Samir Amin on China

Reflecting on the current crisis in the capitalist system, ***Samir Amin** wonders whether China would be tempted to try to cure the system.

China's reforms as of the year 1978 started with the opening of its internal system of production to the rule of market mechanisms, simultaneously open to global trade. Liberalisation of capital investments followed also in the frame of a globalised world: foreign investments were invited to be established in China, and later Chinese investments to operate out of China. But, until now, China has not integrated into the global monetary and financial system: banks operating in China are exclusively State Chinese banks, and the rate of exchange of the Yuan is decided by the Central Bank, i.e. the government.

That system has been successful in the sense that it has boosted growth of gross domestic product (GDP), and therefore opened a possible perspective of "catching up" resulting in making China the economic power number one in the world.

A step ahead is now considered for further reform, called in economic jargon "the opening of the capital account", which means: (i) allowing foreign banks to operate in China, in competition with Chinese public or private banks; (ii) removing the fixed rate of exchange of the Yuan and allowing the free international market to operate, generating a flexible, fluctuant rate.

Simultaneously China criticises the present system of globalisation, considered in all its facets to be submitted to the "hegemony" of major powers, the United States of America in particular. This view implies that the economic facets of globalisation are also related to political and geostrategic forces operating in the real world. That relation does indeed recognise an important reality, often ignored by economic professionals. China struggles for "another pattern of globalisation" –"non hegemonic".

Therefore, the proposal to move into global financialisation should be looked at carefully and answers given to the following set of questions: (i) Would such a movement boost growth in China, or rather would represent a handicap to its continuing to remain high growth? (ii) Would a fluctuating rate of exchange of the Yuan give more chance to China becoming a global financial, really, big actor, able to compete successfully with the other major financial powers, in particular, the USA, and the US dollar? (iii) In any case is it wise to believe that the Western major powers can tolerate China becoming the major world economy, and accept China as member of the "club" of major financial operators? Or the political geo-strategy of the West, the USA, in particular, will plan their action in order to have the Chinese project of catching up end up in failure, and use all means, economic, financial and eventually military, to that end?

Who controls the so-called global integrated money and financial market?

a) Conventional economists develop "theories" with respect to what they call "free and transparent competition", including competition in the global financial market, based on a totally imaginary world, which has nothing in common with the really existing capitalist system. They all assume: (i) that millions of "individuals" operate on the market; (ii) that these are "rational" – sharing "rational expectations" with respect to the movements in the markets; (iii) that they benefit from a correct transparent information to be rational in their decisions. None of these assumptions reflect the real world: contemporary capitalism is ruled by a handful of gigantic oligopolies (financial monopolies) which control production of goods and major services, banks, insurance companies, etc., and have subordinated those actors which seem independent (farmers, small and medium size enterprises) to the status of sub-contractors thus pumping the surplus produced by those to the benefit of growing monopoly rents.

b) With respect to the monetary and financial integrated global market, some 20 giant banks (all of them based in the USA and the major capitalist countries of the "Triad" associating the USA, Europe and Japan) control more than 98 percent of the gigantic volume of transactions operated on that market (trillions of dollars, a figure which represent hundreds of times more than the volume of transfers needed to meet international trade and flows of capital invested in real production. This is not an open market, allowing free and fair transparent competition).

c) Simultaneously, conventional economists ignore the tight relations which link the targets of financial transactions to those of the geo-strategy developed by the USA and its subordinate allies (Europe and Japan). These links reflect the global political strategy of this "collective imperialism of the Triad" whose target is to maintain its exclusive control of the whole planet, through the use of all means –"economic", and more specifically financial, political and military. History and analysis of the contemporary events illustrate these behaviours.

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Control of the capital account by the Chinese authorities has been decisive to ensure the success of China's reforms.

a) Chinese national banks have successfully financed the emerging of hundreds of thousands of small competitive enterprises, private and public (the so-called Township and Village Enterprises). Foreign giant banks established elsewhere in the South have never made such a choice; they have restricted their support to multinationals, thus eventually helping to create networks of subordinated local small and medium size sub-contracting enterprises, pumping out the surplus produced to the benefit of financial monopoly rents. China's reforms, thanks to the control of the capital account, have been able to ensure that this surplus remains in China and finances continuous growth.

b) China's pattern of integration into globalisation has allowed it to formulate conditions for foreign investments with respect to sharing the property rights with Chinese private or public capital, transfer of technologies, transfer of profits, etc. Such conditions would not be tolerated any more if China integrates the financial global market system.

c) Does the system of "market fluctuating rates of exchange" have "stabilised" economic growth?

Flexible rates of exchanges have been established as a system replacing the Bretton Woods system of relatively stable fixed rates by unilateral decision of the USA in 1973, accepted by their partners of the Triad (Europe and Japan), and imposed on almost all countries of the South.

What are the results after 50 years of such practice?

First: the new system has not produced stability, even in relative terms, with respect to the rates of exchange of major currencies (dollar, yen, sterling, mark, euro). On the contrary, we have seen wide fluctuations (the dollar for instance moving to one and a half and then to two thirds the price of the euro within some months). Such fluctuations do not reflect changes in the competitivity of the concerned countries (levels of competitivity, commanded by unequal growth of productivity, are slow). They have been the result of an open market for speculative financial investments; these have been made necessary by the continuous growth of the surplus of profits, which cannot be reinvested in the expansion of the productive system.

