China’s economic growth slows to lowest level in three years

John Chan
19 October 2012

According to official figures released yesterday, the Chinese economy expanded just 7.4 percent, year-on-year, in the third quarter of 2012, slowing from 7.6 percent in the second quarter and 8.1 percent in the first.

These results are well below the country’s average of nearly10 percent annual growth for the past three decades. It underscores the fact that China is not immune from the breakdown gripping the world economy.

Electricity consumption statistics suggest that the actual growth rate may be considerably lower than the official figures indicate. In its most recent monthly report, the Chinese National Energy Administration stated that in September, electricity use grew at an annual rate of just 2.9 percent, the lowest rise in two years. The average growth rate last year was 11.7 percent. This sharp fall is a barometer of slowing industrial production, which accounts for 70 percent of power consumption.

Despite growth falling below its official target of 7.5 percent for 2012, the Chinese Communist Party (CCP) regime presented an upbeat picture of the economic situation. Premier Wen Jiabao reportedly declared at a meeting on Wednesday: “The economy in the third quarter was quite good. We can now say with confidence that the growth of the Chinese economy is basically stabilising.”

With the current leadership of President Hu Jintao due to hand power to a new group headed by Vice President Xi Jinping at a CCP congress beginning on November 8, senior government figures are desperately seeking to maintain a positive outlook. The leadership transition is already fraught, with sharp factional conflicts and corruption scandals.

The real fear within the ruling elite in China and internationally is that slowing growth will lead to rising unemployment, further fuelling discontent and triggering explosive struggles within China’s highly concentrated, multi-million working class.

The *Financial Times* conceded that “most analysts and government officials mistakenly predicted that China’s economy would start to accelerate in the second or third quarter of this year.” Capital Economics chief economist Mark Williams told the newspaper: “This is far worse than most had anticipated at the start of 2012.” The only relief, he said, was that “it is not a hard landing in terms that matter to China’s policy makers. Slower growth does not appear to be generating significant job losses.”

It is too early to conclude that widespread job losses have been avoided. With declining living standards experienced by millions of workers in the US and Europe, due to austerity measures and high unemployment, fewer Chinese-made consumer goods are being purchased. At the same time, in order to undercut their rivals in shrinking markets, transnational corporations are restructuring their global supply chains to secure even lower wages than are on offer in China.

During the 2008-09 global financial crisis, many of the Western clients of Chinese factories were caught in the credit crunch and were unable to pay their bills. Chinese enterprises, deprived of their cash flows, went under and 23 million jobs were destroyed.

Last month's statistics from the State Administration of Foreign Exchange show signs of another credit freeze. The ratio of export income returning to China, relative to the value of exports, fell to 85 percent in the second quarter. This is sharply down from nearly 100 percent in the first quarter, and is close to the level after the 2008 financial meltdown. It indicates that Chinese suppliers and exporters have been extending credit to their customers, especially in Europe, thereby further exposing China to the European sovereign debt crisis and threat of further financial turmoil there.

The British *Guardian* last month provided a graphic example of the fragility of China's export industries. Datang, the "Sock City" in eastern Zhejiang province, produces about one third of the world's socks. It is a manufacturing cluster specialising in a single commodity, like the neighbouring "Sweater Town" and "Tie Town". In May, the Anli Sock Group, one of the largest enterprises in Datang, making 60 million pairs of socks a year, collapsed.

State Information Centre economist Fan Jianping dubbed the collapse as the "Lehman Brothers of Datang". Some 73 "Sock City" firms have gone under this year, especially since May, when exports started falling. Many sock manufacturers had also been speculating in risky real estate ventures, which have since imploded.

Since late 2008, Beijing's massive stimulus packages, accompanied by a flood of cheap bank credit, have been largely channelled into property speculation as industrial capitalists—operating on tiny profit margins even before the financial crisis—sought higher returns. This government-led investment boom in infrastructure and real estate was always unsustainable. Local governments and associated state-owned enterprises across China amassed huge debts, with their scheduled repayments based on the assumption that property values would continue to rise.

The reversal of the property and construction sectors since the beginning of the year has been expressed most recently in the steel industry. State-owned Baosteel—the country's largest steelmaker—closed a blast furnace a few weeks ago in Shanghai. China is set to produce 710 to 720 million tonnes of steel this year, but steel consumption is expected to fall to 705 million tonnes by 2015. The steel-making overcapacity has led to falling commodity prices globally, especially for iron ore, seriously affecting economies like Australia and Brazil.

Another indication of China's economic instability is a growing flight of funds out of the country. In the twelve months to September, according to data reported by the *Wall Street Journal* on Monday, some $225 billion flowed out of the country, equivalent to about 3 percent of China's gross domestic product. This is more than double the $100 billion that was withdrawn between March 2008 and March 2009, during the global financial crisis.

The latest capital flight points to a mood of panic within the Chinese business elite, with wealthy layers rushing to take money offshore, despite official restrictions on such transfers.