“The Truth is Concrete!”
FLTI Minority Report on the Current World Situation
Drafted by CWG-NZ; Endorsed by HWRS (see Note)

Note: *The document says that Russia is a junior imperialist ally of China. This is a CWG-NZ position. HWRS did not have as of yet a discussion on Russia. While the HWRS believe that Russia is becoming a sub-imperialism in its “backyard”, e.g. Eastern Europe, the HWRS has not reached a conclusion that Russia is a full blown imperialist country. The HWRS did not have a chance to have a full discussion on this.*

This report is written to show that unless the FLTI understands the changes that have taken place in China then we cannot understand their consequences for the world situation, and in particular for the inter-imperialist rivalry in this period of crisis that must lead to wars, revolutions and counter-revolutions. The truth is concrete said Lenin, and the most concrete manifestations of the class struggle today as in Iran, Honduras, or Southern Africa, cannot be fully explained except as the refraction of inter-imperialist rivalry. If we cannot analyze at the concrete level the determinants of class struggle in these situations we will remain theoretically barren, and programmatically weakened in the face of new wars and revolutionary situations.

China, backed by Russia, is the Asian Elephant in the room. We can see the movements around the elephant but cannot explain them unless we see the elephant itself. Against those who say that China is still a socialist state, we have to explain that it has restored capitalism. But against those who say that China is a capitalist semi-colony we have to explain that it is a new imperialist power and that we cannot defend it. While we cannot defend China as an imperialist country, we want to assure the majority that the minority did not change its positions on China. In other words, we still believe that China has a dual character of an emerging imperialist country, while remaining a semi-colony for super-exploitation by the imperialist powers. The minority does not deny the existence of maquiladoras in China, although it is unclear how many of them are owned by Western imperialists and how many are owned by Chinese capitalists. The minority, however, does not think that the maquiladoras are the main drive behind the Chinese economy. Yet if the US attacks and invades China to transform it into a subordinated semi-colony, the minority without hesitation will defend China against the US imperialism. The only programmatic implications that could develop between the minority and the majority, for example, is in cases when Americans (or their allies) and Chinese troops clash in Iran or Africa over control of oil and raw materials; in other words, over imperialistic spheres of influence and control. Yet, seeing how difficult it is for the US to just maintain its military presence in Iraq and Afghanistan/Pakistan, it is highly unlikely that such wars will develop in the near future.

What do we mean by saying that China still has the character of a semi-colony? In the rest of the article we argue and explain how the Chinese Bourgeoisie was able to remain independent from imperialism and accumulate surplus capital that enables it to become imperialist. In this sense China fulfilled the national tasks of the bourgeois stage of development. Yet the conditions of the proletariat and the peasantry remain the same as in other semi-colonies, and in fact, the proletariat in China is still one of the most super-exploited and oppressed. It is not clear how much better the conditions of the proletariat in the SOEs in comparison to the maquiladoras are. But it is certainly not enough to change its state of super-exploitation. It was the super-exploitation of the Chinese proletariat that allowed the accumulation of surplus capital. Thus in this sense China remains a semi-colony regardless whether its finances and the means of productions are in the hands of the Chinese bourgeoisie or Western imperialists. Thus the minority does not have a different program for the liberation of the Chinese proletariat than the majority's program. It is the Trotskyist program for the liberation of the most oppressed proletariat and peasantry, and it is essentially the same for China, India and the rest of the semi-colonies; taking into account, of course, national and particular variants.

How to account for this phenomenon of China becoming imperialist? It has to be their history as a deformed workers' state and degenerated workers' state (DWS's) that enables Russia and China to avoid being 're-colonized' or 're-divided' and that allows them to emerge as imperialist powers. If this is correct then our program for China (when it fights for re-division of the world among the imperialist country) must be for its defeat and for its workers to turn all wars in which China is involved as an imperialist power into a civil war in China. With the proviso (as stated above) that an invasion determined to re-divide China, drive it back to the state of a semi-colony and subjugate it militarily to other imperialist forces or a bloc of forces would change the character of a war from inter-imperialist war to a war for imperialist subjugation and require proletarian defense of China.

These and other questions of the expansionary role of China can only be explained by recourse to Lenin's theory of imperialism. In a global capitalist economy growth is only possible by means of capital accumulation. Expansion overseas into the existing markets or spheres of interest of imperialist powers can only occur at the expense of the existing imperialist powers. It isn't that China is replacing the US or even France or Japan, but rather that it is expanding at the expense of the weakest imperialists. This has direct effects on the workers and peasants over whose surplus value these powers are fighting. If we cannot explain what is driving China in its expansion, we are theoretically and programmatically weakened in our struggle against the super-exploitation and oppression of all imperialist powers.

The Character of the Current Crisis

The present situation is one of a global economic crisis of overproduction that can only be solved by the capitalists by a massive writing off of trillions of overproduced finance capital, and a massive devaluation of wages through mass sackings and huge wage cuts. Global capitalism is not a single entity. It is a system in which the major capitalist imperialist classes are divided nation by nation and must try to restore their profits by passing as much of their costs as possible onto their imperialist rivals and to their semi-colonies and colonies and ultimately the workers and peasants in those countries. This gives flesh to Lenin's slogan that the Imperialist epoch is one of crises, wars, revolutions and counter-revolutions.

Since this is a severe global crisis of overproduction, that calls into question the survival of the capitalist system, each imperialist power is forced to attack not only its rivals to unload its costs, but also the living standards of its own wage workers, in particular migrant workers. In this inter-imperialist struggle the strongest imperialist states with the most profitable production come out bigger and stronger, while the less competitive capitalists get weaker and smaller. And of course, whichever imperialist powers come out as the winners, the working class of the whole world ultimately pays with its labor and its lives.

This inter-imperialist struggle must eventually lead to a re-division of the world according to economic power. Lenin was very precise about this:
'The capitalists divide the world, not out of any particular malice, but because the degree of concentration which has been reached forces them to adopt this method in order to obtain profits. And they divide it "in proportion to capital", "in proportion to strength", because there cannot be any other method of division under commodity production and capitalism. But strength varies with the degree of economic and political development. In order to understand what is taking place, it is necessary to know what questions are settled by the changes in strength. The question as to whether these changes are "purely" economic or non-economic (e.g., military) is a secondary one, which cannot in the least affect fundamental views on the latest epoch of capitalism. To substitute the question of the form of the struggle and agreements (today peaceful, tomorrow warlike, the next day warlike again) for the question of the substance of the struggle and agreements between capitalist associations is to sink to the role of a sophist'. (Imperialism, The Highest Stage of Capitalism, CW 22 p252-3)

The current crisis is one in which the imperialist pecking order is at stake in the struggle to re-divide and plunder the world. The US came to world dominance as a result of WW2 when it gained from the defeat of the Axis powers, occupying Germany and Japan, but also from the relative weakening of Britain and France. But in order to come out the victor the US had to strike a deal with the Soviet Union in which the Stalinist bureaucracy became the executioner of the world revolution in exchange for a buffer zone to protect the Soviet Union. It took another 35 years before the US could restore capitalism to the Soviet Union and China and complete its historic counter-revolutionary mission. But instead of giving US imperialism a new lease on life, China and Russia have turned the tables and emerged as the main potential rivals to US hegemony. This has created huge confusion on the left where the majority of reformists see China as part of a progressive bloc with the Bolivarian states that able to put pressure on US imperialism and drive it to the left. This creates illusions in populist national bourgeoisies and 'democratic' imperialism being able to overcome the crisis of capitalism without making the workers pay the price. In the face of this confusion, the new reality of the emergence of China needs to be explained on the basis of the method and theory of Marx, Lenin and Trotsky.

China as an Emerging Global Power

Since the main difference in the FLTI has arisen over the question of China, let us deal with this country first. How do we explain the dynamic capitalist growth of China facing what is the systemic stagnation in the forces of production globally? Is there something specific to capitalist development in China that allows it to become the main driver of capitalist boom while the rest of the world is in a slump? During the crisis there has been a continued rapid Chinese economic expansion. Moreover this expansion has been at a time when most of the rest of the world was / is in recession.

1) FDI into China has fallen by over 17% for the first eight months of 2009 http://timesofindia.indiatimes.com/news/world/china/Foreign-direct-investment-falls-for-11th-month-in-China-/articleshow/5012342.cms due to the financial crisis in the US, Japan and the EU.

2) Therefore inward FDI cannot account for China's growing share of global capital accumulation. Moreover the 'decoupling' of China shows that China is not dependent

on trade with the US, nor on Treasury bonds.
http://www.rieti.go.jp/en/china/08102901.html

3) The share of exports in China's GDP is much smaller than many on the 'left' assume at less than 10% and only accounting for around a 25% of China's GDP growth. http://www.permanentrevolution.net/entry/2357.

4) If an average of 60% of exports across sectors are produced by foreign owned companies this represents a relatively small part of China's GDP and less than 20% of its growth. http://aede.osu.edu/Programs/Anderson/trade/60AkwoseGu.pdf. Clearly incoming FDI does not account for more than a small share of China's rapid growth in recent years, and the fall-off in incoming FDI and trade in 2008 and 2009 coincides with a doubling of China's overseas FDI in the same period! http://news.bbc.co.uk/2/hi/asia-pacific/8306052.stm

The main sources of China's growth are not FDI but cheap Chinese labour and rising profits. *"Between 1978 and 2007 official mainland China GDP grew at an annual average of 9.7% – a world record. In the last five years China has grown at least 11% annually in real terms, as very high levels of capital investment and a rapidly growing urban population have spurred its tremendous growth… China's average saving and investment ratios from 1978 until 2007 were nearly 38% of GDP. In 2003 the ratios sky-rocketed, reaching an estimated 51% of GDP last year, while the share of income going to labour fell from 51% in 1991 to 38% in 2006, massively increasing profits."* http://www.permanentrevolution.net/entry/2357

So why does China boom amidst a global slump?
"Over the past few months, China has capitalized on the financial turmoil that has paralyzed the world's "developed" economies by stocking up on cheap commodities, weeding out competition to its largest state-run companies, and acquiring even more foreign assets. Indeed, with China's economic growth projected at an enviable 8% for this year, that country's government has been able to spend less time promoting immediate growth and liquidity, and more time preparing for the economic renaissance that almost certainly seems to be the Asian giant's destiny. By exposing Western free-market capitalism, undermining the United States economic clout, and eviscerating commodities prices, the financial crisis has offered China the perfect opportunity to advance its domestic agenda. That agenda begins with the recently unveiled $586 billion stimulus plan – a plan primarily focused on infrastructure. China's financial institutions have little or no exposure to the toxic subprime assets that spawned this current global crisis. So instead of having to spend hundreds of billions of dollars to bail out its banks, China can choose to develop the stage on which it will display its future economic might. But before its plans for a massive infrastructure overhaul can be realized, China must first load up on the raw materials crucial to its execution."
http://www.moneymorning.com/2009/01/28/china-commodities/

The continued growth of China (probably close to 10% in 2009) while the rest of the world, apart from India, is either stagnant or in recession, has been commented on widely on the academic left http://www.japanfocus.org/-Mark-Selden/3105 and fake Trotskyist left http://www.permanentrevolution.net/entry/2357.

Those who think that China is state socialist, or mixed capitalist/socialist, put it down to it ability to avoid the worst effects of capitalist crisis. These fall into two camps. First, part of the imperialist bourgeoisie thinks that China is a totalitarian communist country which plays by “different rules” in relation to capitalism and hence is bent on the “Long March to the Oilfield” to challenge and destroy the US as the bastion of free market capitalism. http://business.timesonline.co.uk/tol/business/industry_sectors/natural_resources/article6859993.ece Yet it is clear that a growing and a dominating part of the imperialist bourgeoisie know and recognize the real reality: That China is a rising imperialist power that challenges Western imperialism.

The second are the Bolivarian Bourgeoisie behind Chavez who see China as a major ally of “21st century Socialism”, whose expansion is ‘progressive’ in funding the ‘development’ of globalization from below as in Latin America. Chavez openly states that China and Venezuela are “marching together to socialism”.
http://www.earthtimes.org/articles/show/288249,we-are-marching-towards-socialism-chavez-tells-china.html

On the extreme left of the Bolivarians are the former Trotskyists like the Spartacist current (e.g.IBT) who act as a left cover for the Stalinists by arguing that China remains a DWS despite large steps towards capitalist restoration. For them the expansion of China today is explained as a progressive aspect of the continuation of workers property. China’s expansion is part of the growth of the forces of production in a workers state. It is necessary for a political revolution to prevent China from completing the restoration of capitalism.

Other former Trotskyists like the *Australian Green Left* argue that China is a capitalist semi-colony that wants to maintain its independence from imperialism:
“It is clear that China is now a capitalist country. Yet the imperialists are not totally satisfied. State-owned enterprises remain dominant in certain strategic industrial sectors and in the banking sector. The failure of China to fully apply the neoliberal model meant it could use the state-owned banks to quickly implement stimulus measures after the 2008 global financial crisis. The imperialists want complete privatisation and full access to all areas of the economy. This contributes to the tension between the rulers of China and the US. It helps explain the hypocritical rhetoric from Western politicians and media about the need for “democracy” in China. The Chinese regime wants to maintain a certain degree of independence from imperialism. In the past, it has collaborated with imperialism to attack Third World revolutions, even invading Vietnam in 1979. However, at the moment it has good relations with revolutionary governments in Cuba and Venezuela.”
http://www.greenleft.org.au/2009/811/41704

Other left liberals say that it is China’s powerful central state owned banks and SOEs that have been able to compensate for falling exports by pumping up the domestic economy. Thus China has been able to implement a full-blown Keynesian counter-cyclical policy to protect itself from the global recession while the Obama version of Keynesian stimulus is a Trillion-dollar-plus bailout of the banks and MNCs that further fuels speculation rather than investment in production, and furthers military expenditure. The spending on health reform is held up by a right-wing racist backlash to social spending. The reformist left is envious and argues that the US and EU should nationalize their banks and follow China’s example.
http://www.globalresearch.ca/index.php?context=va&aid=14819

What these positions all point to is the vast capital reserves of China.
http://www.rieti.go.jp/en/china/081226-2.html They are ultimately the result of China’s history as a “post-capitalist” state that allows it to protect itself from exposure to the full forces of the causes of crisis in the global capitalist economy. We can see that the common

position here that it is centralized state regulation by the CCP that enables China's expansion. In the language of Trotskyists, the aspect of China as a DWS that is isolated as the cause of growth is the role of the bureaucracy, not that of workers property.

For revolutionary Trotskyists the bureaucracy is a parasitic caste that cannot develop the forces of production in China. As Trotsky argued the bureaucracy destroys the planned economy because it creates shortages and represses workers resistance to bureaucratic management. The bureaucratic plan must therefore lead to stagnation of the forces of production and thus the basis for the bureaucracy's privileges. Thus the bureaucracy is forced to restore capitalism and transform itself into a new bourgeoisie or cease to exist as a privileged caste. So China's phenomenal growth in the last 20 years cannot be the result of state planning under a parasitic caste, but rather rapid capitalist accumulation in the interests of a new national bourgeoisie.

Is China Doomed to be a Big Semi-colony?

Among the Trotskyists who agree that China has restored capitalism many think that China's expansion via its domestic market and exports serve the interests of imperialist firms producing for export in China. The *Australian Green Left* puts it this way:
"*China has increasingly become the imperialist West's main workshop for the production of cheap consumer goods, draining China's energy, water and other natural resources, and polluting its environment. Chinese-owned companies' investments in Africa are largely driven by a basic agenda of seeking fuel and minerals inputs for the production in China of manufactures by Chinese firms working as subcontractors for big Western corporations, with the bulk of the profits going to the latter. In 2002, exports by Chinese subsidiaries of First World corporations accounted for 25.8% of China's exports — up from 20.3% in 1997, according to the* World Investment Report 2006. *According to the* WIR 2006*, the value added in China by the subsidiaries of First World corporations amounted to US$103.6 billion, and their pre-tax profits from such operations totaled $22.7 billion. According to the November 29, 2004,* China Business Weekly*, the US-based Wal-Mart corporation, the world's biggest retailer, bought $15 billion worth of products from China, mostly through a network of 5000 China-based firms. Today, Wal-Mart alone accounts for one-third of the $60 billion in manufactures exported from China. No matter how big a share of the world's low-technology processing and assembly work China takes on, the imperialist corporations will retain their monopoly of superior technology in the decisive industries. And while Chinese companies are becoming significant investors in some African countries, most of the continent's industries are dominated by foreign direct investment (FDI) from US and European corporations. As the February 10* New York Times *noted, "China is not yet an overwhelming presence in Africa. The juggernaut image aside, China imports less African oil, invests less money and spends less on aid than does the United States or Europe." According to the most recent UN figures, total FDI holdings in Africa in 2005 were worth $96 billion, of which European firms accounted for 61%, US firms 20%, Asian firms 8% and South African firms 2%. Of the $29 billion of FDI that went into Africa in 2005, only $1.2 billion (4.1%) came from China.* From: International News, Green Left Weekly issue #701 7 March 2007.
http://www.greenleft.org.au/2007/701/36384

While this is partly true (based on 2006 data that is already outdated) it cannot account for the fact that China does not fit the profile of a semi-colony. Semi-colonies have: 1) chronic trade deficits, 2) capital deficits, 3) huge national debts, and 4) relatively low growth rates as

surplus value is pumped out of the economy by imperialism. Compared with Mexico which has all of these features, China is very different. Despite the pumping out of surplus value from China by imperialist FDI nonetheless this is a relatively small part of the surplus value produced in China. China's rapid growth has created a massive trade surplus, capital surplus and annual GDP growth in excess of 10%. The argument that China's $800 billion in US Treasury Bonds exposes it to US domination is ludicrous. Japan is second to China with $725 billion in T-bonds. It is subject to the same threat of dollar devaluation. Japan may be dominated by the US but does that make Japan a semi-colony? A rapid devaluation of the dollar would hurt China but that is unlikely, and in the long run China as creditor will be the winner according to prominent bourgeois commentator Nourial Roubini:
"China is a creditor country with large current account surpluses, a small budget deficit, much lower public debt as a share of G.D.P. than the United States, and solid growth. And it is already taking steps toward challenging the supremacy of the dollar. Beijing has called for a new international reserve currency in the form of the International Monetary Fund's special drawing rights (a basket of dollars, euros, pounds and yen). China will soon want to see its own currency included in the basket, as well as the renminbi used as a means of payment in bilateral trade…If China and other countries were to diversify their reserve holdings away from the dollar — and they eventually will — the United States would suffer. We have reaped significant financial benefits from having the dollar as the reserve currency. In particular, the strong market for the dollar allows Americans to borrow at better rates. We have thus been able to finance larger deficits for longer and at lower interest rates, as foreign demand has kept Treasury yields low. We have been able to issue debt in our own currency rather than a foreign one, thus shifting the losses of a fall in the value of the dollar to our creditors. Having commodities priced in dollars has also meant that a fall in the dollar's value doesn't lead to a rise in the price of imports…This decline of the dollar might take more than a decade, but it could happen even sooner if we do not get our financial house in order. The United States must rein in spending and borrowing, and pursue growth that is not based on asset and credit bubbles. For the last two decades America has been spending more than its income, increasing its foreign liabilities and amassing debts that have become unsustainable. A system where the dollar was the major global currency allowed us to prolong reckless borrowing.
http://www.nytimes.com/2009/05/14/opinion/14Roubini.html

The decline of the Dollar in fact reflects the decline of US imperialism. The bankers and the oil barons in the Middle East do not trade exclusively with petro-dollars anymore. Petro-dollars are indeed no longer the god for oil buying and selling, and US competitors are in a "united front" against the petrodollars for now:

"In the most profound financial change in recent Middle East history, Gulf Arabs are planning – along with China, Russia, Japan and France – to end dollar dealings for oil, moving instead to a basket of currencies including the Japanese yen and Chinese yuan, the euro, gold and a new, unified currency planned for nations in the Gulf Co-operation Council, including Saudi Arabia, Abu Dhabi, Kuwait and Qatar.

"Secret meetings have already been held by finance ministers and central bank governors in Russia, China, Japan and Brazil to work on the scheme, which will mean that oil will no longer be priced in dollars." http://www.independent.co.uak/news/business/news/the-demise-of-the-dollar-1798175.html

As noted already, despite falling FDI during the current crisis, despite the devaluation of China's massive dollar reserves, China's expansion continues. China is not only boosting its growth by the half-trillion stimulus to domestic spending. In the middle of the world recession it has made a "great leap forward" in foreign investment; i.e. capital export, the critical characteristic of imperialism. What this means is that China has not only sufficient accumulated surpluses to spend on domestic infrastructure, social spending on the unemployed etc., it has accumulated surpluses in the profits of the massive SOEs and in its Sovereign Capital Fund that enable it to rapidly expand its foreign investment, either as outward FDI in foreign companies, such as Joint Ventures like that with Venezuela for oil production, and loans for oil in a number of countries. As we shall see below this is Chinese finance capital, not the FDI of other imperialist countries using China as a proxy in capital re-export.

"In 2002, China's outbound investment was just $2.5 billion. By 2007, the figure had reached $18.6 billion, which more than doubled in 2008 to $52.2 billion. Standard Chartered estimates that the tally this February alone was $65 billion. The bank predicted that Chinese outward FDI in 2009 would hit $150-$180 billion—compared to inward FDI of $80-100 billion. According to the UN World Investment Report 2008, only the US, UK, Germany, France and Spain invested more than $100 billion abroad in 2007. In 2008, China's cumulative overseas FDI was just 0.6 percent of the world's total, but it could rise rapidly. China has the world's highest rate of savings (about 50 percent of GDP, compared to around 25 percent of Japan), large current account surpluses (more than 10 percent of GDP in 2008, compared to Japan's record high of 4.3 percent in 1983) and the world's largest currency reserves of $US1.95 trillion." http://www.wsws.org/articles/2009/may2009/chin-m19.shtml

In other words China has turned the crisis of US and EU finance capital and the global recession into an opportunity to export its own finance capital and to establish imperialist spheres of influence. As a result, China is now entering directly into competition with the existing imperialist powers as an emerging imperialist in particular posing a major challenge to the US, the UK, Germany and France and Japan. What accounts for this amazing performance when the rest of the imperialist states are in recession or stagnating?

The answer can be found by going back to the salient point that the secret of China's "success" rests in its highly centralized state banks and SOEs which can act to take advantage of the global recession. And while we argue that China is no longer a DWS we say its 'advantage' is a legacy of China's history as a deformed workers' state (DWS). In other words if China had not been a DWS it could never have become a dynamic capitalist country. It would have been fated to be divided and ruled by imperialism from the early 20th century to the early 21st century. Like all other semi-colonies, China would never have been in the position to accumulate sufficient capital to force its ruling class to export surplus finance capital and emerge as a new imperialist power.

This would be what Trotskyists would expect on the basis of Lenin's theory of imperialism which in the epoch of imperialism – capitalism's highest stage – spoke of imperialist powers competing to re-divide the world. New imperialist powers could only arise on the basis of expanding into parts of the world as yet not dominated by other imperialist powers. Once the world was divided, imperialists could only advance by re-dividing it at the expense of other imperialist powers. Japan did this at the expense of other imperialist powers, mainly Britain and France. And Japan was made to pay the price for its expansion and defeated in war and subordinated to the US. So while imperialist powers may win or lose in imperialist wars, there is general agreement that there is no possibility of colonies and semi-colonies oppressed by one or other imperialist power transforming themselves by means of national revolutions into imperialist powers. Therefore, if one ignores the special characteristics of the former DWS's one could easily conclude that in the epoch of imperialism there is no room for new imperialist powers to emerge. Two World Wars were proof of the correctness of this theory.

To characterize China today as imperialist appears to contradict the logic of Lenin's theory of imperialism which states that no colony or semi-colony can make a national democratic revolution and emerge as a new imperialist power. However, if it can be proved that China did make its national revolution and win independence as a DWS and that the restoration of capitalism did not cause it to lose that independence then there is no contradiction with Lenin's theory. We would find that the essence of his theory explains the apparent anomaly that a former workers state can do what is otherwise impossible – become a new imperialist power.

The Law of Value (What the Spartacist Currents Ignore)

What distinguishes the DWSs from capitalist colonies or semi-colonies is its relative isolation and independence from the global capitalist market. Thus the DWSs have been "partitioned" by revolutions that overthrew capitalist social relations putting them outside the imperialist spheres of influence. Of course their isolation means they don't escape capitalist imperialism entirely. It oppresses them indirectly by stopping them from developing the forces of production by means of new technology. But by definition DWSs are isolated from the direct effects of the law of value. The prices of production of state produced goods and services are not determined by the value of labor power as is the case in the capitalist market. Prices are determined by a plan.

Whether or not that plan is under the control of workers democracy or a bureaucratic caste makes a big difference. In the former case prices are used to signal the amount of necessary labor that workers democratically decide should be used to produce goods and services to meet their needs. In the latter case labor is allocated to produce goods and services that favor the luxury consumption of the bureaucracy and not that of the needs of workers. The forces of production stagnate and are relative to a democratic plan destroyed (wasted). But in both cases the planned economy develops the forces of production to a greater degree than is possible in a semi-colony where production is controlled by a division of labor imposed by imperialism. Such a planned economy requires a centralized production process and a centralized state. Hence the origins of the strong central state and state owned enterprises (SEOs) in the DWSs.

China's revolution in 1949 was a national revolution led by Stalinist army of peasants in isolation from the working class that was forced to go on to become a (deformed) socialist revolution because the weak national bourgeoisie was aligned with imperialism and incapable of completing the national task. But from the outset, the ordinary peasants and workers never had control of the revolution, leading to the form of workers state that emerged being 'deformed' or bureaucratized from its birth. The planned economy under the control of the party bureaucracy developed the forces of production beyond that of any semi-colony but never to the point that they could match that of capitalist imperialism. Added to the bureaucratic plan, the isolation of the economy from the world market prevented it from acquiring new technology to increase the productivity of labor other than by increasing its intensity.

