

Economic downturn in China worse than official data

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20 July 2012

The International Monetary Fund's latest World Economic Outlook on Monday downgraded China's growth this year by 0.2 percentage points to 8 percent because the escalating debt crisis and political instability in Europe could hit China's exports. Moreover, the IMF warned that Beijing's stimulus packages since 2008 had encouraged a property bubble, creating the risk of an economic crash. "There are tail risks of a hard landing in China, where investment spending could slow more sharply given overcapacity," it stated.

China's own economic statistics show that growth slowed to 7.6 percent in the June quarter—the lowest rate since the height of the global financial crisis in early 2009. But both estimates almost certainly understate the slowdown in the world's second largest economy.

The dubious character of the official figures is underscored by a 2007 US diplomatic cable leaked by WikiLeaks. Li Keqiang, provincial party secretary in Liaoning at the time, dismissed the official gross domestic product (GDP) data as "reference only" because they were "manmade". He preferred indexes such as power consumption and rail cargo to judge the real health of the Chinese economy. Li is now poised to become the next premier of China.

Other analysts are making the same point about the latest statistics.

Economist Andy Xie wrote in the *South China Morning Post* recently: "Many local governments cannot pay their bills. Numerous cranes stand still amid half-completed property projects. Half-shut factories

are visible everywhere. Steel and coal prices have dropped by one-fifth in six months. Local governments are squeezing businesses, even asking for tax repayments, to meet their revenue targets.

"But the official data still shows good growth in domestic product. Many businessmen have told me that their governments ask them to misreport data, including electricity consumption, to hide the depth of the slump. Few numbers are trustworthy."

Exports are slowing. While they still recorded 9.2 percent growth, to \$954.38 billion, in the first half of 2012, that figure is below the government's 2012 target of 10 percent. The biggest drag is Europe, China's largest trading partner. Exports to Europe grew by a mere 0.7 percent, while those to Japan dived 0.2 percent.

In the first half of this year, China generated 2.3 trillion kWh of electricity, up a mere 3.7 percent year-on-year, and the June output was flat. These figures represent a sharp decline from the previous double-digit growth rates, recorded when the economy was also expanding at an average of 10 percent a year.

Another clear economic indicator is the coal industry, which provides 70 percent of China's electricity. Coal enterprises are bracing for a "cold winter" after a "golden decade", according to an article in the state-owned Xinhua news agency this Tuesday.

Xinhua explained that since May 9, around the coastal Bohai Rim near Beijing and Tianjin, the average fuel coal price had fallen for 10 consecutive weeks to just 652 yuan a tonne, a drop of 135 yuan.

The demand for coal from the power industry was falling, with stockpiles rising from 18 days' worth in February to 28 days' worth by June 10.

In the main coal producing province, Shanxi's development and reform commission research director, Wang Hongying, said that the country's weakening real estate sector, falling investment in infrastructure and rising idleness in industry had led to sharp falls in demand for fuel and coking coal.

This week the railway ministry acknowledged, in its half-yearly national rail construction report, that, due to a lack of capital, only one third of the planned infrastructure investment set out at the beginning of this year had been accomplished. More than 10,000 kilometres of railroad construction had stopped. The railway ministry, which was central to the government's 2008 stimulus package, now has a debt of 2.4 trillion yuan (\$US376 billion), equal to more than 60 percent of its assets.

The commerce ministry reported on Tuesday that China attracted foreign direct investment of \$59.1 billion in the first half of the year—a drop of 3 percent from the corresponding period last year, with June's inflow down 6.9 percent. The greatest fall came in the property sector, which was down 12.4 percent. Spokesman Shen Danyang insisted that this was the result of Beijing's "macro policies", intended to curb rising prices. In fact, the sharp drop reflects the unsustainable character of the debt-fuelled real estate market.

Recent remarks by Premier Wen Jiabao point to the real extent of the crisis. Last Sunday, he insisted that "the economic growth rate is still within the government target range set early this year, and stabilisation policies are working." He admitted, however, that China's "economic rebound is not yet stable and economic hardship may continue for a period of time."

On Tuesday, Wen referred to the regime's deep concern that rising unemployment could fuel social unrest. He reportedly declared at a cabinet meeting: "The country's employment situation will grow more

complex and severe." He urged all levels of government to put employment at the centre of their economic plans. Wen said that China had managed to keep its labour market "basically stable" until now, but warned that this stability could end.

Between 2003 and 2011, an officially-estimated 98 million jobs were created, made possible by rapid economic growth of 9 to 10 percent per year. The premier is well aware that many of these jobs could disappear quickly. Following the 2008 global financial crisis, more than 20 million jobs in China were wiped out within months, especially in export industries.

Already, there are warning signs that similar sweeping plant closures could occur. Stanley Lau, deputy chairman of the Federation of Hong Kong Industries, told *China Daily* this week that over 2,000 Hong Kong-owned factories in Guangdong province's Pearl River Delta, mainly making toys, shoes, garments and watches, would shut this year.



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