

# Chinese premier details mounting problems for economy

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The Chinese economy is facing some of its most serious problems in more than three decades as the government continues to battle to end the outbreak of the Omicron variant of COVID-19 through lockdowns of major cities and other public health measures.

Last week Premier Li warned that China would struggle to reach positive economic growth in the second quarter of this year, after recording a 4.8 percent expansion in the first.

The situation was “to some degree worse” than it had been at the start of the pandemic in early 2020 when the Chinese economy contracted by 6.9 percent. Economic indicators had fallen significantly, and “difficulties in some aspects and to a certain extent are greater than when the epidemic hit us severely in 2020.”

“We will try to make sure the economy grows in the second quarter. This is not a high target and a far cry from our 5.5 percent goal. But we have to do so,” he said.

The official unemployment rate in China, which only covers urban dwellers, had increased to 6.1 percent. Li noted that unemployment for people aged 16 to 24 had risen to an historic high of 18.2 percent, with the jobless rate for migrant workers also increasing sharply.

Li’s focus on the growth and jobless rates is significant because the government regards strong growth as essential for maintaining what it calls “social stability.”

In a report of the address, based on transcripts, the *Financial Times* said Li had noted that “corporate liquidation had soared by more than 23 percent year on year in April when the whole of Shanghai entered a full lockdown that affected commercial operations across eastern China. Largely private sector small- and medium-sized enterprises [SMEs], which account for more than half or more of government revenues,

economic output and employment, have been hit the hardest.”

The premier emphasised the importance of COVID prevention while maintaining production. “We must ensure both the smooth functioning of supply chains and COVID prevention are achieved,” he said, adding that “many SMEs and local authorities told me their worst days have come.”

Progress, he said, was not satisfactory, with some provinces reporting that only 30 percent of their businesses had reopened. “The ratio must be raised to 80 percent within a short period of time.”

Li reported that power generation, freight transport and new bank loans had all fallen in the first half of this month.

Data on the economy underscore the growing problems confronting government authorities. Earlier this month it was reported that industrial production, one of the key drivers of the Chinese economy, had fallen 2.9 percent in April, retail sales had dropped 11 percent and car sales had almost halved.

Since those figures were released, it has been revealed that industrial groups recorded their worst decline in profits since the start of the pandemic at the beginning of 2020, falling 8.5 percent compared to a year earlier.

A senior official at the National Bureau of Statistics, Zhu Hong, said that in April the Omicron outbreak “had a large impact on the production and operation of industrial firms and that manufacturing companies’ profits fell by 22 percent.

Authorities have eased financial conditions with the central bank cutting its five-year prime rate, used to set mortgages, from 4.6 percent to 4.45 percent. But such measures will do little to ease the crisis in the real estate sector where the giant Evergrande company is

already in default. The problems in real estate, when all the flow-on effects are considered, are not being resolved as home sales continue to fall. The sector accounts for between 25 percent and 30 percent of the Chinese economy.

Earlier this month, China's third-largest developer, Sunac, reported that it had missed a payment on a \$742 million offshore bond.

In the wake of the 2008 financial crisis, the government and financial authorities were able to boost the economy through a massive stimulus package, involving increased spending and the expansion of credit. The stimulus was equivalent to around 13 percent of GDP.

That road is now closed because of the transformation in global financial conditions. All the major central banks, led by the US Fed, are now lifting interest rates in response to the surge in inflation. Fearing this will bring an upsurge of workers' struggles in support of wage demands, they are seeking through higher rates to put a clamp on economic growth to counter this growing movement.

Global financial conditions are heavily impacting on China. The value of the yuan is falling—it dropped 4.5 percent in April—prompting a capital outflow.

As *Sydney Morning Herald* economics writer Stephen Bartholomeusz noted in a comment published last week: “The Chinese authorities are very aware that lowering their own [interest] rates too aggressively to try to stimulate activity could turn what's already a steady outflow of capital into a fully-fledged and destabilising capital flight.”

The central government also appears to be pushing back against demands from local government authorities for increased assistance.

In his remarks to last week's teleconference, Li said several provinces had appealed to the central government for support, but indicated resources were limited. “I am here to let you know my bottom line. There is a reserve fund managed by the premier. Other than that, local governments must raise funds [on your own.]”

China is also facing a food crisis in at least one part of the country. According to Li, Jilin, a large agricultural region in the north-east had been severely affected and grain output could “barely” match demand and warned that a bad summer harvest would create

“huge problems.”

China was already experiencing major economic problems before the onset of Omicron—notably in the highly-indebted real estate sector.

But they have been significantly compounded by the refusal of governments worldwide to develop an international strategy for the elimination of COVID-19. Consequently, China is faced with the task of trying to deal with the virus on a national basis, under conditions where it is continually open to the reintroduction of infections from the rest of the world.

The growing demand from governments, corporations and finance capital is that China abandons its zero COVID program and adopt the “let it rip” policy, which has led to millions of unnecessary deaths in the rest of the world. If this were adopted it would lead to hundreds of thousands, possibly millions, of deaths.

This in turn would create a crisis for the Xi Jinping regime because the zero COVID policy, despite some of the bureaucratic excesses in its implementation, enjoys wide support among the population.

The attitude of the major powers towards China on COVID is another expression of the policy they have essentially adopted from the outset—that nothing must be done that would impede the flow of profit and so they are demanding that China “open up.”

But their refusal to take action to eliminate the virus in order to prop up financial markets is now rebounding on the global economy, leading to the largest inflation hike in more than four decades and a significant slowdown, if not outright contraction, in the world's second-largest economy which will exacerbate international recessionary trends.



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