The resulting stagnation meant that the privileges of the bureaucracy who lived a parasitic existence on the labor of the workers were threatened. This led the Communist Party to reintroduce private property rights (a sort of NEP) in agriculture to stimulate production and hence its share of the surplus product. Thus the Law of Value (LOV) was planted in the countryside. The LOV spread to industry and commerce and caused a full blown restoration of capitalism around 1992. As Trotsky had already predicted, the form of capitalism that is restored in a DWS will likely be a *state capitalism* that uses the existing state machinery and SOEs to reproduce the production of surplus value and profit. It does this by allowing the LOV (the market) to determine prices as opposed to the planning process. China's accession to the WTO in 2001 marked its full entry into the world capitalist economy.

To recap: China as a DWS 'partitioned' itself from the capitalist economy and developed the forces of production internally beyond that possible in a semi-colony oppressed by imperialism. Yet its isolation led to economic stagnation and the Communist Party planned the restoration of capitalism to stimulate growth and the transformation of the parasitic bureaucracy dependent on their control of the plan into a new national bourgeoisie in a restored capitalist economy. Thus, on this argument, capitalism that is restored in a former workers state has special characteristics which are critical in allowing it to escape the fate of a capitalist semi-colony and to emerge as a new imperialist power.

China's legacy was therefore a strong centralized state and massive SOEs under the control of a strong and relatively united new national bourgeoisie. China's re-entry into the capitalist world economy was managed in stages so that the new bourgeoisie retained its independence from all imperialist powers. As the imperialists sought to use China as a semi-colony to re-locate their maquiladoras using cheap Chinese labor, the Chinese ruling class retained control of the key state sectors of the economy and restricted the freedom of entry of FDI, and in particular of the big imperialist banks. Incoming FDI was encouraged as a means of driving the development of Chinese capitalism without the national bourgeoisie losing control over the ownership and control of the means of production. The success of China in this transition is now viewed enviously by the Russian leadership which opened up its economy to imperialism and now wants to recover control over the economy by learning the lessons of China's strong centralized state transition.

"In truth, the Russians express no desire to return to Communism as a far-reaching Marxist-Leninist ideology, whether the Soviet version or the much attenuated one in Beijing. What they admire, it seems, is the Chinese ability to use a one-party system to keep tight control over the country while still driving significant economic growth. It is a historical turnabout that resonates, given that the Chinese Communists were inspired by the Soviets, before the two sides had a lengthy rift. For the Russians, what matters is the countries' divergent paths in recent decades. They are acutely aware that even as Russia has endured many dark days in its transition to a market economy, China appears to have carried out a fairly similar shift more artfully. The Russians also seem almost ashamed that their economy is highly dependent on oil, gas and other natural resources, as if Russia were a third world nation, while China excels at manufacturing products sought by the world."
http://www.nytimes.com/2009/10/18/world/europe/18russia.html?th=&emc=th&pagewanted=all

In other words, US and other imperialist powers could not 'repartition' or 'redivide' a restored capitalist China as their own spheres of interest. The new Chinese bourgeoisie retained control of the national economy and could use the centralized state to monopolize the process of capital accumulation on the same basis as the existing imperialist powers. That is, it operated on the basis of the law of value which sets prices in terms of labor power, but in reality it is extracting super-profits and monopoly rent on its own account – the defining feature of imperialism. Let us expand on this point.

Super Profits and Monopoly Rent

For Lenin imperialism is characterized by monopoly which in the last analysis extracts super-profits in the form of monopoly rent. Marx defined monopoly rent as the difference between the price of production and market price where the latter is determined by a few firms that act as a cartel, or trust i.e. a monopoly. This concept simplifies our understanding of super-profits arising from so-called cheap labor as well as the plundering of raw materials and energy sources. The price of production consists of labor costs, raw materials etc., plus average profits where competition allows a redistribution of surplus-value. That is, in the epoch of competitive capitalism, the price of production reflects competition where average profits result from a process of the *equalization of profits* from the least efficient producers to the more efficient, given that there is sufficient demand.

Imperialist monopoly ends competition at the level of the market as a few firms control the prices by preventing the ability of more efficient firms to undercut their price. Prices of production now include not the average profit resulting from equalization but a monopoly price. The 'equalizing' of profits is done by "fixing" the price in advance of production and not by the market after production. This is why Lenin observed that the imperialist epoch is dominated by monopolies where a few large firms – cartels, trusts, monopolies – set the world prices in various sectors of production such as oil, steel, railways etc.

A short sidetracking is necessary here to distinguish between imperialist monopoly and the so-called monopoly of state planning in the DWSs. While the central state apparatus may in fact by formally the same, as the Communist Party is like a giant monopoly firm planning, or fixing, prices, the law of value separates out these two forms in their essence. Ideally socialist monopoly (i.e. in a workers' democratic plan) sets prices without any reference to the law of value. Prices are just a means of allocating labor to different branches of production to meet collectively determined needs. Capitalist monopoly however, determines super-profits by calculating monopoly rent as value in excess of the 'real' market price of production set by the law of value. By 'real' I mean that monopoly looks for the lowest labor and raw material costs (this is the point of investing FDI in colonies and semi-colonies) so that the excess of monopoly price of production over the real price of production (assuming competition) is a great as possible. Nevertheless, when it comes to the changing class character of the central state, it is a relatively simple matter to switch the state monopoly over the allocation of workers labor in a Deformed Workers State like China to the monopoly of value produced in a capitalist economy.

If the above argument is correct, China has been able to use its legacy as a DWS to convert its centralized state apparatus into a monopoly capitalist state to escape the trap of semi-colonial partition, oppression and super-exploitation by the existing imperialist powers. It has done this by monopolising land which remains nationalised, and by heavily regulating FDI in terms of both relative and absolute share of value produced in China. Thus the Joint Equity

Ventures law of 2001 (No. 48) states the basic criteria on which FDI enters China. FDI operates under 'business licenses' under Chinese law and can be "nationalised with payment of compensation". *Generally the FDI share in JVs is limited to less than 25%. However the Foreign Investors law of 2000 allows 100% FDI in companies that meet the criteria of "economic cooperation", "technological exchange" and "export orientation".*

The state retains a monopoly control over the key sectors of industry, energy, and banking via its State Owned Enterprises and State Banks. Typically the SEOs do not pass on their profits to the state but accumulate them for further reinvestment. Does FDI share in this bounty? The share of incoming FDI in SOEs is limited to around 20%. The fact that FDI does not control the SOEs is confirmed by attempts to block them from being taken over by established US and other monopoly firms. For example, the third ranking oil and gas SOE and biggest offshore operator, CNOOC had its bid to buy the US oil major Unocal in 2005 rejected as US politicians feared the loss of a US oil major Unocal (which has the key role in the planned pipeline across Afghanistan) to a 100% China state owned SEO. http://www.redorbit.com/news/general/194745/cnooc_withdraws_185b_offer_for_unocal/index.html

Interestingly one conservative US commentator pointed to the hypocrisy of this rejection. Any state monopoly support gained by CNOOC in the process of this acquisition would be matched by big US oil corporations, including Chevron, which was the preferred buyer of Unocal at a lower price. It seems that the Chinese SOEs do not "play by different rules" but by the same rules of state monopoly imperialism! http://www.scribd.com/doc/14495018/The-Downward-Flow-a-Business-Perspective-of-the-Failed-CNOOC-Unocal-Deal

The big international banks do not own China. http://www.globalresearch.ca/index.php?context=va&aid=14819
The biggest 'Western' stake is the Bank of America's 20% shareholding in the China Construction Bank. But of course this cannot be a controlling shareholding in a predominantly state-owned bank: "CCB, with total assets of approximately $1.1 trillion, is the second largest bank in China.[2] The government of China owns approximately 57.0 percent of CCB's shares.[3] Bank of America Corporation[4] and Temasek Holdings, a sovereign wealth fund owned by the government of Singapore, own 19.1 and 5.7 percent, respectively, of the shares of CCB. No other shareholder owns more than 5 percent of CCB's shares.[5]"http://www.federalreserve.gov/pubs/bulletin/2009/legal/q408/order12.htm

China accumulates its capital on its own account and has a massive Sovereign Wealth Fund that has no need for large borrowings from international banks. It has a 10% share of Morgan Stanley and looks to buy up to 49%. http://business.globaltimes.cn/china-markets/2009-06/434144.html It has shares in other banks and equity funds such as a 10% stake in Blackstone private equity fund. As noted China is a large US creditor with around US$800 billion in Treasury bonds and other securities which creates a potentially large sovereign fund for FDI.

Is China just a giant maquiladora for foreign imperialists? No. China was never just a maquiladora.

1) We have seen that exports only account for around 25% of China's GDP growth.

2) Nearly half of FDI in China originates in Hong Kong and much of it is 'round-tripping" Chinese capital taking advantage of tax breaks for exporters. [The proportion is unknown, but foreign companies do not gain any advantage by hiding their FDI as originating in Hong Kong e.g. the next largest source of FDI is Taiwan. The recent lifting of tax breaks may see Chinese capital round-tripping through Hong Kong cease].

3) While US, EU and Japanese imperialism benefits from FDI and cheap Chinese imports, its profitability comes from tax breaks, and cheap labor, rather than any advantages from buying Chinese inputs.

4) Chinese manufacturers do not sell inputs cheaply to foreign exporters. A recent analysis showed that China's return from FDI in copper mining in the Democratic Republic of Congo was higher than that of the giant US mining firm Freeport. http://heartofdiamonds.blogspot.com/2009/05/china-gains-congo-loses-in-mine-deal.html

5) The super-profits of the FDI manufacturing export sector in China are therefore dependent on cheap labor and tax breaks that do not represent a major drain on the super-profits of Chinese state monopoly capitalism.

If it were not the case then how do we explain the rapid capital accumulation in China? This drain on China's potential super-profits may be great with FDI in Joint Ventures (JV) where foreign investors have an equal share and produce *for the China market.* For example General Motors has as 50/50 partnership with the SOE Shanghai Automotive Industry Corporation. But this profit sharing is a tradeoff for long-run benefits flowing from "spillovers" in new technology that result from JVs in the domestic market. Ironically, the GM parent company is currently 61% owned by the US Treasury, 17% by the UAW union, and 11% by the Canadian state following a Chapter 11 bankruptcy! Thus the strong growth of GM expected in China in 2009 will help rescue GM in the USA but it will also boost the share of profits by the SOE partner SAIC.
http://online.wsj.com/article/SB10001424052748704107204574472474011172820.html
So while this type of JV may increase the share of FDI profits by producing for the domestic market, it is still a relatively small share of total FDI and does not prove that China is a semi-colony. On the contrary, GM and SAIC have set up a JV to produce autos in India.
http://online.wsj.com/article/SB10001424052748704112904574476831222511364.html

Two Opposed Imperialist Blocs

The ability of China to ride out this depression by using their overproduced capital in the form of state sovereign funds and SOE surpluses to invest in expansion of FDI into energy, cash swaps for oil etc in Asia, Africa and Latin America, proves that they are in a strong position to compete successfully in displacing bankrupted imperialist powers whose finance sectors have had to be bailed out by massive state debt creation. This means that the greatest points of conflict as the imperialists jockey for position during this crisis will be between the US imperialist bloc and the new bloc based on the emerging Chinese imperialism.
http://www.globalresearch.ca/index.php?context=va&aid=15732

The rise of China (backed by Russia) is not only a problem for the US, it is also a big problem for the other imperialist powers, in particular Britain, France, Germany, Japan, Spain

and Australia because these are more or less subordinated to the US and are the ones most likely to lose out in the rise of China and Russia. But the old rivalry between Europe and the US has not vanished. It is not clear what France and Germany will do as the tension between the US and China rises. France has a temporary pact with the US in regard to Iran, while it is making deals with China in Venezuela. Germany is a wild card. It appears to be in the US camp, while it is making deals with Russia behind the US's back. Germany just made a deal with Russia for the pipeline that will go directly from Russia to Germany. It is the The new Nord Stream pipeline that will be traveling more than 750 miles underwater, from Vyborg, Russia, to Greifswald, Germany, bypassing the former Soviet and satellite states, thus it will give Russia a separate supply line to the West, in particularly to Germany. According to *the New York Times*: "Currently, Russian gas has to be piped through Eastern Europe to reach Western Europe. If Russia shuts off the gas to pressure a neighbor in the east, it is felt in the more powerful, wealthier countries to the west, where it touches off loud protests.
"The new Nord Stream pipeline will change that equation. By traveling more than 750 miles underwater, from Vyborg, Russia, to Greifswald, Germany, bypassing the former Soviet and satellite states, it will give Russia a separate supply line to the west.
"As a result, many security experts and Eastern European officials say, Russia will be more likely to play pipeline politics with its neighbors."
http://www.nytimes.com/2009/10/13/world/europe/13pipes.html?_r=1

So gas will flow to Germany without going through the Eastern European countries i.e. Ukrainel etc. Germany will have a special deal with Russia in regard to the supply of gas, while Russia can use the old pipeline to control its backyard (cut off supply to Eastern Europe if necessary while Germany can still get it). Even though now most European imperialists line up behind the US, that can change and to some degree it is already changing. Germany always had close relations with Russia, and as the tension between all imperialist countries increase there is no reason why Germany will not join the China-Russia bloc. As overproduction becomes more and more acute, it will difficult to predict which side French imperialism will take. At the moment it defends its interests in Iran by lining up behind the US, but at the same time China's CNPC is part of a JV with Total (France) in Venezuela. Ultimately it is not our business to predict exactly how the different imperialist blocs will line up against each other in the future.

While the US has rejected Chinese SOE bids for US firms, [e.g. Unocol] China has increased investment in Australia [e.g. Rio Tinto and BHP] where Chinese ownership could see Australian imperialism become subordinated to China rather than the US. Japan, currently the No. 2 imperialist economy by GDP, is being overtaken by China.

"For years, Japan has been readying itself for the day that it is eclipsed economically by China. But as a result of the global slowdown, Japan's difficulty in managing its economy and China's rise — on vivid display Thursday as Beijing celebrated the 60th anniversary of the founding of the People's Republic — that day may come sooner than anyone predicted. Though recent wild currency swings could delay the reckoning, many economists expect Japan to cede its rank as the world's second-largest economy sometime next year, as much as five years earlier than previously forecast.
At stake are more than regional bragging rights: the reversal of fortune will bring an end to a global economic order that has prevailed for 40 years, with ramifications across arenas from trade and diplomacy to, potentially, military power.

China's rise could accelerate Japan's economic decline as it captures Japanese export markets, and as Japan's crushing national debt increases and its aging population grows less and less productive — producing a downward spiral."

http://www.nytimes.com/2009/10/02/business/economy/02yen.html?th&emc=th

This means that the crisis is one that will see some imperialist powers decline and others fight for their survival, so the stakes are high and the consequences for the exploited masses are huge. Each imperialist power in attempting to force its rivals into submission also drives down the wages and conditions of its own proletariat and enlists them as cannon fodder in their military adventures. It is the weakest imperialists that have to pass on the highest costs to their own workers or risk extinction. Thus Britain, Spain, Denmark and Australia along with numerous other semi-colonial and client states offered troops to the US invasion and occupation of Iraq in the hope that the US could protect their imperialist status. Japan has had so-called 'non-combatant' troops in Iraq and has provided logistic support for the war in Afghanistan. France and Germany refused to participate in the Iraqi war. Germany has also been reluctant to put frontline troops in Afghanistan, while France has only just rejoined NATO as a full member after 30 years even though it has had around 2000 combat troops in Afghanistan since 2000.
http://www.rpfrance-otan.org/article.php3?id_article=447

However, there is no guarantee that these US rivals will gain any advantage or that the US junior imperialist partners will survive by selling the lives of their soldiers. It was no accident that another minor imperialist power subordinate to the US, Greece, facing bankruptcy, tried to impose a massive austerity program on its workers at the end of 2008 and was then faced with an uprising. It is French imperialism, now weakened and in a temporary alliance with the US, that has lagged behind in its market reforms which means that to restore its competitiveness it has to attack the past gains of its workers and finds itself facing strikes and occupations at home, and semi-insurrections in the Antilles. Despite a polite non-aggression pact, which saw France observe the US sanctions on Iran, the rivalry between France and the US goes on in proxy fronts as we saw in Madagascar, a former French colony, that came under the influence of South Korea, a proxy of Japan and the US, but was met with an insurrection in which the workers, farmers and ranks of the military united. Similarly the rivalry between the US and Russia over control of the oil rich Caucasus sparked a war over South Ossetia and Abkhazia at the expense of the people on both sides used as cannon fodder in this war. In Latin America, France's Total is now in JV with Chinese SOEs to develop Orinoco oil in Venezuela, thus the temporary pack between the US and France can fall apart.

But, while every lesser imperialist power is now fighting to retain its share of the world market, the US has the most to lose from the rise of China backed by Russia. This is what explains Obama's military aggression towards Afghanistan, his bombing of Pakistan, his backing of Africom in Ghana, his keeping the pressure on Iran, his complicity in the US backed coup in Honduras (Cuba is of course a big factor here), etc. All of these are instances of the US using its vast military superiority to stake out territory so that it can command spheres of influence that are vital for future supplies of raw materials – in particular oil, gas and minerals. The US finds that it is not its historic rivals, now reduced to secondary powers that are its chief rivals, but China backed by Russia. Instead of breaking up the old Soviet Union and Republic or China, these states remain relatively intact under strong military state capitalist regimes. They retain control over their former territories as DWSs that comprise

most of Central Asia (or Eurasia), which is rapidly becoming the biggest battleground between the two imperialist blocs.
http://www.globalresearch.ca/index.php?context=va&aid=15686

The Battle for Central Asia

Thus the Middle East is the US launching platform for Central Asia and the struggle to take over the huge sphere of influence of Russia and China over the former Soviet republics of the USSR and the Autonomous regions of China: Xinjian Uygur, Ningxia Huia, and Gansu and Shaanxi Provinces. And it is over control of these vital raw materials that we can expect new imperialist wars, in particular proxy wars, is in the making. This is because China and Russia have been able to keep control over the former territories of the their respective DWSs.
http://www.unctad.org/Templates/webflyer.asp?docid=11883&intItemID=2068&lang=1

The key to the battle for Eurasia is its oil and gas. The Brazilian journalist Pepe Escobar has a series on "Pipelineistan" in the Asia Times. One article details the huge political investment of the US and its allies in the only pipeline out of Central Asia not controlled by China or Russia:
"History may judge it as one of the capital moves of the 21st century's New Great Game: May 25, the day high-quality Caspian light crude started flowing through the Caucasus toward the Mediterranean in Turkey. The Baku-Tbilisi-Ceyhan pipeline (BTC) - conceived by the US as the ultimate Western escape route from dependence on oil from the Persian Gulf - is finally in business… This BTC state slices Azerbaijan in half from east to west, then slices Georgia in half almost from east to west, before taking a dip south, bypassing secessionist Ajaria and slicing Turkish Anatolia diagonally from the northeast toward the south. The founding stone is at British Petroleum's (BP's) gleaming terminal at Sangachal, half an hour along the Caspian south of Baku. The state is 44 meters wide, snaking 1,767 kilometers across three countries, two of those (Azerbaijan and Georgia) extremely volatile, and the other (Turkey) faces potential trouble from dispossessed Kurds. To understand the scope and ambition of BTC, one must visit Villa Petrolea, the Baku headquarters of BP. The BTC's major shareholders are BP (30.1%) and the Azerbaijani state oil company SOCAR (25%), followed by Unocal (US, 8.9%), Statoil (Norway, 8.71%), Turkish Petroleum (6.53%), ENI (Italy, 5%), TotalFinaElf (France, 5%), Itochu (Japan, 3.4%), ConocoPhillips (US, 2.5%), Inpex (Japan, 2.5%) and Delta Hess (a joint venture of Saudi Delta Oil with American Amerada, 2.36%). BP has invested at least $15 billion in the country (exploration, exploitation, pipeline construction)… Azerbaijan, Georgia and Turkey were all desperate to finish BTC on time. Turkey owes a fortune to the International Monetary Fund. Georgia survives thanks largely to American handouts. Azerbaijan at least set up a state oil fund to use oil revenues to the benefit of future generations…In terms of no-holds-barred power politics and oil geopolitics, BTC is the real deal - a key component in the US's overall strategy of wrestling the Caucasus and Central Asia away from Russia - and bypassing Iranian oil and gas routes. Kazakh President Nursultan Nazarbaev, for instance, has just announced that Kazakh crude will also flow through the BTC before 2010. He even proposed to add Aktau - the Kazakh Caspian oil Mecca - to a new acronym (ABTC?). It's interesting to remember that BP always denied that it needs Kazakh oil to fill its pipeline…Anyway, what really matters is positioning in the New Great Game. The Caucasus, the Caspian and Central Asia are up for grabs. European customers for Azeri (and Kazakh) oil and gas might rely on BTC for some of their supply. But the Russian counterpunch will come: President Vladimir Putin will not cease to seduce the European Union with loads of Russian, Caspian oil - plus

strong protection - in return for loads of European Union investment.
http://www.atimes.com/atimes/Central_Asia/GE26Ag01.html

http://www.alternet.org/world/139983/pipeline-istan:_everything_you_need_to_know_about_oil,_gas,_russia,_china,_iran,_afghanistan_and_obama/

Today the most immediate war threat in the battle or Central Asia involves US/Israel and Iran/China/Russia in the Middle East and Iran. Behind the fiction that Iran is breaking an agreement over nuclear arms is the reality that Iran has one of the largest reserves of oil and gas in the world. More from Escobar's tales of "Pipelineistan":

"Every time I've visited Iran, energy analysts stress the total "interdependence of Asia and Persian Gulf geo-ecopolitics". What they mean is the ultimate importance to various great and regional powers of Asian integration via a sprawling mass of energy pipelines that will someday, somehow, link the Persian Gulf, Central Asia, South Asia, Russia and China. The major Iranian card in the Asian integration game is the gigantic South Pars natural gas field (which Iran shares with Qatar). It is estimated to hold at least 9% of the world's proven natural gas reserves.

As much as Washington may live in perpetual denial, Russia and Iran together control roughly 20% of the world's oil reserves and nearly 50% of its gas reserves. Think about that for a moment. It's little wonder that, for the leadership of both countries as well as China's, the idea of Asian integration, of the Grid, is sacrosanct.
http://www.atimes.com/atimes/Central_Asia/KE14Ag01.html

What is more Iran is hostile to the US world domination and its Middle East Gendarme Israel, and is increasingly aligned economically and politically to China and Russia. Some of the reasons for this growing alliance are spelled out here: http://www.atimes.com/atimes/China/GF04Ad07.html . So if it is not Iran's main allies, China and Russia who are the main rivals of the US and EU imperialists competing for Iran's oil and gas, who is it? France and Japan have complied with US pressure to back off from actively pursuing its interests in Iran. France has a large FDI stake in Iran so it cannot afford to let its rivals steal a march. Nor can Japan afford to allow China to push it out of Iran's gas reserves. So both France and Japan are backing the US in its global battle to block China's rapid emergence so as to protect their respective stakes.

Who is left? Germany? Germany's main interest in Iran is to get an alternate supply of gas via Turkey in the Nabasco pipeline due for completion in 2015. On the other hand, Germany agreed to The new Nord Stream pipeline that will be traveling more than 750 miles underwater, from Vyborg, Russia, to Greifswald, Germany. But even though Germany is an important client of Russian gas, Germany also competes with Russia. Russia has agreed to buy all gas not sold to EU, with India (pipeline planned across Baluchistan) with China (3rd largest customer) and Japan for Iranian gas supplies in the future. Germany's FDI in Iran is behind that of China. During 2001-2007 French companies were the leading investors in Iran at $30.2 billion, followed by China at $29.5 billion, Germany at $26 billion, Italy at $23.7 billion, and Japan at $18.3 billion. But clearly Germany is one of many competitors who are losing out to the growing influence of China in Iran. Because of the sanctions China became Iran's number one trading partner in 2005 after four consecutive years as number two. http://www.forexyard.com/en/reuters_inner.tpl?action=2009-09-30T133406Z_01_LU110188_RTRIDST_0_IRAN-CHINA-OIL-TIMELINE Today China has become the major partner in developing Iran's gas production and distribution and is

stepping up the scale of its FDI in Iran which totals around US$120 billion. http://www.nytimes.com/2009/09/30/world/asia/30china.html?th&emc=th One of the incentives for the Iranian capitalists to welcome China with open arms is the Chinese's promise to build oil refineries in Iran. This is a huge winning card in the competition between Europe and China over the control of oil in Iran. Western imperialism kept Iran under its thumb by preventing the construction of oil refineries in Iran. China is willing to do it, which makes China irresistible to the Iranian capitalists. "In June, China National Petroleum signed a $5 billion deal to develop the South Pars natural gas field in Iran. In July, Iran invited Chinese companies to join a $42.8 billion project to build seven oil refineries and a 1,019-mile trans-Iran pipeline. And in August, almost as the Americans arrived in China, Tehran and Beijing struck another deal, this time for $3 billion, that will pave the way for China to help Iran expand two more oil refineries."
http://www.nytimes.com/2009/10/13/world/europe/13pipes.html?_r=1

We cannot understand the standoff over Iran's nuclear weapons without recognizing the Chinese elephant in the room. Iran is surrounded by US client regimes in Iraq, Afghanistan, and Pakistan. Iran can only resist the US because it has the backing of Russia and China. Everybody knows this to be the modern version of the "great game" to take control of Eurasia away from China and Russia. China is the economic powerhouse, and Russia is the nuclear arsenal. Iran has agreed to send its enriched uranium to Russia to be turned into fuel hoping to dodge severe sanctions. China is not going to obey the US and pull out of Iran like France or Germany might. It works closely with Russia in trying to water down US sanctions in the Security Council. http://www.nytimes.com/2009/09/30/world/asia/30china.html?th&emc=th
Like Russia, China is opposed to tougher sanctions.
http://www.nytimes.com/2009/09/25/world/asia/25beijing.html
Moreover, in Iraq, China with BP has won a big concession to extract oil in Rumaila. China now risks a rift with the US in the Middle East:
http://nz.news.yahoo.com/a/-/world/6128534/china-u-s-risk-rifts-in-middle-east-former-chinese-envoy/

The Battle for Africa

A second arena where competition for oil and minerals looms large is Africa. The major rivals are no longer Britain and France but the US and China. Britain and France still have huge investments in Africa and also stand to lose out to China. But the main losers will be the minor imperialists like Portugal and Belgium whose spheres of interest are being taken over by China. Playing supporting roles are the Russians on the side of China, and Israel on the side of the US. A new scramble for Africa is well under way. Each rival attempts to use its economic and political influence to win over the national bourgeoisies as junior partners in their spheres of influence.

