China’s economy continues to slow

John Chan
18 April 2009

The latest growth figure for the Chinese economy released on Thursday has revealed a further slowdown in the first quarter of 2009. The official rate was 6.1 percent compared to the first quarter of 2008—the lowest since quarterly data began to be collected in 1992. The figure is down from 6.8 percent in the last quarter of 2008 and is less than half the 13 percent growth rate for 2007.

The figure dampened the rather superficial optimism that greeted statistics released last week. Desperate for any good news, the international financial press claimed there were signs of a recovery in China that might even spread globally.

China’s industrial output grew 8.3 percent in March, up from a record low of 3.8 percent in first two months of the year. The urban fixed-asset investment—the benchmark of capital spending—rose by 30.3 percent in March from a year ago, and retail sales were up by 14.7 percent. Exports fell by 17.1 percent in March, less than the 25.7 percent decline in February.

Significantly, bank loans reached $US670 billion in the first three months of 2009—almost equal to bank lending for all of 2008. The main Shanghai stock exchange has risen by 38 percent so far from the beginning of this year—the best performance of any share market in the world.

The *Wall Street Journal* talked up China’s recovery declaring: “The signs augur well for the global economy.” World Bank chief Asia economist Vikram Nehru told the newspaper: “China is unusual in that it has this incredible capacity to mobilise all its institutions”, especially the state banking system to make lending. “There is now a growing degree of confidence that the stimulus package is having an impact,” he said.

The World Bank’s half-yearly forecast for East Asia published on April 7 proclaimed that China would start to rebound in the second half of this year—if the world economy did not continue to deteriorate. The same report predicted that the rest of Asia would grow by just 1.2 percent, with Malaysia and Cambodia contracting by 1 percent and Thailand by 2.7 percent. Japan, Singapore, Taiwan, Hong Kong and South Korea are already in recession.

Asia’s cheap labour platforms are heavily dependent on exports to the US, Europe and Japan—all of which are in recession. The latest World Trade Organisation (WTO) estimate is for a massive decline in international trade of 9 percent this year.

Despite its huge size, China’s 4 trillion yuan ($US585 billion) stimulus package cannot compensate for the loss of international markets. Chinese Premier Wen Jiabao acknowledged last Friday: “China’s economy has shown some positive signs, but we can all see that our economy still faces some very big difficulties”.

For the past 20 years, global capitalism has relied heavily on exploiting China’s seemingly inexhaustible support of cheap labour. But China’s economic rise was based on debt-driven US growth, which provided a market for Chinese exports. The eruption of the US financial crisis last September inevitably meant that China’s vast industrial expansion would slow or even reverse, throwing tens of millions of workers onto the street.

The Chinese Communist Party (CCP) has officially pledged to achieve 8 percent growth this year. However, a senior government figure told the *Financial Times* on April 13: “There is no way we’re going to reach 8 percent; our internal estimate is more like 6.5 percent for the year. Only if Europe and the US recover tomorrow will we be able to meet the target.”

As for the much-hyped surge in bank lending, the unnamed official explained: “External trade is dead and it is impossible to force domestic consumption to take up the slack immediately so we have to rely on bank lending for now. But the government will never allow the banks to lend like this for the entire year because otherwise we will face

© World Socialist Web Site

hyperinflation and that is what the government is most afraid of.”

High inflation was one of the reasons that workers joined the large pro-democracy protests in Beijing and other Chinese cities in 1989.

Moreover, the state banking system is rather fragile. At the end of 2008, China’s banking regulators claimed a bad loan ratio of just 2.45 percent. In 2003, however, before a major $500 billion cleanup, the ratio was more than 20 percent. Most of these bad loans were simply transferred to state-owned asset management companies. The latest surge of bank lending combined with a slowing economy will inevitably result in a new burst of bad loans.

One major source of bad loans will be real estate and construction. A senior government economist Cao Jianhai told the *Financial Times* that speculation had caused average housing prices to triple from 2003 to a peak in mid-2008. Prices are now 10-12 times average annual income, which means that 60 percent of a typical monthly income goes to mortgage repayments. Yet, the urban property prices—the main factor driving fixed asset investment—are expected to fall as much as 40-50 percent in the next two years as a result of massive oversupply.

Cao warned that the 8.7 percent rise in residential property sales in the first quarter was inflated by real estate developers who were faking mortgages to artificially maintain prices. The banks under pressure from Beijing to boost lending were happy to provide the money. A collapse of property prices would be disastrous not only for the state banks but local governments which are supposed to fund most of the government’s stimulus package but are dependent on real estate revenue. Furthermore, declining house values will also impact heavily on millions of working people and cut into consumer spending.

More far-sighted economists have pointed to fundamental problems in the world economy. Andy Xie, former Morgan Stanley analyst, warned in the financial journal *Caijing* on April 13 of a second financial meltdown in 2010 as the global share markets dip again. “The boom-burst cycle has occurred frequently in history. But a synchronised global one is rare. The last crisis comparable to the current one was the boom-burst of 1920s and 1930s. A synchronised global cycle requires trade and cross-border capital flow to be large. A synchronised global burst is difficult to overcome, because devaluation and export promotion no longer work. East Asia came back this way from its banking crisis 10 years ago, but it won’t work this time around,” Xie wrote.

Without an expanding global market, China’s huge manufacturing sector, which was plagued by excess capacity even before the current global slump, will have to contract. According to the latest commerce ministry data, foreign direct investment (FDI) into China in the first quarter fell 20.6 percent from a year ago to just $21.7 billion. The total FDI throughout 2009 is expected to be down 30 percent from 2008. Foreign firms have played a key role, accounting for nearly 30 percent of China’s industrial output, 55 percent of the import-export volume and 11 percent of the urban workforce or 45 million people.

The social consequences will be explosive. The CCP promised to generate 9 million jobs this year, but even this target will not curb rising unemployment. The jobless rate among China’s 225 million rural migrant workers has already reached 10 percent. With a million college graduates from 2008 yet to find a job, another 6 million will join the labour market this year.

Already there are signs of unrest. More than 400 textile workers from the large state-owned Jindi Industry Group in Chongqing city took to the streets for two days this week over three months’ unpaid wages. The company claims it can not afford to pay its 6,500 workers as demand for textiles had fallen sharply. Earlier this month, 1,000 workers from another textile company in Hebei Province marched to Beijing, in protest over job losses and privatisation.

Beijing has promised a social safety net, including affordable housing and healthcare. The underlying aim is to boost consumer spending, but the limited measures will not reverse the systematic privatisation of public housing, health care and education that has forced workers and farmers to save to meet these heavy costs.

Far from the Chinese economy turning the corner, the deepening global crisis will force the CCP regime to intensify the exploitation of workers, creating the conditions for social and political upheaval.

To contact the WSWS and the Socialist Equality Party visit:

wsws.org/contact

© World Socialist Web Site