CHINA IS MOST DEFINITELY NOT A SEMI-COLONY.

I have prepared this posting in a landscape form because it is more suited to bullet points. Many Marxist sects still hold to the view that China remains a form of workers' state and if not a workers' state then definitely a semi-colony. Marx always held the view that the critique of political economy, commonly known as Marxism, is an applied or practical science. That means it is highly dependent on data to shape and to test its assumptions. If Marxism is reduced to a theoretical science, a philosophy, as these sects have done, one would be frozen in time and detached from a changing reality.

McKinsey's insightful though repetitive analysis of China, on which this posting is based, reveals both the strengths and weaknesses of China and its standing in the world. https://www.mckinsey.com/featured-insights/china/china-and-the-world-inside-the-dynamics-of-a-changing-relationship ; Its two most important insights is how, since 2000, the Chinese economy has been transformed both quantitatively (to become the world's largest industrial economy by a wide margin) and qualitatively as its indigenous industry has begun to catch up to international standards. Secondly the damage being unleashed on the world economy by seeking to isolate China versus the rewards which will flow from the deeper integration of this, the most dynamic major economy, into the world economy.

The largest economy.

- China's share of global manufacturing amounts to 35%.
- China produces 90% of PCs, 90% of smartphones, 70% of TVs (but with large foreign IP and foreign components).
- China's share of the global value chain for electronics, machinery and equipment is between 38-42%.
- China's share of the global robotics market is 36%.
- China is the largest market representing 30% of world consumption.
- Over the next 15 years China's markets will grow by the equivalent of both the US and EU.

Weaknesses

- Technology lags.
- In high end robotics, it depends on foreign companies.
- In chip design and fabrication, it is a generation behind, importing chips worth $313 billion in 2017.
- Only 40-60% of industry meets international standards though this has improved significantly over the last decade.
- It has only 2 brands in the top 100 brands despite having the second largest number of Fortune 500 corporations.
- China still requires tariffs which at 7.5% are double that of the USA or the EU.
- Its IP effort still depends on foreign multi-nationals though no longer for equipment but technical services and IP licences.

- The Yuan is not a world currency because its financial sector is closed and China's technological deficit.

Strengths.

- World's second largest FDI exporter, soon to be the largest.
- In 2007 overseas firms accounted for 60% of exports, now down to 40% (compared to 26% in the USA).
- Exports now amount to only 9% of GDP. Its internal market is now dominant.
- Second largest spender on R&D (with the biggest corps of scientists and engineers).
- World exposure to China has risen from 0.4 in 2000 to 1.2 in 2017.
- China's exposure to the world has fallen from 0.8 in 2000 to 0.6 in 2017.
- The resulting gap of 0.6 compares to 0.5 in the USA where the world's exposure to the US economy has fallen from 1.8 to 1.4.
- Regional economies are dependent on China. Singapore's flash 2nd quarter GDP plunged to -3.4% from +3.8% previously because of the trade war.
- 14% of S&P corporations' revenue is earned in China and profits made is well above this figure.
- China has the most comprehensive, deepest and extensive industrial infrastructure of any economy.

We can see how the world's dependency on China has tripled in 17 years while it has fallen by nearly thirty percent for the USA. Using this uniquely McKinsey metric, it is likely that within five years China will overtake the USA to become the economy that the world is most dependent on. I would argue that it already has overtaken the USA. Hence the desperation on the part of the USA to hobble the Chinese economy. It could be argued that it is too late. US corporations are too dependent on the Chinese market, hence Trump's back sliding on Huawei and chip exports. But having said this, China continues to have a strategic weakness. Its incredible growth was not based on indigenous technology but imported technology.

It has to overcome this deficit in technology, no easy task over the next ten years if it is to emerge as the dominant economic power. This is recognised by the Chinese leadership. Before this stage is reached, it cannot be ruled out, that if the USA decides to reimpose a technology embargo, and can force Japan, South Korea and Germany to follow suit, the world economy could split into two. A USA led half where it dominates technologically and expensively, and a Chinese half with cheaper but not as advanced (for the time being) technologies.

The Chinese economy is decelerating but so too is the US economy. Recent US GDP releases have been disfigured by pricing issues and inventory build-up. While the absolute gap in growth between the two is shrinking, it is clear that over the next 17 years China will outgrow the US to dominate the world economy, that is if its political fragility and rigidity does not shatter first. The USA will try everything in its power to prevent ceding this hegemony.

Marxists have always looked to the destruction of means of production as the key measure needed to free up production that has become unprofitable. Thus, the second world war and its massive destruction of means of production particularly in Europe and Asia has attracted much attention.. This has tended to eclipse the issue of hegemony which became acute during the 20th century: the ability of one economy to restructure the world economy, thus reducing and sometimes eliminating previous obstructions to the flow of capital and goods, particularly from itself. The McKinsey document inadvertently raises this question by default. It shows the level of damage a trade war could precipitate in a world economy where the rate of profit is already depressed, versus the benefits that could arise from the further integration of the world economy.

It is clear that capitalism cannot restore the global rate of profit under the present circumstances. Besides the need to destroy capital it needs to reduce input prices in a world where wages can no longer take the strain. This means a global single market, not the rise of the tariffs. But it is the very goal which has become politically out of reach due to the austere consequences of 2008. Will this require a war in which either China triumphs or the US humbles China thus resolving the question of succession? Probably. Capitalism may have outgrown the nation state, but in crisis it has to fall back on the resources of the state, particularly its military.

Without the restoration of a new hegemony, it is unlikely the global economy can move to a higher level, the level required to provide support for the rate of profit. This then is the perspective facing the international working class, to which they must respond, or else they will find themselves shooting at each other on behalf of their respective bosses.

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