In Angola, China has replaced Portuguese imperialism which abandoned Angola in 1975 (China's biggest trading partner; Angola is the biggest oil supplier to China, as also to the US. This is a hot spot in Africa where US / China rivalry will surface first. Angola will replace Nigeria as main oil producer, China FDI in oil) NYT article 2006 [see appendix below] This is reflected in WSJ article (below) which recounts the attempts led by Chevron etc to regain control over Angola's oil. It also explains the PR visit by Hilary Clinton. The IMF after years of neglect just loaned 1B to Angola. Thus the rivalry over China's biggest stake in Africa is heating up! http://ipsnews.net/news.asp?idnews=41125

In Nigeria, China has big oil investments, rail investments, and most recently a deal to rival or displace the oil majors in a 49% JV with the Nigerian National Petroleum Corporation (NNPC) worth $50bn. This is being resisted by oil majors http://allafrica.com/stories/200910070265.html This is blowing up into the biggest confrontation between the Chinese SOEs and oil majors (the biggest stake is held by Shell, followed by Exxon-Mobil, Chevron, and last TotalfinaELF) in Africa and around the world. http://blogs.ft.com/energy-source/2009/09/28/china%E2%80%99s-oil-talks-with-nigeria-the-unanswered-questions/

In the Democratic Republic of Congo, (DRC) China has replaced Belgium, the former imperialist power. In 2007 it made a massive deal to build infrastructure for copper, cobalt and nickel (mining?) in the infamous Katanga region. China has done a political deal with Kabila for this major joint venture. See especially the China DRC Coltan connection! http://project2049.net/documents/china_and_congos_coltan_connection.pdf As for who wins from these deals, according to one energy analyst's blog, China wins. http://heartofdiamonds.blogspot.com/2009/05/china-gains-congo-loses-in-mine-deal.html

In Ghana, China's CNOOC has done a deal the GNPC (the state oil company) for oil exploration to develop its oil potential. A long relationship, technical assistance, JVs dam and telecoms, fisheries are a distant second to Britain FDI (143m cf 4.3 b) but it has the most projects. Thus Britain has big FDI stock in Ghana, but China's policy is to develop oil production. This has brought it into conflict with Exxon-Mobil over who wins the support the Ghana state oil company. In South Africa the global recession has made China the biggest trading partner, 50% bigger than the US which is No 2. Imports from China have grown 10 times since 2000. SA has a trade surplus with China. For China's interests in Sudan http://www.npr.org/templates/story/story.php?storyId=92282540 Uganda http://africannewsanalysis.blogspot.com/2009/10/cnooc-in-talks-to-enter-5b-uganda-oil.html http://www.nytimes.com/2005/07/24/world/africa/24iht-zimbabwe.html and Zimbabwe.

There is a debate in the liberal left about whether China's interests in Africa (and elsewhere) are beneficial to the partner countries.
"International audiences are beginning to recognize the geopolitical significance of the recently burgeoning relationship between Africa and China, but there has been scant scholarly research concerning the realities and implications of this alignment, particularly from the African perspective. This paper offers a preliminary examination of whether the enhanced relations between Africa and China do, in fact, achieve "equality and mutual benefit." Or, do the pre-existing political, economic, and strategic inequalities between China and African states result in relations that are characterized by neocolonialism, dependence, and African insecurity?"
http://belfercenter.ksg.harvard.edu/events/1427/africa_and_china.html

The Bolivarian left has also taken different positions. The *Green Left* takes the view that China is a maquiladora getting raw materials for the benefit of the foreign imperialists who produce for export in China.
"Chinese-owned companies' investments in Africa are largely driven by a basic agenda of seeking fuel and minerals inputs for the production in China of manufactures by Chinese firms working as subcontractors for big Western
corporations, with the bulk of the profits going to the latter. In 2002, exports by Chinese subsidiaries of First World corporations accounted for 25.8% of China's exports — up from

20.3% in 1997, according to the World Investment Report 2006. *According to the* WIR 2006*, the value added in China by the subsidiaries of First World corporations amounted to US$103.6 billion, and their pre-tax profits from such operations totalled $22.7 billion."* http://www.greenleft.org.au/2007/701/36384

Disagreeing with Chavez and his left cheerleaders the *Green Left*, James Petras (a critical supporter of Chavez) says that China is an "emerging imperialist power".
"China's ruling class, its outward billion dollar investments in western capitalist enterprises via its sovereign wealth funds, its billion dollar investments in overseas extractive enterprises, is driven by the mass of capital accumulated that is extracted via intense levels of labor exploitation and the elimination of state funded pensions, health plans and education. China's role as an emerging imperial power is rooted in the imbalance between global power and social welfare decay. The fact that western capitalist writers, policymakers and their academic camp followers point to the same social imbalances in China as its domestic working class critics should not obscure a basic point. The Wall Street critics are defending the AFA financial elite against China's export industrialists' greater productivity; while the domestic working class critics are criticizing the capitalists and the state for their high rates of exploitation and concentration of wealth."
http://www.globalresearch.ca/index.php?context=va&aid=15670

Of course China and its partners promote the benefits of soft loans and infrastructure deals for the 'development' of Africa as distinct from the old colonizers. However the Financial Times points to China offering "cash" and getting "bargains". For example China's deal in the Congo is said to be more profitable than Freeport - the US world No 1 giant copper miner.
"The Chinese stand to gain in several ways from the deal as announced. In addition to their nearly $1.8 billion in annual profit from the mine, they'll earn perhaps $4.5 billion in interest on the development loans—more if they carry an interest rate higher than two percent. There also looms the very large question of who will get the profits from the contracts to build the promised infrastructure. My assumption is that China's Sinohydro Corp and China Railway Engineering Corp will be awarded those contracts on a no-bid basis, which means they'll take home another billion or so in profits on the project."
http://heartofdiamonds.blogspot.com/2009/05/china-gains-congo-loses-in-mine-deal.html.

If China can extract more profits than Freeport then it is clearly competing here as an imperialist power, not a proxy for the US or any other imperialist powers, or with 'humanitarian' or 'socialist' motives. Thus China is competing with Big Oil (Exxon, Shell etc) in Nigeria and getting hostile responses from other imperialist powers. It has sold arms to many countries, such as Zimbabwe, and has made huge loans to military regimes such as that of Guinea which are hardly out of concern for the wellbeing of the African masses.

China's hardnosed investment explains why the US and other imperialist powers see China as an emerging rival. The US AFRICOM is reported as being set up in part to contain China's moves in Africa. This would seem to be backed up by the fact that while it is based in Ghana (as a 'democracy') AFRICOM is training African armies in Uganda, Congo and Senegal. AFRICOM is also in Kinshasa training journalists, military, and MPs on how to use the press to advance policy in an area where China has its biggest mining investments in the DRC. We can safely say that the US military presence in Africa is to protect its interests facing growing competition from China's expansion on that continent.

"An understanding of US interests is crucial for Ghana if it is to capitalise on the immense opportunity provided by the President Obama's July visit, writes Asare Otchere-Darko. Following a deepwater oil find in 2007, Ghana's pending oil-rich status has made it the subject of strategic US energy and military interests, and raising the stakes of Ghana-US relations, Otchere-Darko argues. As the US's preferred physical location for the US African Command (AFRICOM) headquarters and with the superpower concerned not to cede strategic ground to China in the region, Ghana has an unprecedented hand to play in this round of international diplomacy."
http://africannewsanalysis.blogspot.com/2009/06/ghana-what-us-wants.html

The Battle for Latin America

Latin America is the third area of inter-imperialist conflict between the two blocs. The recent coup in Honduras proves that it is not the conflict between the US and France or Spain that is central to LA inter-imperialist rivalry, but that between the US and China. It's clear that China is involved in every aspect of LA politics because its cash and its demand for commodities are keeping LA afloat during the crisis. China's JVs with Bolivarian regimes played a role in the removal of Honduras president Zelaya. (It is also important to note that the IFLT's position that the coup was staged to prepare a military offensive against Cuba, thus restore capitalism by military means, was also behind the coup). It was cheap Venezuelan oil that made Zelaya convert from a right-wing US backer to a 'Bolivarian' triggering his removal. Venezuela can afford to offer cheap oil because its oil production is underwritten by China's huge demand and multi-billion dollar investments.

For the US the Bolivarian threat is tied to China's ascendancy and its growing influence in Latin America. The US ruling class recognizes the reality of competition with China. It is a zero sum game. We cannot explain this as a disturbance caused by agreements between semi-colonies, or of China acting as a proxy for the US. If this was the case then the US would have nothing to fear from the growing influence of China in the US backyard. And unlike Chavez we don't see China and Venezuela "marching towards socialism" so the real threat is not a Bolivarian scenario of a global state socialist bloc:
"Hugo Chavez says he admires the libertarian legacy of the People's Republic of China, adding that the Asian giant can count on Venezuela as a friend. In a message to Chinese President Hu Jintao on the 60th anniversary of the People's Republic of China, Venezuelan president Chavez said that "we are marching towards socialism. In the name of the revolutionary spirit that unites us, we congratulate the honorable Chinese people and celebrate by its side its unbreakable will to emerge as a free and sovereign nation. To celebrate this popular victory is to say, the Chinese people have stood up," Chavez said in a statement. He underlined the "infinite admiration" he has for an event that "encourages global revolutions."
Chavez said that China has given ample evidence "that you do not need to be an empire in order to be a great power."
http://www.presstv.ir/detail.aspx?id=107618&sectionid=351020704

We don't agree with Chavez that it is possible to be a "great power" without being an "empire". Therefore to make sense of China's rise in Latin America we have to understand both its imperialist expansion, and the role of the Bolivarians to provide a cover for this. This, by the way, explains Chavez's support of the current regime in Iran). Hugo Restall writes in *China's Latin American Gambit:*

"Americans tend to see China's economic rise through the prism of the bilateral trade deficit and competition for manufacturing jobs. But the real story is that Chinese institutions are buying equity stakes and making loans to increase their influence in natural resources. And Latin America is the most important arena for China's investments. Some observers portray this as a threat in the U.S. "backyard." The truth is that the developing trade between China and Latin American countries represents an opportunity—if the U.S. plays its cards right. There are several reasons to be relatively sanguine about China's increasing involvement in Latin America. Most obviously, the Chinese interest in the region is pragmatic rather than ideological. The goal is to further economic growth at home by opening new markets and guaranteeing a supply of necessary inputs… The more China invests, moreover, the greater the risk of an eventual backlash. Already there are murmurings from vested interests in Latin countries that Beijing is a neocolonial power, buying raw materials and flooding the region with its cheap manufactured goods. Certainly competition from Chinese goods has had a much greater effect in Latin America than in the U.S., hurting the textile industries in Brazil, Argentina and Mexico. This has brought a wave of antidumping suits."
http://online.wsj.com/article/SB10001424052970203706604574368602807031942.html

In *Deals help China expand sway in Latin America* the authors write:
"As Washington tries to rebuild its strained relationships in Latin America, China is stepping in vigorously, offering countries across the region large amounts of money while they struggle with sharply slowing economies, a plunge in commodity prices and restricted access to credit. In recent weeks, China has been negotiating deals to double a development fund in Venezuela to $12 billion, lend Ecuador at least $1 billion to build a hydroelectric plant, provide Argentina with access to more than $10 billion in Chinese currency and lend Brazil's national oil company $10 billion. The deals largely focus on China locking in natural resources like oil for years to come. China's trade with Latin America has grown quickly this decade, making it the region's second largest trading partner after the United States. But the size and scope of these loans point to a deeper engagement with Latin America at a time when the Obama administration is starting to address the erosion of Washington's influence in the hemisphere."
http://www.nytimes.com/2009/04/16/world/16chinaloan.html

The Economist, in *The Dragon in the Backyard* argues that while China's influence is still small, it is becoming a major trading and investment partners with Brazil, Venezuela, and Ecuador:

"Chinese investment has so far been overwhelmingly concentrated in mining and oil. (An early and still unusual exception is a joint venture with Brazil, dating from the 1980s, to produce communications satellites, in which China provides 70% of the finance and the technology.) Toromocho is just one of three big investments in copper projects in Peru. Chinese companies have become the biggest foreign investors in Ecuador's oil industry. But it is China's stake in Hugo Chávez's Venezuela that is potentially most contentious. The China Development Bank has lent two-thirds of the capital for a $12 billion joint fund which Chinese companies could tap for investment projects in Venezuela. Most of these are likely to be in oil: CNPC, a Chinese company, is operating several smallish oilfields and is investing in the Orinoco tar sands. The United States has long been the main foreign market for Venezuelan oil. Venezuela provides about 10% of American oil imports, and Petróleos de Venezuela (PDVSA), the state oil monopoly, owns Citgo, an American oil distributor which has several refineries specially adapted to process the country's heavy and sulphurous crude. This mutual dependence has long been a discomfort to Mr Chávez, and he has repeatedly

said that he wants to divert Venezuelan oil to China (though transport costs would be much higher). So far Venezuelan oil exports to China have risen from a negligible level to 398,000 b/d. But PDVSA has announced that it wants to increase the flow to 500,000 b/d by December. That could be done only by reducing shipments to the United States."
http://www.economist.com/displaystory.cfm?story_id=14209932

The US is concerned about rise of China (and Iran) in its backyard
"Secretary of State Clinton told a meeting of State Department officers:
What we are doing hasn't worked very well and in fact, if you look at the gains, particularly in Latin American, that Iran is making and China is making, it is quite disturbing. Of course, there will be political and economic competition, even between the closest of allies". But Clinton whipped out some Cold War memories to warn of a new Axis of Challenge: "We are looking at how to deal with [Nicaraguan President Daniel] Ortega. The Iranians are building a huge embassy in Managua. You can only imagine what it's for." This seems to be a bit of posturing, balancing President Obama's recent appearance at the Summit of the Americas, but it does raise the question: if Washington wants to frame relations with Latin America as a battle with outside powers, how exactly does it propose to wage the political contest?"
http://enduringamerica.com/2009/05/02/video-clinton-warns-iran-china-latin-america-at-state-department-town-hall-meeting/
China and US competition in Latin America is heating up but the US will not be overtaken by China in Latin America anytime soon:
"Ten-fold growth is stunning, but how does it compare to the champ? US-Latin American trade last year was US$560 billion, four times more than Sino-Latin trade. European-Latin American trade stood at US$280 billion, twice as much. In addition, with foreign investment in Latin America, China will not pass the US anytime soon. US companies invested US$350 billion in Latin America and the Caribbean in 2007, compared to only US$22 billion by Chinese firms… Regardless of who you have your money on, if the US and China are locked in for a title bout over Latin America, we're only in round one."
http://www.doublehandshake.com/2009/07/23/the-us-china-bout-for-latin-america/

A research paper on China's energy policy in Latin America makes the same point in terms of China's economic performance. It focuses on the small size and limited growth of China's interests. It concludes:
"While there is a select group of elected officials and scholars who believe China to be an imminent threat to American interests in the region, the prevailing opinion is one of cautious optimism. Deepening Sino-Latin American ties are a natural consequence of China's economic development and should not be interpreted as aggressive or imperialistic behavior. Moreover, China is at a competitive disadvantage compared to the U.S. when it comes to the region. Throughout this paper we demonstrate that although a number of Chinese-owned energy concerns have struck deals across Latin America, the size and scope of these agreements is actually quite limited. In addition the technical demands of extracting Latin American oil, difficulties involved in transporting resources largely located near the Atlantic to the Pacific coast, limits placed on foreign involvement in most Latin American states, and domestic politics all curb China's ability to exploit the region's energy reserves. A final complicating factor for China is that her industrialization threatens manufacturing in many energy-producing states. In short, while China's energy interests in Latin America have increased as of late, there are a plethora of factors that will likely prevent a significant Chinese presence for the foreseeable future. Our findings have important implications for those who conceive energy security in the region as a zero-

sum game—where every barrel of oil obtained by the Chinese is one less barrel for the United States. This model drastically oversimplifies a globalized world, and furthermore, seems to presuppose an American claim to all energy resources on the planet. Reflexive Cold War era thinking, that replaces ideology with energy and prescribes that the U.S. prevent the Latin American dominoes from falling once again, is not only empirically inaccurate but dangerous and counterproductive. China is not the semi-autarkic Soviet Union. As perhaps confirmed by the current recession, the economic well being of China and the U.S. depends on a healthy American export market buttressed in part by Chinese debt financing. Since accessible and affordable energy are part and parcel of economic growth, China and the U.S. necessarily have a stake in each other's energy security. These economic and energy interdependencies should be cultivated so that the costs of conflict rise and China is further integrated into the status quo. The decline of fossil fuel resources is a global problem requiring collaborative solutions. China, the U.S., and Latin America can all jointly benefit from the development of the region's energy reserves if it is done so in a way that is transparent, market driven, and sustainable. The American government can help ensure this by revitalizing diplomatic relations with its Southern neighbors and encouraging the improvement of democratic institutions. Continued Sino-American dialogue regarding one another's interests and intents in the region will also keep potentially hazardous misunderstandings and misperceptions to a minimum (Paz, 2006). Finally, the U.S. and China must start to think long-term about global energy needs and begin cooperating on alternative fuel technologies. For if Latin America ever becomes ground zero in an energy conflict between the two powers, everyone involved will have already lost."
http://www.allacademic.com//meta/p_mla_apa_research_citation/3/1/3/2/1/pages313218/p313218-1.php

We agree that China is not yet a major economic threat to the US in its own backyard, and is more likely to expand at the expense of Spain and France or in collaboration with them. But the above analysis downplays as alarmist the strategic partnership that China and the Bolivarian states have established. China by itself is not the only issue – there is also the global bloc of which it is the leading member.

In Latin America, Venezuela is the key to this geo-strategic bloc between the Bolivarian states and China leading Brazil, Bolivia, Argentina, Ecuador and Chile. As one article headlines, it's an *Axis of Oil.* http://www.opendemocracy.net/globalization-china/china_venezuela_3319.jsp China and the Bolivarians are very keen to present China's influence in Latin America as benign and as the progressive alternative to US imperialism interested in 'development'.
"China now wants to show it is a responsible stakeholder in the region," says Dan Erikson, a specialist in China-Latin American relations from the Inter-American Dialogue. "It has the image in Latin America of being 'mercantilist', or only interested in taking out commodities. Now it wants to show it is interested in Latin America's longer-term development."
http://news.bbc.co.uk/2/hi/americas/7737554.stm

But as in Asia and Africa China is not only interested in trade. Where it can, it buys up or invests in energy production. For example, a new deal with Venezuela for 16 billion (following one with Russia for $20 b) is for exploration and production of oil in the Orinoco http://news.bbc.co.uk/2/hi/8260200.stm . China's CNPC is part of a JV with Total (France) and three Japanese firms including Mitsubishi, in the Orinoco. Total stayed in Venezuela after the oil renationalization whereas Exxon left. Total has a presence in China itself so this shows that French and Chinese imperialism are collaborating not only in Latin America but

also in China itself. Typically Venezuela has signed a railroad deal with China
http://www.doublehandshake.com/2009/07/31/china-venezula-sign-7-5bn-railway-deal/

Moreover, China is doing cash for oil swaps as in Brazil where it recently did a deal with Petrobras the SOE for $10 billion cash for 10 years of oil. Petrobras will use this cash to help develop its new offshore reserves. The Bolivarians will say that China is lending money to an SOE which uses part of its profits for 'development'.
http://www2.petrobras.com.br/ri/ing/InformacoesAcionistas/ComposicaoCapitalSocial.asp
Petrobras entered into a deal with Bolivia's Morales to split the profits of its big gas extraction in that country. Was this 'development' or super-exploitation? It suits the Bolivarians to present China as a benign giant without imperialist interests because this helps to cover up their own role as junior partners of all imperialist countries. Lula's Petrobras enters JVs with the oil majors like (the Chinese) Petrofina to develop its oilfields. They get their super profits. Morales' YPFB (SOE) gets its profits from JVs and oil majors like (the Chinese) Repsol. The fact that the Venezuelan, Brazilian and Bolivian state owned oil companies are key players only means that they serve the interests of imperialism as their junior state bourgeois partners. In the case of China however, the SOEs do not serve the interests of the oil majors but the interests of the Chinese imperialist bourgeoisie. This is because they can export their finance capital in the form of huge cash for oil deals and act as the backers of the Bolivarian regimes, bankrolling JVs and taking oil and other minerals in return. Another example is the offer to buy Repsol YPFs majority stake in the Argentinian YPF for $17 billion. http://online.wsj.com/article/SB124990326465819175.html

Crisis, Revolution and Counter-Revolution

To summarise, the distinguishing feature of the current crisis is not merely that the global crisis has opened a new period of increasing rivalry between existing imperialist powers under the domination of the US, but is one in which China (supported by Russia) as former workers states have entered the stage and now potentially challenge the hegemony of the dominant US imperialism and its supporting powers. This is the fundamental feature of the current crisis that distinguishes it from the depression of the 1930s when the US in order to defeat its rivals had to do deals with the USSR, and the onset of the structural crisis of overproduction in the 1970s when both Russia and China were still outside the global capitalist economy.

The minority, however, does not say that the US stopped being a main engine of the world economy. While China is clearly a new rising imperialist power, it cannot replace the US as the dominating power without an all-out war against the US which will bring a massive destruction of the productive forces and barbarism. China can challenge the US via economic competition only to a certain point. In other words, a replacement of the US as the main power cannot happen without a (nuclear) Third-World-War which will result in a massive destruction of the planet and the human race. It is only the socialist revolution that can stop such catastrophic developments.

Today's crisis follows the capitalist restoration of these states, which far from becoming new semi-colonies allowing US imperialism to remain unchallenged in is global hegemony, have turned into potential rivals competing with the US over access to critical raw materials. Already the beginnings of this rivalry between these two blocs have spilled over into proxy wars in Georgia, the intensification of the war in Afghanistan and Pakistan for control of Central Asia, and mounting trade protection and military buildups (Africom).

Furthermore, the downloading of this crisis onto the workers of the weakest imperialisms and their colonies and semi-colonies will pose the alternative of socialism or barbarism with a renewed sharpness and urgency. We have seen this already in Palestine, Iraq, Greece, Guadeloupe, Peru, and Honduras. It is pushing the masses in the Middle East, Africa and Latin America to the point of insurrection. In the stronger imperialist powers, there is no way out for the ruling class without inter-imperialist wars, and civil wars against their own proletariat. With these developments the question of power is posed or will be posed in the near future.

The role of the treacherous leaders of the working class grouped together in the WSF and led by the restorationist Castro bureaucracy together with the Bolivarian bourgeoisies, represents the main barrier to the mobilization of the worlds' workers on the revolutionary road. Their brand of reformism is a recycling of the old Menshevik/Stalinist popular front and two stage program of first the national revolution, and then socialism. Today it is branded as Bolivarian or "21st century socialism". Its role is to tie the hands of workers in democratic fronts in collaboration with the Bolivarian bourgeoisies and China as a "great power" against "US imperialism". This is the road to counter-revolution. The defeat of the world's workers at the hands of the Castroites and the Bolivarians backed by China and Russia must be prevented at all costs by the regroupment of healthy Trotskyist and revolutionary workers to form a new World Party of Socialism.

The strategic task for revolutionary Trotskyists is to use their analysis of the current situation to regroup the vanguard to fight back against all the counter-revolutionary attacks and wars of the imperialists, and to rebuild the World Party of Socialism founded by Trotsky in 1938 as a new revolutionary international capable of providing the revolutionary leadership that the working class needs and deserves in the struggle for world socialist revolution.

Communist Workers Group (New Zealand)

Humanist Workers for Revolutionary Socialism (US)

Appendix
The world melts, China grows
By Dilip Hiro

In the midst of the worst economic crisis since the Great depression, a new world order is emerging, with its center gravitating towards China. The statistics speak for themselves. The International Monetary Fund (IMF) predicts the world's gross domestic product (GDP) will shrink by an alarming 1.3% this year. Yet, defying this global trend, China expects an annual economic growth rate of 6.5% to 8.5%.

During the first quarter of 2009, the world's leading stock markets combined fell by 4.5%. In contrast, the Shanghai stock exchange index leapt by 38%. In March, car sales in China hit a record 1.1 million, surpassing sales in the US for the third month in a row.

"Despite its severe impact on China's economy, the current financial crisis also creates opportunity for the country," said Chinese President Hu Jintao. It can be argued that the present fiscal tsunami has, in fact, provided China with a chance to discard its pioneering reformer's leading guideline. "Hide your capability and bide your time" was the way former head of the communist party Deng Xiaoping once put it. No longer.

Recognizing that its time has indeed come, Beijing has decided to play an active, interventionist role in the international financial arena. Backed by China's US$2 trillion in foreign exchange reserves, its industrialists have gone on a global buying spree in Africa and Latin America, in neighboring Russia and in Kazakhstan, to lock up future energy supplies for its economy. At home, the government is investing heavily not only in major infrastructure, but also in its much neglected social safety net, its healthcare system, and long overlooked rural development projects - partly to bridge the increasingly wide gap between rural and urban living standards.

Among those impressed by the strides Beijing has made since launching its $585 billion stimulus package in September is the Barack Obama administration. It views the continuing rise in China's GDP as an effective corrective to the contracting economies of almost every other country, except India. So it has stopped arguing that, by undervaluing its currency - the yuan - with respect to the US dollar, China is making its products too cheap, thus putting competing American goods at a disadvantage in foreign markets.

