Xi takes full control of China’s future

Xi Jinping has been consecrated as China’s most powerful leader since Mao Zedong after a new body of political thought carrying his name was added to the Communist party’s constitution. The symbolic move came on the final day of a week-long political summit in Beijing – the 19th party congress – at which Xi has pledged to lead the world’s second largest economy into a *“new era”* of international power and influence.

At a closing ceremony in the Mao-era Great Hall of the People it was announced that Xi’s Thought on Socialism with Chinese Characteristics for a New Era had been written into the party charter. *“The congress unanimously agrees that Xi Jinping Thought … shall constitute [one of] the guides to action of the party in the party constitution,”* a party resolution stated.

At the same time, the new Politburo standing committee of seven was announced. These supreme leaders are all over 62 and so will not be eligible to become party secretary in five years. That almost certainly means that Xi will have an unprecedented third term as party leader through to 2029 and thus remain head of the Chinese state machine for a generation.

What this tells me is that, under Xi, China will never move towards the dismantling of the party and the state machine in order to develop a ‘bourgeois democracy’ based on a fully market economy and capitalist business. China will remain an economy that is fundamentally state-controlled and directed, with the ‘commanding heights’ of the economy under public ownership and controlled by the party elite.

Foreign businesses don’t find this an appealing prospect, unsurprisingly. In a January survey of 462 US companies by the American Chamber of Commerce in China, 81 percent said they felt less welcome in China, while more than 60 percent have little or no confidence the country will further open its markets in the next three years.

Indeed, China still ranks 59th out of the 62 countries evaluated by the Organization for Economic Cooperation and Development in terms of openness to foreign direct investment. At the same time, FDI is becoming less important to the economy: in 2016 it accounted for a little more than 1 percent of China’s gross domestic product, down from around 2.3 percent in 2006 and 4.8 percent in 1996.

An even bigger cause for concern for multinationals are Beijing’s plans to replicate foreign technologies and foster national champions that can take them global. A program launched in 2015, called Made in China 2025, aims to make the country competitive within a decade in 10 industries, including aircraft, new energy vehicles, and biotechnology. China, under Xi, aims not just to be the manufacturing centre of the global economy but also to take a lead in innovation and technology that will rival that of the US and other advanced capitalist economies within a generation.

Beijing aims to boost the share of domestically made robots to more than 50 percent of total sales by 2020, from 31 percent last year. Chinese companies such as E-Deodar Robot Equipment, Siasun Robot & Automation, and Anhui Efort Intelligent Equipment aspire to become multinationals, challenging the likes of Switzerland's ABB Robotics and Japan's Fanuc for leadership in the $11 billion market.

Under Xi, China has also redoubled efforts to build its own semiconductor industry. The country buys about 59 percent of the chips sold around the world, but in-country manufacturers account for only 16.2 percent of the industry's global sales revenue, according to PwC. To rectify that, Made in China 2025 earmarks $150 billion in spending over 10 years. A January 2017 report by the U.S. President's Council of Advisors on Science and Technology detailed China's extensive subsidies to its chipmakers, mandates for domestic companies to buy only from local suppliers, and requirements that American companies transfer technology to China in return for access to its market.

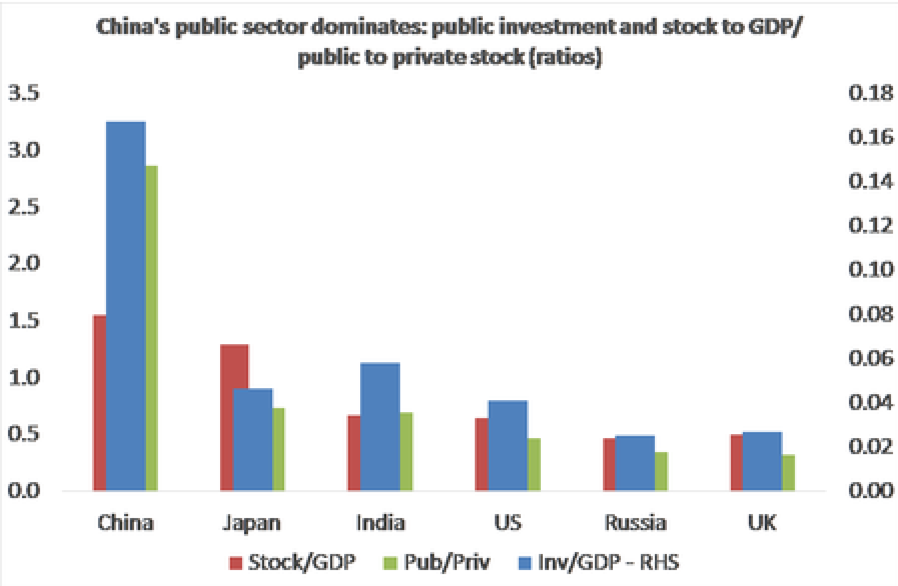
And American imperialism is scared. U.S. Commerce Secretary Wilbur Ross has described the plan as an *"attack"* on *"American genius."* In an excellent new book, The US vs China: Asia's new cold war?, Jude Woodward, a regular visitor and lecturer in China, shows the desperate measures that the US is taking to try to isolate China, block its economic progress and surround it militarily. But she also shows this policy is failing. China is not accepting control by foreign multi-nationals; it is continually developing trade and investment links with the rest of Asia; and, with the exception of Abe's Japan, it is succeeding in keeping the Asian capitalist states ambivalent between China's 'butter' and America's 'arms'.' As a result, China has been able to maintain its independence from US imperialism and global capitalism like no other state.

