

## Documentation

# China. Save Capitalism?

25 January 2018



© Karolin Pernegger

edited by Martina Neuwirth

**Publisher:**

Vienna Institute for International Dialogue and Cooperation (VIDC)  
Möllwaldplatz 5/3, A-1040 Vienna, [www.vidc.org](http://www.vidc.org)

**Editor:** Martina Neuwirth

**Transcription:** Emily Lemon

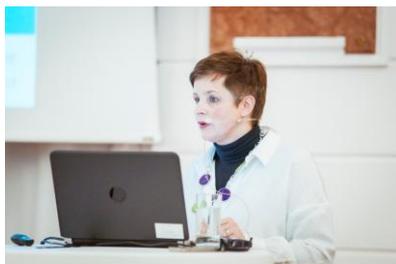
**Copyright photos:** Karolin Pernegger

Published in accordance with §25 of the Media Law.

**Copyright:** Vienna Institute for International Dialogue and Cooperation (VIDC),  
Möllwaldplatz 5/3, A-1040 Vienna.

**Basic issues:** discussion papers on development policies, international cooperation and cultural exchange south – north as well as anti-racist campaigning.

The views expressed in this publication are those of the authors, and not necessarily those of the editors/VIDC.



**Martina Neuwirth:** Good evening ladies and gentlemen. I'm glad that you're here to follow a very interesting discussion about the external role of China. My name is Martina Neuwirth, I'm working for the VIDC and I'm responsible for the program on economic and financial issues. Let me say a

few words on the context of today's discussion. The economic discussion panels of the VIDC take a look at the global economy, its driving actors, its contradictions, and also the underlying causes of the repeating economic, social and also environmental crises. When looking at China, we see a country that has become one of the most important drivers of the global economy. A country that until 2010 had annual growth rates of 10 percent or more for a period of over 30 years. I think this is rather remarkable.

In April last year, the VIDC had invited two scholars, Ho-Fung Hung and Chun-Yi Lee, to talk about the characteristics, the internal driving forces as well as the internal problems of the Chinese boom economy. Both explained how China's capitalist economy was able to become a huge export powerhouse by, for example, maintaining low labor costs despite ongoing labor struggles within China. And they explained that now, as growth is slowing down and internal demand is still not catching up, China tries to export capital where more profits can be expected.

Today we will therefore look at the external aspects of China's economic policies.

Africa was one of the first interesting regions for Chinese exports and investments. That was at a time when commodity prices were still high and China sought to secure its access to oil supplies and other raw materials. China's engagement in Africa has received a lot of attention. This might be due to the fact that classical donors feel threatened by the Chinese presence in the territory that was dominated by European interests for such a long time. It might also be due to the fact that civil societies were and are claiming that Chinese investors disregard environmental and social standards and strengthen repressive regimes. But the engagement in Africa, one has to say, only represents a fraction of China's overall foreign activities. The continent is only one part of the so-called "One belt, One Road" initiative, or OBOR, that aims to connect Africa, Asia, and Europe by its six economic land corridors that are called the Silk Road Economic Belt, and also by the maritime route that is called the 21st Century Maritime Silk Road.

A lot of OBOR projects still exist only on paper, but China has already started to invest in harbors, oil pipelines, power grids and high-speed trains. The reactions to this rather ambitious project vary. They can be positive because also countries like Austria expect higher economic growth, profits, and lower transport costs when participating in the project. But there are also frightened reactions as the One Belt, One Road initiative of course also has geopolitical and security dimensions. One only has to think about the conflicts between China and the US over the important trade route of the South China Sea or India's nervousness about Chinese investments in Pakistan.

Today we are likely to hear more about China's foreign trade policies and their political and security implications. I guess that our guests will also explore China's role in the world economy, a global economy that also has to become more sustainable with regard to environmental issues.

**Karin Fischer:** Thank you very much, Martina. "China – Serve the People" was the title of our last year's event on China, taken from the Chinese word for economy, which means "for society to prosper and benefit the people." This time it is capitalism, will China save capitalism? Will it deliver an economic stimulus for the world economy to prosper? To discuss these exciting issues we invited two outstanding scholars. Both of them have an impressive background.

Dorothy Guerrero has worked as organizer, campaigner, activist researcher, educator in social movements and NGOs for about thirty years now. She started her career with working at the Institute for Popular Democracy in the Philippines. That was in the 1990s. Then she worked in Germany at the Asienhaus, for Focus on the Global South, a very reputable and well known regional advocacy organization based in Bangkok, and with various groups in South Africa. For a year now Dorothy is with Global Justice Now – a social justice organization based in London. Her expertise is in the field of energy issues, climate change and the global trade regime, and she investigates the impacts of global investments on people's livelihoods in Asia. Her focus is currently on China's new role in the global political economy. On the VIDC website, you find links to her most recent publications in this subject area.

To say that Minqi Li has had an interesting life is something of an understatement. He was a liberal student and activist in Beijing at the end of the 1980s, beginning of the 1990s. He was

jailed for two years for his political views and activities. After his release he spent two years traveling in China, conducting research, and moved on to deal with the legacy of Mao Zedong. So, his view became once again one opposed to the mainstream. He ended up in the United States at the University of Massachusetts Amherst, the Ivy League university for economists, and he is now professor at the University of Utah. Needless to say, don't expect a mainstream economist. I would rather describe him as a political economist with a strong historic arm. Maybe we can call you a historical social scientist ...

**Minqi Li:** I'm fine with that, although political economist may be more accurate.

**Karin Fischer:** I will just mention his two latest books, "Peak oil, climate change and the limit to China's economic growth," published in 2014 and "China and the 21st century crisis," published in 2015. Thank you very much for being here, we are very glad to have you here in Vienna.

We will now move from the concrete terms and data to more general considerations. We will start with reflections on global investments and the rationale behind them. Then we will address China's impact on the world economy. And towards the end, depending on your questions and interests, we might end on general considerations about the very future of capitalism, as the title of the event indicates. I would like to ask Dorothy to start with her input on Chinese global investments. What are the target regions, the recipient sectors and how can we evaluate these investments? As we all know, the discussion on the impacts of these investments is highly controversial. Are the Chinese the new lords in Africa? Or is China an alternative globalizer?