The secret of China's success

What is the secret of China's continuing success in the worst of times? As a start, its banking system- state-controlled and flush with cash - has opened its lending spigots to the full, while bank credit in the US and the European Union (EU) remains clogged, if not choked off. Therefore, consumer spending and capital investment have risen sharply.

Ever since China embarked on economic liberalization under the leadership of Deng Xiaoping in 1978, it has experienced economic ups and downs, including high inflation, deflation, recessions, uneven development of its regions, and a widening gap between the rich and the poor, as well as between the urban and the rural - all characteristics associated with capitalism.

While China's communist leaders have responded with a familiar range of fiscal and monetary tools, such as adjusting interest rates and money supply, they have achieved the desired results faster than their capitalist counterparts. This is primarily because of the state-controlled banking system where, for instance, government-owned banks act as depositories for the compulsory savings of all employees.

In addition, the "one couple, one child" law, enacted in 1980 to control China's exploding population, and a sharp decline in the state's social-support network for employees in state-owned enterprises, compelled parents to save. Add to this the earlier collapse of a rural cooperative health insurance program run by agricultural cooperatives and communes and many Chinese parents were left without a guarantee of being cared for in their declining years. This proved an additional incentive to set aside cash. The resulting rise in savings filled the coffers of the state-controlled banks.

On top of that came China's admission to the World Trade Organization (WTO) in 2001, which led to a dramatic jump in its exports and an average economic expansion of 12% a year.

When the credit crash in North America and the EU caused a powerful drop in China's exports, throwing millions of migrant workers in the industrialized coastal cities out of work, the authorities in Beijing focused on controlling the unemployment rate and maintaining the wages of the employed. They can now claim an urban unemployment rate of a mere 4.2% because many of the laid-off factory workers returned to their home villages. [1] Those who did not were encouraged to enroll in government-sponsored retraining programs to acquire higher skills for better jobs in the future.

Whereas most Western leaders could do nothing more than castigate bankers filling their pockets with bonuses as the balance sheets of their companies went crimson red, the Chinese government compelled top managers at major state-owned companies to cut their salaries by 15% to 40% before tinkering with the remuneration of their workforce.

To ensure the continued rapid expansion of China's economy, which is directly related to the country's level of energy consumption, its leaders are signing many contracts for future supplies of oil and natural gas with foreign corporations.

Energy security

Once China became an oil importer in 1993, its imports doubled every three years. This made it vulnerable to the vagaries of the international oil market and led the government to embed energy security in its foreign policy. It decided to participate in hydrocarbon prospecting and energy production projects abroad as well as in transnational pipeline construction. By now, the diversification of China's foreign sources of oil and gas (and their transportation) has become a cardinal principle of its foreign ministry.

Conscious of the volatility of the Middle East, the leading source of oil exports, China has scoured Africa, Australia, and Latin America for petroleum and natural gas deposits, along with other minerals needed for industry and construction. In Africa, it focused on Angola, Congo, Nigeria, and Sudan. By 2004, China's oil imports from these nations were three-fifths those from the Persian Gulf region.

Nearer home, China began locking up energy deals with Russia and the Central Asian republic of Kazakhstan long before the current collapse in oil prices and the global credit crunch hit. Now, reeling from the double whammy of low energy prices and the credit squeeze, Russia's leading oil company and pipeline operator recently agreed to provide 300,000 barrels per day (bpd) in additional oil to China over 25 years for a $25 billion loan from the state-controlled China Development Bank. Likewise, a subsidiary of the China National Petroleum Corp agreed to lend Kazakhstan $10 billion as part of a joint venture to develop its hydrocarbon reserves.

Beijing continued to make inroads into the oil and gas regions of South America. As relations between Hugo Chavez's Venezuela and the George W Bush administration worsened, ties with China strengthened. In 2006, during his fourth visit to Beijing since becoming president in 1999, Chavez revealed that Venezuela's oil exports to China would treble in three years to 500,000 bpd. Along with a joint refinery project to handle Venezuelan oil in China, the Chinese companies contracted to build a dozen oil-drilling platforms, supply 18 oil tankers, and collaborate with PdVSA, the state-owned Venezuelan oil company, to explore new oilfields in Venezuela.

During Chinese Vice President Xi Jinping's tour of South America in January this year, the China Development Bank agreed to loan PdVSA $6 billion for oil to be supplied to China over the next 20 years. Since then China has agreed to double its development fund to $12 billion, in return for which Venezuela is to increase its oil shipments from the current 380,000 bpd to one million bpd.

The China Development Bank recently decided to lend Brazil's petroleum company $10 billion to be repaid in oil supplies in the coming years. This figure is almost as large as the $11.2 billion that the Inter-American Development Bank lent to various South American countries last year. China had established its commercial presence in Brazil earlier by offering lucrative prices for iron ore and soybeans, the export commodities that have fueled Brazil's recent economic growth.

Similarly, Beijing broke new ground in the region by giving Buenos Aires access to more than $10 billion in yuan. Argentina was one of three major trading partners of China given this option, the others being Indonesia and South Korea.

Will the yuan become an international currency?
Without much fanfare, China has started internationalizing the role of its currency. It is in the process of increasing the yuan's role in Hong Kong. Though part of China, Hong Kong has its own currency, the Hong Kong dollar. Since Hong Kong is one of the world's freest financial markets, the projected arrangement will aid internationalization of the yuan.

In retrospect, an important aspect of the Group of 20 summit in London in early April centered around what China did. It aired its in-depth analysis of the current fiscal crisis publicly and offered a bold solution.

In a striking on-line article, Zhou Xiaochuan, governor of China's central bank, referred to the "increasingly frequent global financial crises" that have embroiled the world. The problem could be traced to August 1971, when president Richard Nixon took the US dollar off the gold standard. Until then, $35 bought one ounce of gold stored in bars in Fort Knox, Kentucky - the rate having been fixed in 1944 during World War II by the Allies at a conference in Bretton Woods, New Hampshire. At that time, the greenback was also named as the globe's reserve currency. Since 1971, however, it has been backed by nothing more tangible than the credit of the United States.

A glance at the past decade and a half shows that, between 1994 and 2000 alone, there were at least nine countries had economic crises that had an impact on the global economy: Mexico (1994), Thailand-Indonesia-Malaysia-South Korea-the Philippines (1997-98), Russia and Brazil (1998), and Argentina (2000).

According to Zhou, financial crises resulted when the domestic needs of the country issuing a reserve currency clashed with international fiscal requirements. For instance, responding to the demoralization caused by the 9/11 terror attacks, the US Federal Reserve Board drastically reduced interest rates to an almost-record low of 1% to boost domestic consumption at a time when rapidly expanding economies outside the United States needed higher interest rates to cool their growth rates.

"The [present] crisis called again for creative reform of the existing international reserve currency," Zhou wrote. "A super-sovereign reserve currency managed by a global institution could be used to both create and control global liquidity. This will significantly reduce the risks of a future crisis and enhance crisis management capability."

He then alluded to the Special Drawing Rights (SDR) of the International Monetary Fund. The SDR is a virtual currency whose value is set by a currency "basket" made up of the US dollar, the European euro, the British pound, and the Japanese yen, all of which qualify as reserve currencies, with the greenback being the leader. Ever since the SDR was devised in 1969, the IMF has maintained its accounts in that currency.

Zhou noted that the SDR has not yet been allowed to play its full role. If its role was enhanced, he argued, it might someday become the global reserve currency.

Zhou's idea received a positive response from the Kremlin, which suggested adding gold to the IMF's currency basket as a stabilizing element. Its own currency, the rouble, is already pegged to a basket that is 55% the euro and 45% the dollar. Within a decade of its launch, the euro has become the second most held reserve currency in the world, garnering nearly 30% of the total compared to the dollar's 67%.

Treasury Secretary Timothy Geithner's immediate reaction to Zhou's article was: "China's suggestion deserves some consideration." Nervous financial markets in the US took this as a sign from the Treasury secretary that the dollar was losing its primacy. Geithner retreated post-haste, and President Obama quickly joined the fray, saying: "I don't think there is need for a global currency. The dollar is extraordinarily strong right now."

Actually, maintaining the customary Chinese discretion, Zhou never mentioned the state of the US dollar in his article, nor did he even imply that the yuan should be included in the super-sovereign currency he proposed. Yet it was clear to all that at a crucial moment - with world leaders about to meet in London to devise a way to defuse the most severe fiscal crisis since the Great Depression - that a China which had bided its time, even though it had the third-largest economy on the planet, was now showing its strong hand.

All signs are that Washington will be unable to restore the status quo ante after the present "great recession" has finally given way to recovery. In the coming years, its leaders will have to face reality and concede, however reluctantly, that the economic tectonic plates are shifting - and that it is losing financial power to the thriving regions of the Earth, the foremost of which is China.

Note
1. There continues to be considerable debate on the accuracy of statistics issued by the Chinese government. An annual report, The Analysis of and Forecasts for Social Development (or the Blue Book on Chinese Society), released in December 2008 by the Chinese Academy of Social Science, said the unemployment rate in urban areas was 9.4% at that time, twice the registered rate of 4.5% released by the Human Resources and Society Security Ministry. In March 2009, Yin Weimin, China's human resources and social security minister, said that the registered urban unemployment rate was at a three-year high of 4.2%.

Dilip Hiro is the author, most recently, of Blood of the Earth: The Battle for the World's Vanishing Oil Resources *(Nation Books). His upcoming book* After Empire: The Rise of a Multipolar World *will be published by Nation Books this year.*

http://www.atimes.com/atimes/China_Business/KE06Cb01.html

While the rest of the world is grappling with the global slowdown, China is figuring out ways to exploit it.

Over the past few months, China has capitalized on the financial turmoil that has paralyzed the world's "developed" economies by stocking up on cheap commodities, weeding out competition to its largest state-run companies, and acquiring even more foreign assets.

Indeed, with China's economic growth projected at an enviable 8% for this year, that country's government has been able to spend less time promoting immediate growth and liquidity, and more time preparing for the economic renaissance that almost certainly seems to be the Asian giant's destiny.

By exposing Western free-market capitalism, undermining the United States economic clout, and eviscerating commodities prices, the financial crisis has offered China the perfect opportunity to advance its domestic agenda.

That agenda begins with the recently unveiled $586 billion stimulus plan – a plan primarily focused on infrastructure.

China's financial institutions have little or no exposure to the toxic subprime assets that spawned this current global crisis. So instead of having to spend hundreds of billions of dollars to bail out its banks, China can choose develop the stage on which it will display its future economic might.

But efore its plans for a massive infrastructure overhaul can be realized, China must first load up on the raw materials crucial to its execution.

With Prices Down, China's Stocking Up

Prices for commodities like aluminum, copper, iron ore and oil are all down substantially from last year as the global financial crisis has torpedoed demand. And now that prices have gone down, China's commodities stockpiles are going up.

Imports of copper, iron ore, and oil all rose in December, as China took advantage of low commodities prices:

- Iron ore imports were up 6.2% in December, on a year-over-year basis.
- Copper imports were up 19.3%.
- And imports of crude oil climbed 11.6%.

"The authorities are thinking about the issue from a strategic point of view," a senior researcher at China's State Reserve Bureau (SRB) told *Reuters*. "As almost all raw material prices went sky-high in the last few years, China has not built up some of the key state reserves. Now is a much better time to stock up."

The government announced last month that it would purchase of 290,000 metric tons of aluminum from eight of the nation's largest smelters at about $1,806 a ton. And on Jan. 13, representatives from the SRB again met with domestic smelters, this time to discuss plans to build a stockpile of up to 300,000 tons of zinc – a metal used in galvanized steel.

A 300,000-ton zinc reserve could cost about $494 million (3.36 billion yuan), based on recent spot prices of $1,630-$1,640 a metric ton, as quoted on the Shanghai Nonferrous Metals Market.

Market participants speculate that the government is also mulling a 200,000-ton copper reserve, now that prices for that metal have tumbled more than 50% from a record $8,940 a metric ton last year.

"China will buy copper for its reserves," SRB Executive Director and Vice President Wang Chiwei said at a conference in Shanghai.

Prices right now are "attractive," Wang added, noting that purchases would "suit national interests."

Chinese copper demand is expected to grow moderately in 2009, despite the global downturn. Officials expect growth of just over 2% next year, but Barclays Capital (ADR: BCS) analyst Yingxi Yu told *Forbes* that demand growth could be closer to 3.5%.

The SRB may increase stockpiles of copper by as much as 74% in the next two years, Scotia Capital Inc. predicted in October.

China Digs for Bargains Down Under

Of course, China's recent drive for raw materials is only half the story.

China is already home to the world's largest population; now it is on the fast track to passing Japan as the world's second-largest economy. Access to resources will continue to be a priority in Beijing for decades to come, even long after the $586 billion stimulus plan is forgotten.

That's why China isn't just using the global financial crisis as an opportunity to stock up on raw materials, it's also loading up on foreign companies and assets while it is flush with foreign reserves. And while prices are cheap.

As they struggle with sluggish demand and falling commodities prices, many distressed foreign mining companies and materials suppliers have suddenly found themselves with a generous foreign backer.

In December, China's third-largest zinc producer, Zhongjin, bought a 50.1% stake in Australian zinc miner Perilya Ltd. for $32 million.

Perilya has found "a strong and well-funded strategic partner committed to the long-term development of Perilya's assets," the Perth-based miner said in a statement. The deal included an initial cash deposit of $6.5 million.

Perilya's deal followed that of Albidon Ltd., which started producing nickel in Zambia just as nickel prices crashed. Albidon raised $5 million from China's Jinchuan Group, Asia's largest nickel producer and a shareholder that now owns 18% of the West Perth-based Albidon. But more importantly, Jinchuan will take 100% of the nickel the Zambian mine produces over the rest of its life.

State-owned companies like Zhongjin and Jinchuan have access to China's massive cache of foreign exchange reserves, which allows them to make acquisitions at a time when few other companies have the resources to facilitate a merger. And while China has focused much of its attention on undeveloped mining assets in Africa, the current financial crisis has opened the door to a wider range of takeover possibilities.

"The Chinese realize there are massive opportunities in the market," Keith Spence, president of Global Mining Corp. (OTC: GBGD), told *The Financial Times*. "A year ago, they were going to Africa to acquire early-stage development assets. But now they are looking for larger tonnage, longer life, later-stage assets. There is less of an emphasis on emerging markets, because now there is choice."

So far, Australia has been the country most often targeted by China for strategic investments.

Australia's Centrex Metals Ltd., Mount Gibson Iron Ltd., Gindalbie Metals, and Grange Resources Ltd. have all struck deals with Chinese companies in the past year, *The Australian* reported.

- Centrex Metals sold a 50% interest in two magnetite deposits to Wuhan Iron & Steel Co. Ltd., China's third-largest steelmaker for $180 million.
- Mount Gibson Iron brokered a rights issue and share placement to Chinese interests, with two major companies taking a stake of as much as 40% in the miner, while also securing discounted off-take agreements.

- Angang Steel Co. Ltd., also known as AnSteel, China's second-largest steelmaker, paid $162.1 million to boost its stake in Gindalbie Metals from 12.6% to 36.28%.
- And Grange Resources is currently set to merge with Australian Bulk Minerals, which is majority-owned by a Chinese steelmaker.

Peter Vaughan, a partner at Blake Dawson, a Melbourne-based law firm, told *The Australian* that major Chinese steel mills kicked off a "wave of investment" in Australia from early 2000 – when China's global economic clout began first started to build. Vaughan said this trend will continue deep into the current year as depressed asset valuations stack the deck in China's favor.

"China is now in a much stronger bargaining position than they have been in the last few years," Vaughan said. "Conditions have previously been in the producer's favor, but demand drops and the tables turn. The Australian resources sector is now a lot cheaper to place an investment in."

Denis Gately, head of the resources and energy industry group at Minter Ellison, one of the largest law firms in the Asia-Pacific region, agreed that Chinese enterprises are among the few that have the wherewithal to acquire prized foreign assets.

"They have recognized they are the only people in that position and will likely wait until prices fall further south," Gately said. "The Chinese have an enormous amount of clout as the only potential buyers."

In addition to building stakes in smaller miners, Chinese companies will be using that clout to build upon stakes in larger mining giants, which every bit as desperate for cash as their smaller counterparts.

Aluminum Corp. of China (ADR: ACH), or Chinalco, for instance has authorized a special team of analysts to watch for an opportunity to increase its stake in Rio Tinto PLC (ADR: RTP) to the maximum 14.99% allowed by the Australian government.

"We have a special team monitoring Rio Tinto's performance and market movements in real time and will evaluate the best timing to do the stake increase," Youqing Lu, the vice president of Chinalco, told *dealReporter*. Chinalco teamed with Alco last year to acquire a 12% stake in the mining company.

Chinalco is one of ten Chinese companies considering further overseas mergers and acquisitions, *Xinhua*, China's official news agency reported.

"The crisis presents a rare opportunity for our domestic companies to initiate cooperation with foreign enterprises," Xiao Yaqing, Chinalco general manager told *Xinhua*. "When the time is ripe, overseas acquisitions, strategic investments and joint development could all be considered."

Canada to Profit From 'China's New Deal'

There is no question that, given its proximity to the Chinese mainland, Australia will continue to play a vital role in quenching China's thirst for commodities. But on the other side of the globe, junior mining companies and exploration firms in Canada are hoping to attract prized Chinese investors.

In fact, the Canada China Business Council (CCBC), Canada's most influential organization in terms of influencing Canada-China trade relations, recently released a report detailing ways Canadian businesses can profit from China's recent infrastructure initiatives.

The report, entitled "China's New Deal: Will Canada Benefit From China's RMB 14 Trillion Stimulus Package," was released earlier this month. The study details China's stimulus-spending plan, and outlines areas in which Canadian companies can support Chinese development by providing resources and technology.

"As one of the world's leading resource exporters, Canada will definitely benefit indirectly from the Chinese stimulus plan," the Jan. 9 report said. "As well as energy, other resources such as wood, steel, nickel, copper and aluminum will be in demand. There also will be collateral benefit for Canadian transportation companies and the ports authorities."

It hasn't taken Canadian companies long to heed the report's message, or its wisdom.

Earlier this week, for instance, China's Tongling Nonferrous Metals Group took a 13% stake in Canada Zinc Metals Corp.

Prior to that, China Mining Resources Group Ltd. announced that it would increase its stake in Canada's Quadra Mining Ltd. from the current 4.02% to a maximum of 19.9%.

D'Arianne Resources Inc. (PINK: DARUF), a Canadian exploration company, could be next to announce a deal with Chinese partners, as it recently reported strong results from its Lac a Paul phosphorous-titanium property.

"As of today, the very encouraging results coming from this first serious exploration campaign on the Lac a Paul project combined with the interest showed by foreign companies during our visit in China, undeniably confirm the potential of our phosphorous project," D'Arianne Resources said in a statement.

Finally, Canada has the largest-and highest-quality uranium reserves in the world, making it the ideal partner in China's quest to develop clean reliable energy.

Delta Uranium Inc. (PINK: DLTUF), engaged in the acquisition, evaluation and exploration of uranium in Ontario and Newfoundland, could also be high on Beijing's target list.

More than 40 developing countries have recently approached United Nations officials to express interest in starting nuclear power programs. And China alone is planning to build 30 new plants in the next 15 years – a venture that will consume an estimated $50 billion in capital. All told, the country may require as many as 200 plants by 2050.

As with Australia, depressed commodities prices have opened the door to investment in major mining corporations, as well as in juniors in the Canadian market. That means the Saskatoon-based Cameco Corp. (CCJ), the world's largest uranium producer, could also be in line for a large capital infusion.

“If I’m China Inc., and I have $10 billion, would I buy 60% of Xstrata (PINK: XSRAF), or a lot of reserves out in the middle of nowhere?” Kalaa Mpinga, chief executive of Mwana Africa PLC, a London-listed junior, told *The Financial Times*. “If I had all these billions, I would do this: Buy 15% of Anglo-American PLC (ADR: AAUK) and get a seat on the board.”

http://www.moneymorning.com/2009/01/28/china-commodities/

U.S. think tank details global investment in Iran
Tuesday, 08 May 2007
By Carol Giacomo, Diplomatic Correspondent

WASHINGTON (Reuters) - Companies and government agencies in three dozen countries have struck more than $153
billion in deals with Iran since 2000, investment that could offer important leverage to help persuade Tehran to abandon
its nuclear program, a new study says.

The research by the conservative American Enterprise Institute think tank may be the most comprehensive attempt to
publicly identify corporate and government investors whose withdrawal could potentially affect Iran's nuclear policy.

The data comes as the U.N. Security Council considers new sanctions against Iran and momentum grows in the U.S.
Congress and in state legislatures for controversial initiatives encouraging divestment in companies doing business in
Iran.

The AEI report, made available to Reuters, found that while the number of new deals with Iran fell dramatically between
2000 and 2007 from 101 to 18, the value of those deals rose from $21.68 billion in 2000 to $47.5 billion in 2007.

"I think it means that companies are only interested in going in for a big pay off," said Danielle Pletka, AEI's vice
president for foreign and defense policy.

"The companies are doing a cost-benefit analysis and saying to themselves 'this is too good to pass up.' Yes, fewer
companies are doing business there but if the payoff is good enough, they figure, so what if they are rogue regime?"

Most of the investment from more than 300 corporations and government agencies comes from Europe and Asia and
most deals involve the energy sector, given that Iran is the world's fourth-largest oil exporter.

INVESTMENT TOTALS

The report lists companies, countries, specific transactions, export credit guarantees, and export and import flows -- all
from public sources. It will be formally released at a news conference on Wednesday.

During the period studied, French companies were the leading investor in Iran at $30.2 billion, followed by China at $29.5
billion, Germany at $26 billion, Italy at $23.7 billion, Japan at $18.3 billion, Austria at $18 billion, the Netherlands at $13.6
billion, South Korea at $13.27 billion, Britain at $12.78 billion and India at $9.9 billion.

While the country-by-country total exceeds the overall value since 2000 cited by AEI, the think tank said it had tried to
avoid double-counting of transactions where more than one country was involved.

With other factors added in, France is only Iran's fifth-largest trading partner. While some countries, like Japan, have
reduced investment in Iran, "France has remained an enthusiastic partner," Pletka said.

Even the United States, which has had trade sanctions on Iran for nearly 30 years, posted $4.2 billion in investments.
The sanctions were imposed after fundamentalist students held 52 Americans hostage for 444 days at the U.S. embassy
in Tehran during the 1979 Islamic revolution.

Pletka said U.S. firms took advantage of loopholes that allowed them to conduct business through subsidiaries, as did
Halliburton Co. -- which recently completed its work in Iran -- or to assert, like Coca Cola and PepsiCo., that they were
providing needed foodstuffs.

COMPANIES NAMED

Other companies and government agencies cited by AEI included France's Calyon Corporate and Investment Bank, the
Italian national export credit agency SACE, China National Non-Ferrous Metals Industry Corp., Germany's Linde AG and
Japan's Chiyoda Corp.

China, which needs new energy supplies to support its booming economy, was Iran's number one trading partner in 2005
-- the last year for which trade figures were available -- after four consecutive years as number two.

In 2005, Italy was the number two trading partner and also the number one guarantor of government export credits to
Iran.

Japan, Iran's number one trading partner in 2000-2004, was ninth in 2005. Tokyo has been under strong pressure from
Washington to curb its dealings with Iran.

Iran, China sign a major oilfield deal
Mon, 28 Sep 2009 15:05:09 GMT

Font size :

Chinese company CNPC won a deal in January to develop the North Azadegan oilfield.

China National Petroleum Corp (CNPC) has signed a contract with National Iranian Oil Company (NIOC) for the development of Iran's South Azadegan oilfield.

The Chinese company will buy a 70 percent share of the whole project, according to an agreement signed Sunday in Lausanne, Switzerland between CNPC and NIOC's overseas investment subsidiary, Naftiran Intertrade Company (NICO) that covers a 90 percent stake in the project.

CNPC, which won a bid in January to develop the North Azadegan oilfield, now holds a 70 percent share of the project with NICO holding 20 percent, and Inpex of Japan having the remaining 10 percent.

The South Azadegan project is slated to produce 260,000 barrels of crude oil per day, and its development will cost around $2.5 billion.

The field, along the Iraqi border, holds reserves estimated at approximately 42 billion barrels of oil, one of the world's largest finds in the last 30 years.

Iran provides 14 percent of China's demand for oil.

The deal is couched in buy-back terms, in which CNPC will hand over the operation of the field to NIOC after development and will receive payments from the oil production for a few years to cover its investment.

China's investment in Iran's energy sector has increased as some western countries, led by the US, have sanctioned Iran over its peaceful nuclear program.

MVZ/TG/MB
http://www.presstv.ir/detail.aspx?id=107324&sectionid=351020103

Iran seeks China investment to build refineries

Mon Jul 13, 2009 1:15am EDT

BEIJING, July 13 (Reuters) - Iran has sought investment from Chinese oil firms to help build and upgrade its lagging refining sector, as the world's No.5 crude exporter seeks to cut gasoline imports, Beijing-based industry officials said on Monday.

China's top three oil firms PetroChina (0857.HK), Sinopec Corp (0386.HK) and CNOOC, and state banks such as China Construction Bank (0939.HK) were briefed last week by senior Iranian oil officials in Beijing on a series of refining projects under Tehran's planning board, the officials said.

Iran, the world's No.5 oil exporter, lacks refining capacity and must import large amount of costly gasoline to meet its domestic requirements, a vulnerable situation as the West seeks ways to put pressure on Tehran over its disputed nuclear programme.

An official with National Iranian Oil Company's (NIOC) Beijing office said last week's forum, chaired by Iran's deputy petroleum minister, Shahnazi Zadeh, was to be followed by detailed discussions with Chinese firms. He did not elaborate.

Hossein Noghrekar Shirazi, NIOC's refining head, was quoted by a Chinese newspaper as saying that Chinese investors would enjoy policy sweeteners such as a 5 percent discount in raw materials purchased in Iran and 8-year tax break for investments made in its free trade zones.

