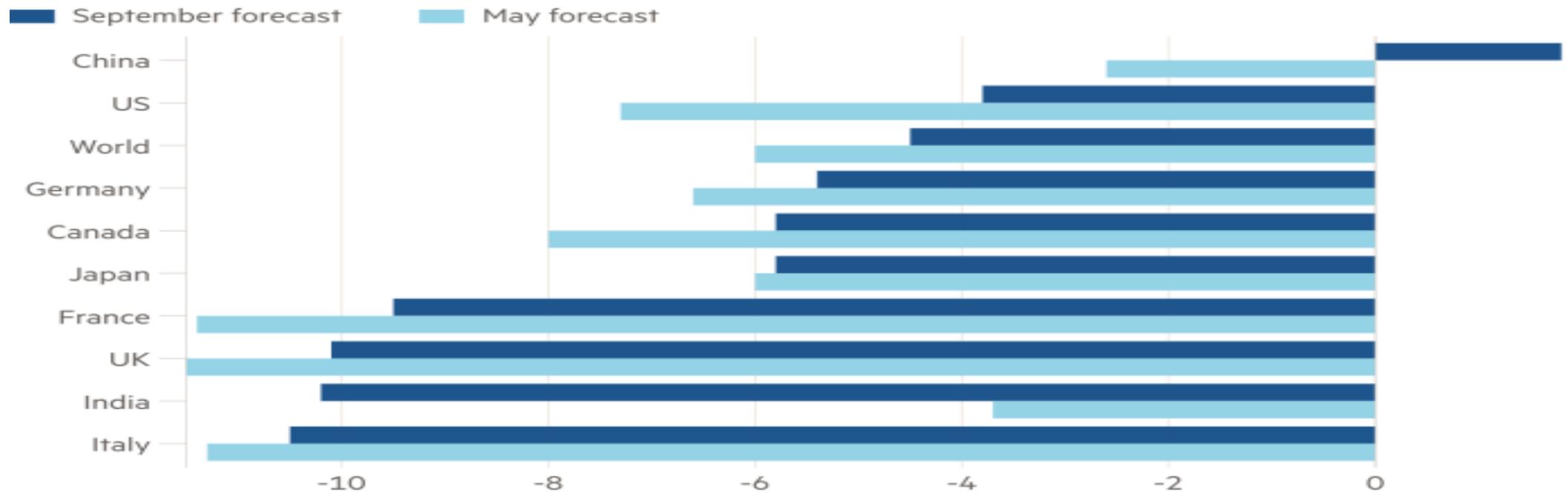
Containment: is it working?

- Chinese investment [dropped](#) in 2018 to only \$4.8 billion, compared to \$29 billion in 2017 and \$46 billion in 2016. When accounting for divestitures, net Chinese investment in the United States was negative in 2018.
- Yet cross-border venture capital investment between the United States and China [hit](#) an “all-time high,” reaching nearly 600 transactions in 2018, driven in part by the rise of large deals (those valued at more than \$100 million), which more frequently involve international partners.
- More than 64 percent of such investment volume stemmed from U.S. investors in 2018, whereas two years earlier, Chinese investors were the source of 63 percent of such venture capital flows.
- Japanese FDI in China is also [rebounding](#) slightly (more than \$10 billion in 2018), after dropping significantly following 2012 due to a rise in bilateral political tensions.

Only China recovering

OECD has revised higher most economic growth forecasts for 2020

Annual change in GDP (%)