**Dorothy Guerrero:** The questions are: What is China's role in the current state of globalization? And, starting two years ago, what is the kind of leadership is it taking in the current state of globalization? Especially in this period we have the big, or the old, powers like the UK and the US more looking inward, and in that void is what China seems to be taking the leadership of and is now being seen as the champion of globalization. I think Minqi will agree that thirty years ago that would be unimaginable. Maybe the Chinese would not even see themselves as the champion of globalization and the savior of capitalism.

I started looking deeply into China's rise in 2005, and it was more about the question of how social movements and NGOs in the South should understand and address the challenges and opportunities that China offers. When looking at all the development in China, many of the questions coming from the West are more like: Is China's new role good or bad? Is it fostering or is it becoming a new power that will play a negative or positive role in globalization? I think from a Southern perspective, there are more nuanced views on looking at China's rise. I'm looking at this with my experience in organizing conferences in Africa, Asia, and Latin America, and many in the South are attracted, or even happy by the fact that a Southern country is rising to the top and joining the other superpowers.



At the same time, one very, very significant aspect of that rise is that fact that it is a planned economy. So for many developing countries, that is exciting. Because for so long we have been told you have to open your economy, you have to let the market and the invisible hand of the market hold sway on how the economy, how wealth creation is done. A country like China doing it in a planned way, and the main drivers of foreign investment being state owned enterprises, also makes a big difference. It gives Southern countries the impression that maybe China can offer an alternative in terms of what kind of development should be followed by the rest of the world. So if you look at China's economic policies, China's rise did not happen overnight. It followed decades of economic planning. The last three of the five-year development plans of China look at how first to reform the internal economy and present policy changes inside.

The leaders in Beijing believe that to have strong international economic partnerships and cooperation, you must have a strong internal economic foundation as well. So we could look at all these policy changes inside China but, at the same time, we should not forget that when China joined the World Trade Organization it was forced to change many of its laws, almost 800 laws were changed to be able to be WTO complimentary.

If we look at the Belt and Road initiative from a strategic point of view, it is an example of how China plans. It is putting together economic, political, diplomacy, development and security strategies, all rolled up into one. So from a strategic perspective it seems to be the perfect plan, because it's trying to hit so many factors, and of course internally it signals Xi

Jinping's entrenchment in the Chinese psyche. Now his views are seen as an important perspective not just in economic planning but also in the overall political development plan of China. So, the BRI or the Belt and Road Initiative is not just a bundle of infrastructure projects that tries to link Asia, Europe and Africa. It involves trade agreements and investments; it also has very deep political as well as development implications. As mentioned, BRI is two-fold. You have the belt and then you have the maritime Silk Road part.

I will explain how it is seen as an economic, a political and a development strategy all at the same time. If you would look at it as an economic strategy, it is a perfect way to channel China's huge foreign reserves, including low interest US treasury bonds, overseas in a profitable way. Internally it solves the problem of what to do with all those funds: Inside China most of the development projects are also showcases of the states, of the local governments. Every local government wants to have a showcase of what they have accomplished, to be able to score brownie points with Beijing. One downside of that is that all these showcases are competing against each other, and sometimes they are even redundant. There are many studies, even by Chinese think tanks that the results of most of these investments are not equivalent to the money that has been put in. So the logical consequence is that the capital must go outside. If we look at the 18th century growth of capitalism here in Europe, that was the same. The money needed to seek outside ways to be able to generate more growth. At the same time, it also provides a way to address unemployment in China, as most of the bilateral investment treaties and trade agreements that China is negotiating with other countries include a provision of allowing Chinese workers to enter the country. One example is the FTA (Free Trade Agreement) between China and Australia. It includes a provision that Chinese workers must be allowed to work in Australia. So in a way, that's also a way of addressing the problem of having a mass of skilled workers of state-owned enterprises and affiliated companies.

As a foreign policy strategy, this is a way for China to achieve parity with the US. It's also a way to ensure that not just the flow of resources from the partner countries will continue and be insured, but also a way to avoid the encirclement of US allies that are at the borders of China. So, that's the political, the security and the diplomacy component at the same time. I think the political symbolic aspect is that this signals that China is great again. Let us remember that in the 18th century the world trade was dominated by Chinese and Indian traders. And now it's like being back at that level, where China is recovering its lost glory in

the period of colonialism and tries to build again from the same maritime and land roots of the old Silk Road.

This also signals major shifts in international policy - China's growth as a new power, and of course the Chinese policy that it still aligns with the other developing countries and assures them that it will not be a dominator like the US, France, the UK or other countries, because it wants to work with them. There is also the idea that a rising tide lifts all boats. It is now high time to review that, and many analysts from the South are looking at the impacts of Chinese investments in the region. I will come back to that shortly.

So the question is: Are the Chinese just merely securing their political interests? That would not be new; Western powers did that before. Are Chinese investments benefiting recipient countries or are they just creating a debt trap? Many criticize that China is doing a debt diplomacy, because in giving loans, assistance and various forms of development aid, it is using that capacity to influence countries politically. Even with China that's not new. In the 1970s, China did that with the partnership with Tanzania as well, when it wanted to secure its seat in the Security Council. What is significant now is: Is it changing the views and attitudes of the developed countries toward China? And in the EU especially, is it uniting the EU, is it encouraging the European countries to form a unified strategy towards China? At the same time, is our country's strategy towards China actually a strategy of letting the unbridled power of corporations to rule? Or is it benefiting people here in Europe and, at the same time, is it benefiting the people in China? From a development perspective, those are the key questions to ask.

When it comes to Chinese investments, many developing countries at the onset viewed them as positive, because – especially in the South – everybody needed ports, new bridges, big roads, expressways to connect cities. And the pre-1980s development approach actually focused on that. You needed the big infrastructure for development. But the question is: Who is benefitting and who is being sacrificed in those big development projects? I think for many movements in the South and frontline communities, these are the old questions. Coming from the Philippines, my personal view is that it is hypocritical for Western governments to ask whether Chinese investment is benefitting or whether it is just a debt trap. The Philippines have received loans and even odious debts from the World Bank and the IMF. I became an activist because of a very questionable nuclear power plant funded by the World Bank, sitting

on top of an earthquake fault in my island. So for me it is a hypocrisy that the West is questioning: Is China's debt actually for good?