The refinery buildups, including the 2.7-billion-euro Abadan refinery due for start-up in 2012, were part of Iran's 20-year oil sector revitalisation plan calling for total investment of more than $130 billion, Shirazi was quoted as saying.

Chinese firms are already investing in Iran's oil, gas exploration and production sectors, as the world's No.2 oil consumer now imports half its crude oil consumed, but have yet to enter Iran's refining sector.

(For a factbox of Iran's refinery and expansion projects, click [ID:nLR122987])

(Reporting by Chen Aizhu; Editing by Jonathan Hopfner)

http://www.reuters.com/article/rbssEnergyNews/idUSPEK33142220090713

Report: China moves in on Nigeria oil reserves

By The Associated Press (AP) – 7 hours ago

One of China's three energy majors is negotiating with Nigeria to buy large stakes in some of the world's richest oil blocs, according to a media report Tuesday.

If confirmed, it shows how aggressively China is going after new reserves in Africa, challenging major Western oil companies that dominate the region.

The Financial Times reported that state-owned CNOOC Ltd., is trying to buy 6 billion barrels of oil — or a sixth of the proven reserves in Nigeria — a move that could put China in competition with Royal Dutch Shell PLC, Chevron, Total SA and Exxon Mobil Corp.

Those companies control all or parts of the 23 oil blocks sought by China.

The Financial Times said it obtained a letter from the office of Umaru Yar'Adua, Nigeria's president, to Sunrise, CNOOC's representative. The offer's overall value was not disclosed, but the newspaper said some details suggested a figure of about $30 billion.

"Negotiations are ongoing not only with Sunrise/CNOOC but also with all other stakeholders in the industry," a Yar'Adua spokesman told the newspaper. "The federal government has not taken any final position on the issue."

Tanimu Yakubu, economic adviser to the Nigerian president, told the Financial times that while the country wants to "retain our traditional friends," the Chinese are "offering multiples of what existing producers are pledging (for licenses)."

Last month, state-owned Sinopec Group completed a $7.5 billion acquisition of Canada's Addax Petroleum, obtaining new reserves in Africa and the Middle East in China's biggest foreign corporate takeover to date.

http://www.google.com/hostednews/ap/article/ALeqM5hB_Xs_Q0MTGM6o3yRo50aFrRGkTQD9B11L080

Global crisis elevates China to SA's top trading partner (scroll down for article)

Global crisis elevates China to SA’s top trading partner

HOPEWELL RADEBE

Published: 2009/09/28 06:24:35 AM

Chinese ambassador Zhong Jianhua says SA has for the first time enjoyed a trade surplus with China

JUST 10 years after establishing diplomatic and trade relations, China has overtaken the US, Japan, Germany and the UK to become SA’s biggest trading partner, according to the latest figures from the Department of Trade and Industry.

Trade volumes with China between January and July have reached R32,4bn, followed by the US with R21,7bn, Japan’s R19,7bn, Germany’s R17,5bn and the UK’s R15,2bn. This indicated an increase in SA-China trade of 11,95% from 8,45% in the same period last year.

The US was SA's major trading partner only briefly, in the 2006- 07 financial year, after taking over from the UK, which had held the number one spot for a long time.

The increase in trade between the US and SA had been largely due to the African Growth and Opportunity Act (Agoa) .

Agoa had enabled sub-Saharan African countries to export more than 1800 tariff line items duty- free to the US — on top of the 4600 tariff-free items listed under the Generalised System of Preferences.

According to Chinese ambassador Zhong Jianhua, the warm diplomatic ties between China and SA since 1998 had been matched by growing economic engagement, putting this country among China's top three African trading partners. B ilateral trade volumes have risen from 800m in 1998 to 17,8bn last year.

Since 2000, China-Africa trade has grown 10 times, reaching 106,8bn last year , according to the Chinese commerce ministry.

Chinese exports to Africa have hit 50,8bn , while China's imports from Africa have reached 56bn.

Other than imports of Africa's raw materials, at least 500 of the continent's products from 31 countries such as wines, tobacco, coffee and olive oil have received a zero-tariff treatment from the Chinese government and exposure to the country's markets.

Zhong said SA had for the first time enjoyed a trade surplus with China and that this could increase.

He attributed the increase in South African exports to China to the international financial crisis, which saw most developed countries reduce their orders, especially from emerging economies.

China imports iron ore, gold, copper, chrome, wine, timber and paper pulp from SA, while China mostly exports value-added products, such as appliances and clothing. Angola — accounting for 24% of China-Africa trade — is China's major African partner as it is the biggest source of China's oil imports.

SA follows on 17%, then Sudan (8%), Nigeria (7%) and Egypt (6%). Angola and SA are ranked 29 and 31 respectively among China's trading partners worldwide.

These countries collectively account for 62% of total China- Africa trade.

Economists have been critical of the skewed nature of China- Africa trade, saying China supplies value-added manufactured goods to Africa while the latter supplies mainly primary products.

The top import s to China last year have been mineral products (82%); precious stones and metals (3%); parts for motor vehicles (3%); wood products (2%); and base metals (1%).

The top export products from China last year to Africa in general have been machinery, transport equipment, footwear and plastic products.

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http://www.businessday.co.za/articles/Content.aspx?id=82479

China's oil talks with Nigeria: the unanswered questions

September 28, 2009 11:30pm

by tomburgis

By Tom Burgis, FT West Africa correspondent, in Lagos

The talks between a Chinese oil company and Nigeria about wresting some prime oil blocks sitting on 6bn barrels of crude from western energy groups raise some intriguing questions – even if officials warn that the deal is by no means sealed.

Firstly, the price. Oil men in Lagos talk of the Chinese putting $50bn on the table.

Secondly, how would the deal be structured? China has struck some huge bargains - in places such as Angola and the Democratic Republic of Congo - to provide sorely needed infrastructure in return for the commodities on which its fast-industrialising economy runs.

But previous efforts to reach such agreements in Nigeria have ended in acrimony and Chinese oil groups appeared to have switched tack to buying stakes in listed producers such as Addax.

A third conundrum is how the Nigerian government could sell stakes in the two of the 23 blocks under discussion whose leases run until 2019. Similarly, the production-sharing contracts that cover the five offshore blocks end only in 2020. These, though, are meant to be restructured, in any case, under a bill designed to overhaul the Nigerian energy sector that is before the national assembly.

In all 23 blocks – including the 16 that are up for renewal – there is also the small matter of whether the 49 per cent stakes CNOOC is asking would come from the holdings of the western majors or those of their joint-venture partners, Nigeria's state oil company.

The proposals, which if completed in their entirety would more than double China's reserves in Africa, throw up countless other posers.

Would the Chinese import their own labour, as they have elsewhere, to the Niger Delta, where the exclusion of locals has triggered rebellion?

Has a government that seemed less than enamoured of the Chinese as a strategic ally changed it mind or is it hoping to use the talks as a negotiating ploy with the western groups over the reform bill and the renewal of licences? Indeed, if it comes to a battle in the courts would such a deal end up making more money for corporate lawyers than for Nigeria?

Most importantly, will the talks lead to the investments – whether from east or west – that will restore sub-Sahara's biggest energy industry to health? And, amid all the brinkmanship, will anything change for the mass of Nigerians whose lives have scarcely improved in half a century of crude production?

September 28, 2009 11:30pm in Oil, Politics | 2 comments

http://blogs.ft.com/energy-source/2009/09/28/china%E2%80%99s-oil-talks-with-nigeria-the-unanswered-questions/

9/29/09 9:48 AM

Angola
China envisages new investments in Angola

Luanda – The Chinese government intends to implement in Angola, as from next year, new farming projects in order to enable the country's less dependency and decrease costs in matters of food import, ANGOP has learnt.

This was announced on Monday, in Luanda, by the Chinese ambassador to Angola, Zhan Bolun, adding that such projects depend on development of the food industry, through the construction of food transforming and treatment factories. China wants also to invest in the production of cereals, as well as modernisation of hydric centrals and water systems.

The diplomat also said that with these actions China wants to increase its participation in Angola's social and economic development, satisfying thus the African country's market with agricultural and industrial products, as well as providing more jobs for the population. Talks are in progress for the signing of accords for the implementation of the mentioned projects.

http://www.portalangop.co.ao/motix/en_us/noticias/economia/2009/8/40/China-envisages-new-investments-Angola,9e03b24a-40cf-42c7-a468-270cde603c64.html

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Africa Pushes Back on China Oil Search

Some Nations Prevent Beijing From Expanding Its Interests; Bureaucracy Derails Some Deals, While Others Proceed

By BENOIT FAUCON and SPENCER SWARTZ

LONDON -- China's search for large stakes in some of Nigeria's richest oil blocks comes against a backdrop of problems in other African countries where the Asian giant has oil operations.

Some countries are preventing China from expanding its interests, criticizing it in terms of technical matters and social development.

On Tuesday, Nigeria's oil minister and a presidential spokesman said state-owned China National Offshore Oil Corp. Ltd. is in advanced talks with Nigeria to take over blocks that are owned by Royal Dutch Shell PLC and other companies, but are underutilized.

An official with Nigeria's state oil company said the number of onshore blocks on offer was about 20 and that negotiations were at a late stage with some companies, including Cnooc. He said he wasn't sure exactly how much crude Cnooc was vying for, but that targeted investment would run into several billion dollars.

Cnooc officials couldn't be reached to comment.

The news of the Nigeria talks followed setbacks this month on deals in Angola and Libya. On Sept. 8, Libya vetoed a $462 million bid by China National Petroleum Corp. for Libya-focused Verenex Energy Inc. Days later, Angola's state-owned Sonangol said it wanted to block the sale of Marathon Oil Corp.'s 20% oil-field stake to Cnooc and China PetroChemical Corp., or Sinopec.

Even in Nigeria, deals have run aground. Companies such as Shell have been at loggerheads with the Nigerian government because the oil concerns haven't fully utilized some drilling licenses.

The companies counter with complaints that the government isn't securing operations, exposing them to militant attacks on pipelines and other infrastructure. Analysts say Nigeria's policy of paying militants to lay down arms has generally failed because the causes of the militancy -- poverty and lack of education and life opportunities -- haven't been tackled.

The threat of a setback in Angola -- China's largest African partner -- is in stark contrast with the enthusiastic reception it found there five years ago, when China was launching a quest for African resources to feed its economic boom. It made a spate of resource acquisitions in the form of oil-for-infrastructure deals.

In 2004, Sonangol chose Sinopec over India's Oil & Natural Gas Corp. for the sale of an oil-field stake by Shell. The deal came just after China's Export-Import Bank had granted Angola a $2 billion loan, which broke off talks with the International Monetary Fund over transparency of government finances.

In the first half of 2008, Angola became China's largest oil supplier, covering 18% of its needs. China's commerce ministry reported Sino-African trade hit a record $106.8 billion for the year, up 45% from 2007.

But some in Africa are starting to find the Chinese embrace too tight. The formula of bartering oil for infrastructure initially had given China's oil concerns a competitive advantage against Western companies, whose investors were largely unwilling to fund such projects. But those same projects have become a key factor in China's setbacks. In particular, the insistence of China state companies on keeping local hiring to a minimum has brewed resentment.

"Chinese construction companies are notorious for their highly criticized labor practices -- recruiting their own professionals and laborers," the Centre for Chinese Studies, based at

South Africa's University of Stellenbosch, said in a March report on Angola's $3.5 billion plan to build 20,000 apartments in a suburb of the capital, Luanda.

And in August, riots erupted in a suburb of Algiers, capital of Algeria, after Chinese immigrants working on infrastructure deals were accused of not respecting Muslim customs and of taking jobs from locals.

In light of such experiences, Chinese companies may have a hard time expanding in Nigeria. In 2006, Cnooc bought a 45% stake in Total SA's Akpo field for $2.3 billion. The field is now the company's biggest overseas asset with a production capacity of 175,000 barrels per day.

But more than $10 billion of contracts with Nigeria signed in 2006 -- including renovation of a railway, the refurbishment a refinery and the launch of a satellite -- didn't produce results. That is partly because of a change of administration the following year but also because of commercial and technical pitfalls.

Chatham House, a U.K. think tank, this year published a study on how deals by Asian oil companies with the Nigerian government in 2004-2005 in exchange for bankrolling infrastructure projects had generally failed. It concluded that the main reason was the Nigerian government's lack of "follow-up mechanisms to enforce the deals."

It is unclear whether Cnooc is offering to fund and build more non-oil projects in the latest round of contract negotiations.

The International Energy Agency in Paris estimates that about 500,000 barrels a day, on average, of oil production capacity has been shuttered in Nigeria over the past several years due to militant attacks and the agency expects those outages to continue. Getting that capacity back into service has been hobbled by security problems. Nigeria currently pumps around 1.8 million to 1.9 million barrels a day.

The Nigerian government is hoping a recent lull in militant violence in the country's main oil-producing Niger Delta region will continue so producers can restart operations in various areas.

In Angola, Chinese pressure could force the government to "step back" from a refusal to sell the oil-block stake, said U.S. risk consultancy Eurasia Group. A Cnooc spokesman acknowledged Sonangol may use its right to block its acquisition, but declined to comment further.

The Angolan government and Marathon, which is selling the stake, also declined to comment. But even if the deal moves ahead, "the coziness and preferential terms that have characterized the relationship in the last five years may dissipate," Eurasia said.

Angola may not need China as much as it used to. On Tuesday, the IMF signed a tentative agreement with Angola that could lead to new loans from Western banks. And when Sonangol sought $1 billion of financing this month, the loan was 50% oversubscribed -- thanks mostly to European banks.

The U.S. -- through Chevron Corp. and a visit by Secretary of State Hillary Clinton -- has promised to ramp up investment in both oil and agricultural projects. As a result, China will likely have to pay more for its African oil push.

"China and African nations are now in the process of tailoring the high expectations raised over the last few years to the realities of any maturing relationship," said Christopher Alden, senior lecturer at the London School of Economics.

—Victoria Ruan in Beijing, Jing Yang in Shanghai, David Winning in Sydney and James Herron in London contributed to this article.

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http://online.wsj.com/article/SB125425680269850381.html

DEVELOPMENT: China Outdoes Europeans in Congo
Analysis by John Vandaele*

BRUSSELS, Feb 8 (IPS) - The massive deal that China signed with the Democratic Republic of Congo last year is not the "second colonisation" that some Europeans allege it is. The agreement appears, in fact, a promising way to kick-start an economy.

The agreement on developing infrastructure through "resource-backed finance" certainly gives China a lot of influence in a country where Europeans are used to dealing the cards. European countries now look with a certain envy at what China has achieved.

President Joseph Kabila's political future depends on this Sino-Congolese deal. And, with that, at least a part of the economic future of Congo itself.

The Democratic Republic of Congo has been endowed with tremendous natural resources, but 40 years of mismanagement have brought the country down. The DRC is now one of the poorest countries on earth - even the most basic of infrastructure has succumbed to four decades of neglect.

The announcement in September 2007 that China would take on big infrastructure projects in the DRC, to be paid for with Congo's immense copper and cobalt reserves, inevitably attracted a lot of attention. But it created also a lot of suspicion: what exactly were the Chinese up to?

The Chinese companies will, for one thing, start work on infrastructural projects in 2008 more or less along the lines of the five priorities Kabila has set: water, electricity, education, health, and transport.

These works will cost more than 9 billion dollars. That is a lot of money, considering that the 2007 government budget was a mere 1.3 billion dollars, most of which was needed just to pay the salaries of government staff. So how will the DRC pay off these Chinese loans?

The basic idea is that Congolese and Chinese state owned enterprises (SOEs) set up a joint venture, Socomin. This mining company will invest 3 billion dollars in mainly new mining areas. The profits of Socomin will be used to repay these mining investments and the investments in the big infrastructural works.

Broad agreement was reached in September last year. It was then fine-tuned through two months of negotiations in Beijing in November and December.

"It took a long time, that's for sure," says French-born Paul Fortin, CEO of Gécamines, the Congolese state-owned mining company. "We had to agree on an economic model that stipulates how the Chinese investments will be repaid with the revenue of Socomin. Apart from that, these were normal business negotiations comparable to those I did for the many partnerships of Gécamines with private companies."

One of the agreements was that over a 15-year period Socomin will raise about ten million tonnes of copper to pay off eventually 12 billion dollars in investments in mining and infrastructure.

The Chinese have hedged their position quite aggressively. The first profits will be used to repay the mining investment, something that is typical of most private joint ventures with Gécamines. The agreement also says that "the Congolese government has to guarantee the safety of the investments, and the repayment of the infrastructural works." Any disputes would be settled by the arbitration tribunal of the International Chamber of Commerce in Paris, and not through Congolese courts, that have a reputation of being corrupt.

Under the agreement, only one in five workers can be Chinese. In each of the projects half of one percent of the investment must be spent on transfer of technology and on training Congolese staff. One percent has to be spent on social activities in the region, and three percent to cover environmental costs. Ten to 12 percent of the work has to be sub-contracted to Congolese companies.

How all this will work out for the DRC remains to be seen. And, what will be the quality of the work? Is the Congolese government capable of controlling that?

One thing is obvious: this is not the black and white story some wanted to make of it. It is neither a colonial horror story, nor some idealistic investment on the part of China.

China is interested because it needs the natural resources. But Paul Fortin thinks the DRC has a lot to gain too. "Congo doesn't have to wait for its infrastructure until it has the money. Building starts immediately with the natural resources as guarantee. Except in oil-rich states, I know of no other deal quite like this."

One well-informed European diplomat who did not wish to be named admitted that "if carried out well, this can be positive for Congo."

The deal seems like a lifeline for Congolese President Joseph Kabila. After more than a year in power, there's not a lot he can show to the Congolese people, who have started to criticise him. Something has to begin quickly if he wants to get re-elected in three-and-a-half years.

The Congo-China deal seems a good way to move forward, also because the money does not have to be channelled through a corrupt Congolese bureaucracy. Loans from China's state-owned Eximbank go directly to the Chinese state-owned enterprises China Railway

Engineering Company (CREC) and Sinohydro.

Kabila alluded very clearly to this in a recent speech. "The Chinese banks are prepared to finance our Five Works (water, electricity, education, health, and transport). For the first time in our history, the Congolese will really feel what all that copper, cobalt and nickel is good for."

The exchange agreement with the Chinese appears to be a satisfactory solution in the short term. A better-run state is still a must though, and a necessary precondition for making good use of (and maintaining) all the new roads, railways, hospitals and schools that are planned.

The Europeans are finding China's role frustrating. Through their projects, the Chinese gain access to copper and cobalt. "This at a time when we ought to be mindful of long-term provisioning (of commodities to Europe)," a diplomat told IPS. "Would the European development aid community tolerate us operating like the Chinese?"

And that is just one question. There are others. Which other nation is able to take on such gigantic projects as cheaply and quickly as the Chinese? And, which European country still possesses the publicly owned enterprises to undertake such ventures?

If Kabila is now politically dependent on the Chinese, that means that Beijing's influence in this crucial African country has grown very strong. The Congolese, like many other Africans, have had it with the often paternalistic Europeans telling them how they must behave and how they must improve governance.

To be sure, the government of the DRC is notoriously weak and corrupt. Researchers found that typically a container entering the country in the eastern town Bukavu is 'attacked' by 20 different government services, each requiring the right papers - or some kind of payment.

The Congolese state is dysfunctional, and governance problems are one reason why Western countries have been slow to finance the Congolese government after the elections. "We had no choice but to go to the Chinese," a well-placed source in Congo told IPS.

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IPS has now had access to the September agreements. Some details of the agreements are as follows:

- The main agreement was concluded between the Congolese state and three large Chinese state owned enterprises, including China Eximbank which has for years extended large loans to Chinese contractors. The agreement stipulates that these two parties should form a joint venture Socomin (Société Congolaise Minière) incorporated under Congolese law.

- In all 32 percent of that company's shares are held by the large publicly owned mining company of Katanga province, Gecamines, and 68 percent by the Chinese. Much of the extraction will be from new mines. Nothing is taken away from existing mines, except from a part of Katanga Mining Ltd. owned by the Belgian George Forrest, which will be duly reimbursed.

- In a first phase, Socomin's revenues will be used to repay mining investments of 3 billion dollars. Gecamines is also given a correcting loan of 100 million dollars, with which the back pay of foreign and Congolese ex-employees, among others, can be paid.

- In a second phase, 66 percent of the net profit will go towards paying off the loans that the Chinese will, by then, have used to pay for the infrastructural works. The other 34 percent is distributed among the shareholders. During those two phases, the joint venture is exempted from all taxation.

- This is followed by a 9-billion dollar list of infrastructural works which two large Chinese publicly owned enterprises will build between them. Sinohydro, a large state-owned company that has furnished the backbone of Chinese hydraulic engineering works and hydroelectric power stations, will build high-voltage power lines and power plants. The company will also repair and expand water supply, and construct 49 distribution centres supplying potable water, 31 hospitals each with 150 beds, 145 health centres each with 50 beds, four large universities, the parliament building, and 20,000 council houses or flats.

- The China Railway Engineering Company (CREC) is a state-owned company that laid two-thirds of the Chinese rail network (no less than 400,000 km), and has 280,000 employees. CREC is tasked with renovating the railway between the ports of Muambe, Matadi and Kinshasa, the railway between Kinshasa, Ilebo, Lubumbashi and Kasumbalesa, and between Lubumbashi, Kindu, Kalemie and the north-east of Congo. In and around Kinshasa, 250 km of roads will be built, including an orbital motorway round the city. Elsewhere too, many new roads are planned.

- In addition, an agreement exists between the Congolese government and the private company Shanghai Pengxin Group Ltd. to develop public infrastructure with "project funding covered by revenue from natural resources." Shanghai Pengxin has to mobilise 1 billion dollars, 850 million dollars of which is for the mining and infrastructural works, and 150 million dollars as budgetary assistance to the government. It is stipulated in the agreement that the mining has to be on a sufficiently large scale to repay that amount.

(*John Vandaele is author of several books on globalisation. The Belgian magazine Mo helped make this research possible) (END/2008)

http://ipsnews.net/news.asp?idnews=41125

Sunday, May 17, 2009

China Gains, Congo Loses, In Mine Deal

The recently-announced copper/cobalt mining contract between the Democratic Republic of Congo and China--widely proclaimed as bringing $9 billion in development aid to the DRC--looks like another unfortunate deal for Congo. According to my back-of-the-envelope calculations, it is probably even more one-sided than American multinational Freeport McMoRan's arrangement for Tenke Fugurume that I examined recently.

Last year, the Congolese Ministry of Mines announced that it had signed an agreement between China's Exim Bank, the Kinshasa government, Congolese state mining company Gecamines, China's Sinohydro Corp, and China Railway Engineering Corp forming a joint venture to develop the Mashamba West and Dikuluwe copper and cobalt deposits, concessions originally scheduled to be developed by Katanga Mining Ltd through a joint venture with Gecamines. The deposits are believed to hold ten million tons of copper and two million tons of cobalt.

While complete details of the contract are yet to be announced, what is known doesn't look particularly profitable for the Congolese. On the surface, the deal sounds fine, with the Chinese agreeing to build $6 billion worth of roads and railroads and another $3 billion in mining infrastructure in return for rights to operate the mines. Gecamines is to own 32% of the venture, too, or nearly twice as large as the share it has in Tenke.

Using recent prices for copper ($4500/ton) and cobalt ($30,000/ton) and spreading production over the 25 year term of the deal, annual gross revenues of the mine will be $4.2 billion. Using the same operating cost assumptions as at Tenke, profits will be approximately $2.6 billion annually. Gecamines share could be $832 million.

The devil, though, is in the details. First, the $9 billion from the Chinese is not a gift—it's a loan secured by the mines and to be repaid from the Congolese share of the operation's profits. Generously assuming that the loan will be for the 25-year life of the project and carry an interest rate of only two percent (much less than I expect it will be), Gecamines will be on the hook for $540 million in annual debt service. That leaves only $292 million as the Congo's share of the mine's profits. By comparison, Gecamines's deal with Freeport annually yields $100 million more.

Additionally, Gecamines has agreed to either give Katanga Mining deposits carrying nearly four million tons of copper and 200,000 tons of cobalt or pay the company $825 million as compensation for giving up the Mashamba West and Dikuluwe concessions. This additional cost, of course, further reduces the DRC's take from the deal with China.

The IMF has objected to the deal on the basis that Congo is simply trading $11 billion in current debt (which the DRC hopes to have canceled) for $9 billion to the Chinese, and that the state guarantees of those loans are ill-advised at a time when the government can't fund basic services, much less invest in the country's growth. The IMF has said it might go along with the deal pending a study to make sure the mine's reserves cover the cost of the infrastructure and if the terms are renegotiated.

The Chinese stand to gain in several ways from the deal as announced. In addition to their nearly $1.8 billion in annual profit from the mine, they'll earn perhaps $4.5 billion in interest on the development loans—more if they carry an interest rate higher than two percent. There also looms the very large question of who will get the profits from the contracts to build the promised infrastructure. My assumption is that China's Sinohydro Corp and China Railway Engineering Corp will be awarded those contracts on a no-bid basis, which means they'll take home another billion or so in profits on the project.

It would seem to me that a better deal for Congo would be a straight-forward mining concession with the Chinese along the lines of those typically negotiated by Zambia and South Africa, where the parastatal companies get 51% of the operation. The infrastructure could be financed from those revenues, open-bid contracts for the roads, railroads, and power facilities let to the lowest bidders (maybe even Congolese companies), and funds would still be left over for the state general revenue coffers.

Dave Donelson, author of Heart of Diamonds a romantic thriller about blood diamonds in the Congo.

http://heartofdiamonds.blogspot.com/2009/05/china-gains-congo-loses-in-mine-deal.html

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Ghana, China collaborate to explore oil

1. *Posted on Monday 21 September 2009 - 14:00*

Joseph Appiah-Dolphyne, AfricaNews editor in Accra, Ghana

Ghana and China are to collaborate for massive exploration of oil that could make Ghana a leading world explorer and hub of the industry in the West African sub-region. The collaboration is between the Ghana National Petroleum Corporation (GNPC) and the China National Oil Offshore Corporation (CNOOC), which would initially provide financial and technical support to the GNPC for the project.

