Chain-Gang Economics: China, the US and the global economy

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Die Strategie der neoliberalen Globalisierung, deren Ziel in einer drastischen Verschiebung der Einkommensverteilung zugunsten des Kapitals liegt, beinhaltet die Gefahr einer weltumspannenden Überproduktionskrise. Der Autor zeigt, wie sich dies besonders im Verhältnis zwischen den USA und China manifestiert. Dank einer repressiv durchgesetzten Niedriglohnpolitik ist die Volksrepublik China zu einem bevorzugten Produktionsstandort für internationale Konzerne geworden. Die Folge ist, dass die chinesische Produktion die innere Nachfrage immer weiter übersteigt. Das dadurch entstehende Ungleichgewicht wird derzeit hauptsächlich dadurch stabilisiert, dass die USA als Hauptabnehmer chinesischer Produkte auftreten. Der auf privater Verschuldung beruhende Konsumboom in den USA und das dadurch erzeugte gigantische Außenhandelsdefizit werden immer stärker durch chinesische Kredite finanziert. Diese wechselseitige Abhängigkeit macht es den USA unmöglich, einen Druck auf die chinesische Wirtschaftspolitik auszuüben, der auf eine Höherbewertung der chinesischen Währung und auf Lohnsteigerungen zugunsten einer Stärkung der inneren Konsumnachfrage zielt. Dadurch entsteht ein zerstörerischer Zirkel, der die globalen wirtschaftlichen Ungleichgewichte weiter verstärkt.

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„The world [is] investing too little“, according to one prominent economist. „The current situation has its roots in a series of crises over the last decade that were caused by excessive investment, such as the Japanese asset bubble, the crises in Emerging Asia and Latin America, and most recently, the IT bubble. Investment has fallen off sharply since, with only very cautious recovery.“ These are not the words of a Marxist economist describing the crisis of overproduction but those of Raghuram Rajan, the new chief economist of the International Monetary Fund (IMF). His analysis, though a year old, continues to be on the mark.[1]

Overproduction: The key trend in the global economy

Overcapacity has been the key link between the global economy in the Clinton era and the Bush period. The crisis has been particularly severe in the so-called core industries. At the beginning of the 21st century, the US computer industry's capacity was rising at 40 per cent annually, far above projected increases in demand. The world auto industry was selling just 74 per cent of the 70.1 million cars it produced each year, creating a profitability crunch for the weakest players, like former giant General Motors, which lost $10.6 billion in 2005, and Ford, which lost $7.24 billion in the first nine months of 2006. In steel, global excess capacity neared 20 per cent. It

[1] Raghuram Rajan, „Global Imbalances: An Assessment,“ International Monetary Fund, Washington, DC, October 2005, http://www.imf.org/

was estimated, in volume terms, to be an astounding 200 million tons, so that plans by steel producing countries to reduce capacity by 100 million tons by 2005 would still leave „a sizeable amount of capacity which (...) would not be viable." In telecommunications, according to Robert Brenner, overcapitalization has resulted in a „mountainous glut: the utilization rate of telecom networks hovers today at a disastrously low 2.5-3 per cent, that of undersea cable at just 13 per cent." As former General Electric Chairman Jack Welch put it, there has been „excess capacity in almost every industry."

Global overcapacity has made further investment simply unprofitable, which significantly dampens global economic growth. In Europe, for instance, GDP growth has averaged only 1.45 per cent in the last few years. And if countries are not investing in their economic futures, then growth will continue to stagnate and possibly lead to a global recession.

China and the United States, however, appear to be bucking the trend, though GDP growth in the US has flattened very recently. But rather than signs of health, growth in these two economies--and their ever more symbiotic relationship with each other--may actually be an indicator of crisis. The centrality of the United States to both global growth and global crisis is well known. What is new is China's critical role. Once regarded as the greatest achievement of this era of globalization, China's integration into the global economy is, according to an excellent analysis by political economist Ho Fung Hung, emerging as a central cause of global capitalism's crisis of overproduction.[2]

China and the crisis of overproduction

China's 8-10% annual growth rate has probably been the principal stimulus of growth in the world economy in the last decade. Chinese imports, for instance, helped to end Japan's decade-long stagnation in 2003. To satisfy China's thirst for capital and technology-intensive goods, Japanese exports shot up by a record 44%, or $60 billion. Indeed, China became the main destination for Asia's exports, accounting for 31% while Japan's share dropped from 20 to 10%. As Singapore's Straits Times pointed out, „In country-by-country profiles, China is now the overwhelming driver of export growth in Taiwan and the Philippines, and the majority buyer of products from Japan, South Korea, Malaysia, and Australia."