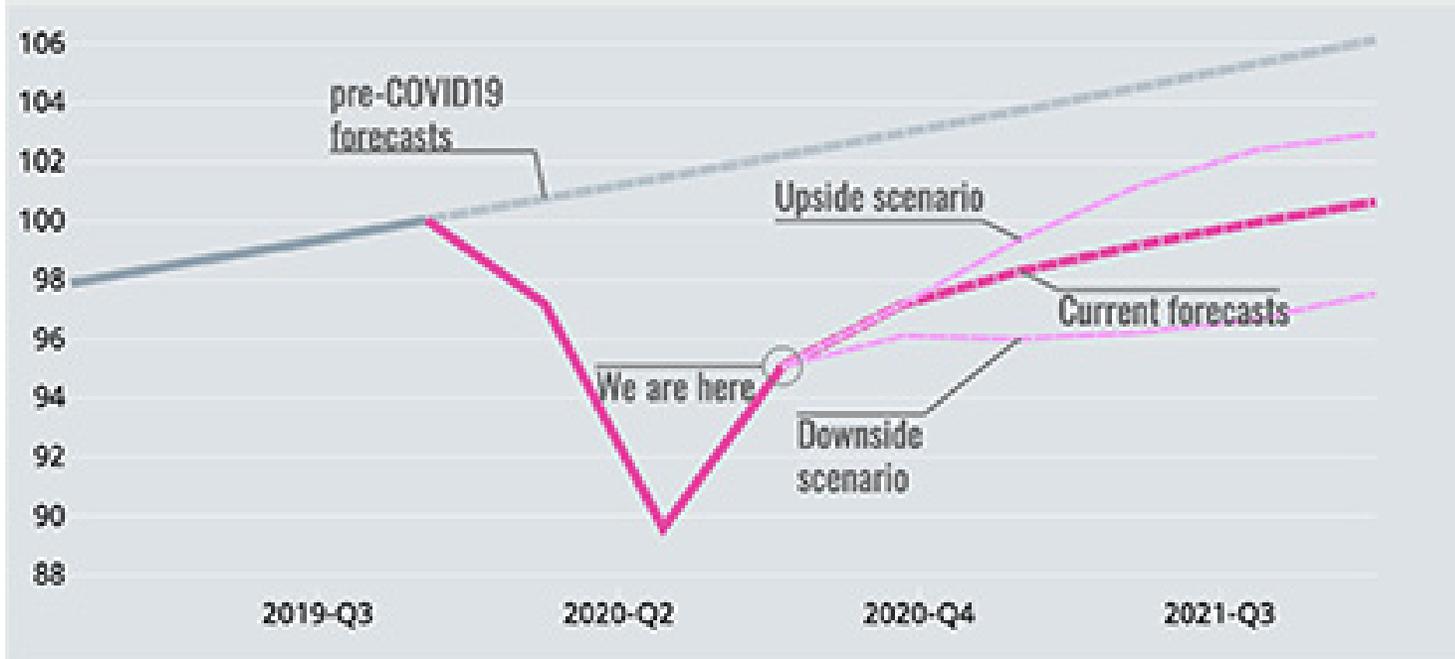
Source: OECD

© FT

World capitalist economy – the scarring

OECD Economic Outlook September 2020

World GDP, index 2019-Q4=100

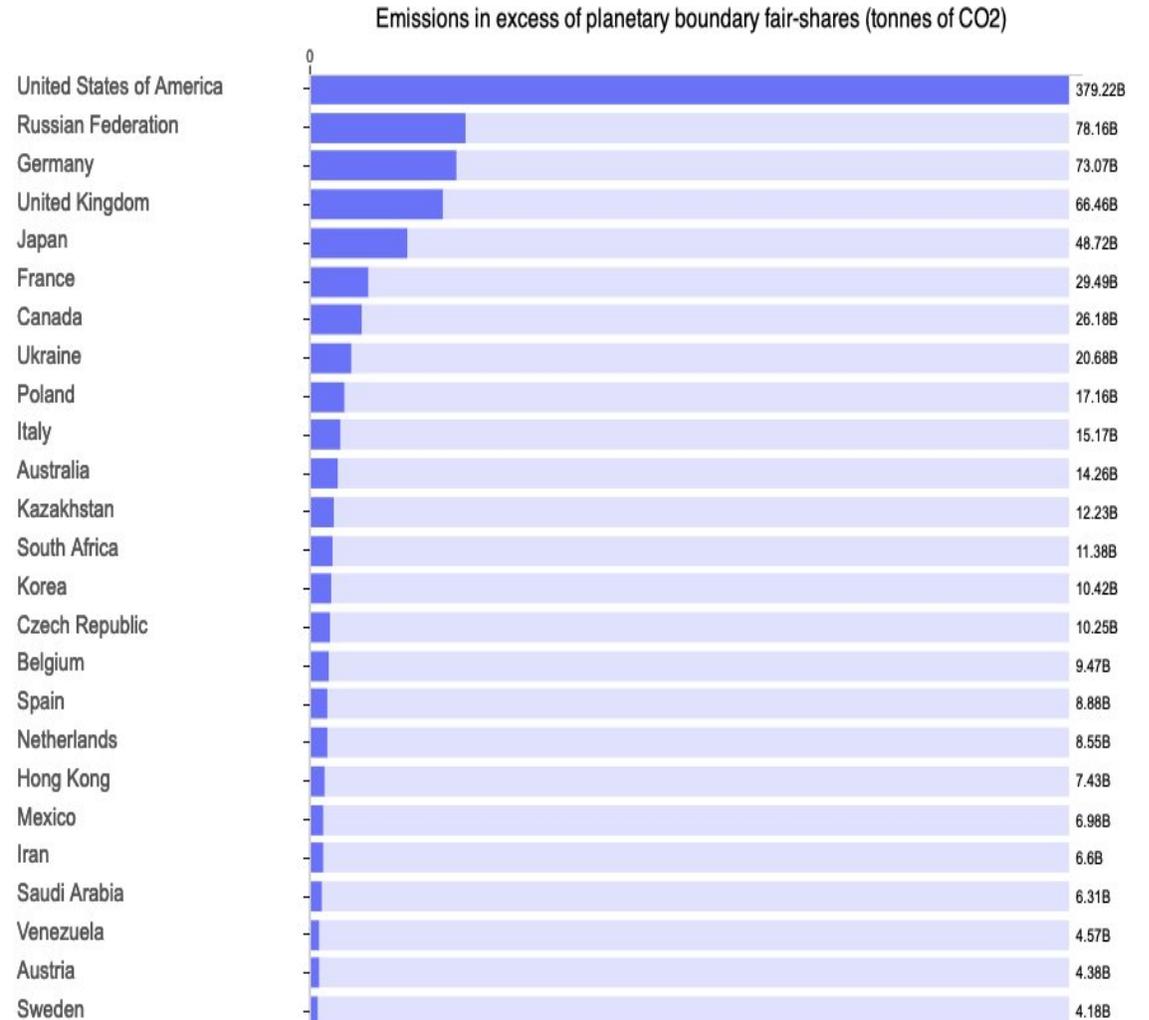


Source: OECD (2020), 'OECD Economic Outlook, Interim Report September 2020', OECD Economic Outlook: Statistics and Projections (database).



Climate crisis

- As of 2015, the USA was responsible for 40% of excess global CO2 emissions. The European Union (EU-28) was responsible for 29%. The G8 nations (the USA, EU-28, Russia, Japan, and Canada) were together responsible for 85%. The Global North was responsible for 92%.
- By contrast, most countries in the Global South were within their 'boundary fair shares', including India and China (although China will overshoot soon)



China – a
planned
economy, with
a capitalist
sector. A
trapped
transition?

- China is not a socialist society. Its autocratic one-party Communist government is often inefficient and it imposed draconian measures on its people during the pandemic.
- The Maoist regime suppressed dissidents ruthlessly and the cultural revolution was a shocking travesty. Nobody can speak out against the top regime without repercussions.
- China's leadership is not accountable to its working people; there are no organs of worker democracy.