The China National Oil Offshore Corporation operates in 11 countries, and the collaboration comes from the realization that Ghana is rich in energy resources, had local skills and good political leadership.

The plans were announced in Accra when a Chinese business delegation, led by Fu Cheng Yu, Chief Executive Officer of the CNOOC paid a courtesy call on President John Evans Atta Mills at the Osu Castle in Accra at the week-end.

This comes in the wake of President Mills' recent challenge to the Energy Minister to find ways of Ghana getting into oil exploration as a measure to check the periodic but prolonged energy crisis.

President Mills acknowledged the good ties between China and Ghana and said the two nations needed to learn from each other for the benefit of their people.

He said the project is part of the overall plan of Government to provide jobs for the people.

"We are grateful that you've come at the time we need your technical support," President Mills said, and recalled the Chinese assistance Ghana received for its development as a new independent state, according to Ghana News Agency.

President Mills promised that Government would create the right environment and provide what it would take for a mutually beneficial co-operation.

"Feel free and discuss matters with the GNPC," President Mills said.

Relating his company's rise from a negligible entity to a giant oil company in China to Ghana's potential, Yu said Ghana could do better with her excellent energy resources, skills and good leadership.

He said lessons from the past 10 years have made China develop a new energy development model, and the lessons in Ghana would be based on the local situation.

“GNPC can become one of the largest oil companies in the world. You can easily build Ghana into a hub,” Yu said, and pointed out that attempts at industrialization should not leave out environmental concerns.

He stressed on the need for Ghana to be master of her own destiny, rather than depending on foreign investment and build its own oil company to meet the needs of her people.

Dr Joe Oteng-Adjei, Minister of Energy, said under the deal, the GNPC would move out of its traditional finding and co-ordination of oil sites to oil exploration, taking into account all energy resources available.

http://www.africanews.com/site/list_message/22393

China, U.S. risk rifts in Middle East: former Chinese envoy

Chris Buckley, Reuters September 30, 2009, 6:41 pm

BEIJING (Reuters) - China and the United States risk deepening rifts over influence and oil in the Middle East, Beijing's former envoy to the region has said, urging his nation to bolster ties with Iran and other energy-exporting powers.

Sun Bigan was China's special envoy on the Middle East until March, and in a new essay he said U.S. President Barack Obama's effort to improve ties with Islamic states in the Middle East was a tactical shift that had not removed the potential for friction between Washington and Beijing in the region.

China faced growing risks to energy security as it increasingly relied on imported oil, especially from the volatile Middle East, where Beijing's sway had been limited, Sun said.

"The U.S. has always sought to control the faucet of global oil supplies. There is cooperation between China and the U.S., but there is also struggle, and the U.S. has always seen us as a potential foe," he wrote in the September issue of "Asia & Africa Review," which reached subscribers this week.

"Bilateral quarrels and clashes are unavoidable. We cannot lower vigilance against hostility in the Middle East over energy interests and security," Sun wrote in the Chinese-language journal, which is published by the State Council Development Research Center, a prominent state think tank.

Sun's essay was written before the latest flare-up over Iran's nuclear ambitions, which has renewed Western pressure on Beijing to distance itself from Iran and back sanctions.

China's Foreign Ministry has urged restraint on all sides ahead of talks between Iran and the five permanent members of the U.N. Security Council, as well as Germany, in Geneva on Thursday. The permanent Council members are the United States, Russia, Britain, France and China.

Sun, who now works for a government-run association promoting ties with Asia and Africa, was not directly involved in nuclear negotiations with Iran, but he served as China's ambassador there, as well as in Saudi Arabia and Iraq.

He could not be contacted at the association on Wednesday.

BLUNT WARNING

The unusually blunt warning from a former senior diplomat, nonetheless underscores some of the anxieties over oil, influence and security that are likely to shape China's response to the West's confrontation with Iran.

"Both now and in the future, the Middle East should be our first choice in importing oil and developing oil cooperation," Sun wrote. China should focus on strengthening trade with Saudi Arabia, Iran and Oman, he added.

Washington would strive to ensure Iraqi oil remained under U.S. control, he said, but "Iran has bountiful energy resources and its oil gas reserves are the second biggest in the world, and all are basically under its own control."

"Oil gas" is the natural gas found in oil fields.

In the first eight months of this year, Iran was China's third biggest foreign source of crude oil, with shipments of 17.2 million tonnes, a rise of 14.7 percent compared to the same period last year. Angola and Saudi Arabia were the first- and second-ranked suppliers.

Chinese imports of Iranian oil and gas have been held back by U.S. sanctions, Iranian commercial demands and Chinese jitters, Sun said. But China could find access to Iranian supplies drastically curtailed if political power in Tehran passed to forces more sympathetic to Washington, he suggested.

"Obama's new Middle East policy is merely a tactical adjustment, and the United States will not and cannot alter its global goals and dominance," Sun wrote.

http://nz.news.yahoo.com/a/-/world/6128534/china-u-s-risk-rifts-in-middle-east-former-chinese-envoy/

China’s Ties With Iran Complicate Diplomacy

Leaders of the House Foreign Affairs Committee swept into Beijing last month to meet with Chinese officials, carrying a plea from Washington: if Iran were to be kept from developing nuclear weapons, China would have to throw more diplomatic weight behind the cause.

In fact, the appeal had been largely answered even before the legislators arrived.

In June, China National Petroleum signed a $5 billion deal to develop the South Pars natural gas field in Iran. In July, Iran invited Chinese companies to join a $42.8 billion project to build seven oil refineries and a 1,019-mile trans-Iran pipeline. And in August, almost as the Americans arrived in China, Tehran and Beijing struck another deal, this time for $3 billion, that will pave the way for China to help Iran expand two more oil refineries.

The string of energy deals appalled the Democratic chairman of the Foreign Affairs Committee, Representative Howard L. Berman of California, who called them “exactly the wrong message” to send to an Iran that seemed determined to flout international nuclear rules.

But some analysts see another message: as the United States issues new calls to punish Iran for secretly expanding its nuclear program, it is not at all clear that Washington’s interests are the same as Beijing’s.

That will make it doubly difficult, these analysts say, to push meaningful sanctions against Iran through the United Nations Security Council, where China not only holds a veto but has also been one of Iran’s more reliable defenders.

“Their threat perception on this issue is different from ours,” said Zalmay Khalilzad, who as the American ambassador to the United Nations under President George W. Bush helped persuade China to approve limited sanctions against Iran. “They don’t see Iran in the same way as we do.”

François Godement, a prominent China scholar and the president of the Paris-based Asia Center, put it more bluntly. “Basically,” he said, “the rise of Iran is not bad news for China.”

To be sure, China and the United States, leading members of the club of nuclear nations, share a practical interest in halting the spread of nuclear weapons to volatile areas like the Middle East. And it is in China’s interest to avoid alienating the United States, its economic and, increasingly, diplomatic partner on matters of global importance.

But beyond that, many experts say, their differences over Iran are not only economic but also ideological and strategic.

The United States has almost no financial ties with Iran, regards its government as a threat to global stability and worries that a rising Tehran would threaten American alliances and energy agreements in the Persian Gulf.

In contrast, China’s economic links to Tehran are growing rapidly, and China’s leaders see Iran not as a threat but as a potential ally. Nor would the Chinese be distressed, the reasoning goes, should a nuclear-armed Iran sap American influence in the region and drain the Pentagon’s resources in more Middle East maneuvering.

“Chinese leaders view Iran as a country of great potential power, perhaps already the economic and, maybe, militarily dominant power in that region,” said John W. Garver, a professor of international relations at Georgia Tech and the author of “China and Iran: Ancient Partners in a Post-Imperial World.”

An alliance with Tehran, he said, would be a bulwark against what China suspects is an American plan to maintain global dominance by controlling Middle Eastern energy supplies.

Beyond that, China relies heavily on Iran’s vast energy reserves — perhaps 15 percent of the world’s natural gas deposits and a tenth of its oil — to offset its own shortages. The Chinese are estimated to have $120 billion committed to Iranian gas and oil projects, and China has been Iran’s biggest oil export market for the past five years. In return, Iran has loaded up on imported Chinese machine tools, factory equipment, locomotives and other heavy goods, building China into one of its largest trading partners.

China scholars say that the relationship is anything but one-sided. Iran has skillfully parceled out its oil and gas reserves to Chinese companies, holding exploration and development as a sort of insurance policy to retain Chinese diplomatic backing in the United Nations.

For its part, China has opposed stiff sanctions against Iran's nuclear program, acceding mostly to restrictions on trade in nuclear-related materials and orders to freeze the overseas assets of some Iranian companies.

Many experts question how much more punishment Beijing would agree to support. Iran has already been cited three times by the Security Council, with Beijing's backing, for flouting prohibitions against its nuclear program.

In each case, Beijing agreed to measures only after stronger American proposals had been watered down and after Russia, the Council's other critic of stiff sanctions and a close ally of Iran, had signed off on the proposal.

One noted Chinese analyst, Shi Yinhong of People's University in Beijing, said in a telephone interview this week that China would probably follow much the same course should a new sanctions proposal reach the Security Council.

"China will do its utmost to find a balance" between Iran and the United States, Mr. Shi said. If Russia joins the other Council members in supporting a new sanctions resolution, he said, "China will do its best to try to dilute it, to make it limited, rather than veto it."

But it is unlikely to do so happily. Supporting stronger sanctions might elevate China's image as a global diplomatic leader, but the United States, not China, would reap the real benefits.

"China is not anxious to jump on this American train," said one Chinese analyst, who spoke on the condition of anonymity in order to freely assess China's foreign policy.

Li Bibo contributed research.

http://www.nytimes.com/2009/09/30/world/asia/30china.html?th&emc=th

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Modeling Russia's Outward DFI

http://gdex.dk/ofdi/49%20Kalotay%20Kalman.pdf

The axis of oil: China and Venezuela

Ben Schiller, 2 - 03 - 2006

China is forging new links with Latin America. But the impact of its "south-south strategy" is more complex than the rhetoric of solidarity and progress suggests, reports Ben Schiller.

2 - 03 - 2006

The Chinese are coming. In no part of the world is this more evident than Latin America, where a series of trade agreements, infrastructural investments and bilateral visits over the past two years has begun to reshape the economic landscape. But economics is also politics. China seeks to present its new relationship with Latin America as part of its much-vaunted "peaceful rise", but how is it seen in Latin America itself – and in the United States?

The more radical of Latin America's new generation of leftwing leaders have few doubts. Hugo Chávez was in typically ebullient mood as he visited Beijing in December 2004. After signing a series of bilateral agreements (Venezuela's president has put his pen to at least twenty-five with China since coming to office in 1998) he speculated that Chairman Mao and Simón Bolívar, the Latin American revolutionary, would have been "great friends" if they'd ever had a chance to meet. He said both countries had "been victims of international aggressions, of a storm made in America". But each had managed to surprise the United States by "standing up on its own feet" and "building its own paths".

Chávez's rhetoric might have concerned Chinese officials who are keen for their country to keep a low profile in its international ventures – no more so in what the US still considers its "own backyard". In the wake of Chinese oil firm CNOOC's doomed $18.5 billion attempt to buy US-based Unocal in 2005, China's commerce ministry recommended its companies adopt a "softly-softly" approach when buying abroad, lest they stir up "anti-Chinese feeling" and have to pay a "a China premium".

Ben Schiller is a freelance journalist based in London. He specialises in United States politics, eastern Europe and corporate responsibility issues. His work has appeared in the magazine *Ethical Corporation*

Also by Ben Schiller in openDemocracy:

"The China model of development" (December 2005)

For its part, Venezuela continues to rely heavily on US oil revenues – 60% of its crude goes to the US, through its "downstream" subsidiary Citgo. Despite Chávez's escalating anti-Americanism, he needs the US to fund the country's extensive welfare programmes – not to mention his wider ambitions on the continent.

Still, cooperation between Venezuela and China is increasingly apace. CNPC, China's largest oil company, has licences to explore Venezuela's Orinoco oil belt – a potentially vast, untapped source of crude. Chinese companies are able to exploit the Caracoles and Intercampo Norte oilfields, and have options on others. And China is building a plant to process Orimulsión, a heavy tar fuel used in its factories.

The oil shipments started in recent months, at around 120,000 barrels a day, with plans to ramp up production to 1.6 million barrels a day in 2007. What does intrigue observers, however, is not so much the volumes, but the price. According to one well-versed source in the Venezuelan oil industry, China is paying only $3-$4 a barrel, a small fraction of the world market price charged to other foreign consumers.

Beyond oil, Venezuela bought a Chinese communications satellite in 2005 (to be named "Simón Bolívar", and launched in 2008). It has also purchased Chinese radar equipment to monitor its borders, and it is interested in working with the Chinese to upgrade its ageing airforce (the purchase of Spanish military aircraft was blocked by the United States in January 2006 on the grounds of a 1976 act permitting it to prevent the transfer of US-sourced technology).

The two countries are even cooperating on the internet. The oil-industry source says members of Venezuela's state oil company (PDVSA) recently travelled to Beijing to learn techniques for eavesdropping on internet traffic. Despite his romantic revolutionary image, Chávez – who apparently uses PDVSA for all kinds of non-oil activities – is not above the sort of humdrum authoritarianism normally associated with his Chinese friends.

South-South ambitions

China's Venezuelan policy is part of what some analysts call its "south-south" strategy – a plan to build a coalition of cooperating countries across Latin America and Africa.

In Africa, China has been expending huge amounts of soft credit, arms and other aid as it tries to cement ties with different regimes (including those in Sudan and Zimbabwe that other governments have shunned). Backed by Beijing, Chinese companies have been prospecting for oil and other raw materials, and building a wide array of infrastructure – including telecoms networks, sports stadiums, dams and railways – often at prices well below what western firms can afford.

In Latin America, China's ambitions are less well advanced. But its strategy has been given impetus by the elections of various left-leaning leaders – such as Evo Morales, president of Bolivia, and Nestór Kirchner, of Argentina – who may not exactly be Sinophiles, but are avowedly anti-American, and share some of Chávez's tendencies. Morales followed his January 2006 inauguration by reiterating his intention to renationalise Bolivia's gas industry, and pointedly included China (and excluded the United States) from his first round of foreign trips.

In another camp, leaders such as Brazil's Luiz Inàcio Lula da Silva, of Brazil, Chile's newly-elected Michelle Bachelet, and Tabaré Vázquez of Uruguay, are seen as more pragmatic, but no less receptive to Chinese investment.

On a visit to Argentina, Brazil and Chile in November 2004, China's President Hu Jintao announced plans to invest $100 billion in Latin America over a decade. As a start, he signed a $10 billion energy deal with Brazil for investments in its energy and transport infrastructure over two years (Chinese oil company Sinopec already has a $1.3 billion deal with Brazil's Petrobras to build a 2,000 kilometer natural gas pipeline). Chinese oil companies have also bought oilfields in Columbia, Ecuador and Peru, and have sunk $5 billion in offshore projects in Argentina.

As well as buying energy assets, the Chinese have also invested in transport networks to help take its purchases home: Chinese companies are, for instance, rebuilding Argentina's railways, and resurfacing Venezuela's roads.

China has also expressed interest in constructing and financing various projects to modernise the Panama Canal. A Hong Kong company already operates ports at either end, raising worries among some Republicans in Washington – and lately, Hillary Clinton – about China's effective influence over the waterway.

Riordan Roett, director of the western hemisphere program at Johns Hopkins University, in Washington DC, says the Chinese are serious about building lasting relations with the region: "There is clearly a long-term plan. They are really trying to understand the region." China has been sending some its best young diplomats to the region, Roett says, and it is also setting up local "Confucius Centres" that are designed to deepen understanding of Chinese culture.

The diplomats are also hard at work on another matter of central importance to China: Taiwan. Of the twenty-four countries with official diplomatic relations with Taiwan, eleven are in Latin America. Taiwan has been competing with China in delivering and aid investment to the countries that are still on its side. But China has managed to peel off three countries – Grenada, Dominica, and Paraguay – since 2004. China has also given substantial support, including peacekeeping assistance, to Haiti, leading to speculation that it will soon join the list of switchers.

United States reactions

At the official level, United States reaction to China's Latin campaign has been muted, and critics of the administration say it has taken its eye off the ball while it has been engaged in the middle east. The January-February 2006 edition of the venerable journal *Foreign Affairs* asks whether the US is "losing" Latin America, while a June 2005 War College report argued that China represents a serious long-term security threat to US interests in the region.

The US has, however, blocked China's application for "donor status" at the Inter-American Development Bank (IDB) – on the grounds that China itself is recipient of loans from the World Bank. The US argues that China should not be allowed to borrow from one multilateral bank to pay another.

An IDB spokesperson says negotiations between China and the IDB are continuing, however, and most observers think it will soon join Japan and South Korea as members. Donor status would give Chinese companies opportunities to bid for IDB-funded infrastructure projects, as well as access to high-level Latin American officials.

What would really raise US hackles would be if Venezuela decided to sell China its US subsidiary Citgo. Such a move would allow Chinese oil companies to ship Venezuelan crude to refineries on the US's western seaboard, and from there on to ships across the Pacific. Observers say Chávez has discussed a potential deal with the Chinese, but he shares with China a desire not to make relations with the US any more complicated than they are already.

One major obstacle to increased energy cooperation between China and the region is the sheer distances involved, and the lack of straightforward shipping routes. As well working on the Panama Canal, China is also interested in funding a pipeline through Columbia, which would take Venezuelan crude to the Pacific.

Also in openDemocracy on Chinese business, corporate responsibility, and environmental policy:

Andreas Lorenz, "China's environmental suicide" (interview with Pan Yue, China's deputy environment minister) (April 2005)

Chris Melville & Olly Owen, "China in Africa: a new era of "south-south cooperation" (July 2005)

Agnes Chong, "Chinese civil society comes of age" (September 2005)

Simon Zadek, "China's route to business responsibility" (November 2005)

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Promises, promises

If America's response has been quiet so far, over time it may be able to argue that China has not delivered on its promises to be a force for development and progress in Latin America.

In many cases, development experts say, Chinese financing is unlikely to be direct investment, but "tied loans" offered at low interest rates on the proviso that contracts are given to China's state-run companies. China has used such loans widely in Africa, leading to fears that investment will in fact fail to deliver jobs, and benefit local businesses.

Celia Szusterman, a Latin American lecturer at London's University of Westminster, says the lack of hard cash has already caused disappointment in Argentina, and some recriminations for the government in the press.

There are also questions about Chinese environmental practices, with concerns being raised that CNPC's exploration activities threaten various Amazonian habitats. According to the NGO Amazon Watch, its concessions in Peru threaten the Amarakaeri indigenous people

A Brazilian dam, constructed by a Chinese company, has also provoked concern among campaigners. The Belo Monte project, in the eastern Amazon, is being built to provide electricity for various Chinese-run mines in the region, raising protests that it will benefit Chinese, rather than local, interests.

On trade, there is a fevered debate among academics over whether Chinese commerce will help or hinder the region. Only Chile – which has benefited handsomely from copper trade with China – has so far signed a free-trade pact with China. Others are still trying to analyse the net impacts, says Lucio Castro, senior economist at consultants Maxwell Stamp. Industrial groups in Brazil and Mexico have warned their government off the idea of liberalising trade further, in case Chinese goods simply swamp their markets.

Already some of the sheen that surrounded President Hu Jintao's trip to Latin America in November 2004 has worn away, with many questioning whether investment will really materialise, and, if so, in what form. Despite the promise that China's billions will deliver benefits for ordinary people, the long-term consequences of China's Latin push are still open to question.

http://www.opendemocracy.net/globalization-china/china_venezuela_3319.jsp

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Venezuela and China Strengthen Energy-Based Economic and Political Alliance

http://www.venezuelanalysis.com/print/4362http://www.venezuelanalysis.com/printmail/4362
April 10th 2009, by James Suggett – Venezuelanalysis.com
http://www.venezuelanalysis.com/files/images/2009/04/chavez_prez_hu_jintao_apr8_09_ABN.jpg
Venezuelan President Hugo Chavez and Chinese President Hu Jintao (ABN).

Mérida, April 10th 2009 (Venezuelanalysis.com) -- Venezuelan President Hugo Chávez met with Chinese government and business leaders this week to concretize an economic and political alliance based on energy and agricultural production and the construction of a new balance of power in the world.

"We do not have any doubt that China is the greatest motor that exists to drive the world beyond the crisis of capitalism, and nobody can doubt that the center of gravity of the world has been pushed toward Beijing," Chávez said after meeting with Chinese President Hu Jintao.

Chinese Vice President Xi Jinping said of President Chávez, "His presence constitutes a very positive attribute for the strategic relations of commercial development between China and Venezuela."

Chávez, who seeks to diversify Venezuela's oil export markets, said exports to China have risen from zero to 380,000 barrels per day over the past five years, and by 2013 are projected to reach a million barrels per day.

Also, officials from Venezuela's state oil company PDVSA met with Chinese oil industry officials to plan the joint extraction of oil from Venezuela's Orinoco Oil Belt and the construction of a joint refinery and fleet of oil tankers. Most of these projects are already underway.

Chávez has visited China six times during his decade in office, and during that time Venezuela has become China's fifth largest Latin American trading partner, behind Brazil, Mexico, Chile, and Argentina, according to Zhang Tuo, the Chinese ambassador to Venezuela.

Trade between Venezuela and China, which amounted to approximately $200 million when Chávez was elected in 1998, rose to $1.3 billion in 2004 and was $9.7 billion in 2008, said Zhang Tuo.

For future investments, Venezuela and China recently doubled their joint investment fund from $6 billion to $12 billion.

China built and launched Venezuela's first ever telecommunications satellite last November, and China has also provided radar equipment for Venezuela's military and customs services. China's agricultural investments have improved Venezuela's irrigation and production of corn and rice.

"Venezuela is a country that is rich in energy resources and China imports 50% of the oil we consume. Meanwhile, Chinese companies have technology and human resources to cooperate in the exploitation of energy in Venezuela's subsoil," said Zhang Tuo.

Chávez also met with Li Jingtian, a director of the Chinese Communist Party's Cadre School, to discuss China's involvement in the formation of political leaders in Venezuela.

"Despite the geographical distance that separates our countries, the Chinese Communist Party, our government, and our people follow the development of Venezuela very closely," said Li Jingtian. "We are entirely willing to cooperate with the United Socialist Party of Venezuela (PSUV) in the formation of cadres."

In addition, Olympic team trainers from both countries signed an accord to share training techniques for swimmers, wrestlers, soccer players, and baseball players.

Directly before visiting China, Chávez had visited Japan, Iran, and attended a summit with a group of Arab and oil exporting countries who met in Qatar. After departing China, he landed in Cuba to meet with former President Fidel Castro.

This coming Tuesday and Wednesday, Venezuela will host member countries of ALBA, a cooperation-based trade and integration bloc meant to be an alternative to U.S.-dominated free trade accords. Then, Venezuelan officials will attend the Americas Summit in Trinidad and Tobago next weekend.

Chávez mentioned the possibility of ALBA countries increasing their trade with China, and said it is important for ALBA countries to be "a united front" at the Americas Summit.

Reflecting on his nearly concluded world diplomatic tour, Chávez said, "Countries from Latin America as well as the great powers are interested in what is happening in Venezuela and what we have come to propose."

http://www.venezuelanalysis.com/news/4362

China's Latin Economic Gambit

By HUGO RESTALL

Americans tend to see China's economic rise through the prism of the bilateral trade deficit and competition for manufacturing jobs. But the real story is that Chinese institutions are buying equity stakes and making loans to increase their influence in natural resources. And Latin America is the most important arena for China's investments.

Some observers portray this as a threat in the U.S. "backyard." The truth is that the developing trade between China and Latin American countries represents an opportunity—if the U.S. plays its cards right.

There are several reasons to be relatively sanguine about China's increasing involvement in Latin America. Most obviously, the Chinese interest in the region is pragmatic rather than ideological. The goal is to further economic growth at home by opening new markets and guaranteeing a supply of necessary inputs.

Rocking the boat politically is not on the agenda. Even where Beijing is engaging America's foes, like Venezuela's President Hugo Chávez, it is careful not to offer encouragement for their destabilizing activities.

Still, part of the attraction of Chinese money is that it comes with few strings attached. That naturally tends to undermine the leverage the U.S. has enjoyed as the region's biggest trading partner and investor. China's arrival, coinciding with the rise of Mr. Chávez and Bolivian President Evo Morales, makes it more difficult to contain the damage from these populist left-wing governments.

Yet the reality is that the U.S. still has plenty of leverage—for now. China still only accounts for less than 10% of the region's trade. Chinese trade and investment garners more of the attention because that's where the growth is.

The main tool Beijing is deploying in the region is China Development Bank's massive pile of U.S. dollar reserves. At a time when capital is in short supply, especially in emerging markets, Chinese institutions can make a critical difference in financing new projects. The Inter-American Development Bank is largely tapped out.

China would seem to be in the driver's seat—yet it has had to offer loans at preferential rates and 20-year terms in order to secure guaranteed supplies of oil and other commodities at market prices. Though commodity prices are well off their peaks, it seems that producers still have leverage because of China's seemingly insatiable appetite for minerals and fear that its supply could be disrupted if it relies on the open market.

Indeed, Beijing's state-directed policy of buying up and securing supplies of commodities may not be so pronounced in a few years time if it turns into a bust. Take iron as an example. Raw ore has been piling up on the docks of Chinese ports this year, as steel companies expand capacity and traders stockpile in anticipation of higher prices. But Beijing's stimulus package, which threw infrastructure spending and thus steel consumption into overdrive, will wind down over the next two years. Real estate developers are also in a frenzy of construction at the moment, but this may prove to be the result of a bubble. Falling stock prices in Shanghai suggest that China's recovery is not as robust as first thought.

It wouldn't be the first time the government's investments prove to be misguided. China Investment Corp., the $200 billion sovereign wealth fund, lost big investing in Blackstone and Morgan Stanley in 2007. That debacle, plus the past pain inflicted by high oil and ore prices, may have contributed to the current policy favoring investments in commodities.