I think the question should be: How should the governments of the South protect their interests and what should be the priorities? Who is benefitting and whose interests are being sacrificed to get those new loans from China? I think that is the better question to ask. There is also the big difference that the loans from Western governments would expect a return of investment for thirty to forty years. But Chinese loans can wait longer. They have bigger pockets. So it could be for more than one hundred years, and who doesn't want that? But again, there is a downside. If we look at projects in the least developed countries, for example, in the Mekong, people in Cambodia and Laos are complaining that loans from China lead to land grabbing, including concessions and leasing our territories for a minimum of seventy years. That's three or four generations, and after seventy years of exploration and exploitation of natural resources - what will happen to those mountains, forests and waters, when all the resources are extracted?



So what I am looking at, at this level of capitalism, is if China is the new actor in the game, pushing for a more extractivist capitalist development and, at the same time, supporting the current injustices where corporations are more powerful than the government. Is it pushing for more corporate power and less government?

Chinese investments in Africa were welcomed before because they needed all those infrastructure projects. I think the IMF came up with a paper in January last year about Chinese aid to African states. It concluded that many of the investments in Africa could play a positive role, but at the same time there are significant risks that are involved. And I think with African people, it's also a matter of perspective. How do they see the Chinese investors coming into those countries? There is growing resistance against Chinese investments. On one hand there are many complaints that the quality of the roads and bridges is not as good as in other projects. There are also views that the workers from China, when they come to work in Africa, don't know the language and culture. The professionals, the bosses, the engineers, do not bother to learn the language. And sometimes the problem is that they are also not good in English. So when they communicate, that's a major problem because they do not come across

as being polite. They come across very, very negatively because of the language problem. They don't know the culture, there's a problem with adjusting to the local population.

In Latin America, interestingly, at the last ministerial meeting of the World Trade Organization last December, the ambassador of China in Argentina said that China will increase its foreign investment by the tune of 15 trillion in the next fifteen years. And a significant portion of that will go to Latin America. In Latin America there's already a high incidence of indigenous people, or leaders of indigenous people, that are killed when they fight against destructive projects in their territories. How will Chinese investment add to that current challenge?

In Asia, when thinking about the implications of the new Chinese power and influence, I would focus more on the South China Sea. Southeast Asian nations have difficulty in addressing the challenge of finding a unified and strategic position on China. In the past our problem was that the Cambodia government was too accommodating to Chinese interests. In ASEAN, the decision is by concession and because of the Chinese influence on the Cambodian government, it's very difficult to form an ASEAN platform. The Philippines, my government, used to champion the need for unity for a strategic position on China. But now our current government publicly says that it wants to be more in partnership with China. Xi Jinping and Putin are Duterte's idols and the big question is: What will be the implications on hard-won battles in the UN, like for example the UN Convention on the Law of the Sea? It seems that the Philippine government now wants to forget about that.

The Middle East is also very, very important. The key component to know is that Saudi Aramco wanted to privatize and needed a capital input of 12 billion dollars per year. The US hedge funds cannot provide such funds. It's the Chinese companies that are looking forward to provide that money. The two big Chinese SOEs already said that they want to own five percent of Saudi Aramco. In terms of the environment, what does that entail? We have all these campaigns on divestment of fossil fuels, but here we have the biggest oil company being propped up by Chinese investments.

There is a change to Chinese policies: In the past, China invested in developing countries to get raw materials. Now it also invests in Europe. But in Europe the shape and nature of investment is different, because China needs the technology from Europe. The form of

investment is in learning, buying technology and, at the same time, buying known products/brands to push its own companies. The big question for Europe is: Is Europe ready for the partnership with China, given that China's economy is planned and the EU's is not - 28 EU countries have to agree (one country less, soon). How will they reach a unified EU strategic position when it comes to a partnership with China?

At the moment one of the biggest recipients of investments in Europe is the UK. Chinese investments are targeting prime properties in major cities, especially London. Laws in the UK allow foreigners to acquire properties and real estates, this is attractive to speculative investors. In Germany, China is targeting medium sized enterprises, because even from medium sized enterprises it could get the technology it needs. In Southern Europe, with austerity measures being imposed, only the Chinese are taking the risk and buy formerly state-owned assets that are being privatized. There are 26 existing bilateral investment treaties with 28 individual EU members, the biggest recipients of Chinese investments are those that were the first to sign a bilateral agreement with China.

Lastly, I will address the difference between Chinese investments in developing countries and in the North. China will follow the law of every country it goes to. But the big difference is the nature of investments: China is extracting raw materials in developing countries which could result to local people's dispossession and grave damage to their environment, and gets technology in the North. Secondly, there are environmental, labor and social standards in the EU that are implemented and followed. There may be problems on the country level, but these standards are more followed here in the EU than in the South. In the Philippines, in Thailand or Myanmar, there are environmental laws as well, there are human rights laws and labor standards, but will the government fight for them to be followed? So the big question is: How much power does China give to transnational corporations? At this year's World Economic Forum, China once again said that they're ready to take the leadership. But what kind of leadership is that? So how are our (I say "our" because now I'm a new migrant in the UK) European governments fighting for peoples' rights, asking how investments, wherever they come from, may contribute to inequality or contribute towards giving more democracy or maybe even support an alternative economic and development model?

**Karin Fischer:** Thank you, Dorothy. Minqi, how would you evaluate Chinese outgoing investments? Is China on the way to become a superpower? Will it achieve parity with the US and Europe as Dorothy said?

