

Fall in Chinese growth indicative of mounting problems in global economy

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The Chinese leadership is becoming increasingly concerned about slowing economic growth and that the economy is in danger of falling short of the official target of 5 percent—a situation that is starting to impact heavily on the global economy.

A meeting of the Chinese Communist Party (CCP) Politburo last week cited “insufficient” demand as it issued a call for government measures to stimulate the economy, particularly via increased consumption spending.

“The focus of economic policies should shift more towards benefiting the people and promoting consumption,” the Politburo, which is headed by President Xi Jinping, said. “It is necessary to increase people’s income through multiple channels.”

The statement, as reported by the official Xinhua news agency, was in marked contrast to the one adopted at the Third Plenum of the CCP Central Committee which met earlier in the month. Its focus was on the development of “high quality productive forces”—the expansion of high-tech industries with the need for a stimulus and increased consumption barely rating a mention.

The Third Plenum ignored calls by economists within China and internationally for an increase in domestic spending, despite recent data which has pointed to the necessity for such measures if the official growth rate target is to be achieved.

Data for the second quarter showed an annualised growth rate of 4.7 percent—down from above 5 percent in the previous three months. It was the lowest growth rate in five months.

This was followed by a survey which showed that China’s manufacturing had fallen in July for the third consecutive month. The official purchasing manager’s index was 49.4, down from 49.5 in June. A PMI

reading of 50 marks the boundary between expansion and contraction.

The non-manufacturing PMI was in expansion territory, coming in at 50.2 but below the level of 50.5 recorded in June.

There have been moves by the central bank to lift the economy with some interest rates cuts and limited stimulus measures by the finance ministry. This included a cash for clunkers program in which people receive subsidies when they trade in old cars and appliances for new ones. But the measures appear to have had little effect.

The call by the Politburo for a focus on consumption spending has been welcomed by commentators, but is being taken with a grain of salt because concrete measures have yet to be specified.

In financial circles, it is not regarded as having a great deal of significance.

Michelle Lam, the Greater China economist at Société Générale, told Bloomberg that the Politburo’s commitment to try to boost consumption was a “good shift” but lacked detail.

“Policymakers could still be focusing on better supply of services to drive consumer demand. It doesn’t seem like they are thinking about something unconventional, which is needed to revive weak investor confidence,” she said.

Analysts at Gavekal Dragonomics, which specialises in research on China, commented that “economic policy and growth in China have again broadly disappointed, with demand losing momentum as attempts at fiscal stimulus, a property bailout and a reform package have failed to gain traction.”

“The government’s main priority remains its manufacturing- and technology-focused industrial policy.”

They said there was a danger of China missing its growth target this year because of weak demand.

The focus of the Xi leadership has been on developing China's industrial capacity. But in conditions of weak domestic demand this means the increased production must be sold on world markets.

As a result, exports are growing. More than \$900 billion of goods were exported in the second quarter, up from \$800 billion in the first three months of the year and 50 percent higher than before the pandemic.

However, the outflow of exports has run into an obstacle with the imposition of tariffs measures in a campaign led by the US and increasingly being joined by Europe.

The move by the Xi regime to focus on high-tech manufacturing and development is aimed at trying to shift the economy to a higher growth path. The shift has been made because the reliance on property and infrastructure development, which has accounted for as much as 30 percent of GDP in the past, is no longer viable because it only increases already high debt levels.

Even without the impediments to this plan resulting from tariffs and other constrictions, the new orientation would take a considerable time to take effect. In the meantime, the Chinese economy is still highly dependent on smaller scale factories producing consumer items such as clothing, furniture and toys.

But these industries, which have been a major source of employment, are running into problems as outlined in a recent major article in the *Financial Times* (FT) which described low-tech manufacturers as hanging on by their fingernails.

These factories were now "increasingly struggling with anaemic orders from Western buyers, trade restrictions in foreign markets and growing competition from rival hubs, particularly southeast Asian countries such as Vietnam and Indonesia, as well as Bangladesh and India," it said.

The article cited comments by Fred Neumann, chief Asia economist at HSBC.

"China remains the behemoth when it comes to labour-intensive goods," he said. But in the face of competition from lower cost rivals, "these are all industries that are hanging on with their fingernails."

Footwear was cited as an example, with China's share of global footwear declining by 10 percentage

points over the past decade.

The slow growth in the world economy is impacting many of China's smaller scale factories. One manager at a synthetic fabric manufacturer reported that orders from foreign buyers had declined since the end of the pandemic and that in his industry "every year is worse than the last."

The slowdown in China, in particular the slump in the property market and construction, is in turn adversely affecting the global economy, with a significant fall in demand for key raw materials.

According to Sabrin Chowdury, head of commodities analysis at BMI, as reported in the FT, sentiment towards commodities is "really bad" and the outlook is "definitely weak in the coming months as the hope on China start to diminish completely."

Rio Tinto, the world's second largest mining group, has reported that demand for steel from China's property sector was down by as much as 30 percent from its peak in 2020. Chinese demand for copper, often cited as an indicator of the strength of the world economy, was at a 13-year low in June.

The economic predicaments of China highlight the worsening trends in the global economy as a whole. Growth in the euro zone, in particular Germany is virtually stagnant, likewise Japan, and there growing indications that the surge in the US economy is coming to an end and it could be moving into a recession.



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