Second: with respect to the rates of exchange between the dominant currencies (dollar, sterling, yen, euro) and the currencies of almost all countries of the South, the new system has generated continuous devaluations. Such results were targeted as the means for finance monopoly capital to "buy" real assets in the South at very cheap prices (factories, mines, forests, land, banks, insurances, etc.). It therefore has not boosted growth, but amplified plunder.

Let us compare in this respect the results for China and India (which has moved from a system of limited control of its capital account to a full opening).

China's GDP for 2015 in terms of equivalent purchasing power: 18 percent of the global GDP; in current dollars: 16

percent (a small difference). India's GDP in purchasing power: 8 percent; in dollar: less than 2 percent. The difference is enormous and reflects the successful strategy of imperialist powers to annihilate the competitivity of millions of Indian producers and reduce them to the status of sub-contractors whose surplus is pumped to the benefit of Western monopoly capital.

China moving to a system of flexible "market" rates would produce exactly similar results: the destruction of millions of competitive Chinese producers; and therefore, the end of the dream of catching up. This is exactly the target of Western Monopoly Finance Capital. The argument that "smart" policies of Chinese operating on this integrated global market could avoid such results does not hold: are Indians stupid? Then why have the Indian leaders accepted such a deal? Simply because a handful of subaltern associates with Foreign Finance Capital have gathered enormous fortunes out of their complicity. Such a practice has a name well known in Chinese Marxism: a comprador class, such as that which had been associated with British Finance Capital when it created the famous HSBC [The Hongkong and Shanghai Banking Corporation] (the Bank established to finance the Opium Wars!).

d) It is said that flexible rates reduce the costs of transaction and therefore favour the growth of exports. This is a fallacy: the volume of exports results from other more important factors (the nature and volume of productions). Moreover, why should China pursue continuously the target of expanding exports at a rate higher than its GDP growth? This choice is absurd: China should rather shift to more priority to its internal market thus reducing its vulnerability, achieving better welfare, and correcting regional imbalances.

Do flexible rates widen the margin of choices for internal economic policies? On the contrary, it restricts that margin since national policies have to comply with the only choices allowed by major powers. The European case provides a good example of such a restriction of the margin of manoeuver of its members.

e) With respect to the growing Chinese export of capital to replace the exclusive investment of China's surplus in US bonds, the vulnerability of buying real assets out of China (companies, mines, agrarian land) cannot be avoided as long as China cannot protect its properties from menaces of military interventions from the USA. Joining the financial global system does not reduce this vulnerability.

f) Thanks to the control of its capital account, China has not suffered from the 2007/8 financial crisis. Other countries in Asia, integrated in the monetary and financial market, have been devastated by this crisis. Foreign Finance Capital has been able to transfer the costs of the crisis to those countries, their currencies devalued, making possible for Foreign Banks in Indonesia to "buy" at very cheap prices forestry (turned into palm oil production), mines, etc. Other similar financial crises produced by the explosion of bubbles are expected in the short visible future. If in the meantime China has moved to the new opening suggested, it will suffer enormous devastations and plunder of its wealth.

Can China be accepted as a member of an enlarged imperialist new collective associating four partners instead of the three members of the Triad?

a) I am convinced that the Triad with USA in the lead does not intend to recruit new members, but will devote all efforts to maintain their exclusive control of the planet. It would be very naïve to believe that they will accept China's project of catching up.

Russia provides an example of such right to be admitted in the restricted club being denied to all others. Yeltsin gave up all the assets in his hand and simply fully restored capitalism. Nevertheless, Russia was denied the right to be admitted in "Europe" and the North Atlantic Treaty Organisation; the strategic target of the West has been to reduce Russia to a provider of raw materials and possibly subordinate what would remain of its industries to the status of sub-contracting.

b) The military menace against China is already visible. North Korea and Iran have been chosen as targets for eventual military intervention by USA, Europe, Israel, Japan; the Dalai Lama and the Uighur Islamic fundamentalists are supported with a view to start from there the dismantling of China.

c) What about economic sanctions in the meantime?

The USA has given to itself an extraordinary privilege: to deny legitimacy to international law and submit it to the priority of the US law. Therefore, when it decides sanctions against a country (Iran in this case), it simultaneously compels the rest of the world to implement these sanctions; otherwise it extends punishment to its associates (including Europe). Will Europe accept? My answer is yes, in spite of the damages their companies and banks suffer from.

Yet, as long as China keeps away from financial globalisation, sanctions against it remain limited in their effectiveness. Example: when a US company operating in the field of informatics withdrew, China replaced it immediately by a British competitor. If the USA takes sanctions against some Chinese exports, China can respond by similar sanctions. This immense advantage would be annihilated in case of foreign banks being allowed in China.

Conclusion

There is no need to hurry and join the financial globalised system, which is the only guarantee for Washington to maintain the dollar's exclusive privilege. Moreover, that whole pattern of globalisation is already in deep crisis, which offers an opportunity for outsiders. Remaining out opens room for a possible construction of alternative independent regional systems with the perspective of creating better conditions for the advancement of an alternative non-hegemonic globalisation.

Simultaneously world capitalism is incompatible in the long run with the existence of non-capitalist entities, and even just relatively independent entities. Remaining out of financial globalisation is an important weapon in your hands; do not offer the weapon to your enemy!

**One of the last reflections by Samir Amin on globalization, written in August 2018, weeks before his passing.*