Rising prices in China trigger panic buying

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Reports in the Chinese media this week that the price of four companies' soap, detergent, shampoo and body lotion products would increase by up to 15 percent next month led to a rush on these goods in supermarkets in Shanghai, Nanjing and other cities.

According to the official Xinhua news agency, the four companies increasing their prices—multinational firms Unilever PLC and Procter & Gamble, and the Chinese-based Liby Group Co. and Nice Group—control fourth-fifths of the Chinese market. The companies have blamed higher prices for oil and other raw materials.

The *Wall Street Journal* reported that the run on soap and shampoo in supermarkets represented the "latest signal of public alarm over rising inflation despite government attempts to bring it under control." An office worker, Wang Jingyan, told the newspaper that he reacted to the reports of price increases because "shampoo is already way too expensive, and I can't bear any further price increases." Web site editor Ramona Yan bought five bags of laundry detergent, explaining that she wanted to buy in bulk for the coming months. "Everything I buy must be on sale or else I just can't afford to buy," she said.

These comments were from better-paid, skilled urban workers. The impact of rising prices on migrant labourers and factory workers, as well as small farmers, is more severe.

The panic buying is another sign of the growing pressure of inflation on China's working class, and points to the possibility of social tensions erupting, as in Tunisia, Egypt and other Middle Eastern countries.

China's consumer price index (CPI) rose by 4.9 percent in February compared to the same month last year. Although it was unchanged from January's 4.9 percent, the February index was higher than the government's 4 percent target. Moreover, food prices, which account for much of the household expenditure of workers, increased 11 percent in the year to February.

China Security Journal, a leading financial newspaper, reported in its front-page commentary this week that there was "quite a big possibility that the March CPI broke through 5 percent," with the index possibly increasing toward 6 percent in June and July. At a press conference concluding the National Peoples Congress (NPC) earlier this month, Premier Wen Jiabao likened inflation to a tiger. "Once it is set free it is very difficult to put it back in its cage," he declared. Although Wen rejected any comparison between the Middle East and China, he acknowledged that "rising consumer and housing prices affect the immediate interests of the people, and that is why the government has given top priority to curbing inflation."

The Chinese Communist Party (CCP) is deeply fearful of any rebellion of the country's multi-million working class. In order to placate public anger, Wen made phony promises during the NPC to build more state-financed rental units for low-income families, and to root out endemic official corruption and place restrictions on glaring bureaucratic privileges such as buying luxury cars and travelling overseas.

A *Global Times* editorial on Wednesday warned that the Chinese people had no patience for "market-based" solutions to rising prices. "No matter whether right or wrong, Chinese society is now urging the government to solve all its economic and livelihood issues," it stated.

The reality, however, is that the CCP will not take any action that will undermine the profits of the Chinese and global corporate elite. According to *Forbes* magazine, the number of Chinese dollar billionaires doubled to 115 in 2010. Other commentators estimated that the actual number could be as high as 400 to 500.

The government is caught in a dilemma, balancing

between the pressure to create jobs by maintaining high economic growth rates, and taking measures against inflation that will likely slow economic activity and investment. Since last October, Beijing has raised interest rates three times, and banks' reserve requirements six times, in attempts to rein in inflation, especially rising housing prices. These measures have had little impact.

Moreover, an economic slowdown could burst the Chinese property bubble. According to the property company Soufun Holdings, home prices in Beijing rose 28 percent and in Shanghai 26 percent last December on an annualised basis.

Housing inflation has hit working people hard. The government, on the other hand, is highly dependent on revenue from land and other property taxes, and could be faced with a major debt crisis if the market crashed.

According to NPC Financial and Economic Committee Vice Chairman Yin Zhongqing, local governments incurred at least 10 trillion yuan or $US1.5 trillion of "hidden debt" after the global financial crisis in 2008, by setting up investment companies to borrow from the banks to boost property and infrastructure development. Yin warned the result could be huge bad debts.

"Seventy percent of the loans from these investment and financing platforms in 2009 and 2010 were generated at the county level, where governments don't have much assets, and some cannot even afford to pay their staff," Yin explained. "Debts accumulated from these platforms, even with government financial guarantees, simply cannot be paid back. In other words, when they borrowed the money, local governments did not plan to pay it back."

Yin said the enormous debts would have to be written off by Chinese banks and the central government. "China's rapid development has covered up many problems," he said. "But once economic growth slows down, these problems will emerge as stones rise when water levels fall."

The regime's measures against inflation are limited by powerful global forces beyond its control. The ongoing social unrest in the Middle East and North Africa and the US-led bombing in Libya have pushed up global commodity prices, exacerbated by the US monetary policy of "quantitative easing," which consists of electronically printing hundreds of billions of dollars. At the same time, the deepening European public debt crisis and weak US consumer demand mean that Chinese-based exporters struggle to afford workers' wage increases that could alleviate rising living costs.

The sight of Chinese consumers rushing for daily necessities recalls the inflation in 1988-89 that preceded nationwide protests of workers and students—a movement that ended in the Tiananmen Square massacre on June 3-4, 1989. Today, social and economic contradictions in China are far more explosive than they were two decades ago. There is a much wider gap between the rich and poor, and a far larger and more concentrated working class.

Beijing's real answer to social grievances was demonstrated by the NPC's approval for more money to be allocated this year for internal security ($95 billion) than the military ($91 billion). The government is clearly concerned to ensure the readiness of its police-state apparatus in the event of serious unrest in the working class.