China economic growth up but major problems mount

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China has reported a better-than-expected growth rate for the first three months of the year but there are a number of questions hanging over the economy. These include the increase of debt held by local government authorities, the sustainability of consumer demand and the worsening effects of US technology bans.

Data released by China's National Bureau of Statistics last week showed the economy had advanced at a rate of 4.5 percent for the first three months of the year, considerably better than the 2.2 percent growth in the December quarter, and above market predictions of a 4 percent increase.

But the bureau said that while the first quarter had "made a good start," domestic demand remained "inadequate" and the "foundation for economic recovery is not solid yet."

The main driver of the increase was consumer spending with retail sales growing by 10.6 percent in March following the abandonment by the Xi Jinping regime of its previous "zero Covid" policy at the end of last year.

Exports were another key driver, expanding by 14.8 percent over the year to March compared to expectations of a decline of 5 percent. How long this surge might continue is another question as economists expect a slowdown in the US and Europe.

The International Monetary Fund has forecast that growth in the US will slow to 1.6 percent this year, down from 2.1 percent in 2022, while the growth rate for the eurozone is predicted to be only 0.8 percent.

The parlous state of the global economy is highlighted by the expectation that lower Chinese growth will account for around one-third of total world growth this year, according to the IMF.

It has said the world economy will grow by only 2.8 percent this year which, apart from the major contraction in 2020 when the pandemic hit, is the lowest level since the global financial crisis of 2008-2009.

But China is not going to come to the rescue as it has in the past. As Louise Loo, China economist at Oxford Economics in Singapore, put it: "Anyone looking for China to save the global economy this year might be somewhat disappointed."

Internally, the property market and real estate development, which have been key components of Chinese growth for more than a decade, continue to remain under pressure because of liquidity and financial problems that have led to a series of defaults as credit conditions have been tightened.

Real estate investment fell by 5.8 percent in the first quarter, home sales dropped by 1.8 percent and new housing starts declined sharply by 19.2 percent year on year.

Growing financial problems were pointed to in a recent report by Bloomberg. It said that while China had so far not experienced a financial crisis, despite close calls, there was an elephant in the room in the form of Local Government Financing Vehicles (LGFVs). For years local authorities had relied on them to finance major infrastructure projects and to support their regional economies.

But this had resulted in a massive increase in debt such that LGFV borrowings at $12.4 trillion are equivalent to 48 percent of China's GDP and are almost the same as central and local government debt combined.

This financial edifice has been maintained to a considerable degree by the revenue local governments obtain from land sales, but over the last year this dropped by 23 percent.

The problems for the Chinese economy and the Beijing leadership were outlined by long-time China analyst Eswar Prasad, even as he extolled what he called the "stunning" growth of the Chinese economy in recent decades.

In a paper prepared for the National Bureau of Economic Research earlier this month, Prasad said the huge build-up of domestic debt and the highly volatile prices of stocks, property and other assets were "emblematic" of a number of problems.

Beijing now faced a series of policy dilemmas, some of its own making, he wrote. These included: how to reduce debt while maintaining growth; how to reduce energy-intensive production while the economy continued to rely on heavy industry; how to restrain wealth inequality while relying on the private sector to generate more wealth, and how to encourage private sector innovation while cutting private enterprises down to size.

The economic issues and problems are inextricably connected to political ones. Having long ago abandoned any, even nominal, connection to socialism, under conditions where social inequality has widened, the Xi regime is tolerated by the population to the extent that it is seen as promoting economic growth.

It used to maintain that social stability required a growth rate of at least 8 percent. Now the official target is just 5 percent, amid concerns that even this rate will only be obtained this year with considerable difficulty.

The regime sits atop a potential social powder keg because the very economic expansion over the past three decades has led to the growth of the working class, numbering around 400 million, as economic prospects become gloomier.

As the *Financial Times* noted in a recent article: "The ruling Chinese Communist Party claims legitimacy from its ability to improve the lives of the country's 1.4 billion people, but a structural slowdown in manufacturing has hampered its ability to boost employment."

This is seen in the persistence and increase in youth unemployment. There are now 30 million Chinese people aged 16 to 24 who are out of work, with the youth jobless rate rising by 3 percentage points from the December to March quarter.

The Xi regime is well aware that the growing problems of the economy and the class tensions to which they will give rise cannot be resolved through the methods developed since the restoration of capitalism three decades ago.

Neither production of cheap consumer goods, as took place in the 1990s and the early years of this century, nor the reliance on massive infrastructure and real estate development, as occurred following the global financial crash of 2008, provides a way out.

Hence the turn by the regime to high-tech development as the key driver of further economic development which is central to its maintenance of political power.

However, here it has run headlong into a major obstacle in the form of US imperialism which regards the growth of Chinese technological development as an existential threat to its global dominance and is determined to crush it by all means necessary, including war.

Like its counterparts in the former USSR, which maintained that the concept of imperialism was not the expression of objective economic and political reality but a figment of Marxist imagination, the Chinese Stalinist-Maoist leadership considered, as it restored capitalism, that it would be able to manoeuvre and join the "family of nations" through a "peaceful" rise.

US imperialism is determined to crush such a development, regarding it as an existential threat to its economic dominance.

The high-tech bans it has imposed on China, begun under Trump and intensified under Biden, are already causing major problems.

Last month, the *Financial Times* carried a report on one of China's richest counties, Kunshan, located just 50km from Shanghai. Tech bans introduced by the US have led to firms relocating out of the country.

Factory owners are cutting back with some reducing wages by as much as a third, according to the report.

It stated: "The labour market weakness has been exacerbated by Taiwanese manufacturers, the county's biggest employer, relocating to other countries, to limit their exposure to US-China tensions."

One logistics company owner said shipments from the county had dropped by at least a third in the first quarter of this year.

And the pressure on China is going to intensify, not lessen, as a major speech by US Treasury secretary Janet Yellen on US-China relations delivered last week made clear.

The speech was generally welcomed as offering accommodation for China or even as an olive branch. But as a *Foreign Policy* column by economic historian Adam Tooze indicated, it was anything but that.

He said Yellen had presented a "goldilocks vision" in which US bans were targeted and not directed at the broader economy.

Tooze responded: "But as everyone knows, those targeted measures have so far included massive efforts to hobble the world leader in 5G technology, Huawei, sanctions against the entire chip industry supply, and the inclusion of most major research universities in China on America's entities list that strictly limits trade."

Tooze, who would like to believe that Yellen's speech was intended to be "reasonably accommodating," nevertheless found it "jarring" that China had to accept America's demarcation of the status quo and if it did not "then it should expect to face massive sanctions."

And it was hard to see how Yellen's "vision in which the United States arrogates to itself the right to define which trajectory of Chinese economic growth is and is not acceptable, can possibly be a basis for peace."