This brings us to the question of whether China is a capitalist state or not? I think the majority of Marxist political economists agree with mainstream economics in assuming or accepting that China is. However, I am not one of them. China is not capitalist. Commodity production for profit, based on spontaneous market relations, governs capitalism. The rate of profit determines its investment cycles and generates periodic economic crises. This does not apply in China. In China, public ownership of the means of production and state planning remain dominant and the Communist party's power base is rooted in public ownership. So China's economic rise has been achieved without the capitalist mode of production being dominant.

China's "socialism with Chinese characteristics" is a weird beast. Of course, it is not 'socialism' by any Marxist definition or by any benchmark of democratic workers control. And there has been a significant expansion of privately-owned companies, both foreign and domestic over the last 30 years, with the establishment of a stock market and other financial institutions. But the vast majority of employment and investment is undertaken by publicly-owned companies or by institutions that are under the direction and control of the Communist party. The biggest part of China's world-beating industry is not foreign-owned multinationals, but Chinese state-owned enterprises.

And here I can provide some new evidence that, as far as I know, has not been noticed by any other commentators. Recently the IMF published a full data series on the size of public sector investment and its growth going back 50 years for every country in the world. This data delivers some startling results.

It shows that China has a stock of public sector assets worth 150% of annual GDP; only Japan has anything like that amount at 130%. Every other major capitalist economy has less than 50% of GDP in public assets. Every year, China's public investment to GDP is around 16% compared to 3-4% in the US and the UK. And here is the killer figure. There are nearly three times as much stock of public productive assets to private capitalist sector assets in China. In the US and the UK, public assets are less than 50% of private assets. Even in 'mixed economy' India or Japan, the ratio of public to private assets is no more than 75%. This shows that in China public ownership in the means of production is dominant – unlike any other major economy.



A report by the US-China Economic and Security Review Commission (http://www.uscc.gov/pressreleases/2011/11_10_26pr.pdf) found that *"The state-owned and controlled portion of the Chinese economy is large. Based on reasonable assumptions, it appears that the visible state sector – SOEs and entities directly controlled by SOEs, accounted for more than 40% of China's non-agricultural GDP. If the contributions of indirectly controlled entities, urban collectives and public TVEs are considered, the share of GDP owned and controlled by the state is approximately 50%."* The major banks are state-owned and their lending and deposit policies are directed by the government (much to the chagrin of China's central bank and other pro-capitalist elements). There is no free flow of foreign capital into and out of China. Capital controls are imposed and enforced and the currency's value is manipulated to set economic targets (much to the annoyance of the US Congress and Western hedge funds).

At the same time, the Communist party/state machine infiltrates all levels of industry and activity in China. According to a report by Joseph Fang and others (*http://www.nber.org/papers/w17687*), there are party organisations within every corporation that employs more than three communist party members. Each party organisation elects a party secretary. It is the party secretary who is the lynchpin of the alternative management system of each enterprise. This extends party control beyond the SOEs, partly privatised corporations and village or local government-owned enterprises into the private sector or "new economic organisations" as these are called. In 1999, only 3% of these had party cells. Now the figure is nearly 13%. As the paper puts it: "*The Chinese Communist Party (CCP), by controlling the career advancement of all senior personnel in all regulatory agencies, all state-owned enterprises (SOEs), and virtually all major financial institutions state-owned enterprises (SOEs) and senior Party positions in all but the smallest non-SOE enterprises, retains sole possession of Lenin's Commanding Heights.*"

