China records lowest growth in 24 years

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China's economy expanded by 7.4 percent in 2014, the lowest figure since 1990, according to annual figures released by the National Bureau of Statistics yesterday.

The announcement further punctures the illusion that China will provide a driver for world economic growth in 2015 and beyond. The country is being drawn into the deepening crisis produced by the global breakdown of capitalism that erupted in 2008. Its economy is racked by mounting debt, particularly in the real estate sector, and productive overcapacity, resulting from the stimulus measures adopted by the Chinese regime since the 2008 crash.

Tuesday's figures fell below the Chinese Communist Party (CCP) target of 7.5 percent, the first time that growth has failed to meet official predictions since 1998. The result was also well below the 8 percent benchmark that the government nominated in 2010 as being necessary to prevent rising unemployment and social unrest.

World markets rose marginally yesterday because the Chinese data slightly exceeded expectations among analysts and traders. Industrial production rose by 7.9 percent, compared to a median estimate of 7.4, and retail sales increased 11.9 percent, 0.2 points higher than expected.

The CCP leadership is expected to set a lower growth target of around 7 percent when it meets in March. The International Monetary Fund revised its estimate down further, to 6.8 percent, in its latest World Economic Outlook report, released yesterday.

With growth rates falling, speculative activity is becoming a major factor in the Chinese economy. This was underscored by wild stock market gyrations this week. The Shanghai Composite Index finished 7.7 percent down on Monday. It was the biggest one-day decline since June 2008, wiping out all January's gains. Stocks in the main brokerage houses, Citic and Haitong, dropped by 10 percent, the maximum for a single day.

The falls were triggered by a China Security Regulatory Commission move to clamp down on margin lending, which involves borrowing money at low interest rates in order to invest in shares. Margin lending results in huge rates of return, so long as markets continue to rise. But it can lead to a vicious downward spiral and liquidity crisis—in which everyone rushes to sell—if markets fall.

Last Friday, the regulator also issued draft rules aimed at curbing intercompany loans. These involve loans between non-financial companies, in which one firm is the lender and records the loan as an asset on its own balance sheet, but a bank acts as an intermediary and collects a fee. Such arrangements have become an alternative to brokerages for obtaining margin loans.

The government changed the regulations because of concerns over feverish speculation in the share market. Since November, the Shanghai Composite Index has risen by 36 percent. That frenzy began when the government cut interest rates in November, for the first time in two years, in an attempt to re-stimulate the economy.

Rather than boosting investment in production, however, the low interest rates largely fuelled financial operations. An article in Monday's *Financial Times* noted: "Many analysts believe Shanghai's bull run is a government-induced phenomenon, designed to give Chinese savers an alternative to the wobbly housing market or risky shadow banking products."

There are mounting signs that the speculative real estate bubble may be on the verge of collapse. Housing prices fell by 4.3 percent year-on-year in December, according to government data released on Sunday. It is the largest drop since the current data series began in 2011, according to calculations made by the *Financial*

Times. Property and related sectors currently constitute nearly a quarter of the Chinese economy.

According to the *Australian Financial Review*, other official figures show that the number of unsold houses in China increased by 25.4 percent in 2014, while land sales dropped by more than 10 percent. Overall property investment increased by just 10.5 percent, the slowest pace since early 2009, and down by almost half from 19.8 percent in 2013.

The *Financial Times* warned on January 18 that "much of China's property construction has been funded by credit and there are growing concerns the slowdown could trigger localised debt crises. Cash-strapped local governments are heavily reliant on land sales to fund basic services and most have taken on huge debt loads using land and real estate projects as collateral."

The real estate bubble is a direct consequence of the post-2008 stimulus measures. Export growth has slowed and been replaced by internal investment as the driving force of Chinese economic growth, with cheap money funding massive construction projects. Uninhabited "ghost cities," lined with empty apartment blocks, have spread across China.

The government's own planning agency reported last November that "ineffective investment" of $6.8 trillion accounted for nearly half the total invested in China between 2009 and 2013.

Further official figures released on Tuesday show that construction fell by double digits in 2014. There is now severe overcapacity in industries, like steel, cement, furniture and glass that serve the real estate sector. China's producer price index, which measures the price of goods as they leave the factory gate, fell to its lowest level in two years last December.

Steel output had tripled between 2006 and 2013, with local manufacturers increasing their share of global production from one third in 2006 to about 50 percent in 2012. By last June, however, Chinese holdings of excess steel reached 106 million tonnes, and are estimated to have remained at that level. Domestic steel consumption is thought to have contracted last year, for the first time in 20 years.

A December 28 *Financial Times* article referred to "zombie" factories that are flooded in debt and being propped up by the government. During December, according to Chinese media reports, nine large steel mills suspended production but were forbidden to declare bankruptcy. A now-bankrupt factory owned by Highsee previously employed 10,000 people.

The Beijing regime is seeking to "rebalance" the economy away from investment-driven production and toward consumption, which currently represents only 36 percent of gross domestic product. This involves a fundamental contradiction, however. Increased consumption requires higher wages, but this would undermine China's ability to compete with other cheap-labour platforms, such as Thailand and Vietnam.

Above all, the Beijing authorities are terrified that the deepening economic slowdown is creating the conditions for an explosion of China's social powder keg and the eruption of mass working-class struggles.