**Minqi Li:** Thank you Karin. I want to follow up on Dorothy, whether China could play this progressive leadership for today's global economy. With respect to this debate, especially for the progressive movement within the peripheral countries (I prefer to talk about periphery within the capitalist system, as opposed to the South and the North):



First of all, certainly there is nothing progressive or beneficial regarding the Chinese capitalist investment in the rest of the world. But the reverse is also true. There is, by its nature, nothing progressive or beneficial in Western capitalist investments. But of course these days we have this Chinese capitalist investment in the rest of the world, including the periphery – that is what Dorothy has talked about. In many cases it is associated with serious labor conflicts as well as environmental degradation. But in this era of globalized capitalism, you could very well have a situation where a Chinese company invests in Africa and does damage to the local environment. It then imports the raw materials to China, to be manufactured into consumer goods for consumers in North America or Western Europe. We have to put that in the context of global capitalism. To a large extent, Chinese capitalists are doing much of the dirty work for the global transnational corporations. But before we come back to these issues, as well as whether China could reenergize the global capitalist economy, it's useful to look at some basic empirical data.

First we see the current share of the four largest economies in the overall global economy, based on the purchasing power parity. By this measure, China has already overtaken the US to become the world's largest economy, accounting for about one fifth of the overall global economic output. In fact, China's economic output is also greater than that of the European Union (UK still included) combined.

But now we take another measure, the exchange rate, which means the day-to-day exchange rate, say between US dollar and the euro, or the US dollar and the Chinese currency Renminbi. China is still the second largest economy in the world and the US is the largest. If you take this measure, the US share is not much lower than what it used to be in the 1990s.

Now what about trade? China's importance for trade has increased. China's share of total exports in the world has increased, but for now, it's about 10 percent of the overall global exports. That is not as much as China's share in the global economic output. The European Union is still accounting for the largest share of world exports, although much of that could

have to do with the exports and imports within the European Union. In terms of imports, if we leave aside the European Union, the US is still the world's largest national importer from the rest of the world. It accounts for about 12 percent of the total world imports. China has about ten percent.

Where are Chinese exports going to, or, who has become the importer of Chinese exports? Asia, Hong Kong excluded, is still the largest market for Chinese exports, more than one third of the Chinese exports are still going there. Chinese exports to Europe have stabilized in recent years, around twenty percent. That is for entire Europe including Eastern Europe and Russia, not just the European Union. Hong Kong by itself is still a very important Chinese market, although many of the goods that are exported to Hong Kong will be transferred to other parts of the world, especially to the United States.

Chinese imports are dominated by imports from Asia, about 60 percent come from there.

We have looked at the regions, but now we look at country by country - the top ten markets for the Chinese exports and the top ten origins for goods imported by China. I'm also listing the data for Austria, just for your interest. In the year 2016, China exported goods worth around 2 billion dollars to Austria and imported goods worth 5 billion dollars from Austria. Congratulations, you have a trade surplus against China! Globally, the US is still the single largest export market for China, 18 percent of Chinese exports are going there. 14 percent go Hong Kong. The three largest European countries - Germany, the Netherlands and Britain - account for less than 10 percent of China's exports.

With regards to China's imports, it imports mostly from South Korea, followed by Japan and Taiwan, the United States and ... China. China itself is the fifth largest source of goods imported by China. That is interesting to consider.

What kind of goods does China export? It is mostly machinery and transport equipment. And that is what is also mostly imported by China, followed by raw materials and energy products.

China used to be a large recipient of foreign direct investment from the rest of the world. So back in the 1990s, foreign direct investment in China was at its peak, almost 5 percent of China's GDP. Since then that share has come down.

China's investment abroad, for which we begin to have data from 2006 onwards, began to exceed the foreign investment it received by 2014. China turned into a net investor for the rest of the world. By 2016, China's global investments were something like 1.6, 1.7 percent of its GDP.

Where is China's foreign investment going? Almost 80 percent, or three quarters of China's foreign investment, went to China. Asia, or Europe do not appear to be big recipients of China's foreign investment.

To which industries do these Chinese foreign investments flows go? The largest sector that received foreign investment from China is the so-called 'business services'. Business services in terms of foreign investments mean corporate headquarters. So what is happening? Many Chinese companies have their corporate headquarters in Hong Kong. That is counted as foreign investment, as investment in business services. The second-largest category is the 'FIRE' sector - finance, insurance and real estate. Manufacturing and mining are also important but not as much as the real estate and all the corporate headquarters.

One belt, One Road: The Chinese government of course advocates their grand strategy as a big idea and some Chinese economist celebrate this as the greatest economic idea in the 21<sup>st</sup> century. But how important has it become so far? According to official Chinese data, in 2016 around 577 billion



dollars of Chinese exports went to the One Belt, One Road countries, more than 50 countries. It sounds like a big number but it is less than 30 percent of China's total merchandise exports. So this number is actually not that big. Chinese imports from these One Belt, One Road countries accounted for more than 300 billion dollars in 2016, that is less than one quarter of China's total imports. Only seven billion dollars were invested from One Belt, One Road countries in China. In the global economy that's really a small number - in fact, that's only six percent of the foreign investment received by China. China invested 15 billion dollars in One Belt, One Road countries in 2015, that is a little bit larger, but still less than ten percent of China's total investment in the rest of the world. I'm talking about the annual flows here in 2016, not the cumulative investment, ok?

Therefore in terms of foreign direct investment, One Belt, One Road so far is not very significant. The only thing that is important for Chinese business is contracted construction. Revenues from China's contracted construction business in the One Belt, One Road countries account for about one half of China's total business in this area of contracted construction. But contracted construction is only a small part of China's overall economic connections with the rest of the world.

**Karin Fischer:** Thank you Minqi, but I would like to repeat my question, Minqi. In sum, how do you evaluate the outgoing activities of Chinese corporations?

**Minqi Li:** I basically judge them as much as I judge most of the other capitalist corporations - how they behave in the rest of the world and how they try to profit from both labor and the environment. In that respect I do not see that Chinese investment is fundamentally different to, say, investments from Western Europe, North America or from Japan. The significance of One Belt, One Road has been greatly exaggerated by much of the media, both within and outside China. I do not see it as the grand strategy that will save capitalism. That of course raises the question whether, first of all, capitalism needs to be saved and whether it can be saved.

