

The global significance of China's economic slowdown

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The significance of China's latest gross domestic product figures, which saw the country's economy expand at the slowest pace since the global financial crisis of 2008–2009, lies not so much in the numbers themselves but in what they indicate for the global economy as a whole. They mark the end of a period when debt-fuelled Chinese growth provided growing markets for so-called emerging economies and commodity-exporting countries, helping to maintain growth in the world economy as a whole.

Already this sea change has brought about a deepening recession in Brazil, contraction in Canada—a significant factor in the loss of power by the Harper government—the end of the mining boom in Australia and a growing crisis for emerging markets dependent on China's growth. But these are only the first indications of what is to come.

The notion that China could provide a permanent new platform for global expansion was always a fiction. But it was sustained for a period by the credit-based stimulus, which developed as the response of the Chinese regime to the financial crisis. Even more significant than the \$500 billion stimulus package, was the decision to open the financial spigots. It is estimated that Chinese credit expanded by an amount equivalent to the entire US financial system.

In one sense the Chinese government followed the path taken by other governments and financial authorities with their policies of near-zero interest rates and quantitative easing, which saw trillions of dollars pumped into the financial system. But the Chinese version differed in one significant respect from that of the major capitalist centres.

Rather than fuel speculation in the financial sector, credit was used for speculation of another sort—the construction of whole new cities and infrastructure and the consequent expansion of the major industries that supplied them. The scale of that expansion is summed up in one staggering statistic.

It has been estimated that in the three years between 2011 and 2013—the height of the credit-based boom—the Chinese economy used more cement than the US did in the entire 20th century. According to an article in the *Washington Post*, America's cement consumption in that period was 4.4 gigatons while for the three years in question China's was 6.4 gigatons.

That period of credit-fuelled growth has now come to an end.

The implications, both for the global economy and the Chinese and international working class, can only be grasped by placing Chinese economic developments within their global and historical context.

The restoration of capitalism in China began in 1978 with the ever-more open adoption of market mechanisms. But within the space of just a decade this had given rise to acute social tensions, which exploded in the Tiananmen protest movement in May-June 1989.

For the regime the movement of the students was not the primary concern. What it feared above all else was the growing upsurge of the working class, with its own independent demands, which was emerging behind it and which could rapidly come into the open were it not crushed. This was the origin of the bloody crackdown, which extended far beyond the centre of Beijing and was aimed at suppressing all independent working class organisations. But the suppression of the Tiananmen movement did not mean that the contradictions which produced it had gone away, and for three years following the crackdown an internal conflict took place in the upper echelons of the regime over what economic and political course should be pursued to retain power.

The dissolution of the Soviet Union at the end of 1991 sealed the issue, with the so-called “paramount leader” Deng Xiaoping insisting that unless a turn were made toward ever closer integration with global capitalism, the Beijing regime would go the same way as that of Moscow.

Deng's new orientation, spelled out in his so-called “southern tour” in early 1992, was based on the conception that rather than confining foreign investment to special zones the whole country should increasingly be open to investment by global corporations.

Coinciding with the drive by major corporations in the West to outsource production to cheap-labour regions in order to overcome downward pressure on profit rates, the Chinese economy experienced an export-led expansion. It was accelerated by the Asian financial crisis of 1997–98, after which China increasingly became the manufacturing hub for Asia.

The economies of South-East Asia turned to the production of component parts for final manufacture in China, while Taiwan

and Japan provided important investment capital. The export expansion went ahead further following China's accession to the World Trade Organisation in 2001.

It was not only economic considerations, however, which determined the actions of the Beijing regime. Politics played a no less significant role. Having long ago lost its previous claims to legitimacy, derived from the assertion that it was leading the country to socialism, and abandoning the promotion of social equality, the CCP regime maintained that its rule was providing economic expansion. It sought to maintain power with an ever-more explicit appeal to nationalism—that it was presiding over China's rise and restoring it to its rightful place in the global order.

As the illusions of the Beijing regime flowered, so did those of its international counterparts. By the middle of the first decade of the 21st century, a new economic paradigm seemed to have taken hold. The policies of cheap money in the US helped fuel a consumption boom in the US as well as Europe, which became the chief markets for goods produced in China by major global transnational corporations. The export surpluses generated by this process were invested by the Chinese government in US Treasuries, thereby helping to keep down interest rates.

A virtuous circle had seemingly been set in place. The US ran large trade deficits as a result of its imports from China while those deficits were financed out of China's trade surpluses.

For all the short-sighted bourgeois economists, who never see anything beyond their noses, much less cognise the contradictions of the capitalist profit system, this signified the dawn of a new era of capitalist expansion. There was even talk of a new Bretton Woods—a reference to the international monetary arrangements established in 1944, which formed a crucial foundation of the post-war capitalist boom. In 2006, the International Monetary Fund joyfully reported that world economic growth for that year was the highest it had been since the last years of the post-war boom in the early 1970s.

The joy was short-lived. By 2007, the internal rot at the heart of the cheap money policies in the major capitalist countries was becoming increasingly apparent. It exploded to the surface in September 2008 with the collapse of the investment bank Lehman Brothers and the near meltdown of the entire global financial system.

The financial crisis brought export-led growth in China to a shuddering halt as 23 million workers lost their jobs in the final months of 2008 and early 2009.

Fearful of what this portended for political stability, the regime launched its stimulus program and credit expansion. However, this essentially national-based program proved to be no way out. It was predicated on the assumption that, after a downturn in the major capitalist economies, a recovery would take place and again fuel Chinese expansion. This has not taken place. Rather, the global economy became ever-more deeply mired in recessionary tendencies. This led to mounting

problems in China which made it clear that continuation of the stimulus regime would create a financial crisis.

A new orientation was initiated by the incoming president Xi Jinping at the end of 2013. It was aimed at shifting the economy away from its previous reliance on investment and construction through the expansion of domestic consumption and the rise of service industries, especially those based on finance. Once again, political considerations played a role. The regime hoped that by these means it would be able to create a social and political base for itself among sections of the better-off middle classes. However, the stock market crisis of July and August dealt a major blow to this perspective.

The new economic orientation will no more provide a way forward for the Chinese economy, much less avoid the contradictions of the global capitalist system, than have previous policies. In fact, far from stimulating the world economy, China itself faces the prospect of being dragged down with it.

As Xi acknowledged in a written interview with Reuters on the eve of his state visit to Britain: “As an economy closely linked to international markets, China cannot stay immune to the lacklustre performance of the global economy. We do have concerns about the Chinese economy and we are working hard to address them. We also worry about the sluggish world economy, which affects all countries, especially developing ones.”

Far from experiencing any upturn, the global economy is confronted with what has been called a “third wave” of the global financial crisis. This crisis is taking the form of mounting recessionary and deflationary pressures emerging from China and its impact on emerging markets following the first two “waves”—the crisis in the US financial system and the recession and financial crisis which hit the eurozone in 2012.

This means that the working class in the advanced capitalist economies, as well as in China and so-called emerging economies will be thrust into major class and social conflicts, which can only be carried forward on the basis of an international socialist program.



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