Facebook Information About Us SMS Alerts User Login Search Go

maltatoday MALTA'S NEWS PORTAL

Subscribe to our SMS ALERTS

HOME | NEWS | BUSINESS | SPORTS | MAGAZINE | BLOGS | ARCHIVE | DEALS | LOGIN | REGISTER

NATIONAL | BUDGET 2014 | WORLD | COURT & POLICE | INTERVIEW | DATA | ELECTIONS 2013 | DALLIGATE | NEWSBLOG

Follow Us

National Tuesday 17 September 2013 - 10:15

[ANALYSIS] The rise of China's soft power

Share this

Recommend 14

Tweet 2

China may still pay homage to Mao's doctrines, but its brand of state capitalism is what's currently taking the world by storm. JAMES DEBONO analyses what lies behind the rise of China, and what the stakes are for Malta as it receives its blessing from the celestial kingdom

Should China's rise from the ashes of Maoist revolution into global domination preoccupy the Maltese?

James Debono

Most Read Latest News Most Commented

Maltese tenor Joseph Calleja sings on Air Malta flight [Video]

Energy minister's wife given post as Malta Enterprise envoy

Update 5 | Pilots' absence delays 2,000 passengers, costs Air Malta €500,000

[WATCH] Spiteri Gingell in damning statements over Enemalta's management infrastructure

Chinese company to control 'around 35% of Enemalta' – Zammit Lewis

Botched Freeport deal to cost taxpayers €67 million

Former Enemalta CEO sheds light on disagreements with finance ministry

Blogs

16.Sep.2013 | 0 comments
A heat rash under stiff white collars
by Carmen Sammut

13.Sep.2013 | 22 comments
China to the rescue
by James Debono

More Blogs

of consumer goods affordable for tens of millions of people for the first time.

One case in point is solar panels, which became more accessible thanks to cheap Chinese labour.

But it is this unfair competition which risks eroding workers' rights in Europe, thanks to the low cost alternative from China.

Chinese investment has been crucial in offering emerging nations and their cash-starved economies new opportunities for growth, and a greater independence from the United States and European multinationals. To a certain extent, China has changed the rules of the game, but on the other hand the rise of its own middle class offers an opportunity for Western countries to enter the market for luxury and high-tech goods.

But its state-capitalist model is being increasingly questioned, not just by economic liberals but also by a resurgent Maoist opposition and a new generation of social and environmental activists.

"China's economic growth has been based on the intense exploitation of a large, cheap, labour force, unusually high investment rates and exports to Western markets. As the global capitalist economy struggles with stagnation and crisis, China's exports will achieve at best sluggish growth in the coming years," Minqi Li, a Chinese political economist and Associate Professor in the Department of Economics at the University of Utah notes.

"If China's current capitalist system fails to accommodate Chinese workers' demands by then, a general economic and political crisis will be highly likely," he warns, pointing to the threat to the communist's blueprint of the "harmonious society", where the freedoms of capitalism co-exist with restrictions on political freedoms.

As China preys on vulnerable Western assets, it also buys a new lease of life for its decadent state capitalism, which is increasingly fraught with contradictions and the inability to fulfil the aspirations of a growing working class. The middle class can be silenced by rampant consumerism, but the migration of poor agricultural workers to Chinese cities could trigger political and social rebellion.

So where does the Chinese wealth which is feeding the global splurge spring from?

Bottomless pockets

China owes its present wealth to the deposits of over a billion Chinese savers, possible because those deposits are financially repressed.

Not only do savers receive negative returns because of interest rates below the inflation rate, but strict capital controls prevent savers from investing their money in more profitable investments abroad.

What is generating the spate of foreign investment, according to Bloomberg, are banks like the China Development Bank Corporation and Export-Import Bank of China, whose advantageous loans to cash-starved governments generate overseas contracts to build airports, roads and shopping malls for Chinese state-owned companies that are mired in debt.

China's foreign direct investment is projected to reach as much as €1.5 trillion by 2020. "This means that Chinese state-owned companies that enjoy a monopolistic position at home can now pursue ambitious international expansions and compete with global corporate giants," journalist Juan Pablo Cardenal notes.

Subsidies help Chinese businesses produce, stabilise and create common understandings of markets," analyst Usha C.V. Haley writes. Profits also get sacrificed to widen the country's sphere of influence. And with the West's economic downturn, Western assets like ports and even energy companies which weren't on sale in the past, now are, and the Chinese are providing desperately needed liquidity.

The strategy used by China's Dongfang Electric Corp to build the Stanari power plant in northern Bosnia was simple: "sacrifice profits for a toehold in emerging Europe." The logic was clear, according to Savo Markovic, head of the coal plant where construction began in May: "Dongfang offered to carry out the job at almost half the cost, and the China Development Bank lent [the funds] for the project at favourable terms."

Made in China solar panels

Unsurprisingly, part of the deal to buy a part of Enemalta involves the setting up of a company assembling solar panels in Malta, which would also enable China to get a direct foothold in Europe.

From being a net importer, China has become the world's largest producer and exporter of solar panels, flooding the market with products well below market price - and consequently destroying industries and employment in the West and elsewhere. Chinese companies now control 80% of the EU solar panel market.

The other side of the coin is that Chinese low cost production has also benefited consumers.

Earlier this year the EU was on the verge of imposing stiff import tariffs on solar panels. But in August the European Commission approved trade chief Karel De Gucht's plan for curbs on Chinese solar panels, allowing import tariffs to be removed in three days in Europe's largest dumping dispute.

The EC and China agreed on a minimum price and volume limit on EU imports of Chinese solar panels until the end of 2015. Chinese manufacturers that take part will be spared EU duties meant to counter below-cost imports. But will this agreement apply to cheap solar panels assembled in Malta, which is already an EU member?

From Burma to Greenland

While cash-starved governments are hungry for a capital injection from China, Chinese investment often takes a bizarre twist, which raises concern that this investment comes at a social cost.

Resource-hungry China is often accused of colonialism in countries like Burma, where China Power Investment Corporation - the company that owns Shaghai Electric and which will be investing in Enemalta - is constructing the Myitsone Dam, a hydroelectric power development project that will provide between 3,600 to 6,000 megawatts of electricity primarily for Yunnan, China.

The dam project has been controversial in Burma due to its enormous flooding area, environmental impact and its location on the Sagaing fault line. Moreover, most of the electricity generated by the dam will be distributed to China, providing little benefit to the Burmese.

In fact the dam construction was suspended by Burmese President Thein Sein as the military regime started ditching its Chinese friends while opening up to the opposition.

Equally bizarre was Greenland's decision to ditch labour laws to accommodate Chinese investment. Last year, the Danish territory passed legislation to allow foreign workers into the country who earned salaries below the local legal minimum wage, a concept lampooned as 'insourcing' in the Hollywood comedy 'Campaign' starring Will Ferrell and Zach Galifianakis. The companies had made it clear that they would only invest in the high-risk, costly exploitation of Greenland's vast mining resources if they were allowed to use thousands of low-wage Chinese workers.

News Editor: Matthew Vella | Tel: 356 21382741 | Fax: 356 21385075 | maltatoday@mediatoday.com.mt | Managing Editor: Saviour Balzan | Tel: 356 21382741