

International Communications and Political-Economic Power: Interpreting China's Emerging Role

by Dan Schiller

Control over communications and information is a crucial concomitant of contemporary political-economic power, international as well as domestic. We might therefore anticipate that, as China becomes an increasingly important pole of growth within the global market system, it would also claim and win a substantially greater presence in international communications and information. Indeed, in this sphere a series of Chinese initiatives is unfolding in information and communications technology manufacturing and service provision, including both mass media and telecommunications and information services. These initiatives are too many and too widely rooted to be, simply, unconnected. But do they evince a unified coherence? Do they testify to a systematic national ambition?

Within the United States, the most frequent way of interpreting China's recent initiatives in communications and information has been to view them as signs of burgeoning challenge to the global political-economic dominance enjoyed by the United States itself. Chinese officials protest at any such ambition, and cast these as a poor country's attempts merely to redress the glaring imbalances that continue to scar the global communications system. For example, State Council Information Minister Zhao Qizheng argued that "Asian countries should set up their own strong media for the sake of speaking for themselves, reporting the facts about their countries, and speaking out to safeguard their national interests" (Cited in Lawrence, 2002: 30).

Such a perspective is, of course, justified in principle; it also contains an important element of truth: China's status in international communications and information is nowhere near parity with that of the United States. On the other hand, China's leaders can hardly be accused of acting out of a concern to nourish world democratic cultural and political interchange: their endeavours are socially and at points institutionally and even personally self-interested.

Just the same, a Chinese economic challenge in a leading economic sector is evident. U.S. public opinion on this issue is strongly coloured by the fact that the U.S. trade deficit with China has become the country's largest; the US trade deficit in goods with China doubled between 1997 and 2002, to \$95 billion. U.S. influentials are thus able to employ a broad-brush theme of "China rising" perhaps, though they do not say so, on the ground that it takes an existing hegemony to know an aspiring one.

More than mere rhetoric is involved in this U.S. response. In a case originating in 1997 and settled in 2002, U.S. authorities prosecuted U.S. aerospace companies Loral and Hughes Electronics for passing technical information about satellites to the Chinese (Labaton, 2003b: C3-C4). The attempted takeover of Global Crossing by a consortium led by Hutchinson Whampoa requires approval from the U.S. Federal Communications Commission (FCC) and CFIUS - the Committee on Foreign Investment in the U.S. CFIUS is dominated by Executive Branch agencies; and issues of "law enforcement and national security" are in the forefront of these reviewing agencies' concerns (Leithauser 2003: 5-6; Legard, 2002). By late February 2003, it was clear that the Hutchison Whampoa-Singapore Telemedia bid was in deep trouble. Meanwhile, a competing bid, mounted by the U.S.-based IDT Corporation, seeks to employ the familiar rhetoric of U.S. national security to draw the U.S. Department of Defense to its side (Romero, 2003a: C5; Romero, 2003b: B2; Labaton, 2003a: C1).

In other cases, Chinese initiatives may prove to be less formidable than they seem. The appointment of Chinese representatives to ICANN, for example, may be more important in smoothing out issues like the translation of web addresses from roman to Chinese characters, and the quantity of numeric addresses needed by China's rapidly growing population of Internet

users, than in offering a sign of any real power shift in the important field of Internet governance.

Uncertainty confounds analysis of other Chinese initiatives. In a progress report, offered to the Davos World Economic Forum in January, 2003, the President of China Netcom, Edward Tian, emphasized that the Chinese Communist Party Congress of November 2002 had adopted a "very, very important policy" that in the next 10 years China has to build "an information-led new economy." Declaring that "China can soon become the world's largest Internet and information economy" (measured, presumably, by numbers of devices and users), Tian asserted that, over the next decade, Chinese investment is likely to focus "more to the software side and service sector," with the intention to "export not only low-cost labour intensive goods but" software and services to the Western world" (Lederer, 2003).

