Chinese economy slows to three-year low

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Conflicts are continuing within the Chinese Communist Party (CCP) regime over moves to stimulate the sharply slowing economy. The latest growth figure—7.6 percent, on an annualised basis, in the June quarter—is the lowest in three years, and down from 8.1 percent in the March quarter.

The data released last Friday show that key drivers of the economy are contracting dramatically. New property construction fell 7.1 percent during the first half of the year. The value of new residential property sales dropped 6.5 percent during the same period.

Industrial production expanded at an annual rate of 10.5 percent for the quarter, easing back from the 10.7 percent pace in the previous quarter. Export growth cooled to 9.2 percent in the first half, a sharp reversal from 24 percent in the corresponding period last year. This reflects the fact that Europe's austerity measures are cutting demand in China's largest external market.

Even before these figures were released, analysts were debating what to do because the economy was clearly heading below the estimated 8 percent growth that is required to prevent unemployment, and social unrest, from rising. Seven million college graduates seek jobs each year, not to mention the many millions of other workers.

For years, China has been able to achieve 10 percent growth due to a massive 25 percent annual growth in capital investment, which accounts for half the country's gross domestic product (GDP). The relatively small internal consumer market means that the worsening financial turmoil in Europe and the US is starting to create a crisis of overproduction in China.

With 60 percent of China's urban workforce made up of rural migrant labourers in low-skilled jobs, any major decline in exports and construction activities can quickly result in massive job losses. In the first stages of the 2008-09 financial crisis, more than 20 million workers were thrown out of employment.

Some economists have urged the CCP regime to repeat its 2008 stimulus package, which evolved into a credit expansion of several trillion dollars in bank loans to finance infrastructure and, increasingly, property speculation.

Former International Monetary Fund official Shen Jianguang, currently chief Asia economist for Japan's Mizuho Securities Asia in Hong Kong, warned that the government must act "decisively" to stem the slow down. "There is a rising urgency for more policy easing," he said. He predicted that Beijing would cut benchmark interest rates once more this year, and the banks' reserve-requirement ratio twice more, to encourage lending.

The Chinese regime has tentatively taken small steps in this direction. Last month it made the first two interest rate cuts since the 2008 global financial meltdown. The latest bank figures, released last week, showed that new loans in June reached 920 billion yuan ($144.3 billion), up from 793 billion yuan in May.

However, any move by the Beijing authorities to adopt a stimulus package on the scale of 2008 would worsen the existing overcapacities and add more bad debts to the state banking system.

Economist Andy Xie, writing in the *South China Morning Post* on July 11, criticised the cutting of interest rates as "doubling down a bad hand." He said the "policy of printing money [cheap bank credit] to fuel bubbles was wrong in the first place." Xie warned earlier this year that China had the biggest property bubble in the world, with the estimated values of empty and speculative homes in China exceeding 100 percent of its GDP.

Xie's article stated: "The bubble has engulfed all financial activities since, not just the banking system. Equipment and materials suppliers and construction contractors have become financing channels for local governments and property developers. Trust companies issued trillions more in loans that were used by property developers or local governments."

The article pointed to ongoing economic damage. "There is a massive underground loan-shark industry at the bottom of the risk curve that is now bursting everywhere. Private equity funds are the latest to become a huge bubble. As overcapacity and surging input prices keep returns on capital low in the real economy, they have joined asset speculations directly or indirectly to stay in business."

There was nothing in the real economy, Xie warned, to support such speculative real estate growth. Already, the land market was collapsing. In the first half of this year, land sales revenues dropped by 60 percent in Beijing and Shanghai, with smaller cities like Hangzhou and Wenzhou down by 72 percent and 84 percent respectively. He said that reviving the bubble would require increasing money supply at least 40 percent per annum, which would trigger a massive devaluation, itself bursting the bubble.

Xie's solution to the crisis was another wave of "free market" restructuring, in line with the demands of sections of international finance capital. Beijing "must cut taxes, slim down the government, retrench state-owned enterprises, strengthen the rule of law" and promote private firms.

The dominant sections of the CCP leadership, headed by President Hu Jintao, are already moving in this direction as outlined by a World Bank report in February. This course will inevitably undermine sections of business that rely on state protection, especially state-owned corporations. For the working class, it will intensify the pressure for higher productivity and lower wages.

The rising tensions within the ruling elite, and between the regime and the working class, found their expression earlier this year in the downfall of Chongqing party chief Bo Xilai, a representative of factions pushing for a greater "state-led" capitalist development.

Bo's removal has not ended this tendency. Last week saw the release of a book by former Premier Li Peng, who retired 10 years ago. *Li Peng on Macroeconomics* is a collection of his speeches and articles, mainly when he was in office during the 1980s and 90s.

Li, who presided over the Tiananmen Square massacre of 1989, is also known for his insistence on maintaining a large state sector. Zhang Lifan, who formerly worked for the Chinese Academy of Social Sciences, said Li's book represented a view among some CCP leaders: "The recent failures of some free-market economies in the West have revived a call by some conservatives to strengthen state intervention in the market."

Li's role in suppressing the working class in order to ensure China's expansion as a cheap labour platform for global capitalism highlights the fact that, despite their differences, all factions of the ruling elite stand united on intensifying the exploitation of the working class and dealing ruthlessly with any resistance by workers.