China’s economic growth rate continues to tumble

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The Chinese government is clearly in crisis over how to deal with the rapid slowdown of the country’s economy under the impact of a deepening global recession. Like its counterparts around the world, Beijing has little understanding of, let alone control over, economic events that are already leading to widespread plant closures, rising unemployment and social unrest.

President Hu Jintao told the Chinese Communist Party (CCP) Politburo last weekend that with weakening global demand, “China’s traditional competitive advantage is being gradually weakened”. He declared that the crisis was “a test for the party’s ability to govern”. On November 27, Zhang Ping, chairman of the National Development and Reform Commission, warned that “excessive production cuts and closures of businesses will cause massive unemployment, which will lead to instability”.

The remarks came after officials in Shenzhen, one of China’s largest manufacturing cities, admitted that 50,000 jobs had been destroyed and 682 factories shut this year. The actual figure is likely to be far higher. In the nearby city of Dongguan, local party boss Liu Zhigeng earlier last month accused the media of “exaggerating” the scale of business failures. On November 25, however, 500 laid-off workers from a toy firm in Dongguan owned by the Hong Kong-based Kader Group smashed windows and computers at the offices and clashed with 1,000 police officers.

The South China Morning Post noted on November 19 that IMA Asia, a business intelligence agency, had raised its political risk rating for China from low to medium, stating: “We are concerned about the potential for unrest within a massive pool of migrant workers who face lay-offs in the construction and export manufacturing sectors.” The newspaper reported that Public Security Minister Meng Jianzhu had called on the police to be “fully aware of the challenge brought by the global financial crisis and try their best to maintain social stability”.

The People’s Bank of China slashed interest rates by 1.08 percent to 5.58 percent on November 26, the largest cut in 11 years. The central bank also cut the reserve requirement for major state commercial banks by 1 percent and smaller lenders by 2 percent, in an effort to encourage lending. The latest rate cut came just after the World Bank further revised China’s growth rate for next year to just 7.5 percent—the lowest in nearly 20 years.

Significantly, the World Bank forecast is below the 8 percent benchmark, generally regarded by Chinese officials as the minimum necessary to generate enough jobs to maintain social stability. Although high by international standards, 7.5 percent is a sharp drop from 11.9 percent in 2007. Moreover, no one really knows whether 7.5 percent is any more accurate than previous estimates.

Before the eruption of the US financial crisis in September, Beijing was focused on preventing “overheating” and reining in speculative investment and rising inflation. As the tight monetary policy was beginning to take effect, the world economy began plunging toward recession. Foreign banks and investors dumped the real estate assets in China to shore up their shaky position at home, sending the already cooling property market in China into a tailspin. Now Beijing has made a sharp U-turn to avoid the economy from crashing. Two major growth engines—construction and manufacturing—are rapidly decelerating.

According to Macquarie Securities, China’s construction industry, which accounts for a quarter of fixed asset investment and employs 77 million workers, is expected to contract by 30 percent in 2009, casting doubt on whether China will continue to grow at all. Chief economist for Hong Kong-based Asianomics, Jim Walker, told Bloomberg that China’s growth in 2009 could be down to the zero to 4 percent range, with a 30 percent chance of negative growth.

China’s major export markets—the US, Japan and Europe—are effectively in recession. In making its forecast, the World Bank explained that the emerging economies will not sustain China’s export growth as they have also been hit hard by the global crisis. The latest Purchasing Managers Index (PMI) released on Monday from the China Federation of Logistics and Purchasing showed a fall to 38.8 in November, down from 44 in October. A PMI reading above 50 indicates an expansion in manufacturing, while below 50 points to a contraction.

Beijing is seeking to overcome massive overcapacity in industries such as home appliances by offering a 13 percent rebate to rural households to buy white goods. But impoverished Chinese farmers are no substitute for consumers in the West, or even in urban China, where falling share and property prices combined with growing job insecurity have undermined consumer confidence. Millions of rural households are dependent on money repatriated by those working in the cities. Job losses will plunge many rural families into desperate poverty.

The financial magazine Caijing has estimated that 2.3 million jobs will be shed in export industries as production is scaled back in line with the drop in export demand. China’s export growth has nearly halved from an annualised rate of 20 percent at the beginning of 2008, to 11.1 percent over the past three quarters. Businesses are calling for wage cuts as Chinese exports face fierce competition in shrinking global markets.

Beijing is trying to boost exports by providing tax rebates on thousands of individual items. The yuan is weakening against the dollar, which will help exporters, but fuel trade tensions with the US in particular. Above all, it is the huge Chinese working class that will be forced to bear the brunt of the crisis. Already Caijing has organised economists to debate on its website whether workers should accept job losses or wage cuts.

The Chinese regime has announced a huge stimulus package, which has swollen from 4 trillion to 10 trillion yuan ($US1.5 trillion) as provincial governments rushed to boost their own local economies. The list includes: Shanghai (500 billion yuan), Hainan (207 billion), Jilin (400 billion), Anhui (389 billion), Zhejiang (350 billion), Hebei (588.9 billion), Henan (1,200 billion), Liaoning (1,300 billion), Chongqing (1,300 billion) and Guangdong (2,300 billion). The sheer scale of these measures points to the panic in ruling circles.

Much of the money is thought to be for old projects drafted years ago. According to the National Development and Reform Commission, 1.8 trillion yuan will be devoted to building railways, highways, airports and power grids, while another 1 trillion will be spent on earthquake reconstruction in Sichuan province. Only 370 billion yuan will be spent on rural subsidies and infrastructure, where most of the country's poor live. The 350 billion yuan for "environmental protection" is a handout to corporations involved in developing "green" technology.

Another 160 billion yuan is for business to upgrade. The 280 billion yuan for subsidised housing will mainly benefit real estate developers, not low-income families who need shelter over their heads. Just 40 billion yuan has been allocated to urgently needed social services. Because there is no cheap, high quality healthcare and education, Chinese workers and peasants try to save rather than spend. The lack of social spending in the stimulus package is a continuation of Beijing's focus on the state-sponsored expansion of infrastructure, real estate and factories to attract foreign capital.

This anarchic economic expansion, particularly of heavy industries dominated by state firms, is now collapsing. China's coal output next year may be cut by 300-500 million tonnes. The steel industry association predicts that output will be stagnant at 500 million tonnes next year, if not lower, after skyrocketing from 200 million tonnes in 2003. Some 70 million tonnes of iron ore are still stockpiled in 22 ports—a testimony to the collapse of the global commodities boom.

Concerns have been raised that the stimulus measures will only boost heavy industry without creating many jobs. With government revenues falling, other analysts warn that the huge package will lead to an expansion of public debt. According to investment corporation UBS AG, half of the additional government spending of 600-900 billion yuan in 2009 will come from an increased budget deficit. The other half will come from cutbacks in expenses—most likely to social programs.

Rising unemployment will soon shatter any illusions that the capitalist market can lift the masses out of poverty. A Chinese Academy of Social Sciences report this week warned that one million 2008 college graduates will not find a job this year. Another 5.92 million graduates entering the labour market next year will face an even bleaker outlook, along with millions of rural migrants and urban workers looking for jobs.

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