- And China's leaders are obsessed with building military might – the NPC heard that the military budget would rise by 6.6 per cent for 2020 and China now spends 2% of GDP on arms. But that is still way less than the US. The US military budget in 2019 was \$732bn, representing 38 per cent of global defence spending, compared with China's \$261bn.

Crimes against humanity?

- But remember, all China's so-called 'aggressive behaviour' and crimes against human rights are easily matched by the crimes of imperialism in the last century alone:
- the occupation and massacre of millions of Chinese by Japanese imperialism in 1937;
- the continual gruesome wars post-1945 conducted by imperialism against the Vietnamese people, Latin America and proxy wars in Africa and Syria, as well as the more recent invasion of Iraq and Afghanistan and the appalling nightmare in Yemen by the disgusting US-backed regime in Saudi Arabia etc.
- And don't forget the horrific poverty and inequality that weighs for billions under the imperialist mode of production.

China: which way?

- The NPC reveals that China is at a crossroads in its development.
- Its capitalist sector has deepening problems with profitability and debt.
- But the current leadership has pledged to continue with its state-directed economic model and autocratic political control.
- And it seems determined to resist the new policy of 'containment' emanating from the 'liberal democracies'.
- The trade, technology and political 'cold war' is set to heat up over the rest of this decade, while the planet heats up too.