The reality is that almost all Chinese companies employing more than 100 people have an internal party cell-based control system. This is no relic of the Maoist era. It is the current structure set up specifically to maintain party control of the economy. As the Fang report says: *"The CCP Organization Department manag(es) all senior promotions throughout all major banks, regulators, government ministries and agencies, SOEs, and even many officially designated non-SOE enterprises. The Party promotes people through banks,regulatory agencies, enterprises, governments, and Party organs, handling much of the national economy in one huge human resources management chart. An ambitious young cadre might begin in a government ministry, join middle management in an SOE bank, accept a senior Party position in a listed enterprise, accept promotion into a top regulatory position, accept appointment as a mayor or provincial governor, become CEO of a different SOE bank, and perhaps ultimately rise into upper echelons of the central government or CCP — all by the grace of the CCP OD."*

China's Communist party is now writing itself into the articles of association of many of the country's biggest companies. describing the party as playing a core role in *"an organised, institutionalised and concrete way"* and *"providing direction [and] managing the overall situation".*

There are 102 key state enterprises with assets of 50 trillion yuan that include state oil companies, telecom operators, power generators and weapons manufacturers. Xiao Yaqing, director of the State-owned Assets Supervision and Administration Commission of the State Council (SASAC), wrote in the Central Party School's *Study Times*, that, when a state-owned enterprise has a board of directors, its party boss also tends to be the board chairman. Communist Party members at state enterprises form the *"the most solid and reliable class foundation"* for the Communist Party to rule. Xiao called the idea of the *"privatisation of state assets"* as wrong-headed thinking.

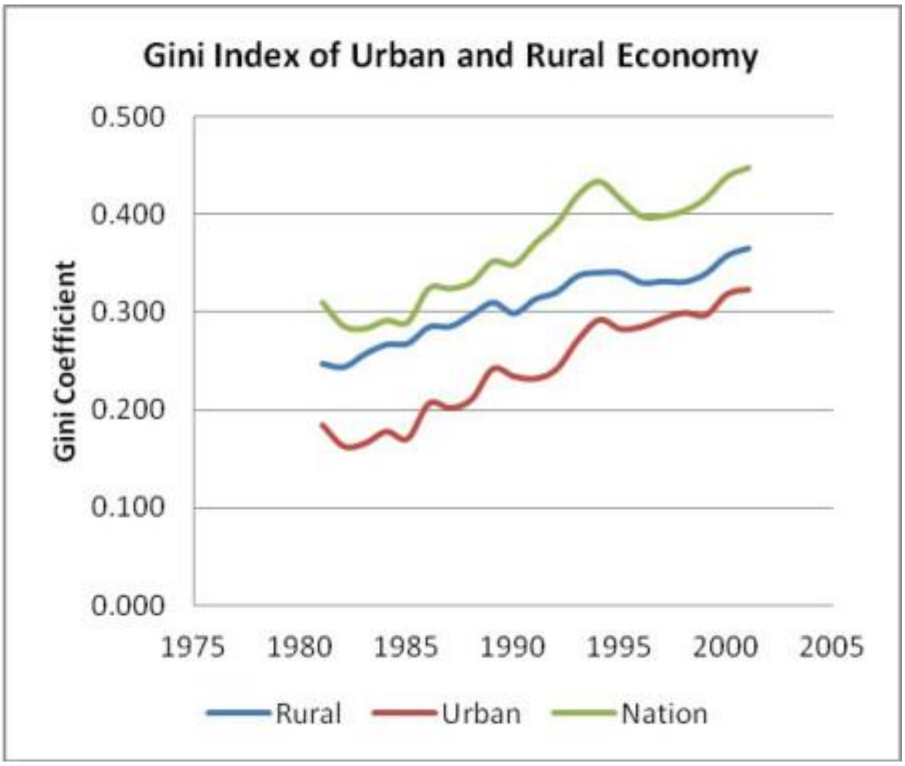
These 102 big conglomerates contributed 60 per cent of China's outbound investments by the end of 2016. State-owned enterprises including China General Nuclear Power Corp and China National Nuclear Corp have assimilated Western technologies—sometimes with cooperation and sometimes not—and are now engaged in projects in Argentina, Kenya, Pakistan and the UK. And the great 'one belt, one road' project for central Asia is not aimed to make profit. It is all to expand China's economic influence globally and extract natural and other technological resources for the domestic economy.

This also lends the lie to the common idea among some Marxist economists that China's export of capital to invest in projects abroad is the product of the need to absorb 'surplus capital' at home, similar to the export of capital by the capitalist economies before 1914 that Lenin presented as key feature of imperialism. China is not investing abroad through its state companies because of 'excess capital' or even because the rate of profit in state and capitalist enterprises has been falling.