**Karin Fischer:** Dorothy, you agree on that? That's pretty much what you said.

**Dorothy Guerrero:** Well, during most of my years of activism, we were saying that we should build another world. And we're saying another world is possible. I think the question is how do we reach that other world, how do we make it possible? At the moment, the various challenges are huge. Not just that all these investments and foreign trading are unjust. Now with Brexit, the UK government is looking for alternative investment destinations and trade partnerships. So the scramble for the UK is where to look elsewhere. In one way it may be a threat, because there is also that component of looking at Britannia again, like the old power, old Britain coming back and wanting to take advantage of weaker economies. I think that's the problem with all this extractivist ways of wealth creation: The weak always lose. If we look at the winners and losers in this kind of trading and investing, the regime of trade and investment profits is strong.

**Karin Fischer:** Let's come back to the question of the global political economy. There are so many authors saying that Chinese growth, although slowing down, spurs global growth and, like Martin Jacques says, that China is an economic miracle that will save capitalism while the core countries, the center is stagnating at the same time. What would you answer to that?

**Minqi Li:** Well, I guess these people might imagine that China could somehow provide a new kind of Marshall Plan policy, that it would make lots of investments in the rest of the world, thereby greatly increasing the global effective demand. So if you can increase the global

effective demand, that might somehow take global capitalism back to the good old days of the 1950s and 1960s, known as the Golden Age, when you had both rapid economic growth and rapid improvement of working class living standards. But I do not see that to be realistic, even before we talk about the contradictions of Chinese capitalism itself. Even if the Chinese ruling class would have that kind of intention, currently it does not have the sufficient resources to provide that kind of stimulus for the global capitalist economy. China has three trillion dollars of foreign exchange reserves. But these three trillion dollars could quickly be depleted in this era of neoliberal globalization, if we have a massive capital flight. For a while, back in 2016, China was scared by such a possibility, when during a certain period of time capital was moving out of China at a rate of one hundred billion dollars per month. At such a rate, three trillion dollars could not last very long. That raised the question whether China actually has the resources to sustain a grand strategy like One Belt, One Road.



Speaking about China itself we have to say that, in purely accounting terms, China of course has become the largest economy in the world. Looking at China's contribution to global income growth, you could also say that China now accounts for something like one third of global income growth. But what has been the basis of China's income growth? China's growth on one hand was based on the sweatshop exploitation of hundreds of millions of Chinese workers, and that is still the case. Some parts of the European workers have their 35-hour working week, right? But many Chinese workers have a 60-hour working week and certainly no holidays and no Sundays. So we still have these sweatshop-like conditions for labor. In addition, natural resources are depleted, there is damage to the environment. Many people probably by now have heard about the famous Chinese air pollution. But that may be the least important among a long list of China's environmental degradation. China is certainly the world's largest greenhouse gas emitter. That has been the basis of China's economic growth. But, just like Marx predicted one and a half centuries ago, when you have capitalist growth, you also have proletarianisation. Capitalist industrialization brings about social transformation. In China they have produced the largest working class in the world today. Chinese workers are beginning to become more conscious and more organized, they are demanding higher living standards as well as broader economic and social rights. The demands from the workers as well as the urban middle class begin to impose pressure on China's capitalist profits. Potentially that could be threatening for China's accumulation

regime. Additionally, you could speak about the depletion of natural resources. China overtook the US to become the world's largest oil importer. China's oil imports have already risen to around ten percent of the entire world's oil production, and that number is still rising. China is also the world's largest coal importer. Recently the Chinese government has pushed to replace coal by natural gas. That sounds like an environmentally friendly program. But China does not have abundant natural gas resources, so it's predicted that China's natural gas imports will grow rapidly. China might overtake Japan to become the world's largest importer of natural gas this year. If that happens, China will be the largest importer of oil, coal and natural gas simultaneously. That will make China very vulnerable to potential energy shocks in the future or geopolitical instabilities in the Middle East. In combination, we could see environmental, social and economic contradictions converging in China within the next ten years or by the 2020s. If that happens, China's current economic and political regimes may not be able to sustain under this kind of pressure.

**Karin Fischer:** I read in one of your recent articles from 2015, "look to China if you want to locate the downfall of capitalism." Dorothy, do you want to add anything to what Minqi said about the contradictions of capitalism in China?

**Dorothy Guerrero:** Yes, I think in 2012, the last time that I was in China, people were already talking about the economic apartheid inside China, especially because there is still a huge gap between the living standards of the people in the urban area and the people in the rural area. Sweatshop workers are coming from the rural areas. If you go there, you will just see very young people and the grandparents. Those in the working age are all in the cities or in the urbanized areas, sweating in those sweatshops and producing goods that sometimes they don't even know what they are for. They're producing goods for the West. In South Africa there was a debate if China is the new imperialist power or if it is a sub-imperialist power. For me, China is doing its extraction of resources for its own benefit ...

**Minqi Li:** ... but also for the benefit of all capitalism, including Western capitalism.

**Dorothy Guerrero:** Yes, I was about to say that. Let us remember many of the things that China is producing, everything that we use from the time we wake up until we sleep. Much of it was made in China for consumers in the West. I share your grim view on the environmental aspect. Knowing the state of the environment in China, I ask myself if there is an assurance

that, if China did not care about its own environment and has used all its resources, that it will take care of our environment when it invests in Africa, Latin America or Asia? That is the big question for Southern countries: Is China also exporting its way of development, which is burning the planet and polluting the soil? And also the labor standards: We know that Chinese workers are still jumping out from sweatshop windows out of desperation for their working conditions. It's not a pretty scenario to think that it's also exporting that kind of labor practice.

**Minqi Li:** Let me add a short comment. As long as we have the framework of global capitalism, in many cases the peripheral countries have to deal with this very difficult dilemma: If you do not export environmentally damaging raw materials to China, are you going to export the same stuff to other countries? And if you do not export them, how do you compete in the global capitalist market? If you do not earn export revenues, how do you cover your balance of payments? If you do not cover your balance of payments, capital might flow out of the country.

**Dorothy Fischer:** Is the Chinese style of capitalism unsustainable? Is that what you are saying?

**Minqi Li:** Yes, in the long run, perhaps in the medium run. In the short run, of course, reality is complicated. I do expect that the global economy might accelerate a little bit in the next few years. But acceleration is often something that will happen just before the next crisis.