The more China invests, moreover, the greater the risk of an eventual backlash. Already there are murmurings from vested interests in Latin countries that Beijing is a neocolonial power, buying raw materials and flooding the region with its cheap manufactured goods. Certainly competition from Chinese goods has had a much greater effect in Latin America than in the U.S., hurting the textile industries in Brazil, Argentina and Mexico. This has brought a wave of antidumping suits.

For all the talk of budding South-South relations, the reality is that developing economies directly compete with each other because their comparative advantages are similar. The U.S. may ultimately be able to play the other two sides off against each other in this triangular relationship because its own economy is complementary with both.

The U.S. may yet be able to bind the region together by offering Latin America greater access to its markets and giving its neighbors a leg up in competition with China. After the failure of the Free Trade Area of the Americas negotiations in 2005, the only way forward for opening markets was much more limited agreements.

But as China's footprint expands in the Americas, it may concentrate minds and bring the negotiators back to the table. That would be a win-win outcome for the whole hemisphere.

—Mr. Restall is the editor of the Far Eastern Economic Review and a member of the editorial board of The Wall Street Journal.
http://online.wsj.com/article/SB20001424052970203706604574368602807031942.html

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Latin American geopolitics

The dragon in the backyard

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Latin America is tilting towards China, Iran and the global "south"—and away from the United States

IF ALL goes to plan, by 2012 the first shipments of copper from Toromocho, a mine in the Peruvian Andes, will be sent by train and truck to a new $70m wharf in the port of Callao. From there, they will be shipped across the Pacific to China. The mine is being developed at a cost of $2.2 billion by Chinalco, a Chinese metals giant. Both it and the wharf will be the most visible symbols of the burgeoning trade and investment that are fast turning China into a leading economic partner for Peru and many other Latin American countries.

In the first six months of this year China became Brazil's biggest single export market for the first time (partly because Brazil's manufacturing exports fell sharply in the recession). During two days of talks in Beijing in May between Brazil's president, Luiz Inácio Lula da Silva, and his Chinese counterpart, Hu Jintao (pictured above), an agreement was signed under which the China Development Bank and Sinopec, a Chinese oil company, will lend Brazil's state-controlled oil company, Petrobras, $10 billion in return for up to 200,000 barrels a day (b/d) of crude oil for ten years from the country's new deep-sea fields. Weeks earlier China offered Argentina a currency-swap arrangement involving use of yuan worth $10 billion, and lent cash-strapped Jamaica $138m to enable it to stave off a debt default. Chinese companies have bought stakes in oilfields in Ecuador and Venezuela, and are talking of building a refinery in Costa Rica. This week China National Petroleum Corporation and CNOOC, another oil firm, were reported to have bid at least $17 billion for the 84% stake in YPF, Argentina's biggest oil company, held by Spain's Repsol.

just China that is taking a much bigger interest in Latin America. So too, in different ways, are India, Russia and Iran. These developments are prompting some to declare the end of the Monroe Doctrine—America's traditional insistence, voiced by President James Monroe in 1823, that any meddling by outsiders in its hemisphere is "dangerous to our peace and safety". Never mind that *Yanqui* dominance has always been disputed by Latin American nationalists as well as by Europe, and never mind that the United States (and Europe) are still far bigger traders and investors in Latin America as a whole than China, let alone India or Russia (see chart 1). What is clear is that there are new and potentially powerful actors in the region.

Their arrival coincides with, and is partly a consequence of, two other developments. The first is the relative decline in the economic and political pre-eminence of the United States after its brief moment of unchallenged power at the end of the cold war. "The centres of power are shifting and the 21st century is about the Pacific," says José Antonio García Belaunde, Peru's foreign minister. More specifically, under George Bush the United States was widely held to have neglected Latin America because of more pressing priorities elsewhere, especially the "war on terror". That neglect has helped others to slip in.

The second factor is that many Latin American countries have become more self-confident and bent on asserting their diplomatic independence. That is either because they have achieved economic stability and more robust democracies, or because they have elected left-wing governments which, for ideological reasons, are seeking new allies. Both factors apply to Brazil, which under President Luiz Inácio Lula da Silva has sought a more powerful role as a regional power of global significance (see article).

The diversification of Latin America's economic ties has raised in some minds a nagging question: does it foreshadow geopolitical changes? In the United States some Republicans worry that China's growing economic weight poses a political threat. Hillary Clinton, the secretary of state, has noted that China and Iran are making "disturbing" gains in the region. But many Latin Americans prefer to see China's expanding ties to their region as an opportunity. The region, with Brazil in the lead, is forging "south-south" alliances with China, India, Russia and South Africa to push for changes in what they all see as an unjust world economic order.

But for Latin America two other questions may be just as important, if not more so. The first is whether the industrialisation of China and India is helping or hindering its own economic development. The second is whether growing economic and political ties with non-democratic countries such as China, Russia and Iran could undermine Latin America's own hard-won commitment to democracy.

Economic ties between Latin America and Asia are not new. From the 1560s until 1815, a fleet of Spanish galleons made an annual epic voyage from the Mexican port of Acapulco to Manila in the Philippines, carrying silver and supplies and returning with Chinese silks and porcelain that were snapped up by the wealthy in colonial Mexico and Peru. In the 1970s Japan emerged as an important trader, investor and aid donor. But the suddenness and scale of the link with China (and to a much lesser extent India) are new.

The first, and still the biggest, impact is indirect. Chinese and Indian demand for raw materials has driven world prices for commodities (of which South American countries are big producers) to unprecedented levels. This played an important role in accelerating the region's rate of economic growth to an average of 5.5% from mid-2003 to mid-2008. Second, China's trade with Latin America has grown at an annual average rate of some 40% since 2003—faster than its overall trade. China has now become a significant market for countries such as Brazil, Chile and Peru.

The rise of China prompted much gloom in Latin America a decade ago. Since average wages in China are a fifth to two-fifths of those in Latin America, it was thought that much of the region's labour-intensive manufacturing industry would be wiped out. That is why Latin American countries have tabled more anti-dumping actions against China at the WTO than has the United States.

A decade on, some of those fears have been justified, but the picture is more positive. Researchers at the World Bank have found clear net gains for the region from the expansion of China. That is largely because of the commodity effect, but also because Latin American exporters have benefited from other countries growing richer by trading with China. The bank also found no evidence that foreign direct investment was being displaced from Latin America to China. Although Latin America has a trade deficit with China, its imports are increasingly of cheap machinery, which helps it to compete in other markets.

The pain has been focused in particular countries and specific industries. Although commodity exporters such as Chile, Peru and Brazil have clearly gained, Mexico and Central American countries have fared less well. For Mexico, one of the region's most industrialised countries, China is a competitor, especially in the American market, in industries ranging from textiles to electronics. Between 2000 and 2005, China's share of American clothing imports doubled, to 26%, while Mexico's fell from 14% to 8%. But some Mexican textile producers have fought back, either by exploiting their greater closeness to the American market or by improving their quality.

Nearly all Brazil's shoemaking and toymaking has been wiped out, or has moved to China. "It's impossible to compete against China in these sectors," says Roberto Giannetti da Fonseca of São Paulo's Federation of Industries. He cites Brazil's high labour taxes and interest rates as self-inflicted handicaps. Nevertheless, South America's new links to China have helped it to ride out the world recession relatively unscathed. Marcelo Carvalho of Morgan Stanley, an investment bank, points out that Chinese demand for commodities seems to have contributed significantly to faster economic growth, a stronger currency, and lower inflation and interest rates in Brazil.

While trade has boomed, Chinese investment in Latin America has hitherto amounted to less than meets the eye. That is in contrast to India, whose trade with the region remains modest, but whose companies have begun to make significant investments in software, pharmaceuticals, business software and natural resources. It did not help that in 2004 China's Mr Hu, on the first of two visits to the region, was misquoted as announcing planned investments totalling $100 billion over ten years. (In fact, he said he hoped two-way trade would reach that figure by 2010, and that foreign investment would double, both of which are likely.)

Chinese investment has so far been overwhelmingly concentrated in mining and oil. (An early and still unusual exception is a joint venture with Brazil, dating from the 1980s, to produce communications satellites, in which China provides 70% of the finance and the technology.) Toromocho is just one of three big investments in copper projects in Peru. Chinese companies have become the biggest foreign investors in Ecuador's oil industry.

But it is China's stake in Hugo Chávez's Venezuela that is potentially most contentious. The China Development Bank has lent two-thirds of the capital for a $12 billion joint fund which Chinese companies could tap for investment projects in Venezuela. Most of these are likely to be in oil: CNPC, a Chinese company, is operating several smallish oilfields and is investing in the Orinoco tar sands.

The United States has long been the main foreign market for Venezuelan oil. Venezuela provides about 10% of American oil imports, and Petróleos de Venezuela (PDVSA), the state oil monopoly, owns Citgo, an American oil distributor which has several refineries specially adapted to process the country's heavy and sulphurous crude. This mutual dependence has long been a discomfort to Mr Chávez, and he has repeatedly said that he wants to divert Venezuelan oil to China (though transport costs would be much higher). So far Venezuelan oil exports to China have risen from a negligible level to 398,000 b/d. But PDVSA has announced that it wants to increase the flow to 500,000 b/d by December. That could be done only by reducing shipments to the United States.

In Africa, China's much larger investments in oil and mining have brought accusations from some quarters that it has created neo-colonial enclaves. But in Latin America, a more developed region, China is just one of many foreign investors. After a shaky start, Chinese companies seem to have become more sensitive to local concerns. Take Peru. The first Chinese investment was by Shougang, which bought an iron-ore mine in 1992. It brought in 350 Chinese staff, and acquired a bad reputation because of constant troubles with the Peruvian workforce. In contrast, points out Luis Chang, a former Peruvian ambassador in Beijing and a consultant to Chinese firms, Toromocho has just three Chinese managers and the CEO is a Canadian.

Mr Chang is one of some 3m Peruvians who claim Chinese descent, the largest such community in Latin America. (Around 100,000 Chinese coolies were brought to Peru as labourers between 1849 and 1875, and integrated well.) Peru has become only the second Latin American country after Chile to sign a free-trade agreement with China. Mr García Belaunde hopes this will encourage further Chinese investment, especially in sorely needed transport infrastructure, such as at Callao and other ports.

But the pattern of trade and investment so far reinforces the fear among some Latin Americans that China is causing the region to respecialise in commodities, as it did in the 19th century, to the detriment of industry. While China's exports to the region span a wide range of manufactured goods, its imports are highly concentrated in a few commodities (see chart 2). Soyabeans and iron ore account for two-thirds of Brazil's exports to China, and crude oil for a further 10%. (By contrast, Brazil's exports to the United States are mainly manufactures.) This specialisation is not necessarily damaging in itself. But as many branches of Chinese manufacturing overtake their Latin American counterparts, Latin American governments may start to place more stress on improving the competitiveness of the region's firms, partly through industrial policy.

Chinese officials insist that their closer relations with Latin America are driven by two things: a shared diplomatic interest in a multipolar world, and mutually beneficial economic and business ties. "We're not seeking special influence. We have reiterated [to the United States] that our relations with Latin America aren't a threat to anyone," says Qiu Xiaoqi, China's ambassador in Brasília. It is also of interest to China that half of the 24 mainly small countries around the world that still recognise Taiwan rather than China are in Latin America and the Caribbean.

Despite a flurry of presidential and ministerial visits in both directions, and mounting mutual curiosity, China and Latin America are hardly close. There are no direct flights between the two. Few Chinese are knowledgeable about the region (Mr Qiu speaks no Portuguese, though he is one of the relatively few Chinese diplomats who speak Spanish). But sooner or later China's economic involvement in Latin America seems certain to have geopolitical ramifications, requiring it to make choices. That is because of political developments within Latin America, and in particular the rise of more or less anti-American governments in some countries.

Venezuela under Mr Chávez has sought closer ties not just with China but also with Russia and Iran. During the cold war the Soviet Union bankrolled Cuba for almost three decades, and supported left-wing movements and governments throughout the region. Last year Dmitry Medvedev became the first Russian president since those days to visit Latin America. Russia also sent a small naval flotilla to the Caribbean for joint exercises with Venezuela and Cuba. This was a tit-for-tat gesture after the United States sent ships to support Georgia after its brief war with Russia last summer.

Russia's abiding interest in Latin America is focused on arms sales. Between 2005 and 2008 Mr Chávez bought Russian weapons worth $4.4 billion, including 24 Sukhoi fighters. As the oil price sank last year, shrinking Mr Chávez's kitty, Russia offered a $1 billion credit line for further arms purchases. This month Mr Chávez said he would seek "battalions of tanks" from Russia on his next visit to Moscow, in response to an agreement letting America use military bases in neighbouring Colombia. But his most worrying purchase was of 100,000 Kalashnikov automatic rifles and a production line to build more. Colombian officials fear that some of these rifles will end up with the FARC guerrillas.

Mr Chávez has also gone out of his way to court his Iranian counterpart, Mahmoud Ahmadinejad. In 2007, in Tehran, he joined the Iranians in declaring an "axis of unity" against the United States. There has been talk of nuclear co-operation. Venezuela and Cuba, along with Syria, were the only countries to support Iran's nuclear programme in a vote in 2006 within the United Nations' International Atomic Energy Agency. Mr Ahmadinejad has made two visits to Latin America, taking in Nicaragua, Ecuador and Bolivia, as well as Venezuela on both occasions. His government has opened embassies in Chile, Colombia, Ecuador, Nicaragua and Uruguay. Under an investment programme sponsored by the two governments, Iranian firms are making tractors and cars in Venezuela, and building housing for the poor.

Iran this month offered Bolivia a loan of $280m, in addition to spending $200m on building two cement factories and three milk facilities. Mr Ahmadinejad also promised Nicaragua $1 billion in aid, and Iran has announced plans to invest in Ecuador's oil industry. But as with many of Mr Chávez's announced investments, little cash seems to have been disbursed.

Iran's cultivation of radical Latin American governments appears aimed partly at securing diplomatic allies in international bodies, while irritating the United States. Some analysts see a more sinister dimension, pointing to the presence in Venezuela of sympathisers with Hizbullah, the Lebanon-based Shia militia. An Argentine judge, with government backing, has issued arrest warrants for seven Iranian officials and a member of Hizbullah in connection with the bombing of the Israeli embassy in Buenos Aires in 1992 and of a Jewish community centre two years later that killed a total of 114 people and injured more than 500. But there is no firm evidence of a continuing and active Iranian-inspired terrorist presence in the region.

For China, the international entanglements of Mr Chávez and his friends are a complication rather than an attraction. "China is not very interested in radicalisms," says Pan Wei, a political scientist at Peking University's School of International Studies who recently spent a sabbatical term at Lima's Catholic University; "China is not going to stir up political troubles in this area, nor have a military presence." He points out that China forged warm relations with Chile during the dictatorship of General Augusto Pinochet.

China makes much of its pragmatic, non-judgmental approach to foreign affairs. But that might just set it on a collision course, in which it has to choose between its strategically vital relationship with the United States and Venezuelan oil. Expect it to do everything possible to avoid being faced with such a choice.

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Chinese Tango: Why Does China Want to Buy YPF?
By Keith Johnson
Just how desperate is China to get its hands on energy resources around the world? Chinese oil companies are apparently prepared to pay $17 billion for Repsol's Argentine oil and gas operations, which it has been trying to get rid of for years. Dow Jones Newswires reported today that a pair of Chinese oil companies—China National Petroleum and Cnooc—have informally offered $17 billion for Repsol's 84% stake in the Argentine oil company, which "which could be the biggest overseas investment by China."

Repsol denied that it had met with the Chinese companies or that it had received any firm offer. Dow Jones said the Chinese government blesses the deal.
China is spending billions to gain access to energy resources around the world, from gas in the Middle East, gas and oil deals with Russia, offshore oil deals with Brazil, and more.
But the possible YPF deal is odd, because Argentina's oil fields are old and tired. Repsol has seen production of both oil and gas fall every year recently, even as production costs have risen. As YPF noted in a securities filing:
Argentina's oil and gas fields are mature and our reserves and production are declining as reserves are depleted. In the last two years our proved reserves declined by approximately 20%, and we replaced 51% of our production with new proved reserves during 2007; average daily production in 2007 declined by approximately 4.1% from 2006. We are engaged in efforts to mitigate these declines by adding reserves through technological enhancements aimed at improving our recovery factors as well as through deepwater offshore exploration and development of tight gas. These efforts are subject to material risks and may prove unsuccessful due to risks inherent to the oil and gas industry.
It's possible that technology could give give new life to Argentina's oil fields—Repsol has been looking at seismic technology to improve exploration as well as enhanced recovery techniques to squeeze more oil out of old wells. Of course, that makes oil extraction even more expensive. And that's without mentioning the Argentine government's heavy involvement in the energy business. That includes things such as fixed domestic prices for fuel and a spate of regulatory hurdles which have bedeviled the Spanish company for years.
China's made no secret of its thirst for global energy sources. But is Argentina really the answer?
A research paper on China's energy policy in Latin America focuses on the small size but rapid growth of FDI
China, Latin America, and the United States: The Political Economy of Energy Policy in the Americas
http://www.allacademic.com//meta/p_mla_apa_research_citation/3/1/3/2/1/pages313218/p313218-1.php
"The impressive amount of FDI pouring into Latin America from China, mentioned earlier to be upwards of $20 billion to date and one half of total FDI outflows, can be deceptive if not disaggregated by country. In reality, more than 90 percent of the capital is concentrated in three offshore tax havens: the British Virgin Islands, Cayman Islands, and Bahamas (OECD, 2008). A great deal of this money is then sent back to China in a process known as "round tripping" which allows Chinese businessman to avoid the domestic corporate tax rate that is more than twice that of foreign corporations (de Rosario, 2003). The actual amount of FDI devoted to natural resource extraction in Latin America is probably closer to $2 billion, although that figure is disputable as well (Painter, 2008). Whatever the correct figure, it is most certainly a tiny fraction of U.S. and European FDI in the region—estimated to be close to $1 trillion dollars collectively! Regarding Hu Jintao's now infamous 2004 pledge to invest $100 billion in Latin America, probably to this day the most frequently cited statistic in support of China's new role in the region. Unfortunately, the Chinese government later corrected this statement claiming they were misunderstood or mistranslated and what the president really said was $100 billion in bilateral trade."

Chinese capitalism and the left

As the credit crunch bites and US imports slow, the left eagerly awaits the collapse of the Chinese economy. A new period of stagnation has arrived they say. Bill Jefferies and Keith

Harvey take issue with the stagnation theorists and shows that China's astonishing sustained vitality and growth rests on the impact of capitalist restoration on the Chinese working class and poor, not simply on the US's desire for cheap t-shirts

China's phenomenal economic growth of the last two decades continues to confound various leftist commentators reminiscing on the stagnation of the 1970s/80s. The Maoists of the US journal Monthly Review summed up this view in their April 2008 issue:

"As the US housing bubble bursts and the dollar's dominance over the global financial system becomes increasingly precarious, the US economy is now going into recession and the global capitalist economy is entering into a new period of instability and stagnation."1

While conceding the rise of China, they assert that its growth is dependent on US current account deficits. They claim that, due to rising inequality and the poverty of Chinese workers, its domestic economy is too small to play a significant part in the world market and that the predominance of exports within it means it is uniquely vulnerable to a US slowdown.

They are not alone. In one form or another Monthly Review's under-consumptionist2 analysis of the US/China axis is repeated across the left. To quote Chris Harman in the ISJ:

"So the US economy holds the Chinese economy up by buying its excess production as imports, and the Chinese economy holds the US economy up by providing its firms and consumers with the cash to maintain their present level of consumption."3

Since the credit crunch of last year – and especially since the first signs of recession in the US early this year – leftist commentators have been waiting for signs that China's growth is being knocked off course, bringing global recession in its wake. They are likely to have longer to wait as, far from being another bubble about to burst, China has massive reserves which serve to insulate it and the world from the US's credit crunch and associated crisis.

Between 1978 and 2007 official mainland China GDP grew at an annual average of 9.7% – a world record.4 In the last five years China has grown at least 11% annually in real terms, as very high levels of capital investment and a rapidly growing urban population have spurred its tremendous growth:

"Indeed, Chinese economic growth springs largely from two sources. First, high savings rates finance robust growth in capital spending. Second, migration of millions of rural under-employed workers gives the teeming factories in the coastal provinces a source of cheap labor."5

China's average saving and investment ratios from 1978 until 2007 were nearly 38% of GDP. In 2003 the ratios sky-rocketed, reaching an estimated 51% of GDP last year,6 while the share of income going to labour fell from 51% in 1991 to 38%7 in 2006, massively increasing profits.

Capitalist restoration and the restructuring of industry

The slaughter of Tiananmen in 1989 removed the final social obstacle to the Chinese Stalinist programme of capitalist restoration. Through the course of the 1990s the butchers of the democracy movement completed the demolition of the central plan and its replacement with state-supervised capital accumulation.

This was no smooth process. Tiananmen was the result of the collapse of the plan during the 1980s, leading to growing unemployment and inflation. With the working class crushed and atomised, the Stalinists wasted no time. State-owned enterprises (SOEs) were given profitability targets and some autonomy to adjust prices and thus avoid losses. Secondly, they stripped away state enterprises' "social welfare burdens" – the provision of hospitals, schools, housing and other administrative liabilities that had long been managed directly by SOEs and funded out of their own revenues. Finally, in the mid-1990s the government recognised that many state enterprises were chronically unprofitable and they were shut down.

In the absence of formal bankruptcy procedures, enterprises were not disbanded and employees did not enter the formal ranks of the unemployed, but the statistical discrepancy could not hide the truth. Instead, workers continued to receive nominal payments from the workplace or from local budgets and only if funds were available at that. Between 25 and 30 million workers were sacked. As a result, formal enterprise subsidies fell dramatically, from more than 6% of GDP in the early 1980s to only 0.1% of GDP in 2008.8

In 1978, at the beginning of the reform process, the authorities determined nearly every price in the economy at the retail, wholesale and farm gate level. Twenty-five years later the number of controlled prices had fallen to well under 10% of the total in energy, utilities, food staples and various service categories such as transportation, telecommunications and healthcare.

Investment and capital accumulation

By the late 1990s the pre-conditions for the rapid advance of Chinese capital were in place. The demolition of the plan meant a mass of means of production was transformed into fixed capital for free. This, combined with the accelerated growth of a Chinese working class, atomised and vulnerable to exploitation at very low rates of pay, meant profit rates were very high and growing. As the integration of the domestic Chinese – now capitalist – economy into the newly opened globalised world ensured, a virtuous cycle ensued. More investment accelerated profitability, dragged ever more millions of workers into the orbit of capitalism, generated ever more profits providing the funds for increased investment. Far from this mass of fixed capital pointing to over-accumulation and consequent falling profits, it raised them:

"Data on corporate earnings, on the other hand, suggests a very different picture of the health of investment and thereby the overall Chinese economy: 1) the investment is financed more by retained earnings; and 2) the return on investment in China has been high and rising since the turn of the century, suggesting that China can invest more before its investment return gets lower. In our view, improved corporate profitability and rising profit share in national income are mainly reflections of the successful state-owned enterprise restructuring in 1997-99, and the accelerated integration of China's abundant labor in the global economy." 9

As Graph 1 illustrates the trend over the last ten or so years has been for profit rates to rise steadily.

From the turn of the millennium onwards huge investments in heavy industrial capacity were spurred by growing domestic demand and record profits. The state's credit restriction and fall in demand in 2003-04 could have led to retrenchment in investment and a spate of closures as in 1993 and end of the century. However, this time China's firms took significant market share from their global rivals, both inside and outside the country.

The WTO and the world economy

Marshalling huge amounts of capital year after year would not on its own have allowed the huge wave of profitable expansion. It also required large reserves of cheap labour to exploit. The integration of China into the capitalist world market and the subsequent rapid rate of urbanisation have massively increased the supply of labour that can be exploited by world capitalists.

After joining the WTO in 2001 about 150 million Chinese joined the global workforce to produce international traded goods on the cheap. Some 97 million Chinese, two-thirds of the US labour force, have moved to urban areas since 2001. Manufacturing and services have gained 88 million workers at the expense of agriculture, which lost 47 million people.

Table 1: World labour supply (millions)

Year	Global	Asia	China
1980	218.7	66.1	24.7
1990	326.0	187.6	108.7
2000	609.9	339.5	171.3
2006	862.2	524.2	316.5

Source: IMF, CEIC, Merrill Lynch estimates

The urban population has increased from 36% of the total population in 2000 to 44% in 2006. The transformation of subsistence farmers into workers is the key to explaining the significance of this shift. It is not just the growth of the workforce that counts, but the proportion that is now involved in capitalist production. This year per capita output in sectors like industry and services is US$5,299 per worker compared to US$954 per worker in agriculture, and much of this agricultural output is non-traded subsistence farming, given only a notional value for comparative purposes.

The benefits of this super-exploitation for and by imperialism cannot be underestimated. It has massively raised productivity and so reduced inflation worldwide. A Federal Reserve study suggests that China lowered inflation by as much 1% a year in the US.10

Chinese imports lowered the cost of the reproduction of labour power worldwide and so raised the world rate of profit. For while the value of wages fell, rises in productivity meant that the value of the commodities purchased by workers fell faster, so raising living standards, even while incomes in the US barely grew.

These trends were so strong that although raw material prices began to rise from the late 1990s onwards, the price of manufacturing production continued to decline until August 200711

The left's myopia

For the majority of leftist commentators on economics China's significance is a bubble which is about to burst. The schema essentially goes like this:

The world economy is stagnant, suffering from chronic over-capacity in manufacturing, with low rates of profit, investment and output. Since the end of the dotcom boom in 2000 US consumer borrowing on the back of rising house prices allowed strong consumer demand to temporarily power US growth. In turn this enabled China to grow by exporting consumer products to the US.

But, they continue, with the ongoing collapse of the US housing market and credit crunch, borrowing and spending will come to an end and as a result China's exports will stop shipping. Since China has been responsible for 20% of global growth in the last five years, sucking in the world's exports, we are set to experience the deepest crisis in decades. And so, they conclude, global crisis reminiscent of the 1930s Great Depression will wrack world capitalism.

