Growing problems in Chinese economy

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China has recorded a $1 trillion trade surplus for the first 11 months of the year, despite the imposition of tariffs by US President Trump, but all is far from well in its internal economy.

The latest data point to problems on several fronts. Retail sales were up by only 1.3 percent in November compared to a rise of 2.9 percent in October. Industrial production was up by 4.8 percent, compared to 4.9 percent the previous month.

The effects of the ending of the real estate and property boom in the early 2020s continue to be felt, with property investment down 15.9 percent in the January–November period compared to the same period last year and significantly larger than the fall of 14.7 percent in the January–October period.

The biggest concern, however, is the fall in investment. Fixed asset investment (FAI) declined 2.6 percent for January–November compared to a year earlier. This was a bigger fall than anticipated—a Bloomberg survey had predicted the decline to be 2.3 percent—and a steeper decline than the 1.7 percent for the year to October.

The fall in FAI was the central topic of a top-level two-day meeting of Chinese Communist Party officials earlier this month, which gave a clear indication that it is causing concern in leading circles.

A report of the meeting, which was chaired by President Xi Jinping, said: “We will promote the stabilisation and recovery of investment.” This would be done by increasing government investment, initiating key projects and stimulating private investment, according to a state news agency report.

But there are, to say the least, contradictions in the approach of the top leadership.

Xi has been leading a campaign against excessive internal competition, so-called “involution.” The meeting said China would tackle this problem but did not specify how that would be done without affecting investment. The lessening of involution implies a reduction of internal competition through a reduced supply of goods, which in turn implies a lessening of investment and new productive capacity.

In an analysis of the data, Goldman Sachs said a considerable proportion of the fall in FAI was due to correction of previous data. But as the *Financial Times* (FT) reported, it noted that a significant part of the decline “could be attributed to Beijing’s ‘anti-involution’ policies—which could be deterring local authorities from allowing investment in industry—as well as to China’s property crisis and slowing infrastructure-related fiscal spending.”

Nomura chief China economist Ting Lu told the FT the top leadership was “well aware of the recent slump in FAI.”

He said Beijing would “ramp up policy support in coming months, but it is yet to formulate and execute a decisive stimulus program, which could address the root causes and effectively stabilise growth.”

Some indication of the atmosphere at the work conference and a sense of some of the growing problems were provided when the *People’s Daily* published some of Xi’s remarks on Sunday.

He hit out at wasteful investments, “inflated figures” and “fake construction starts” which were being used to create a false impression of economic performance.

He said, “Some places disregard reality and blindly chase trends,” and that there had to be “genuine growth without exaggeration.”

“Those who are unrealistic, reckless and haphazard in their efforts will be held strictly accountable.”

Xi has also indicated his support for an increase in domestic consumption, saying it is necessary both for economic stability and economic security and that “it is not an expedient measure but a strategic move.”

But critics of the government, both within and outside China, point out that it has been long on words but short on concrete measures and while there have been limited actions to provide stimulus, there is not yet an overall plan. Nor is there one waiting in the wings, because the next five-year plan, due to come into effect from next March, is set to continue the focus on high-tech development as the key to China's economic advancement.

There have been increased warnings that the reliance on exports—reflected in the record trade surpluses—is creating a drag on economic growth for the rest of the world and leading to the prospect of the erection of tariff barriers against China by other countries.

This was the theme of remarks delivered by International Monetary Fund managing director Kristalina Georgieva during a visit to China earlier this month.

She said Beijing had to correct "imbalances" in the economy which have led to a depreciation of its currency the renminbi—making exports cheaper—and deflation—producer prices at the factory gate have declined for the past three years—which goes in the same direction.

"Low inflation relative to trading partners has resulted in significant real exchange rate depreciation and this has made China's exports cheaper, prolonging an excessive reliance on exports and worsening external imbalances," she said.

At one point during a press conference, she made an appeal to young journalists to convince their families to buy more.

"China counts on you to be the driver of domestic demand. You need to help your mothers, fathers, grandmothers and grandfathers to change their attitude toward one that says it's patriotic to spend money and lift China's domestic consumption rate," she said.

But appeals to patriotism will have no effect, because the low consumption rate is an expression of the lack of social services forcing working-class and lower-middle class families to save.

There have been numerous calls to expand the country's social safety net, but apart from a few measures at the margins, Xi has been opposed to the major change in the direction of the Chinese economy this would require.

Georgieva's appeals were accompanied by a warning.

"China is simply too big to generate much growth from exports and continuing to depend on export-led growth risks furthering global trade tensions," she said. In other words, if the flood of exports out of China continued, other countries would resort to tariff and protectionist measures.

This has already started. Last week, Mexico imposed tariffs ranging up to 50 percent on Chinese and other Asian imports. The decision was hailed by Peter Navarro, the senior counsellor for trade and manufacturing and the leading anti-China hawk in the Trump administration.

"It is a major milestone in President Trump's trade revolution—and in the postwar international trading system itself," he wrote in a comment published yesterday in the FT, in which he called for "our allies" to follow Mexico's lead.

The economist Eswar Prasad, a long-time analyst of the Chinese economy, warned of tariff measures against Beijing in an FT comment piece published earlier this week.

He said China's export push was a "bad omen for the global economy. The country has become a drag on worldwide consumer demand growth rather than a locomotive that pulls everyone else along."

Inevitably, he said, "much of the world will feel compelled to throw up protectionist barriers against the onslaught of Chinese exports."

In conclusion, he called on China to fix its economy and rein in the trade surpluses "for its own sake and that of everybody else."

The sort of agenda would require a high degree of international collaboration. Such co-operation might have been possible, at least to a limited degree, within the framework of the post-war trading order.

It is impossible today because that system has been completely overturned by the Trump administration and its economic war against the world aimed at reasserting the dominance of US imperialism, not least through the subjugation of China.