At the same time, China became a central contributor to the crisis of global overcapacity. Even as investment declined sharply in many economies in response to the surfeit of productive capacity, particularly in Japan and other East Asian economies, it increased at a breakneck pace in China. Investment in China was not just the obverse of disinvestment elsewhere, although the shutting down of facilities and sloughing off of labour was significant not only in Japan and the United States but in the countries on China's periphery like the Philippines, Thailand, and Malaysia. China was significantly beefing up its industrial capacity and not simply absorbing capacity eliminated elsewhere. At the same time, the ability of the Chinese market to absorb its own industrial output was limited.

[2] Ho-Fung Hung, „The Rise of China and the Global Overaccumulation Crisis", Paper presented at the Global Division of the Annual Meeting of the Society for the Study of Social Problems," August 10-12, 2005, Montreal, Canada.

Agents of overinvestment

A major actor in overinvestment was transnational capital. In the late 1980s and 1990s, transnational corporations (TNCs) saw China as the last frontier, the unlimited market that could endlessly absorb investment and endlessly throw off profitable returns. However, China's restrictive rules on trade and investment forced TNCs to locate most of their production processes in the country instead of outsourcing only selected number of them. Analysts termed such TNC production activities „excessive internalization.“ By playing according to China's rules, TNCs ended up overinvesting in the country and building up a manufacturing base that produced more than China or even the rest of the world could consume.

By the turn of the millennium, the dream of exploiting a limitless market had vanished. Foreign companies headed for China not so much to sell to millions of newly prosperous Chinese customers but rather to make China a manufacturing base for global markets and take advantage of its inexhaustible supply of cheap labour. Typical of companies that found themselves in this quandary was Philips, the Dutch electronics manufacturer. Philips operates 23 factories in China and produces about $5 billion worth of goods, but two thirds of their production is exported to other countries.

The other set of actors promoting overcapacity were local governments which invested in and built up key industries. While these efforts are often „well planned and executed at the local level,“ notes Ho-fung Hung, „the totality of these efforts combined...entail anarchic competition among localities, resulting in uncoordinated construction of redundant production capacity and infrastructure.“

As a result, idle capacity in such key sectors as steel, automobile, cement, aluminium, and real estate has been soaring since the mid-1990s, with estimates that over 75% of China's industries are currently plagued by overcapacity and that fixed asset investments in industries already experiencing overinvestment account for 40-50% of China's GDP growth in 2005. China's State Development and Reform Commission projects that the automobile industry will produce double what the market can absorb by 2010. The impact on profitability is not to be underestimated if we are to believe government statistics: at the end of 2005, Hung points out, the average annual profit growth rate of all major enterprises had plunged by half and the total deficit of losing enterprises had increased sharply by 57.6%.

The low-wage strategy

The Chinese government can mitigate excess capacity by expanding people's purchasing power via a policy of income and asset redistribution. Doing so would probably mean slower growth but more domestic and global stability. This is what China's so-called „New Left“ intellectuals and policy analysts have been advising. China's authorities, however, have apparently chosen to continue the old strategy of dominating world markets by exploiting the country's cheap labor. Although China's population is 1.3 billion, 700 million people – or over half – live in the countryside and earn an average of just $285 a year, according to some estimates. This reserve army of rural poor has enabled manufacturers, both foreign and local, to keep wages down.

Aside from the potentially destabilizing political effects of regressive income distribution, the low-wage strategy, as Hung points out, „impedes the growth of consumption

relative to the phenomenal economic expansion and great leap of investment.“ In other words, the global crisis of overproduction will worsen as China continues to dump its industrial production on global markets constrained by slow growth.

Chain-gang economics

Chinese production and American consumption are like the proverbial prisoners who seek to break free from one another but can't because they're chained together. This relationship is increasingly taking the form of a vicious cycle. On the one hand, China's breakneck growth has increasingly depended on the ability of American consumers to continue their consumption of much of the output of China's production brought about by excessive investment. On the other hand, America's high consumption rate depends on Beijing's lending the US private and public sectors a significant portion of the trillion-plus dollars it has accumulated from its yawning trade surplus with Washington.

This chain-gang relationship, says the IMF's Rajan, is „unsustainable.“ Both the United States and the IMF have decried what they call „global macroeconomic imbalances“ and called on China to revalue the renminbi to reduce its trade surplus with the United States. Yet China can't really abandon its cheap currency policy. Along with cheap labour, cheap currency is part of China's successful formula of export-oriented production. And the United States really can't afford to be too tough on China since it depends on that open line of credit to Beijing to continue feeding the middle-class spending that sustains its own economic growth.

The IMF ascribes this state of affairs to „macroeconomic imbalances.“ But it's really a crisis of overproduction. Thanks to Chinese factories and American consumers, the crisis is likely to get worse.