Socialist Worker's Joseph Choonara claims that:

"China, seen by some as the "saviour" of the system, depends on US consumers . . . If the US is removed from the equation China is a net importer of goods, many of them parts produced elsewhere in the region, which are assembled in China and re-exported to the US. Recession in the US will impact across this region."12

Lynn Walsh of the Socialist Party says that the credit crunch "marks the end of the recent phase of globalisation, which has been dominated by finance capital and a frenzied short-term drive for profit. For a few years, this promoted rapid growth in China and to a lesser extent the US, the binary axis of the world economy. Now it has turned into its opposite, with a recession in the US that will drag China and the rest of the world down with it."13

Walsh determined to prove the catastrophe is ever just around the corner asserts that;

"The rapid growth of the Chinese economy over recent decades has been structurally dependent on export growth, using the foreign currency revenue from exports to finance investment and the purchase of raw materials. The switch to dependence on internal demand would mean a painful readjustment, which could only take place over a considerable period of time."14

But does Chinese capitalism "depend" on US consumers or exports in general for its expansion? Does a decline in the export-import dynamic between China and the USA inevitably mean world recession and the end of globalisation?

The headline figure for China's exports is that they are equivalent to 37% of GDP, up from 15% in 1995 and 3% in 1970. Harman, following Martin Hart-Landsberg and Paul Burkett of Monthly Review,15 claimed that in 2002 exports accounted for 70% of China's growth,16 based on the very high proportion of Chinese exports relative to GDP.

But the export/GDP ratio is very misleading because it compares two incompatible concepts; exports are defined in terms of turnover while GDP is measured in value-added terms.17

Once the imported component of exports is accounted for and an adjustment made for the amount of new value added in their production in China, a better estimate is probably around 9% of GDP.

This suggests that exports have been responsible for around 2-3% of total annual GDP growth on average in the last decade (i.e. a quarter or less of total growth).18

Even if we take the headline figure for China's exports – 37% – most of these exports do not go to the US. Europe and the rest of Asia are more important and growing in importance with each year. Exports to the US account for 19% of the total last year, less than the EU and much less than the 31% share going to Asia-Pacific countries (minus Japan).19

As China's exports have slowed to the US they have been re-directed particularly to the emerging markets of Brazil, India and Russia:

"China's growth in exports to America slowed to only 5% (in dollar terms) in the year to January, but exports to Brazil, India and Russia were up by more than 60%, and those to oil exporters by 45%. Half of China's exports now go to other emerging economies."20

Moreover, history shows the likely impact of a US recession on Chinese exports and the effects of any decline in turn on China's overall growth. The bureaucracy is terrified of the repeat of a Tiananmen Square uprising – and so, when in 1997 and 2001 export growth collapsed the economy did not, and "a key reason is that counter-cyclical government-led capex [capital expenditure] was able to largely offset the weaker exports such that overall economic growth remained robust."21

The 2001 dotcom recession is revealing in that China – like India, Indonesia and Japan with large domestically oriented economies – escaped relatively lightly, while small export economies such as Hong Kong, Malaysia, Singapore and Taiwan went into sharp recession.

This is not to underestimate the impact of the last two crises on China's exports:

"During the Asian financial crisis [1997-98], China's export growth plunged from a peak of 30%YoY in May 1997 to -11%YoY in November 1998. After the internet bubble burst, China's export growth dropped from a peak of nearly 40%YoY in March 2000 to barely zero growth in October 2001."22

But this demonstrates that, despite these falls, the effect on China's economy overall was marginal; GDP slowed by about 0.5 in 2001, despite a very large negative export shock, a shock that was larger than most commentators are suggesting China will experience in the next two years.23

And the same pattern appears to be happening in this cycle. When adjusted for the rise in the value of the Yuan, export growth in 2007 was at its lowest level since 2001, yet growth powered on.24 And this was because 95% of China's 11.2% growth for the year up to the start of Q4 2007 came from domestic demand.

In short, the exceptional export surge since 2001 is largely cyclical and rests on the back of historically high global growth. The underlying structural cause of Chinese capitalism's prolonged expansion remains the huge supplies of capital and labour that have been mobilised over several decades.

Infrastructure spending

Reflecting its origin in a Stalinist bureaucracy and keeness to maintain its cohesion and dampen social opposition to it, an overriding concern of the Chinese government is to ensure a pace of growth which is rapid enough to provide enough jobs to absorb the estimated 10-20 million workers who swell the urban population each year.

As The Economist noted recently: ". . . less than 15% of China's investment is linked to exports. Over half is in infrastructure and property."

But past investments pale into insignificance compared to the state-backed spending on infrastructure undertaken in the last five years and planned for the next decade or more.

In February The Economist reported that between 2001 and the end of 2005 more was spent on roads, railways and other fixed assets than was spent in the previous fifty years. Between 2006 and 2010 $200 billion is expected to be invested in railways alone – four times more than in the previous five years.25

It is the same story with roads. Since the 1990s China has built an expressway network that is second only in length to the US's interstate highway system. By the end of 2007 some 53,600km of toll expressways had been built. The government also plans to build 300,000km of new rural roads between 2006 and 2010, an increase of nearly 50%.26

The US highway construction programme after World War Two was a pivotal factor in laying the basis for the post-war boom in the US, since it massively cut the costs of continental transport and communication for capitalist industry – something the Chinese plan to emulate.27

In the past couple of years investment in rail has grown considerably. The Economist says:

"This year's target is $42 billion, compared with a total of $72 billion in the preceding five years. World Bank officials call it the biggest expansion of railway capacity undertaken by any country since the 19th century."28

China had 78,000km of track at the end of last year. By 2015 they plan to increase this to 120,000km which, if realised, means laying 60% more track in the next eight years than was built since 1978.

Finally, the government announced in January this year that it planned to add another 97 airports by 2020 to the 142 China had at the end of 2006.

These capital investments – amounting to hundreds of billions of dollars (see table 2 below) naturally provide a considerable source of demand for both Chinese industry and overseas firms in heavy industry and the capital goods sector. And given the bureaucracy is sitting on top of $1.7 trillion worth of foreign reserves and huge budget surpluses, it clearly has what it needs to "prime the pump" should domestic growth levels fall so far as to impede job creation.

And the government has another "advantage" when it comes to taking its plans off the drawing board and bringing them to fruition; it is a brutal political dictatorship that has not hesitated in the past to uproot dozens of villages and thousands of residents that get in the way of "development" plans.

But despite the scale of these infrastructural developments they are by no means the main source of dynamism for Chinese capitalism. State spending only amounts to 5% of overall capital spending in China. Over the last decade or two state outlays are estimated to have contributed only about 1% a year to GDP growth,29 the majority of investment being financed by firms' retained earnings and bank loans.

China's banks

Another recurrent theme of leftist China commentary is that China's banking sector is insolvent, weighed down by bad debts and non-performing loans. Chris Harman claims that high rates of fixed capital investment mean that:

"The result is a relatively low rate of profit which is compensated for by the willingness of the banks to lend to enterprises at low rates of interest – and by a parallel willingness not to push loss-making enterprises into bankruptcy, so that the banking system is owed vast, probably unrepayable debts. The official estimate for the 'non-performing loans' of the banks is 20% of all loans – an unofficial estimate suggests 45% of GDP."30

Harman's description of a Stalinist bureaucracy unwilling to push firms into bankruptcy could not be a less accurate description of China from the mid-1990s onwards. And just as he underestimates the ruthlessness of the bureaucracy so he seriously misestimates the health of the banking system.

Since 1998 the government has spent nearly US$500 billion to write down bad debts and replenish bank capital, and removed an even larger amount of nominal loans from banks' balance sheets into state-owned asset management companies. The vast majority of the bad loans made during the 1990s boom-bust cycle have either been cleaned up already or will be dealt with finally in the very near future. From an average level of 25% non-performing loans or more at the beginning of the decade, the BOC, CCB and ICBC – three of the four main Chinese banks – now report ratios under 4%.

The re-capitalisation of the banks was preparation for their privatisation from 2004-05 onwards. Partly as a result of China's accession into the WTO, this included the sale of a proportion of banking assets abroad. As of mid-2007 total foreign direct investment in the Chinese banking system exceeded US$20 billion. Three of the "big four" state commercial banks are now roughly 20% owned by foreigners, although the largest bank the CMB remains wholly Chinese owned. The average market holding among all listed banks is on the order of 30%.31 As late as 2001 the figure would have been zero for every bank in the chart. The government still imposes a 25% total foreign ownership cap on all banks, with no more than 20% by a single outside investor. Nonetheless the origin of Chinese capitalism in the Stalinist central plan, means that China's domestic capitalists and their state capitalist overseers retain overwhelming control of their domestic banking system and this will be critical as China seeks to develop its financial power abroad in the immediate future.

China's consumer demand

Chris Harman has previously excluded the possibility of China's domestic demand offsetting any decline in export rates as he believes the working class and peasantry are too poor and the middle class are too small.32

The Socialist Party's Lynn Walsh agrees:

"The idea that China could rapidly switch to stimulating domestic demand is fanciful. Low wage levels and huge inequalities mean that domestic purchasing power is extremely low."

So what's the truth?

Consumer spending in China has remained steady over the last decade contributing around 4-5% a year to GDP growth- with wages falling as a proportion of GDP even while living standards have risen quickly. Consumption expenditures remain dwarfed by capital investment.

There is much debate over the size and spending power of the Chinese urban classes, but even the most conservative estimates say there are about 100 million urban middle class consumers (growing at about 12-15 million a year), with a spending power of about US$250 billion a year.33 This is confirmed by shifts in the consumption pattern of Chinese society.34

Take, for example, the number of consumer goods per 100 households TVs rose from 4 out of 100 in 1984 to 94 out of 100 in 2003. Washing machines went from 1 to 59 out of 100 and fridges from none to 46 out of 100.35

Or look at the consumption of foodstuffs:

"By the end of the 1990s, China's average level of daily per capita calorie intake fell only 10% short of the level of developed countries . . . Aggregate meat consumption has grown by more than 50% over the past decade. Per capita meat consumption has also grown considerably, mainly due to a higher demand for pork and poultry, the consumption of which has risen by about one third over the past decade."36

Imports of food products have grown from $4,130 millions in 1992 to $9,435 millions in 2000. In 2006 it reached $23,634 millions. This is an increase of 472% in just 14 years.37 As UBS notes, "there has been a visible acceleration in household expenditure over the past three years, with no sign of slowdown to date,"38 mainly as a result of the growth in rural incomes. On the back of very rapidly rising food prices in 2007 these incomes grew faster than the urban sector for the first time in decades. But, in addition, wages in urban collectives rose at an average annual rate of 13.6% in 2002-06 – up from 9.8% in the preceding five year period – underpinning a rise in retails sales.

In fact already this year China has readjusted its output towards domestic consumer demand:

"We estimate that domestic demand contributed 11% to overall GDP growth in 1Q. Consumer demand, as reflected in retail sales, grew 20.6%Y in 1Q (+21.5% in March). After adjusting for higher inflation in the period, retail sales gained 12.3% in real terms, similar to that in 2007."39

And this change is reflected in the growth of imports and their composition. Imports related to export have declined while capital goods for the domestic market have increased:

"China's merchandise imports rose 44.3% through February, far outpacing the sequential trend growth in exports. This is a significant change in the previously persistent trend of lagging import growth in the past three years and is consistent with the solid domestic demand trend in China . . . The import data by end use also show that domestic demand-related goods are behind the latest surge, while imports for export-related production have slowed." 40

Clearly, while large, this level of final demand cannot be a substitute in the short or medium term for business investment. Industry will remain industry's best customer for some time ahead. But it does provide a growing outlet for both Chinese and overseas multinationals which confront saturated markets in Europe and North America or a range of consumer goods.

China and the world

China's economic prospects are critical to the fate of globalisation. But this is not because China's dependency on US consumers is about to bring it low, or that its exposure to exports in general is fatal to its expansion.

Rather, China increasingly powers the world economy. As one report notes: "emerging economies' trade with each other has risen faster and now accounts for over half of their total exports. Emerging markets as a group now export more to China than to the US."41

The growth of China has been critical to the continuing growth of the so called "emerging markets" that are disproportionately dependent on the export of raw materials. Over the last four years not only has the absolute proportion of imports consumed by China risen, so has their impact on world demand, as is clear from Table 3 from JP Morgan:

China's internal capital accumulation, based on huge surplus profits and capital investment, combined with increasing internal consumer demand (and increasingly also with foreign investments42), props up a growing number of countries. To put it bluntly: the world depends on China, not the other way around.43

Capitalist accumulation is certain to slow down. In the short term, the recession in the US and slower growth in the rest of the world will have some impact on China as exports decline. But as we have explained this is not likely to derail the factors that lay behind China's three decade expansion: reserves of labour, abundant capital, high productivity and profits. China has very significantly offset the impact of the US slowdown on the world economy and inside the US itself, and will continue to do so.

However, over the next decade or so China's advantages will be eroded. First take labour. The Chinese labour force will peak around 2015 due to the one-baby policy adopted in the 1970s. Total available labour increased by about 10 million per year in the 1990s and the first half of this decade, it has now fallen to only 6 million each year and between 2010 and 2020 the net figure will be around zero, as deaths equal births.

More importantly even, the rapid pace of urbanisation is slowing and in the foreseeable future could halt. Some 100 million rural migrants already work in factories, drawing in a sizeable portion of the younger rural population. Merrill Lynch estimates "45-50 million young surplus workers remained in the rural areas as of end-2006. Assuming a migration rate of 12-15 million a year, the well will run dry in 2009-10."

In China export manufacturers now routinely complain about the difficulties in finding cheap, available workers. This decline in the reservoir of super-exploitable workers is already having an impact upon productivity, with wages rising as a consequence of this "tighter" labour market. Chinese business's unit labour costs have begun to rise after declining at a rate of 4.5% annually between 1994-2004. In 2005 labour costs rose by 1.5% and in 2006 by 2.9%. In turn some Chinese firms will not be as competitive as they were in certain (mainly labour-intensive) lines of industry, losing market share to other Asian countries such as Vietnam.

Future investment

Is there over-investment in China? At 51% of GDP it could appear to be the case. Yet profit rates are rising and suggest otherwise.44 Part of the answer is that in recent years 10%45 or more of this investment has been in residential housing,46 a consumer durable rather than a capital value-producing investment.47 Questionable Chinese GDP statistics48 and disputes about the price of land, a nationalised asset available to the state at very low prices, add further doubt to the true cost of Chinese investment.

What's more, asset inflation in housing is starting from a very low base. There was no housing market at all in China before 1996 and, while prices are rising, they are falling as a proportion of incomes, as wages increase even faster. This may lead to problems, but the underlying expansion of productive capacity has not yet led to a cyclical bust, as it did in the mid- and late 1990s.

This is because as Chinese output has expanded it has moved up the value chain into higher technology goods, which have maintained profit rates and meant that Chinese firms have gained an ever increasing market share in markets outside of their traditional strongholds in low price consumer goods, and also in a burgeoning domestic market.

The effect of a decline in investment rates is debatable. Most bourgeois analysts suggest it will lead to the rate of growth in GDP slowing to 7-9% over the next 10 to 20 years.49

Irrespective of the likelihood of this or not, as China's dependence on imported raw materials encourages it to revalue the Yuan, which has risen 18% against the US dollar since its float, its financial power will begin to match its industrial strength. On present trends China's nominal dollar GDP will surpass Germany in 2008 and Japan by 2010.

Conclusion

The left has wilfully underestimated the historic, and in many way unique, consequences of capitalist restoration in China – the world's most populous country – and the effects of its step by step integration into the world market in an era of unprecedented globalisation.

Left commentators have insisted on China's fatal vulnerability to the, hitherto larger and more powerful, imperialist economies, failing to detect the major underlying shifts in the balance of global economic power.

The key levers of economic growth – of capital accumulation – in China are its massive reserves of labour and capital mobilised by a powerful native ruling class. In recent years these long term structural characteristics have been supplemented by equally powerful cyclical factors.

In the last 20 years, domestic capital boom and bust cycles have hit China and stalled or slowed growth – indeed far more than the internationally generated recessions of 1997/98 and 2001, or 2007 did.

But the ability of China to ride out the effects of the US credit credit crunch will burst the left's schema, based as it is on the ongoing stagnation of the world economy and its dependence on a series of bubbles.

Endnotes

1. Minqi Li , "The Age of Transition: the United States, China, peak oil and the demise of neoliberalism", Monthly Review Press, April 2008 p20

2. Under-consumptionism is the idea that capitalism cannot sell its output because the working class cannot buy, i.e. consume, enough.

3. Chris Harman, "China's economy and Europe's crisis", ISJ 109. At the 40th anniversary commemoration of May 1968 in London, Harman compared the recent growth in the world economy to the short-lived upsurge of 1972/73. Harman can only concede the possibility of capitalist advance when he thinks it's over.

4. A full percentage point higher than the next most successful performer (Taiwan). The consensus among academics who doubt government statistics in China suggest this figure is 9%, still higher than any other country.

5. "US recession? Who would be next," Wachovia, Jan 08.

6. Other "Asian" miracles (Japan, South Korea, etc) have mobilised huge savings and invested them in this fashion, but none on this scale and for as long. Between 1965 and 1995 the Asian high-growth nations reported average gross domestic saving and investment rates of just over 30% of GDP; for Japan in 1955-85 the figure was 33% of GDP.

7. ". . . the share of output going to workers declined from 24% in 1998 to 17% in 2005. In other words, enterprise profits increased its share of a very rapidly growing pie." World Bank, "A Note on Saving, Investment, and Profits of China's Enterprises" 2006.

8. UBS, "How to think about China", Part 1 (2008 Edition) 10 January 2008.

9. Goldman Sachs, Global Economics Paper No:146 p3.

10. “Is China exporting deflation?”, International Finance Discussion Paper No 791, Federal Reserve Board, January 2004.

11. Prices for US imported goods from China rose 0.7% in March 2008 and are now up 4.0% over the past year. Prices throughout the Pacific Rim, which account for one third of US imports, rose 0.6% and are up 3.0% year on year.

12. Joseph Choonara “Shocking instability that is built into capitalism” Socialist Worker 22 March 2008

13. Lynn Walsh, Socialism Today, No 115 Feb 08

14. Ibid

15. Martin Hart-Landsberg and Paul Burkett, “China and socialism – Market reforms and class struggle”, Monthly Review Press, 2005

16. Chris Harman, “China’s economy and Europe’s crisis”. ISJ 109

17. “In order to arrive at the actual role of exports in the economy, we need to strip out associated import content to find out how much of export revenue actually accrued to the domestic economy; this gives us a measure of external demand as a share of overall effective final expenditure. And next, we want to convert that domestic content share into value-added terms by subtracting input purchases from other domestic sectors. Our most recent estimates suggest that the domestic content of Chinese exports is around 45%, i.e., that 55% of the total value of export shipments represents imported raw materials or manufactured components. If we apply this ratio to the headline export/GDP ratio, we find that domestic export content accounts for 14% to 16% of GDP. According to official data, industrial manufacturing accounted for 43% of GDP in 2006 on a value-added basis . . . Thus, if we take the 43% industrial share of GDP and multiply by the 18% export share in industrial manufacturing, we end up with a ‘true’ export share of 7.8% of GDP. But this is just for goods exports, of course. If we add in our guess at value added from trade services and other income, we come out with a likely final ratio of just over 9% of GDP.”

UBS, How to think about China, part 6 p30.

18. UBS How to think about China, part 6 p30 Indeed in the first quarter of 2008 exports actually subtracted from Chinese GDP.

19. Hart Landsberg and Burkett claim that “In short, China is taking up a rising share of an increasingly stagnant total of regional exports.” (China and Socialism – Market Reforms and Class Struggle: Monthly Review Press p88) In fact the growth of world trade has accelerated over the last five years, nearly doubling since 2000, while intra-regional trade in developing Asia has risen from 22% of exports in 1980 to 40% in 2004. This is still lower than North America 46% and Europe 64%. While China is certainly a major competitor with other local Asian rivals, far more important has been the rise in China’s own imports by 323% between 2000-06 and the growing proportion of Asian imports in them.

20. From Economist.com “Emerging markets; The decoupling debate”, 6 March 2008 www.economist.com/daily/news/displaystory.cfm?story_ id=10808782&top_story=1.

21. Morgan Stanley, Greater China Economics Issues in Focus p6, 5 March 72008

22. Morgan Stanley, When Exports Weaken, Government Capex (capital expenditure) Steps In, March 08

23. ". . .the correlation between US import growth and growth in Chinese industrial production is quite low . . . Although American import growth plunged in 2001 as the US economy slid into recession, growth in Chinese industrial production barely budged. More recently, US import growth has been weakening, but Chinese IP [industrial production] growth has strengthened. There must be much more to Chinese economic growth than simply exports to the United States . . . A downturn in the US economy surely would cause the overall rate of Chinese GDP growth to slow, but it would not lead to a collapse of the Chinese economy, as recent history demonstrates." Wachovia op cit.

24. According to World Bank estimates, a decline in US consumption of 1% would cause a slow down in Chinese GDP growth of 0.5%. To put this in perspective, the largest fall in US consumption in any recession since 1960 was in the very deep 1980 recession when it fell -1.2%.

25. "China's infrastructure splurge" The Economist, 14 February 2008

26. World Bank China Quarterly Update, January 2008
http://siteresources.worldbank.org/INTCHINA/Resources/318862-1121421293578/cqu_jan_08_en.pdf

27. Logistics costs in China amount to 18% of GDP in China compared with 10% in America. The massive investment in roads and especially rail aim to cut this margin.

28. World Bank, op cit

29. See UBS, How to think about China, part 5, 2008 p29s

30. Chris Harman, "China's economy and Europe's crisis ", ISJ 109 February 2006
http://www.isj.org.uk/index.php4?id=160&issue=109

31. Our previous PR9 estimate of Chinese domestic bank ownership of 95%+ was evidently a bit out, based as it was on slightly older Deutsche Bank figures.

32. "But [the middle class] is not big enough to absorb the burgeoning output of Chinese industry profitably." True, but the trade off between final consumers and exports is a false way of posing Chinese capitalism's dilemma.

33. The upper class (that is the layer that enjoys a lifestyle at or above a middle class family in today's G8 countries) may number 25 million or 2% of China's total population.

34. "A rise in per capita income from low levels is associated with an increase in per capita food consumption and a shift in the composition of household expenditure away from primary products, particularly food, towards manufactures, such as textiles and clothing, wood and paper products, machinery (e.g. electrical household equipment), and chemicals (e.g. pharmaceuticals). Household demand for services also increases, particularly for

transport (especially personal transportation), electricity and housing (including furniture and consumer appliances).” UNCTAD Trade and Development Report 2005

35. OECD Economic Survey China 2005
36. UNCTAD Trade and Development Report 2005
37. Asian Development Bank, Key Indicators 2007
38. UBS op cit

39. Denise Yam, Qing Wang and Katherine Tai, “China Imported Soft Landing in Sight”, Global Economic Forum, Morgan Stanley, 17 April 2008 Hong Kong www.morganstanley.com/views/gef/archive/2008/20080417-Thu.html

40. JP Morgan, Economic Research Note “China’s import strength buffers global economy”, 4 April 2008. Also “Urban fixed asset investment actually accelerated in March, contrary to our expectation, bringing 1Q up 25.9%Y (+24.3% in January-February).”

41. Wachovia op cit. Morgan Stanley says: “within Asia, China has become the growth engine, replacing the US.” MS Research Asia Pacific 1 May 2008

42. In the first quarter of 2008 China’s foreign direct investment (FDI) has already surpassed that of the whole of 2007.

43. “Asian domestic demand, based on thirteen volume indicators, is now larger than the US. Asia current dollar GDP is 59% of the US size, but its true size is masked by cheap currencies and labour costs. Asia’s large domestic market reinforces our view that Asia is now less dependent on the US than ever before, and capable of a soft decoupling from the US downturn. Drivers of Asian domestic demand, and particularly China, are now at least as important as global factors.” “China The Engine!”, Morgan Stanley Asia Pacific Strategy Asia No 1, 1 May 2008

44. “We think the over-investment issue reflects data quality problems rather than a true underlying problem. The reported investment-to-GDP ratio looks alarming, but it is significantly overstated due to an over-estimation of investment, under-estimation of consumption and under-estimation of GDP. Data on corporate earnings suggests a very different picture of the health of investment, showing that retained earnings are a key source of investment financing and that the return on investment is not only high but has been rising since the start of the decade.”, Goldman Sachs, “China’s investment strength is sustainable”, Brics and Beyond, November 2007 http://www2.goldmansachs.com/ideas/brics/book/BRICs-Chapter4.pdf

45. “With completions at 477 million square metres in 2007, at an average 90 square metres per unit, we estimate China completed about 5.3 million units.” Or five times US production. Morgan Stanley, “China The Engine!”, Asia Pacific Strategy Asia No 1, 1 May 2008

46. “One final note concerns China’s slums – or, more accurately, the lack of them. Visitors to Mumbai, Jakarta, Mexico City, Lagos and virtually every other large city in the developing world cannot help but notice the uncontrolled growth of ‘slum’ areas, often involving millions of relatively destitute and marginalised people in informal housing without access to clean water, sewage or electricity. However, travel to Beijing and Shanghai and you won’t

find anything similar; the city centre leads to more or less orderly residential areas, which then fade out into farmland." UBS, How to think about China, part 6, March 2008

47. Capital investment has been consistently around or slightly above 35% of GDP for a long time.

48. When Chinese regional GDP figures are added together they are consistently 2-3% higher than the national GDP figures.

49. "Subtracting 13% of GDP from today's domestic savings just brings the ratio back down to 38% of the economy – i.e. exactly the level that kept real growth at 9.7% y/y on average for the past few decades . . . based on current trends China could afford to lose nearly half of its national savings over the longer term and still maintain one of the fastest growth rates in the world." UBS, op cit p40

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