**Karin Fischer:** Now I would like to open our discussion to the audience.

**Audience:** Thank you for the two very complementary presentations. For me the main question is: How can a communist regime save capitalism? When we look back at Mikhail Gorbachev, he started with political reforms, perestroika and glasnost, but didn't do the economic reforms, so they failed. You mentioned the social dimension, I think that's where probably the trouble will come from. Dorothy, you didn't mention Central Asia at all, or bigger Russia, the CIS countries, especially with regards to the energy imports. I guess this is a major factor.

**Audience:** I am a financial and environmental expert and I have been in China twice last year. And I had a very different impression of China. It's real that the environmental situation is not

so good, but progress is very much going forward. The electrification of the transport is very successful. For instance in Shenzhen, neighboring Hong Kong, they have 850 electric buses with battery technology, and I have visited many big cities in China during these two expert travels to China last year. Nowhere in the world have I seen so many electric cars, electric motorbikes, motorbike loading stations in the big cities and also in villages all over China. There is big progress in constructing railways, new railways. This is a step forward for a better environment. I have seen a lot of modern pedestrian zones and modern centers in the cities, and a very high level of consumption of the people. There are some people in poor conditions, there are some favelas also, but in most big cities in China there is no extreme poverty. I think the progress is very, very good and there's no reason to speak about a catastrophic situation. I couldn't see anything of this.

**Audience:** I would also like address the political, not only the economic consequences of One Belt One Road. In Asia, which is mostly impacted by the OBOR project, there is a return to more authoritarian political conditions, also in the Philippines. What might be the impact of OBOR on these political trajectories and towards more authoritarian developments?



**Audience:** Thank you very much for these two very illuminating presentations. I would like to challenge the view that we are overestimating the impact of OBOR. Sometimes this OBOR project is compared to the Marshall Plan, right? You did that as well and normally if you talk to Chinese colleagues they would get furious and say this is not a Marshall Plan. It doesn't come with this geopolitical impact. And they say it's an initiative, it's an invitation. So saying it's very small is part of the play in a way. I would say it has an enormous impact and this impact is political. But maybe it is just because of the high expectations that have been raised that governments are changing, so that its impact is enormous. This would lead to the question: Are we looking at the right parameters when we just look at the usual parameters of import/export? And what would be the elements of more soft power construction of China? And are these elements the same in all parts of the world or are there differences?

**Minqi Li:** I start with the last question. I am neither saying China's One Belt, One Road is very big, nor am I saying it's very small. I'm just trying to show what the actual data say and what currently its size is about. Based on my understanding of these numbers, I think that

certainly many of the expectations are exaggerated. Soft power, exactly because it's soft, is very difficult to measure. How much soft power does a country have or have not with respect to the rest of the world? I will leave this soft power question to Dorothy.

Regarding the comment that China has made lots of progress and that there's no need to talk about catastrophe, I would say that it's true that China's economy has grown rapidly. I'm not denying that and my data figures also demonstrate that. But the question is whether the foundation of that kind of growth is sustainable in the next ten, twenty, or fifty years. It's also very true that China has made some progress with respect to electrification, although, to be clear, for now it has more to do with these electric bikes that you see in China a lot. There are also some electric cars, but like in the rest of the world, China is still dominated by internal combustion engines. China of course has also been famous for building high-speed railways. All of this could be useful tools to achieve ecological sustainability. But useful tools by themselves are not the same thing as outcomes. So with respect to the outcome, I think it's safe to say that overall China's environment continues to deteriorate. And that China's overall pollution level continues to increase, not decrease. There are some individual areas, like air pollution in the big cities, especially Beijing, where the Chinese government has made a huge effort by shutting down many of the steel factories around Beijing. This kind of visible pollution is somewhat under control, even though making tens of thousands of people losing their job. But there is a kind of not so visible pollution - hundreds of cancer villages in China's rural areas because of chemical pollution. That is not so easy to be identified by people from the outside. The most important pollution has to do with the carbon dioxide emissions. China is currently the world's largest carbon dioxide emitter, accounting for 27 percent of the overall world emissions. Now it's true, China's emission levels have leveled off and actually decreased a little bit in the year of 2016. But the latest data show that emissions have resumed growth in the year 2017. Now, if you have been following climate literature then you probably understand that to limit global warming to no more than two degrees by the end of the century, we need is a rapid reduction of emissions on a global scale. Not stabilization – rapid reduction. And so for that matter, the year of 2016 was the warmest year on record. 2017 was the second warmest year and the warmest year without the El Nino phenomenon. The world is still unfortunately heading towards catastrophe.

Regarding the question whether the communist regime can save capitalism, I think that we first need to clarify what exactly we mean by communism. If you know something about

historical socialism, that's also not how the historical socialist countries refer to themselves. They call themselves socialist states instead of communist states. But of course in Western media they are commonly referred to as the communist regime. This is possible, in the sense that they are not regimes committed to communism, but a regime with the name of the communist party that is actually providing the leadership for capitalist accumulation. In fact, for that matter you could say that China has already saved capitalism once. Go back to the time of the end of the Golden Age. Back to the 1970s there was a serious political and economic crisis for global capitalism. In response to that crisis, the global elite developed the strategy of neoliberalism, basically by dismantling the historical social contract. But neoliberalism was also a very costly project as it was met with strong resistance and it was also economically very destabilizing. It was very costly for the global capitalist class. But with a large geographic area that could supply massive cheap labor force, the neoliberal project might succeed. So because of China's capitalist transition and because of China's incorporation into the global cash market, it contributed to this dramatic recovery and the increase of the global profit rate. That might have been a crucial factor to save global capitalism and contribute to the dominance of neoliberalism.



With respect to the authoritarianism in Central Asia or in some other places, let me just quickly say that Chinese investments perhaps may not be the most decisive factor for those authoritarian regimes to continue to function. Perhaps Dorothy will have more to say about that.

