China unable to rescue global economy

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12 August 2011

Amid new financial instability rocking the world's stock markets, the question has arisen as to whether China could contribute to world economic growth with another massive stimulus package as it did in 2008.

The Chinese regime reacted in panic to the "financial tsunami" that followed the collapse of Lehman Brothers in 2008, with a four trillion yuan ($US590 billion) stimulus package. Fearing social upheavals, Beijing then watched in horror as 20 million jobs were destroyed and 67,000 small and medium enterprises were shut, mainly in the export sector. It frantically expanded the stimulus package with a flood of bank lending to the tune of $2.7 trillion in 2009 and 2010.

With this huge credit injection, China maintained growth rates at 9-10 percent for the past two years and helped sustain commodity-based economies like Australia and Brazil, as well as Japan, South Korea and South East Asian countries that have become suppliers of components and capital goods to China. Germany's machine tool industry boomed as a result of rising orders from China. Even US exports to China rose rapidly.

In 2007, China accounted for 17.1 percent of global growth, surpassing the US as the world's largest contributor. At the height of the 2009 recession, however, China's share jumped to half of world growth, and in 2010, its contribution was still estimated to be one third.

In late 2008, Johns Hopkins University's economist Arvind Subramanian writing in the *Financial Times*, toyed with the idea of "a master plan for China to bail out America". That superficial optimism has all but gone. The general fear among analysts is not only that China will be affected by any slowdown in the major developed economies, but that China's previous stimulus measures have produced huge contradictions that could crash its economy.

The vast amounts of cheap credit have fuelled unsustainable real estate speculation along with a massive $2 trillion of debts incurred by China's local governments as they rushed to expand infrastructure and profit from rising real estate prices. Standard & Poor's has estimated that one third of this debt could turn bad. Overall, China's total public liabilities are estimated to be 70-80 percent of gross domestic product (GDP).

University of California economist Barry Eichengreen explained in a recent speech that was cited in the *Wall Street Journal* on Monday: "The situation is far less manageable than it was in 2008–9. Then it was possible for China to pull out all the stops and unleash a massive fiscal stimulus. To support investment spending, it could instruct the banks to lend like there was no tomorrow. Today Chinese policy makers have less room for manoeuvre."

In another comment titled, "China can't—and won't—save the world", in Britain's *Telegraph*, analyst Jonathan Fenby noted that Chinese leaders have decried "the failure of the Obama administration and European governments to put their houses in order." Yet, he continued, "the depressing truth is that China finds itself in a series of binds which limit its ability—or its willingness—to play the global role that should go with its economic weight. To some extent, it is due to the nature of the world around it."

He pointed to "two great fears" in Beijing. First, the goal of bringing down the high cost of basic necessities and industrial raw materials is being "undermined by the quantitative easing pursued by the Federal Reserve in the US, since the result is to boost the global money supply, some of which feeds into investment in commodities."

Second, the austerity measures in the US and Europe "brings the threat of declining demand for China's exports." Thus, China "is caught between a rock and a

hard place. It wants to ward off inflation, both for economic reasons and to maintain social stability. But it needs export markets to stay vibrant at a time when its import bill is at the mercy of commodity prices."

China's inflation is being driven by the US Fed, which is in essence printing money and driving down the value of the dollar. To prevent the value of the yuan from rising too rapidly, thus undermining exports, Beijing is compelled to buy tens of billions of dollars of US Treasury bonds each month and to issue similar amounts of yuan to buy the dollars. The expanding supply of yuan, along with the cheap credit policy, is fuelling price rises.

The consumer price index rose by 6.5 percent in July compared to the same period last year—the largest jump since the last high point of global commodity speculation in June 2008. Food prices, which account for a major share of spending by hundreds of millions of impoverished workers and poor peasants, rose by 14.8 percent. This is creating what Beijing fears above all—rising social tensions.

Since last October, the government has been focused on bringing down prices by raising interest rates and curbing bank lending—without impacting on economic growth. But the international financial turmoil over the past week and the prospect of a new global recession has suddenly called into question this credit tightening policy.

Following a top-level government meeting on Tuesday, Premier Wen Jiabao told CCTV: "We should properly handle the balance between managing inflationary pressures, maintaining economic growth and adjusting the economic structure." His comment simply restates the conundrum facing Chinese leaders—how to balance between combatting inflation and crashing the economy—rather than outlining any solution.

The fundamental problem for Chinese capitalism is the relative lack of domestic consumption to absorb its vastly expanding industrial capacities.

China has developed as a highly specialised cheap labour platform for the world's major corporations. It has a currency pegged to the dollar to keep exports competitive, a very limited social safety network that forces workers to put savings into the banks which in turn provide cheap credit for investors, and a police-state apparatus to suppress any resistance to sweatshop conditions. The result is that domestic consumption is just 35 percent of GDP—far lower than any other country in the world. China's expansion was therefore highly dependent on growth in its European and American markets.

The financial crisis that erupted in 2008 put an end to that mode of economic growth. But far from trying to expand domestic consumption, powerful corporate interests, especially those based in export industries and their allies in the state bureaucracy, are resisting any concessions to the working class. To do so would undermine China's economic competitiveness that is already being challenged by other cheap labour platforms such as Vietnam, Bangladesh, and India.

China's stimulus measures have provided a temporary economic boost but only exacerbated the country's dependence on investment. According to some estimates, the share of capital investment jumped from 42 percent of GDP in 2008, to nearly 50 percent last year. The problem, as American economist Nouriel Roubini recently warned in the *Economist*, "is that no country can be productive enough to reinvest 50 percent of GDP in new capital stock without eventually facing immense overcapacity and a staggering non-performing loan problem."

Far from providing another boost to world capitalism, another investment-driven stimulus package by China would only heighten the danger of an economic crash. As in US and Europe, the chief obstacle to a rational and progressive solution to the economic crisis is the capitalist system itself that exploits the vast productive capacity created by the working class for private profit rather than the burning social needs of billions of people in China and internationally.