There can be no doubt that this is in line with recent policies mandated by the Chinese leadership. In 1997, Jiang Zemin stated that "Science and technology being a primary productive force, their progress is a decisive factor in economic development. We must" make the acceleration of their progress a vital task in economic and social development" strengthen basic research and research in high technology and accelerate the pace of applying high technology to production" (Jiang, 1997). According to the policy of the "Three Represents," incorporated into the Constitution of the Chinese Communist Party five years later, at the 16th Party Congress in November 2002, the CP "must persist in taking economic development as the central task" implementing the strategy of rejuvenating the country through science and education and" give full play to the role of science and technology as the primary productive force" (Constitution, 2002: 4).

Though all this may be read as confirming the "China Rising" argument, it synchronizes just as well with the idea that "market opening" policies aim to entice transnational corporations to send offshore not only manufacturing operations, but also back-office information services, basic research, engineering and design, and even financial analysis. Philips has shifted research and development on most televisions, mobile phones and audio electronics to Shanghai; GE also performs important R&D work in Shanghai; Microsoft is spending \$750 million over three years on R&D and outsourcing in China (Engardio et.al., 2003; Murray, 2003: A1-A6). Intel, Motorola and other high-tech TNCs have set up over 100 R&D centres, mostly in Shanghai and Beijing, to draw on the pool of technical and research talent and to sell more effectively into the Chinese domestic market (Altman, 2002: 1). All told, according to an official source, more than 400 of the top 500 transnational companies had investments in the country by 2001, and had established nearly 400 R&D centres there (Shi, n.d.).

In fact, key changes in political-economic structure lie largely beyond the purview of both interpretations. There is no question that, taken together, China's initiatives in international communications and information are already more substantial than those undertaken by other less-developed countries, even at the height of the movement for a New International Economic and Information Order. Just the same, China is nowhere near to mounting a bid to up-end US political-economic power in communications and information.

To understand what is really happening, we must try to comprehend the changing system of political-economic relations. The question is not simply how comprehensive and immediate a challenge China poses to the economic supremacy of the U.S., but what does "China's Rise" signify for the world economy? The primary issues have less to do with contending national geostrategic projects than with an ongoing reconfiguration of the political economy of transnational capitalism. Communications and information constitute a core axis of these transformations.

Communications and the changing structure of production and trade

The US FCC has documented the "steady growth in use of U.S. international-facilities for international" private line services from the United States" (FCC, 2001). This bland formulation

understates the significance of what has occurred. Growth in private line services has been nothing short of explosive.

FCC data show that "the number of activated 64 Kbps equivalent circuits at year-end 2000 was 2,178,926, which is a 121% increase from 1999" (Ibid.). Additionally, and critically, International Private Line Services accounted for fully 74% of the 2000 total, having experienced disproportionately rapid growth over the preceding years at the expense of telephone service over the public switched network (IMTS) (Hsu, 2001: 3). In the case of numerous individual country routes, the results are startling as to both pace of growth and the shift toward private line predominance. For example, the UK, which became the U.S.'s topmost telecommunications trading partner in 2000 (it was the third-largest in 1997): here, the number of activated 64 Kbps circuit equivalents increased between 1997 and 2000 from 41,739 to 704,180, even as the proportion of IMTS to private line (and other) circuits declined sharply, from .77 to .07 (Hsu, 2001: Tables 5 and 6; Hsu, 2002: Tables 5 and 6).

For Canada, the second top destination for U.S. callers, 95,481 activated circuits in 1997 became 466,051 in 2001, even as the ratio of IMTS to PLS (and others) declined from 1.12 to .43 (Ibid.). For Mexico, activated circuits increased from 60,555 to 229,599, while the ratio decreased from 1.57 to .45 (Ibid.). And for China? Exclusive of Hong Kong, activated circuits between the United States and China increased from 1,927 to 61,372, making it suddenly the ninth-ranked country for U.S. international telecommunications, while the ratio of private line to MTS service declined especially dramatically, from 3.52 to .03 (Ibid.).

