Mounting economic instabilities loom over Chinese congress

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Outgoing Premier Wen Jiabao warned this week, in his final report to the National Peoples Congress (NPC), that China faces a series of unresolved crises, ranging from a lack of access to basic healthcare and education, to a yawning gap between rich and poor, and an “unbalanced, uncoordinated and unsustainable” economy.

A new leadership will be formally installed at the NPC, which opened on March 5. Chinese Communist Party general secretary Xi Jinping, anointed by last November’s 18th party congress, will take over the presidency from Hu Jintao, while Vice Premier Li Keqiang will succeed Wen.

Efforts were made to disguise the gross social inequality that dominates the Chinese regime. In recent years, scenes of wealthy NPC delegates bearing mink coats, luxury European handbags and watches, or reports of their combined fortunes, totalling tens of billions of dollars, have fuelled popular anger in China. The NPC has become known as a “billionaires’ congress.” Xi’s new leadership recently warned of the fate suffered by the French aristocracy during the French Revolution. That is why luxury brands were reportedly absent among the NPC delegates arriving at Beijing’s Great Hall of People this year. (See: “China's red aristocracy”)

Nevertheless, the NPC delegates include 83 billionaires, measured in US dollars. Another 53 billionaires are delegates to the advisory body meeting alongside the NPC, the Chinese Peoples Political Consultative Conference.

Wen’s report reflected the needs and concerns of this tiny super-rich elite, including his own family, which has reportedly amassed $2.7 billion. These elements are deeply hostile to, and fearful of, the 400 million Chinese workers they exploit. “We are keenly aware that we still face many difficulties and problems,” Wen said, referring to the widening gulf between rich and poor, official corruption and environmental degradation. As a result, “social strains are clearly increasing.”

The danger of social unrest has increased as the global economic slump has overwhelmed the impact of Beijing’s stimulus measures since the global crash of 2008. Wen predicted economic growth this year of just 7.5 percent—down from last year’s actual growth of 7.8 percent, the slowest pace since 1999. Even this would be achieved only though “hard efforts”, he said. Such a growth rate, he claimed, would create nine million jobs in order to keep urban unemployment under control, mainly through shifting the government’s economic model from an export-led one, to one based on domestic consumption.

Wen stressed repeatedly the need to provide social protection to the poor, as a key mechanism to boost consumption. He said the government would spend 655 billion yuan on social welfare. “To expand individual consumption, we should enhance people’s ability to consume, keep their consumption expectations stable, boost their desire to consume, improve their consumption environment and make economic growth more consumption-driven,” he said.

In reality, the CCP bureaucracy cannot simply adopt a new economic model. China is a highly specialised cheap labour platform, geared to export production on behalf of transnational corporations. Higher wages could undermine the competitiveness of China’s export industries.

In fact, Wen’s government presided over the largest decline in consumption, as a share of the economy, in Chinese history. With millions of workers on poverty-line wages in order to boost export-led production, private consumption as a share of gross domestic product (GDP) fell to 33 percent in 2010, down from 46 percent in 2000. Physical capital investment surged to an unsustainable 40-50 percent of the GDP, compared to 20 percent in most developed countries.

Workers and poorer rural farmers, cannot become a new consuming force, not only because of their low incomes, but due to the lack of any social protection network to secure them from joblessness or illness. That forces them to save for their own retirement or inability to work.

The state-owned enterprises that once provided a minimal safety net to urban workers have largely disappeared since the massive privatisation program of the 1990s. Xi's leadership is under instructions from the 18th party congress and international capital to open up the remaining state sectors to private ownership.

As for the 200 million internal migrant workers, who are part of the urban workforce but deprived of residency rights, education and other public services, their jobs and livelihoods depend on expanding the labour-intensive export industries. Yet, China's main markets in Europe and America are mired in slump.

Wen set a growth target for foreign trade of just 8 percent, down from the 10 percent goal in 2012. Even that is optimistic—actual growth was only 6.2 percent last year, down from 22.5 percent in 2011. With rising competition from other low-wage platforms like India, and the drastic lowering of pay rates in Europe and America, Chinese exports can expand only by enforcing higher productivity and lower wages.

Because of a crisis of overcapacity, manufacturing capital has engaged heavily on real estate speculation, rather than production. As a result, economists are warning of a "nightmare scenario" for the Chinese economy. In a revealing sign of fragility, the Shanghai share market tumbled on the opening day of the NPC, with the property index down almost 10 percent during the day.

The sharp fall followed a government announcement of measures to curb real estate speculation. Following the stimulus package in 2008, housing prices soared 20 percent in 2009. Despite measures by the government in late 2011 to bring prices down, the deepening European debt turmoil last year forced the Chinese central bank to inject more credit into the economy, further pushing up home prices, which are already beyond the reach of most people.

Mark Williams of London's Capital Economics recently noted in *China Daily* that 11 million housing units were built in 2012, yet it was "the sector's most difficult year on record". That was because a small wealthy layer bought most units as investments, rather than residences. If the building rate continued, "that would leave a colossal glut of housing that could only be sold if prices collapsed," he commented.

Tom Holland of the Hong Kong-based *South China Morning Post* warned that China faced a crisis of "stagflation": "If they keep the credit taps open, the asset bubbles and the inflation rate will only get worse. If they close off the supply of credit and tighten monetary policy, growth will slow even further, asset prices will collapse, and they run the risk that many of the new loans will turn bad, triggering a banking crisis that could weigh on growth rates for years to come."

With these economic and social contradictions looming, the regime is assembling a massive repressive apparatus to suppress unrest. For the third consecutive year, the domestic security budget of $124 billion (up 8.7 percent) outstripped military spending of $114 billion (up 10.7 percent) and also Wen's proposed social welfare spending of $105 billion. These economic priorities demonstrate that Beijing's greatest fear is not US military encirclement or the revival of Japanese militarism, but an uprising by the working class at home.