

A significant report on the global economy

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A report by a major US forecasting group has poured cold water on the idea that China, or any of the so-called emerging markets, can provide a new base of expansion for the global capitalist economy, either in the short- or long-term.

The Conference Board, described by Wikipedia as an unbiased and “trusted source for statistics and trends, second only perhaps to the US Bureau of Labor Statistics,” issued a series of economic forecasts earlier this month, stretching to the year 2025.

The report began by noting that the global economy had yet to “shake off the fallout from the crisis of 2008-2009” and that global growth had fallen to just 3 percent in 2012, about half a percentage point lower than the long-term trend before the crisis began.

“This slowing trend will likely continue. Mature economies are still healing the scars of the 2008-2009 crisis. But unlike in 2010 and 2011, emerging markets did not pick up the slack in 2012, and won’t do so in 2013,” it continued.

Even more significant were the predictions for the longer term. The Conference Board forecast that “overall growth in developing and emerging economies is projected to drop from 5.5 percent in 2012 to 4.7 percent in 2013, with growth falling in China from 7.8 to 6.9 percent and in India from 5.5 to 4.7 percent.” The slowdown will continue into the foreseeable future.

From 2019 to 2025, “emerging and developing economies” are projected to grow at 3.3 percent. In other words, the projected growth for regions of the world that had been held out as providing a base for economic expansion will fall below the previous trend rate for the global economy as a whole.

The decline in growth is most marked in China and India, which some analysts have claimed would provide a long-term boost to the global economy. Annual growth in China, the forecast predicted, would fall to an average of 5.5 percent in the years 2013-2018, declining even further to just 3.7 percent in 2019-2025.

“The corresponding numbers in India are 4.7 percent and 3.9 percent; in Brazil 3.0 percent and 2.7 percent. By the middle of the next decade, emerging markets will still substantially outpace advanced economies, but by a much smaller margin compared to the boom years of 2006-2012—when China, India and Brazil averaged 10.4, 7.8 and 3.8 percent growth, respectively.”

The contribution of the so-called BRICs economies could even be much lower. The Conference Board warned that, in what it calls its “pessimistic scenario”, growth in China will be only 3.4 percent in 2013-2018 and just 2.5 percent in 2019-2025.

According to Conference Board chief economist, Bart van Ark: “The long-term global slowdown we project to 2025 will be driven largely by structural transformations in the emerging economies. As China, India, Brazil, and others mature from rapid, investment-intensive ‘catch-up’ growth to a more balanced model, the structural ‘speed limits’ of their economies are likely to decline, bringing down global growth, despite the recovery we expected in advanced economies after 2013.”

The idea that China, India and other “emerging economies” could provide a new platform for global growth was always an illusion. It was based on the assumption that the rapid growth of the first decade of this century would continue indefinitely.

This scenario completely ignored the fact that, far from “decoupling” from the advanced capitalist economies, the new growth centres were dependent upon them. Chinese growth, for example, was the result of its development as the cheap labour platform for major transnational corporations, whose main markets were in Europe and the United States.

Those markets underwent a significant contraction with the eruption of the financial crisis, which continues today. In the face of the loss of 23 million jobs in 2008-2009, Chinese government and financial authorities responded with what is reputed to be the largest stimulus package in world economic history, based on increased government spending and the expansion of bank credit in order to try to prevent mass unemployment and social unrest.

However these measures were predicated on the assumption that pre-2008 conditions were going to return. That has not taken place as US and European markets continue to stagnate or contract.

The growth dynamic of the Chinese economy over the past four years was based on a massive increase in investment to the extent that it now comprises some 50 percent of GDP. This process has become completely unsustainable. It has been estimated that half of all China’s physical assets have been built in the past six years.

But the inability of China to provide a new basis for global growth goes beyond its dependence on contracting export markets in the US and Europe.

The economic expansion of the US, which began in the early decades of the 20th century and provided the foundation of the post-war economic boom, was based on a profound and far-reaching development of the productive forces.

The assembly-line system of production, which spread to other major capitalist economies after World War 2, lifted the productivity of labour, thereby providing the foundation for capitalist expansion.

Unlike the US, however, Chinese economic expansion has not been associated with a similar development of the productive forces. Its growth has been rooted in an adaptation of assembly line methods, not in the development of the new system of production. While it has provided a boost to profits, this has been obtained not through an increase in the productivity of labour, as was previously accomplished by American capitalism, but through the employment of ultra cheap labour.

The limited increase in economic growth which this provided has now reached its limit as the Conference Board report makes clear. It signifies that what lies ahead is not the chimera of a capitalist expansion but rather a new period of the most intense class struggle as global corporations and finance capital seek to maintain profits through a ferocious onslaught on the position of the working class the world over.



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