All told, for the top 30 international destinations which together constituted 96.5% of total active circuits in 2001, the ratio declined from 1.03 to .18 (Ibid.). And these figures significantly understate the growth of international private lines, mainly because a growing number of newly authorized non-common carrier private cables have been built, and their owners try to sell the bulk of their capacity to end-users, notably ISPs and foreign carriers. Such companies are not required to report cable capacity to the FCC (Hsu, 2001: 4). These private line circuits are predominantly used in Internet systems and services. And, although we lack good data and the system is changing very rapidly, there can be little doubt that corporate-commercial internet systems known as intranets and virtual private networks, and tradeable business services which incorporate telecoms as an intermediate input, consume a large fraction of the total. These, then, are not mainly components of the open Internet, but specialized, proprietary systems.

Telecommunications networks function today as a key coordinating mechanism for internationally dispersed corporate production chains "and a critical adjunct of assimilation into a transnationalizing capitalism. As far as China is concerned, moreover, rapid growth in reliance on private lines has not been an external imposition but a necessary adjunct of the policy of market opening.

China's reintegration into global capitalism is mediated, as Yuezhi Zhao underlines, by a newly reconstituted power bloc "consisting of the bureaucratic capitalists of a reformed Party state, transnational corporate capital, and an emerging urban middle class, whose members are the favoured customers of both domestic and transnational capital" (Zhao 2003). China's leaders are thus binding all domestic social strata more and more directly to the vicissitudes of a transnational market system. Only the terms and conditions of this process of integration - but not the process itself - are subject to negotiation. The latter's fulcrum is the Party state's ability to provide transnational corporate access to China's labour market and to its increasingly substantial domestic market for commodities of every kind.

Rather than foreclose its domestic market to outside capital, by contrast to strategies of import substitution followed in previous decades by Brazil and India, China has for a generation broadly welcomed foreign direct investment and pursued a plethora of market-opening policies. To lure foreign investment, China is promising access to a prospectively enormous domestic market, in an era when widespread overproduction has intensified capital's search for new market outlets. Inward FDI in turn will be used not only to integrate emerging Chinese industries into

transnational production systems, but also to expand Chinese-based outward FDI. The contrast with earlier national development plans could not be sharper; these often limited outward FDI on the grounds that the health of the national economy remained the foremost concern. China's leadership hopes instead to build up China's own aspiring companies as transnational enterprises, or at least as affiliates of transnational companies.

Foreign TNCs' contributions to the Chinese economic miracle are enormous. China's export growth has been remarkable not only for its scale – from \$26 billion in volume in 1985 to \$249 billion in 2000 – but also for its powerful linkages to foreign direct investment. Beginning from virtually none in 1984, FDI reached \$400 billion in 2001 (UNCTAD 2002a: 154; Shi). In 2002, China attracted an additional \$52.7 billion in foreign direct investment, more than any other country including the U.S., and the same rate continued into early 2003 (Wonacott, 2003: A20-A21). Total profits earned by foreign funded companies in China came to around \$20 billion in 2000, but the promise of greater profit to come helped motivate these companies to reinvest \$12 billion of this total in China (UNCTAD 2002a: 155).

Although many foreign-funded enterprises are owned by ethnic Chinese investors from Hong Kong, Taiwan and Singapore, Chinese exports are not by any means necessarily 'Chinese' in the accustomed sense. Between 1991 and 2001, the overall share claimed by affiliates of transnational corporations in China's exports rose from 17% to 50% (UNCTAD 2002b: Table 8). In high-technology exports, whose share in China's overall trading volume increased from 3% to 22% between 1985 and 2000, foreign affiliates played an especially critical role. In electronic circuits, foreign affiliates took 91% of Chinese exports in 2000; in automatic data processing machinery, they accounted for 85% of exports; and in mobile phones, foreign affiliates claimed 96% of China's exports in 2000 (Ibid., 162-3). All told, foreign affiliates of TNCs accounted for 23% of total industrial value added during 2000-01 (Ibid., 56). 'In contrast,' emphasizes a recent UNCTAD report, 'Chinese domestic enterprises predominate in the low-technology sector, especially in the export of toys, travel bags and yarns and fabrics' (Ibid., 163).

Crucial questions also may be posed about the alignment of China in the emerging system of transnational capitalism. Is China a general-purpose host for FDI from anywhere and everywhere, or is it moving into the orbit of one or another leading economic power?