**Dorothy Guerrero:** I will start with the dilemma of authoritarianism. Let us not forget that the Western investment also props up authoritarian regimes in Africa, Latin American and in Asia – in the developing world. For us in the Philippines, the old partnership with the US is a love-hate relationship, because for twenty years Marco's dictatorship enjoyed US support. China's current support through loans to the Duterte government actually is like a bad, bad dream, reminding us of the failure to strengthen our democratic institutions. It's as if all the efforts of the last thirty years are rolling back. Even in the Philippine movements we are asking ourselves, where have we failed? How come people seem to forget that thirty years ago we have kicked out a hated dictator and now the people are embracing a new dictator. In terms of the dilemma with foreign investments, whether they come from China or the West or elsewhere, the problem is that it is bad enough that people are sacrificing a lot in their

resistance and that there is a shrinking space for that resistance. When you resist investments in development projects, you are seen as anti-development, anti-government, anti-everything. It is not seen positively. Expressing dissent in a way that people will support you is a big challenge for many movements. And it is not helped by the fact that the government will acquire more weapons and other means to suppress that dissent. In the region, not just in the Philippines, we really have a huge challenge to deepen democracy. Look at the cases of the Philippines, Indonesia, Malaysia, Thailand, as being more democratic than other countries. But now, wherever we look, it's the same. In Myanmar, Cambodia and Laos, in Indonesia, there might still be a little hope. But the Philippines is really frustrating at the moment because of the current challenges and the situation.

I'm sorry, I in fact did not include Central Asia and also to a major extent Eastern Europe - partly because I'm not very familiar with the region. In Central Asia I've only been to Mongolia, and my impression was that, well, there's a reason why even local Mongolians call their country "Mine-golia" because it's divided by different mining companies that are investing in it. China is a big actor. Mongolia is also very dependent from China with regards to food imports. Most of the vegetables, fruits, that are consumed in Mongolia are from China. In Central Asia as well and in Eastern Europe, the focus of investment is on energy and the sources of energy. As was emphasized by Minqi, China needs to secure its source of energy. That's why it is investing in all those countries that will ensure a stable supply of energy, so that it will be able to continue producing and sustain its level of development. There was a people's summit on the BRICS [Brazil, Russia, India, China, South Africa] held in Hong Kong in September last year. Many of the participants recognized in their statements that all the BRICS countries are actually just supporting the same neoliberal policies and neoliberal capitalism. For both China and Russia, actually the new push is to be able to challenge the US dominance in the world economy. They want the oil market to be decoupled from US denomination, and the price of oil to be pegged in Renminbi and in rubles. That will be significant. China's wooing of the Saudi regime is based on that as well. Saudi Arabia has a significant and historic role in OPEC. So if it will be persuaded to trade oil in Renminbi, the others will follow. That will pose a big challenge to the US economy because that will mean it will further weaken the significance of the dollar.

**Karin Fischer:** We started this VIDC cycle of events with the energy issue, with oil.

**Audience:** China on one hand craves economic liberalization, while on the other hand it still dismisses political liberalization, which goes hand in hand in certain aspects. How will China deal with this in the next decades when they become part of this heavily capitalist free market? China still creates, let's say, fake demand. They keep the prices up which gives them good growth rates. But in the end, they're creating a bubble which will burst, which will cause big problems for China. The West has caused the two biggest financial crises in the world. Our system is not better, it's just different. Our system creates financial crises. A very interesting paper on this topic was written by Tim Jackson, called "Prosperity without Growth". How will China deal in the next decades with a system that is so different, which is what the communist party still somehow wants? They want to be secluded, they don't want to be judged, they want to keep the authoritarian regime up, but at the same time they want to compete in the free market. I don't think that China will necessarily be able to save capitalism. I don't think it's possible to save it. It might push the end away a little further, and



then maybe the African countries will be able to push it away a little further, but we'll always come to the point at which wealth can't accumulate. We can't accumulate more of it. We'll face the moment in which we have to reevaluate the system in general. Thank you.

**Audience:** I am very interested in your last point when you mentioned that China is trying to get more acceptance of its currency and might also be paying oil instead of dollars in yuan or even in ruble. And I would like to have your thoughts on how fast that can happen and how significant that really is for China. If it's already the number one economy, does China really need that or is that just a symbol of strength?

**Audience:** Thank you. My question is actually bouncing back on the first comment. You said earlier that China actually saved capitalism a few years ago, but do you think that capitalism still needs to be saved? Thank you.

**Audience:** I have a question to authoritarianism. [The Chinese regime] produces mass data and they want to export the concept of social control, as I heard. After the failure of the Communist International, is there an Authoritarian International, headed by Beijing?

**Audience:** Shouldn't you, when you talk of China, your home country, be first of all very happy? That this big country is having such big success in elevating the economic level, the living standard of its people and its general development? When I look at wages at the seaboard in China and compare them to Bulgaria and Romania - which are part of the European Union, one of the most developed areas in the world - then the wages in China shy no comparison in the industrial field. This is quite amazing. Furthermore, one often interprets figures according to one's own prejudices. When you talk of, for instance, carbon emissions in China, you have to compare them with carbon emissions per head. In Austria we are failing to achieve our climate goals, and carbon emissions are still increasing. Now China is a country which has got one fifth of the per capita income of Austria, and has achieved very impressive results to improve their performance for the world. I think you should acknowledge this.

**Karin Fischer:** Thank you, I think particularly the last two questions give you the opportunity to make your final remarks.

**Minqi Li:** Many interesting and not so easy questions. Let me first quickly talk about the yuan. China and Russia have this agreement that Dorothy just talked about, and China is also going to set up a new future market in which the world oil will be traded in yuan instead of dollars or other currencies. This is an interesting development, but it is difficult to say how important this will be and how fast it will develop. My personal opinion is that whatever happens in this regard will be overtaken by more dramatic dynamics, like climate change, like a global economic crisis, like a possible political change in China.

With regards to the question about the relation between emissions in China and in Europe: Yes, true, the Western world as a whole is still guilty in terms of per capita emissions. Westerners are the heaviest polluters in today's global economy, although the Australians and the Americans are much worse in this respect compared to the Europeans. But in fact China's per capita emissions are currently catching up rapidly towards the European level. So after five years don't be surprised if you suddenly find out that China's per capita emissions have suddenly become higher than the European average. That's just a possibility.

