Market commentators cheer China's revised economic figures

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China's economy suddenly looked healthier after Beijing's National Bureau of Statistics (NBS) announced on December 20 that the country's Gross Domestic Product (GDP) in 2004 was much bigger than previously estimated. The new figure is 15,987 billion yuan ($US1.93 trillion) up from 13,688 billion yuan—an increase of 16.8 percent or $US278 billion, which is roughly equivalent to the GDP of Turkey or Indonesia.

China now ranks as the world's sixth largest economy after the US, Japan, Germany, Britain and France. Based on a forecast growth rate of over 9 percent, China's GDP was expected to reach $2.16 trillion in 2005. This year it is likely that China will overtake France and Britain to become the world's fourth largest economy.

According to NBS head Li Deshui, the revised Chinese GDP was 4.4 percent of the global economy in 2004, up from the previous estimate of 3.8 percent. China devoured 7.4 percent of the world's crude oil, 31 percent of coal, 30 percent of iron ore, 27 percent of rolled steel, 25 percent of alumina and 40 percent of cement.

The international financial press enthusiastically welcomed the news. The British-based *Telegraph* commented: "It is hardly surprising. China has taken on Britain's 19th century mantle of 'the workshop of the world'. It has 160 million workers in its factories, almost three times the UK's total population. It pays an average of 34 pence an hour, just 7 percent of our minimum wage."

A *Financial Times* editorial declared: "China has put pressure on the wages of low skilled workers in rich countries, driving up unemployment in countries with inflexible labour markets and increasing income differentials. And it has helped companies achieve record high returns on capital and profit shares of national income without coming under pressure from workers for higher wages."

The rise of China as a new economic "power" expresses the deepening crisis of world capitalism. Over the past 30 years, in order to offset the pressure of declining profitability, transnational corporations have used advances in computer, communications and transport technology to globalise production to take advantage of cheap labour around the world. China is at the heart of this process.

Since Deng Xiaoping launched China's "market reform" in 1979, the Stalinist regime has created a huge supply of low-wage labour through the destruction of rural communes and state enterprises. Beijing also used nationalised land—an advantage absent in most countries—to provide rent concessions to investors and to build industrial zones and infrastructure on a huge scale. The result has been a flood of foreign capital into the country and an explosive growth of industry.

Beijing ordered the NBS to investigate the real state of the economy after analysts warned in 2003 that China was on the verge of a financial crisis. Begun in 2004, the investigation lasted two years, involved 13 million people and cost nearly two billion yuan ($US240 million).

The increased GDP estimate came mainly from the so-called tertiary sector, including services such as transport, communication, wholesale, retail, catering, trade and property. Many of these small private businesses had been ignored in previous GDP statistics. As a result, services as a proportion of GDP have risen from 32 to 41 percent, and the estimated size of the workforce in these sectors doubled to 94.2 million in 2004.

The statistical revision did not make the real economy any larger than it already was. The new figures simply revealed that as China has received foreign direct investment at a rate of more than $US60 billion a year, it has stimulated the development of services essential to urban life and modern business operations.

Economic commentators have seized on the data to declare that the structure of the Chinese economy is not as abnormal as was thought. The larger output reduced the ratio of investment to GDP for 2004 from 44 to 40 percent. The huge levels of banking bad debt to GDP also fell.

Jonathan Anderson, the chief Asian economist for the investment bank UBS, declared that "China's much-touted 'overinvestment economy' is probably a relic of the existing statistics." Hong Liang, a Goldman Sachs economist in Hong Kong, enthused: "The most significant implication of this is: Does China have some structural illness or cancer? Or is there an error with the x-ray?"

It is absurd to claim that China's enormous economic and social problems are simply accounting errors. The fact that nearly a fifth of the economy could go "missing" underscores the fact that, having unleashed the anarchy of the market, Beijing no longer knows the scope of, let alone controls, the economic activities taking place.

