New global downturn to hit China’s economy

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Last week’s International Monetary Fund (IMF) report, warning of the danger of a 1930s-style global economic crisis, placed a question mark over the ability of China, the world’s second largest economy, to maintain high rates of growth. The IMF cut its growth forecast for China in 2012 from 9 percent to 8.2 percent.

The revision came after China’s National Bureau of Statistics released its fourth quarter results for 2011, showing an annualised rate of 8.9 percent, compared to 9.5 percent in the second quarter and 9.1 percent in the third. On the back of this declining trend, JP Morgan cut its 2012 forecast to just 7.5 percent—below the 8 percent that the Beijing regime needs to prevent unemployment rising.

In particular, the savage austerity measures being imposed on the European working class are affecting China’s export industries. Last year, China recorded a trade surplus of $160 billion, but that represented a decline of $26 billion from 2010.

December’s year-on-year export growth figure of 13.4 percent was the lowest since November 2009. A HSBC economists’ research note published last month warned: “We continue to expect China’s exports to decelerate to a single digit pace in the coming months.”

The pressure on the export industries threatens to unleash the type of devastating factory closures that occurred in 2008-09, when the fallout from the global financial crisis saw more than 20 million Chinese migrant workers sent home without a job.

At that time, the Chinese government implemented a 4 trillion-yuan stimulus package. Beijing cannot now repeat that bailout because it is struggling with the impact of the last one. That package evolved into a speculative frenzy on the property market, after state banks handed trillions of dollars worth of easy credit to developers and industrial companies, many of which turned to real estate to offset shrinking profit margins.

Having spearheaded land sales and borrowing for infrastructure and property projects, local governments were saddled with debts of $1.69 trillion by late 2010.

Infrastructure construction is also running into trouble. The rail ministry and its enterprises have been forced to cut investment by 15 percent this year, after frenetic railway building produced debts of $351 billion by last September. The construction of 10,000 kilometres of railroad was suspended in October, with thousands of workers unpaid for months, and rail construction firms owing huge sums to steel and cement companies.

Property investment, which accounted for 13 percent of Chinese gross domestic product (GDP) last year, can no longer sustain the growth witnessed during the past three years. Last year, $977.6 billion was invested in Chinese real estate—$200 billion more than in the US at the height of its housing bubble in 2005.

Patrick Chovanec, an economist at Beijing’s Tsinghua University, warned that even if the level of property construction were maintained, the GDP growth would slow. He told Reuters: “If they build the same amount (in 2012) that they did last year, which is still a phenomenal rate of construction, then it would take GDP down to 6.6 percent.”

Just maintaining the same investment rate is now in doubt because Chinese home prices had fallen for three consecutive months by last December. A January

Reuters survey of economists showed that they expected property prices to fall 10-20 percent in 2012. The floor space of residential housing under construction fell 25 percent in December, while sales fell 8.4 percent from a year earlier.

A major downturn in the property market could destabilise China's financial system. The state banks have lent heavily to developers and local governments. In addition, after Beijing tightened credit in late 2010 to avoid further inflating the property bubble, developers turned to a shadowy lending market created by trust companies, partly funded by cash-rich individuals.

The assets of the investment trust industry increased exponentially from 350 billion yuan ($55 billion) in 2006 to 4.1 trillion yuan ($647 billion) by last September. Much of the credit has been channelled into property speculation and other dubious investment schemes.

Prominent US economist Paul Krugman has warned that China's credit-driven bubbles are similar to those in the US before the 2007-08 crash. He wrote in the *New York Times* last November: "There were huge differences in detail: shadow banking American style tended to involve prestigious Wall Street firms and complex financial instruments, while the Chinese version tends to run through underground banks and even pawnshops. Yet the consequences were similar: in China as in America a few years ago, the financial system may be much more vulnerable than data on conventional banking reveal."

With the construction boom faltering and export orders falling, the three pillars of Chinese heavy industry—auto, steel and shipbuilding—are experiencing a reversal.

China currently accounts for one quarter of the world's auto output, but domestic sales grew just 2.5 percent last year—compared to 46 percent in 2009 and 32 percent in 2010. Beijing has withdrawn tax incentives for buying small-engine cars, which were a feature of the 2008 stimulus package. Steel consumption is expected to reach 700 million tonnes this year, but that represents a mere 4 percent increase, much slower than in the past decade. Shipbuilding, in which China accounts for 44 percent of world output, saw its orders drop 47.3 percent in the first 11 months of 2011, compared to a year earlier.

Struggling with falling profits, employers are staging a concerted attack on workers' wages, conditions and jobs, provoking resistance over the past two months. Last month, about 1,000 workers at 60 percent American-owned Xuzhou Meritor Axle, one of China's largest construction machinery and specialised vehicles manufacturers, went on strike, over their low wages of 1,100-1,600 yuan ($US170-250) a month, which make it impossible to cope with rising prices.

Two days later, 1,000 workers at the state-owned Jining Wheel Factory in Shandong province protested against the plant's sale to a Hong Kong company. Workers had been duped into putting their savings into company shares in 2006-07, only to lose their investments.

The Beijing regime's deepest fear is that when the economy slows dramatically, all the explosive social tensions produced by the three decades of capitalist restoration will unleash a general eruption of the working class and rural poor. Any forecast that China's economic growth will drop below 8 percent, the level needed to prevent rising unemployment, raises alarms in Beijing.

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