http://www.wsws.org/en/articles/2015/08/12/pers-a12.html

Chinese currency devaluation underscores global instability

Nick Beams

12 August 2015

The surprise move by the Chinese government on Tuesday to lower by 2 percent the value of its currency, the renminbi (also known as the yuan), shook global financial markets. This was due less to the immediate impact of the decision than to what it indicated about the state of the Chinese economy and the stability of world capitalism as a whole.

The move was the biggest one-day shift in the value of the currency since China abandoned its tight currency peg to the US dollar in 2005 and embarked on a managed float. Prior to yesterday, the biggest shift this year had been a 0.16 percent adjustment.

The devaluation came in the wake of figures showing mounting problems for the Chinese economy. Exports, which have declined throughout this year, fell again in July by 8.3 percent. Imports were also down, dropping 8.1 percent in July from a year earlier, after a decline of 6.1 percent in June, pointing to a slowdown in demand from Chinese industries for raw materials.

While the official growth rate for the second quarter came in at 7 percent, near the government’s target, most independent analysts maintain that real growth is probably closer to 4 percent. The official 7 percent rate is itself a six-year low.

The significance of Tuesday's decision is underscored by the fact that Chinese authorities did not devalue the currency either in response to the Asian financial crisis of 1997-98 or the global meltdown that followed the collapse of Lehman Brothers in September 2008.

Seven years ago, their response was to undertake a massive stimulus package coupled with an expansion of credit—estimated to be equivalent to the entire US financial system—in order to boost the Chinese economy. The expectation was that after a sharp downturn, the economies of the major capitalist countries, the key export markets for China, would see a return to strong growth.

However, the crisis of 2008 was not merely a conjunctural downturn, but rather the beginning of a systemic breakdown, throwing the perspective of the Chinese government awry. Production in Europe has still not returned to the levels of 2007, while growth rates in Japan and the US remain at historically low levels. Last April, the International Monetary Fund indicated that a return to pre-2008 growth rates was not going to take place.

China has been hard hit, with exports to Europe down 12 percent on levels a year ago, and a fall of 10 percent in relation to Japan.

In its official statement, the People's Bank of China was at pains to indicate that it was not seeking to join a global currency war, which has seen a number of countries deliberately lower the value of their currencies in order to boost exports. It said the move was a "one-off" decision, intended to make its exchange rate more "market-based" following the rise of its currency by more than 10 percent over the past year.

Fears over what the Chinese move may signify about the state of the global economy appear to be behind the relatively muted official US response to the Chinese decision.

While senior Democratic Senator Charles Schumer of New York railed against the decision, saying it indicated why any decision to allow the renminbi to become a global reserve currency would be akin to "putting the fox in charge of the henhouse," the US Treasury was much more cautious.

In its official statement, it noted that "China has indicated that the changes announced today are another step in its move to a more market-determined exchange rate," in line with US policy. It then added that it would "continue to monitor how these changes are implemented," and warned that "any reversal in reforms would be a troubling development."

Fears that the Chinese action might herald a downward spiral in the world's second largest economy were reflected in the movement of both stock markets and commodity prices. In the US, the Dow fell by 212 points following sharp falls in Europe and declines in Asia, while industrial commodities suffered further price declines.

Copper, which is regarded as an indicator of global economic activity, fell 4 percent to a new six-year low, while the price of Brent crude, the oil benchmark, sank back below $50 per barrel.

Shares in the iron ore miner BHP Billiton dropped by 5 percent, and shares in the commodities conglomerate Glencore plunged 7.3 percent to a record low.

The market reaction reflects fears that the Chinese currency move points to deepening recessionary trends in the global economy as a whole.

In the immediate aftermath of the 2008 global financial crisis, the claim was advanced that China could serve as the growth engine for the world economy. That illusion was dashed some time ago. It has since been replaced by growing fears that an unravelling of the Chinese investment and real estate boom will have major global consequences, especially for so-called emerging markets that are dependent on the Chinese economy.

For their part, Chinese government and financial authorities have been working desperately to provide a new foundation for economic growth by opening up the financial system to market forces, working in collaboration with the World Bank.

This was behind the decision last year to encourage sections of the middle classes to invest heavily in the stock market. However, that initiative ended in a near disaster. When financial authorities moved in June to bring the government-created share market bubble under control, it provoked a market collapse that required a major intervention involving the allocation of hundreds of billions of dollars and the suspension of share-trading by hundreds of companies.

The Chinese regime, an oligarchy of the super-rich represented by the Communist Party, lives in mortal fear that an economic crisis will give rise to mass social and class struggles, leading to a crisis of legitimacy and threatening its hold on power.

And beyond the Chinese regime, the devaluation points to the profound contradictions that make it impossible for the ruling economic and financial elites to devise any set of measures to restore economic stability, let alone continued growth. Commenting on the currency move, the *Financial Times* noted that it was unlikely that China was "intending to whip up skirmishes among its trading partners into a full-scale war." However, it continued, "intentions are one thing, consequences another."

The international economy is more deeply interconnected than ever before, requiring conscious global direction and control. But the capitalist ruling classes are rooted in the nation-state system. They seek to defend and advance their own interests as they come into conflict with one another—all the more sharply under conditions of stagnation and slump.

The crises and contradictions of the global economy expressed in the Chinese devaluation decision can be resolved only by a social force that by its very nature is international and transcends the outmoded nation-state system. That force is the world working class, mobilized for the overthrow of capitalism and establishment of socialism.