There exist indications that China is becoming more intimately interconnected both with Japanese capital and with the East Asian newly industrialized economies. In 2000, Japan supplied 23.7% of China's imports of manufactured goods, while Hong Kong added 4.9% and the rest of Asia (excluding West Asia) an additional 33.1%; the U.S. contributed just 12.2% and the EU 16.8%. (UNCTAD 2002a: 164). And Beijing has proposed the creation of a regional Japan-China-Asean free trade agreement (Pei 2003, 13). But it is simplistic to speak of a resurgent self-contained co-prosperity sphere, under either Japanese or Chinese auspices. Not only do U.S. and European TNCs continue to invest on a very large scale in China; but Japanese, as well as Korean and other Asia-based FDI in China itself is based on the strategy of exporting to third markets including, pre-eminently, the U.S. FDI from investors in East Asia, suggests the United Nations Commission on Trade and Development, 'uses China as an export platform for the Western markets, and' their home countries provide the impetus needed in such operations.' (UNCTAD 2002a: 155). The complex linkages between China and the world political economy therefore cannot be pressed into any bipolar configuration.

China (replacing the US in this role) has become the biggest exporter to Japan. In 2002, China supplied 18.3% (\$61.7 billion) of Japan's imports, while the U.S. accounted for 17% (\$57.5 billion) (AP 2003, W1). On the other side, China overtook Japan in 2002 to become the third-largest exporter to the U.S. (after Canada and Mexico), by sending \$125 billion in exports (Ip 2003, A2). As that has occurred, China's national foreign exchange reserves have increased – to \$258.6 billion by September 2002, the second-largest total in the world (Shi, n.d.). In turn, in a shift of prospectively great import, Chinese investors have become a major force in U.S. securities markets. One of the most significant of such investors is the Bank of China, whose portfolio of US assets is worth tens of billions of dollars (Karmin and Richardson, 2003: C1-C12).

The continuing crisis of late capitalism

As Chinese affiliates of transnational companies install production lines and infrastructure and distribution systems are built, mountains of commodities are sent out into both the domestic and world economy. Is China's domestic market growing sufficiently to be able to absorb the new surpluses produced by the rapid domestic expansion of manufacturing industry? Or, will China's ascension further destabilize transnational capitalism by aggravating an already-critical condition of overcapacity? China's total debt outstanding in one estimate equalled nearly 160 percent of economic output by 2003 (Leggett and Chen 2003, A2). On the other hand, China has been experiencing deflationary pressures for several years. According to a journalistic account, by 2003 88% of manufacturing product lines "are in oversupply" (Kynge, 2003: 6). Is this glut likely to persist, or even intensify? or will the domestic market take off into sustained growth, as deficit spending gives way to demand generated by a large expansion of high-wage employment and the threat of debt-defaults recedes?

The labour market data are mixed. On one hand, through the mid-1990s, the TNC sector to which China has attached itself employed a very small share of the workforce "a mere 5.4 million in 1996, or less than one percent." This suggests that their scope for absorbing workers "will be very limited," reported a UN agency as recently as 2002 (UNCTAD 2002a: 155). China's accession to the World Trade Organization is, meanwhile, expected to trigger significant further cutbacks throughout much of the state-owned enterprise sector, even as the country's 500 million-plus rural and farm population continues to face intense continuing job pressure.

On the other hand, according to an official Chinese source, by 2001 23 million Chinese people worked directly for foreign-invested companies, "effectively alleviating the employment pressure" (Shi, n.d.). This may be more wish than reality, as fast and unequal social transformation continues to produce rising unemployment (and, with it, a higher incidence of large-scale social protest: such protests are said to be rising by 50% a year according to the Public Security Ministry) (Hutzler, 2003: A11).

Finally, the entire process of integrating China into a high-tech transnational capitalism is predicated historically on the existence of growing worldwide overcapacity throughout much of conventional industry, and on capital's resulting need to identify and exploit new sites of accumulation (Brenner, 2002). Even under the best of circumstances, could China absorb the surplus investment that presently exists, let alone the additional surplus that China's integration into transnational capitalism itself is beginning to generate? China's transformation into the pivot of a new and putatively expansionary phase of transnational capitalist development around communications and information therefore remains anything but certain.

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