In the wake of the 1949 revolution, the Maoist bureaucracy used an accounting system that exclusively focus on physical forms of production, such as the building of new factories and the output of goods. The system formed the basis for bureaucratic planning and the imposition of production quotas throughout the backward, shut-in economy.

Beijing only revised its accounting methods in the 1990s in line with China's integration into the world capitalist market, which created more complex and diversified economic activities. While Beijing reported an average rate of economic growth of 8-9 percent in the 1990s, the real state of the economy remained unclear.

Local officials frequently manipulate statistics to win approval from Beijing or advertise their region as a desirable destination for foreign capital. The resulting investment from private and state sources is channelled into burgeoning industrial, real estate and infrastructure projects over which Beijing exerts little control. As regions, provinces and cities vie with each other, the outcome is duplication, overcapacity and rising levels of bad debts, particularly of the major state banks.

As long as high growth continued, the Chinese leadership was not particularly concerned to know the real composition of the economy. The past two years, however, have seen growing signs of speculative investment bubbles, particularly in property. A collapse of these bubbles will dramatically increase the burden on China's state banks, which have already accumulated hundreds of billions of dollars of bad debts.

Excess capacity in China could also trigger a deflationary crisis. Cao Yushu, the deputy secretary-general of the State Development and Reform Commission, told the official Xinhua news agency on December 18 that 11 industries, including cement, aluminum, steel, auto, power, coal and textiles, are facing or will soon face overproduction.

The demand for cement was less than 1 billion tonnes in 2004, but the capacity was 1.25 billion tonnes, leading to declining prices and profits. The industry's profit fell from 6.8 billion yuan in 2004 to 3.5 billion yuan in 2005. Vehicle production outpaced domestic demand by 2 million units in 2005. Steel output is predicted to rise to 453.36 million tonnes in 2006 as against a demand of 336.85 million tonnes. The surplus 116.51 million tonnes is equivalent to Japan's annual output.

Since March 2004, Beijing has been tightening lending by state commercial banks to key industries, particularly steel, in order to control speculative investment and overcapacity. But these "macroeconomic controls" have had little impact, heightening the dangers of economic and financial crises, and accompanying political and social instability.

Despite its overall economic size, China remains economically backward. Even based on the revised GDP figure, China's annual per capita GDP is just $US1,490 according to IMF exchange rates, making it 107th in the world—ahead of Vanuatu, Ukraine, Congo, Syria and Angola. By the World Bank's three-year average exchange rate, the ranking of China's revised per capita GDP has risen from 132nd to 129th—ahead of Egypt, Vanuatu and Turkmenistan.

Moreover, only a relatively small layer of capitalists and the middle class has benefited from China's frenzied and chaotic economic development. Twenty years ago, China was among the relatively "equal" societies, now it has become one of the most unequal, with a widening gulf between rich and poor.

A UN report released on December 16 warned that China's Gini Coefficient—a standard measurement of social inequality—had exceeded the dangerous level of 0.4. "The gap in incomes has opened up within the space of one generation. If resolute measures are not taken now and the chance to manage the problem is lost, poverty will be passed from generation to generation, creating a social schism that will be hard to eliminate," it stated.

Social inequality is already erupting over into mounting protests by workers and farmers over taxes, official corruption, unemployment, poor working conditions and wages, the state seizure of land and the lack of services. Incapable of meeting the demands of the majority of the population, the Chinese bureaucracy has responded with police state repression.

It is on this highly volatile political and economic mixture, that the world economy is increasingly reliant. China is now the third largest trading nation after the US and Germany. Its huge demand for raw materials, components and capital goods is helping to prop up the economies of Japan, South Korea, Southeast Asia and Australia. In order to keep exports competitive and the US market afloat, China, along with Japanese and other Asian central banks, has played a central role in financing the huge US deficits.

It is no wonder that the world's corporate elite has been attempting to draw what little comfort it can from China's revised economic statistics.