With regards to China's wage rate: It has been rising rapidly, probably more rapidly than in any other part of the world. But capitalists will always find ways to take back what they have

given you. You have a higher wage but the housing price has also grown rapidly. The Chinese middle class has got higher wages but they are not happy. Some of them have become quite desperate. They cannot afford, say, the very expensive housing, even in very remote suburbs of Beijing. They cannot afford the education costs for their children. Health care has also become difficult for many people. In this context, even the middle class families will still struggle for survival, despite the rising wages. On the other hand, don't forget that there's a limit within capitalism, with respect to how much wealth could rise. The Europeans should know that first hand. There were the good times of the 1960s, but the growth of the working class power began to put pressure on the capitalist profits. So the capitalists would respond by first stop investing, creating an economic crisis, and then over time relocating the capital to other parts of the world. Then they would come back and force the workers to accept lower wages and worse working conditions. China is still overall a low-wage country, and potentially we could see that kind of crisis in the next five or ten years. Chinese capitalists are already talking about the so-called middle income trap, a term invented by the World Bank. According to them, middle income countries have failed to develop because they did not follow the neoliberal policy. This is about the economic dilemma. Now let's talk about the political dilemma, that China has got economic liberalization but political liberalization is not taking place. People often think that democracy and capitalism should always go together. In fact, that has been the exception rather than the rule in capitalist history. Think about European history: European capitalism started during the absolutist monarchies. Even as late as the 19th century, most of the European countries still did not have universal suffrage. I think in Britain male universal suffrage was not accomplished until 1880, and for the females it did not happen before the middle of the 20th century. In the US you still have discrimination in the South until as late as the 1960s. So by that standard the US did not qualify as a liberal democratic country. By the 1970s and 1980s, about 70 percent of the global population lived under one form of dictatorship, authoritarian regime, or another. Since 1989, there has been some political change in some parts of the world, countries adopted multi-party liberal democracy. But after a while many of these countries returned to authoritarianism. Additionally, today we have many so-called failed states. So that has been more like the typical pattern for capitalism. But with the current Chinese authoritarian regime, I would say that it undermines the legitimacy of Chinese capitalism. Because of this absence of legitimacy and because of future converging economic, political, social, environmental contradictions, a fatal weakness could be created for the current Chinese capitalist system that it might not be able to overcome.

Now going back to the question whether capitalism still needs to be saved, I think that of course it should not. If capitalism is saved then, I'm afraid, humanity cannot. On one hand there is this real danger of global ecological catastrophes, on the other hand, because of nuclear proliferation. The long-term improvement of weapon technology was possible due to the competition between capitalist states and the growth of industrial technology, being therefore itself a product of capitalism. Nuclear weapons were historically limited to the five big powers. Now nuclear proliferation among middle-sized powers has basically become unstoppable. I don't have a good answer to that. But what we can say is if we cannot overcome the existing system in the foreseeable future, provide ecological sustainability and meet the basic needs of the great majority of the global population, then there is serious danger that human civilization as we know it cannot be continued in the future.



**Dorothy Guerrero:** I very much agree that capitalism is incompatible with a healthy planet, whether we're looking at the consumption and production or the patterns of consumption and production. At the same time it influences relationships between people. So there's always an emphasis on exploitation and if I'm asked, do we need to save this kind of capitalism, my answer would be, we should find an alternative. But the big question is how do we make this alternative the dominant thinking? In the last thirty years, we could no longer say that there is no alternative. Now there are lots of alternatives, being practiced every day by some in the peripheral community. Currently we are facing a battle of ideas. For the last forty years, neoliberalism has won this battle.

We have two anniversaries of crises this year, the anniversary of the crisis that started in Europe ten years ago, in September, and the Asian crisis that broke out twenty years ago. The thing with crises is that it normally takes a long time before they are resolved. Dynamics must be resolved and those are the contradictions that you have mentioned about capitalism.

Inside China it is also interesting that the current development plan will end in 2020, because 2020 is a significant year for China. It is the 100th anniversary of the communist party in China and it is understandable that they want a showcase. They want to show what has been



accomplished in the last 100 years. So it is important to analyze that showcase of accomplishment, which go beyond outdated measures of poverty eradication. The health of the environment should be part of the gauge if there is real development.

It is interesting that protests in China are increasing so much that the government has stopped counting them. Before that stop, there was an annual report on how many protests happened. Everyone who read it was surprised that twenty protests happened every hour in China, most of them related to issues of environment and land. Because the biggest felt threat among the local population is the fact that their environment is in such a mess. This already makes it impossible for them to continue their livelihood. At the same time massive dislocations are happening. There is lack of land, even if you're coming from the rural area and you're supposed to have an automatic access to land. In the past, there was this sort of contract between the Chinese government and its people: As long as they provide what the people need, then the people will protest less, or people will not mind if there's just one party. Within the communist party there are lots of different debates and factions inside, and the divisions are based on what kind of China is emerging as a new power and how that new power is addressing people's needs and solving injustices. How long will it take that those feelings of resentment and injustice will create a sort of snowball effect? In China it is very, very difficult for people to organize nationally. Sometimes even within one sector they don't know their counterparts in the different provinces. The only entity that has that capacity is the communist party. It's still a big challenge for the local people to organize, especially with the current laws and the difficulties in terms of making an issue a national issue or a protest a national protest or movement. For us on the outside there is a need to reach out to Chinese workers, Chinese peasants, to those working in the sweatshops. There is a need to make our ideas find parallels inside China and to understand their dilemmas without judgment. In Europe, we have to look at the challenges that investments from China or from elsewhere bring, without racism or blaming the others for our internal problems. That's a big challenge for many of us inside Europe. So I think that you will continue to organize discussions on China for some more time. I think the growing interest to understand China in Europe is new. There is a need to find partnerships, meaningful relationships.

**Karin Fischer:** Well, indeed, you gave us many inspirations for our future planning. You raised and also answered some really fundamental questions, not only about China but about our civilization and future perspectives. Thank you very much.