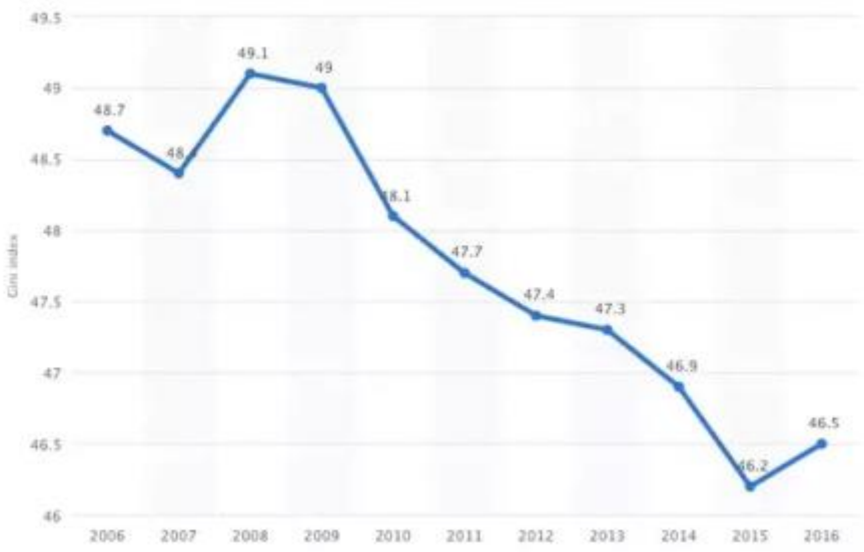
Similarly, the great expansion of infrastructure investment after 2008 to counteract the impact of collapsing world trade from the global financial crisis and Great Recession hitting the major capitalist economies was no Keynesian-style government spending/borrowing, as mainstream and (some) Marxist economists argue. It was a state-directed and planned programme of investments by state corporation and funded by state-owned banks. This was proper 'socialised investment' as mooted by Keynes, but never implemented in capitalist economies during the Great Depression, because to do so would be to replace capitalism.

The law of value of the capitalist mode of production does operate in China, mainly through foreign trade and capital inflows, as well as through domestic markets for goods, services and funds. So the Chinese economy is affected by the law of value. That's not really surprising. You can't 'build socialism in one country' (and if a country is under an autocracy and not under workers democracy, that is true by definition). Globalisation and the law of value in world markets feed through to the Chinese economy. But the impact is 'distorted', 'curbed' and blocked by bureaucratic 'interference' from the state and the party structure to the point that it cannot yet dominate and direct the trajectory of the Chinese economy.

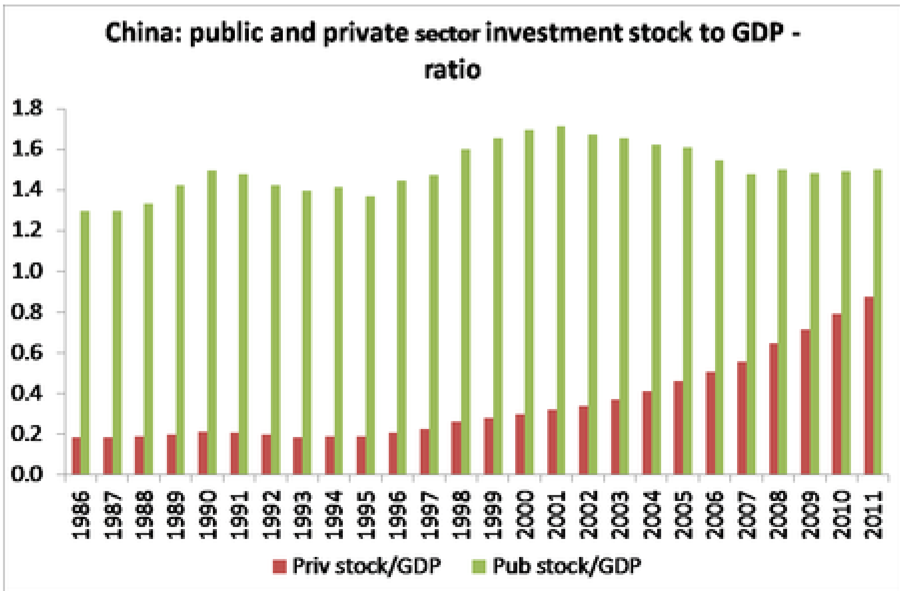
It is true that the inequality of wealth and income under China's 'socialism with Chinese characteristics' is very high. There are growing numbers of billionaires (many of whom are related to the Communist leaders). China's Gini coefficient, an index of income inequality, has risen from 0.30 in 1978 when the Communist Party began to open the economy to market forces to a peak of 0.49 just before the global recession. Indeed, China's Gini coefficient has risen more than any other Asian economy in the last two decades. This rise was partly the result of the urbanisation of the economy as rural peasants move to the cities. Urban wages in the sweatshops and factories are increasingly leaving peasant incomes behind (not that those urban wages are anything to write home about when workers assembling Apple i-pads are paid under $2 an hour).



