China’s deep economic malaise

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The upheavals in global share markets since the beginning of the year have focussed attention on China amid fears that the slump in its stock markets and the falling renminbi (yuan) are symptoms of a far deeper economic malaise. The slowdown of the Chinese economy, which is exposing massive overcapacity in industry and the property market, and high levels of debt, is threatening to trigger an upsurge in the class struggle.

The official growth rate for 2015 has been put at 6.9 percent, with the target for the coming year of 6.5 percent—down from 10.6 percent in 2010 and the lowest level in a quarter century. However, numbers of analysts have cast doubt over the government figures. As reported last week in the *Financial Times* for instance, a poll by Consensus Economics of members of its China panel forecast growth of just 4.8 percent in 2016.

So questionable are the statistics that economic pundits turn to other indices, such as the so-called Keqiang index, reportedly created by Premier Li Keqiang, to provide a more accurate gauge of the state of the economy. The three elements of the Keqiang index—rail freight, electricity production and bank lending—are all in decline. The business magazine *Caixin* reported last week that rail cargo slumped in 2015 by 10.5 percent—the largest annual decline on record.

The downturn in China is the product of global recessionary trends. The restoration of capitalism and transformation of the country into the world’s premier cheap labour platform over the past three decades led to a colossal economic expansion. The Beijing regime responded to the 2008 global financial crisis, which hit exports and destroyed 20 million jobs, with a huge stimulus package and a flood of cheap credit that ensured continued high levels of growth. Investment did not take place in productive capacity, however, but in large infrastructure projects and above all, fuelled a speculative frenzy in property, then in the share markets.

This strategy, which was premised on a quick recovery from the global crisis and a return to high levels of global growth, has unravelled. Exports have continued to decline, revealing enormous overcapacities, particularly in basic industries. The property market is glutted and prices are stagnant. The Chinese share markets, which reached dizzy heights in the first half of 2015, have collapsed and are now another source of instability.

The Chinese government is seeking to “transition” the economy from one based on manufactured exports to a service economy built on domestic consumption. But the new “model” is fraught with contradictions, not least of which is the fact that boosting domestic consumption requires higher incomes for working people, thus further undermining China’s competitiveness as a low-wage export hub. Moreover, the regime is confronting mounting international pressure to accelerate pro-market reforms, including the closure or restructuring of large numbers of state-owned enterprises (SOEs)—a step that will lead to rising unemployment and falling domestic consumption.

For all the hype about China’s transition, the country’s function in the world economy remains that of a cheap labour platform. All the statistics for manufacturing are bleak. According to a business sentiment index released by *Caixin* last month, factory employment in China has fallen for 25 months. The official manufacturing purchasing managers’ index (PMI) for December was up slightly at 49.7 compared to November but still below the figure of 50 indicating growth. *Caixin’s* own PMI for December was just 48.2, down from 48.6 in November—the 10th straight month below 50.

Premier Li told a seminar in Beijing in November that the government was determined to cut back on overcapacity in traditional industries as well as the large number of so-called zombie enterprises, pointing to steel and coal in particular. Up until now, however, little action has been taken out of fear at all levels of government of rising social unrest.

The *New York Times* last month focussed on the fate of the Longmay Group, the biggest coal company in northeastern China, which announced plans last September to slash 100,000 jobs, or 40 percent of its workforce, at 42 mines in four cities. However, the company, an SOE owned by the Heilongjiang provincial government, delayed the job cuts. Several hundred older workers were laid off but provincial authorities provided a short-term $600 million bailout to overcome the company’s immediate debt problems.

Deng Shun, an analyst at ICIS C1 Energy, told the *New York Times*: “They are quite worried about social unrest, so they delay. These layoffs should have happened two years ago.” The provincial government’s fears were well grounded, however, as protests had already erupted before any mass layoffs. In April, thousands marched in the city of Hegang to protest over delayed wages. The organisers were arrested and jailed. In October, the company management only averted another protest by locking workers in the mines on the day of a scheduled rally.

Mine workers are well aware that the prospect being held out of jobs in an expanding services sector is illusory. Heilongjiang is one of China’s most economically depressed provinces, already mired in recession. Economic output fell by 2.2 percent in the first three quarters of last year compared with the same period the previous year.

The resentment and bitterness in the working class was voiced by former mineworker now taxi driver, Mr Cui, who told the *New York Times*: “In the 90s, everyone was poor. Now the rich are too rich, and the poor are too poor. Because of the layoffs, everyone is worried. No one has a way to live outside the mines. With the New Year holidays coming, there will be chaos in Hegang.”

It is not just miners, nor workers in basic industry, who face large job losses. Writing in the *South China Morning Post* last month, analyst Andy Xie explained: “China may have overinvested up to 40 trillion yuan ($US6.1 trillion) since 2009. Its physical manifestation is in empty buildings and industrial overcapacity.”

After citing estimates that the steel industry has an overcapacity of 200 to 400 million tonnes—more than the total production of any other country—Xie continued: “The dire situation is common among all commodities industries. New industries like smartphone manufacturing already have a large overcapacity. Even power plants are hugely underutilised.”

The China Iron and Steel Association has reported that in the first 11 months of 2015, large- and medium-sized steel mills suffered losses of 53.1 billion yuan ($8.18 billion). Wuhan Iron & Steel, a major SOE, announced last month that it plans to eliminate 6,000 jobs within three months, while its parent company could cut 11,000 jobs and slash salaries by 20 percent in 2016.

Restructuring is already underway in other industries. China’s two largest shipping groups merged last month and its two largest train makers, CNR and CSR, came together earlier in the year.

Far greater job losses are being mooted amid a debate in Chinese ruling circles about the necessity of eliminating “invisible unemployment”—workers who are kept on the books of companies even though there is little for them to do. The government faces mounting levels of debt, much of it accumulated by local governments to fund infrastructure projects and keep “zombie companies” like Longmay afloat. The country’s debt to gross domestic product ratio has risen by nearly 50 percent over the past four years.

In its annual forecast, the Chinese Academy of Social Sciences urged the government to make the “invisible unemployment” more visible in 2016 by allowing more SOEs to go under. Wei Yao, a strategist at Société Générale, published a note in November saying 1.7 million workers would go in an initial round of sackings to address “China’s most pressing economic issues: capital misallocation, looming growth of non-performing assets and deteriorating productivity.” In other words, as is the case around the world, Chinese workers are to bear the burden of the crisis through the destruction of jobs and conditions.

The protests by Longmay workers in Heilongjiang Province last year are just one indication of sharpening class tensions. The latest figures from the Hong Kong-based China Labour Bulletin show that the number of strikes and protests more than doubled last year to 2,774 incidents, compared to 1,379 for 2014, with a marked increase in December. Most of the strikes were over the non-payment of wages, which can often be months in arrears, a practice common in the construction industry but now spreading to manufacturing, mining and services.

The figures, which are by no means complete, give a glimpse of the seething discontent in the working class that the regime constantly seeks to suppress through state-run trade unions and police-state methods. The constant fear in the Chinese Communist Party leadership is that the vastly expanded working class—estimated to number 400 million—will break out of this straitjacket and destabilise the regime’s tenuous grip on power.