

Chinese premier warns of economic instability and US protectionism

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In a press conference following the end of the annual National Peoples Congress, Premier Wen Jiabao last Sunday offered a rather candid assessment of the bleak situation facing the Chinese regime domestically and internationally—the threat of a renewed global slump, rising tensions with the US and the prospect of social unrest at home.

In contrast to the generally optimistic tone in the world's financial press over recent months, Wen warned: "The unemployment rate of the world's main economy is still high, some countries' debt crises are still deepening, and the world's commodity prices and exchange rates are not stable, which are likely to become the cause of any setback in the economic recovery."

The premier declared that the world faced major challenges and problems that were not being addressed, posing the risk of a "double dip" recession. "Without a recovering world economy, China's recovery cannot be sustained," he said. Last year's 8.7 percent growth was based largely on the government's huge stimulus measures. Wen noted that many Chinese enterprises had not witnessed improvements in performance and were operating with government support.

Wen's comments highlight the economic dilemmas confronting Beijing. The government boosted the economy with a \$US586 billion stimulus package and \$1.4 trillion of new bank loans in 2009, but this has led to rampant speculation in property and shares that threatens to provoke a major financial crisis. However, any attempt to rein in bank lending or cut stimulus spending will lead to a sharp slowdown. Wen said any move to end the stimulus package would be "very

cautious and flexible".

China remains highly dependent on exports. While the international financial press has urged Beijing to expand domestic consumption, steps in that direction would increase wages and undermine China's position as the world's premier cheap labour platform. According to a Reserve Bank of Australia study, consumer spending in China has fallen sharply from 52 percent of the national output in the early 1980s to just 35 percent by 2008.

Chinese exports have recovered in recent months, but that trend could go into reverse. The sovereign debt crisis impacting on Greece, Spain and Portugal is reverberating throughout Europe and resulting in austerity measures that will inevitably hit consumer spending. Taken as a whole, the European Union is the largest market for Chinese exports.

China is also confronting the threat of protectionist measures, particularly from the US, if it fails to revalue the yuan against the dollar. Sections of the US Democrats and the unions, looking for a means of diverting attention from mounting unemployment and poverty at home, are pressing the Obama administration to formally name China as a "currency manipulator," thus paving the way for economic retaliation. Last week US President Obama again called on China to adopt a "more market-oriented exchange rate".

At his press conference, Wen emphatically rejected US demands, declaring that the yuan was "not undervalued" and accusing the US of being "protectionist". "What I don't understand is

depreciating one's own currency, and attempting to pressure others to appreciate, for the purpose of increasing exports. In my view, that's trade protectionism," he said.

Washington insists that China's exports and trade surpluses are the main source of "global imbalances". But Wen pointed the finger at the US, saying, "The major cause of imbalances is the imbalance between consumption and savings in some developed countries and some financial institutions who have blindly pursued their own profit". Wen warned that protectionist measures would rebound on American and European corporations operating in China, noting that 60 percent of "Chinese" exports were produced by foreign firms or joint-ventures.

The Chinese regime is fearful that any downturn in exports—whether as a result of the revaluation of the yuan or protectionist measures against China—will slow the economy and lead to higher unemployment and social unrest. Beijing re-pegged the yuan against the dollar in 2008 amid the global financial meltdown in order to stem the collapse of Chinese exports. In late 2008 and early 2009, more than 20 million workers lost their jobs mainly in the export sector.

Wen bluntly raised the dangers of social unrest on a massive scale in response to any economic downturn. He warned, "If there is inflation, plus unfair income distribution and corruption, it will be strong enough to affect our social stability and even the consolidation of state power." A major preoccupation of the just completed National Peoples Congress was the social tensions being produced by widespread poverty and unemployment.

The Chinese Communist Party (CCP) leadership is still haunted by the spectre of the nationwide protests of workers and students that erupted in 1989 over rising prices, deepening social inequality and widespread official corruption. The regime crushed the protest movement through police-state repression, including the use of the military against demonstrators in Tiananman Square. Two decades later, the working class has grown enormously, as has the social gulf between rich and poor.

Since Wen's speech, US pressure on China has only intensified. On Monday, 130 members of the US Congress wrote to the Obama administration, demanding it name China as a currency manipulator in a report due next month. On the same day, *New York Times* economic columnist Paul Krugman called for what amounted to trade war with China through the imposition of across-the-board duties as high as 25 percent on all Chinese goods. (See: "US-China tensions threaten to ignite trade war").

Strained relations over trade and exchange rates are a symptom of more deep-seated tensions that are being exacerbated by the intensifying global economic crisis. Determined to assert US strategic and economic interests against what Washington regards as a rising rival, the Obama administration has taken a more aggressive stance toward China over a range of issues—including giving the green light for a major new arms sale to Taiwan and proceeding with Obama's meeting last month with the Dalai Lama. The White House is also pressing Beijing to agree to harsh new UN sanctions against Iran over its nuclear programs.

At his press conference, Wen declared that China was not responsible for deteriorating relations with the US. Pointing to the arms sale and the meeting with the Tibetan leader, the premier said: "These moves violated China's territory integrity. The responsibility does not lie with the Chinese side but with the United States." A good China-US relationship, he added, "makes both sides winners, while a confrontational one makes both sides losers".

The pessimistic character of Wen's remarks underscores the dangers of a worsening international economic crisis, intensified rivalry between the major powers and slide toward trade war and conflict.



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