But it is also partly the result of the elite controlling the levers of power and making themselves fat, while allowing some Chinese billionaires to flourish. Urbanisation has slowed since the Great Recession and so has economic growth – along with that the gini inequality index has fallen back a little.



The Chinese economy is partially protected from the law of value and the world capitalist economy. But the threat of the 'capitalist road' remains. Indeed, the IMF data show that, while public sector assets in China are still nearly twice the size of capitalist sector assets, the gap is closing.

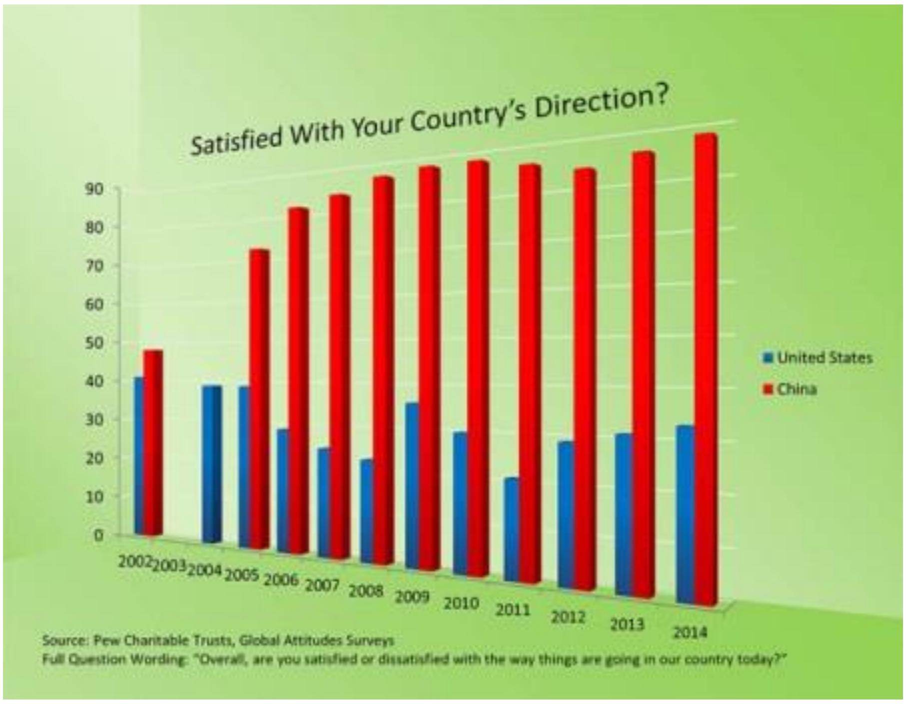


Under Xi, it seems that the majority of the party elite will continue with an economic model that is dominated by state corporations directed at all levels by the Communist cadres. That is because even the elite realise that if the capitalist road is adopted and the law of value becomes dominant, it will expose the Chinese people to chronic economic instability (booms and slumps), insecurity of employment and income and greater inequalities.

On the other hand, Xi and the party elite are united in opposing socialist democracy as any Marxist would understand it. They wish to preserve their autocratic rule and the privileges that flow from it. The people have yet to play a role. They have fought local battles over the environment, their villages and their jobs and wages. But they have not fought for more democracy or economic power.

Indeed, the majority still back the regime. The Chinese people support the government, but they are worried about corruption and inequality – the two issues that Xi claims that he is dealing with (but in which he will fail).

A recent survey by the Pew Research Center found that 77% of those asked believe that their way of life in China needs to be protected from *"foreign influence"*. Political scientist Bruce Dickson collaborated with Chinese scholars to survey public perceptions of China's ruling Communist Party. Researchers conducted face-to-face interviews with some 4,000 people in 50 cities across the country. Dickson concluded: *"No matter how you measure it, no matter what questions you ask, the results always indicate that the vast majority of people are truly satisfied with the status quo."*



It seems that Xi and his gang are here for a long time ahead.