China's leaders call for "stable growth" as economy slows

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The Chinese Communist Party (CCP) regime has signalled a return to stimulus measures because of sharply decelerating growth and potential social unrest. A CCP Politburo meeting last week called for stable growth to be the top priority.

"The ongoing pace of economic growth is within expectations, but the external environment remains grim and poses difficulties and challenges," the official Xinhua news agency reported the Politburo discussions as stating.

The Politburo reiterated the need for "prudent" monetary and "proactive" fiscal policies. In other words, Beijing will try to stem a six-quarter slowdown in the world's second largest economy by boosting bank credit and implementing further stimulus measures.

Underscoring the worsening economic situation, Premier Wen Jiabao told a meeting of business leaders and academics in late July: "We must see with a clear mind that there are difficulties and risks in the current economic situation that can't be underestimated."

President Hu Jintao warned that rising unemployment could trigger social unrest. He said China would try to diversify export markets and "expand and stabilise" employment.

The country's economic growth for the second quarter fell to an annualised 7.6 percent, the slowest rate in three years. However, this official figure is optimistic and the actual situation could be far worse (See: "Economic downturn in China worse than official data").

The deepening debt crisis in Europe and its broader international impact has reduced demand for China's exports, which remain the economy's main driving force. According to China Custom, in the first half of the year, exports to the European Union were $163.06 billion—a decline by 0.8 percent from the corresponding period last year. Exports to Germany declined for four consecutive months, France for three consecutive months and Italy for 10 months.

These figures translated into weakening industrial output. On August 1, the official purchasing managers index (PMI), released by the National Statistics Bureau, dropped to 50.1, its lowest level in eight months. It was just above the 50 mark, which indicates expansion.

Two days later came the publication of the official non-manufacturing index, based on a survey of about 1,200 companies in 27 industries, including telecommunications, transportation and construction. It slipped from 56.7 to 55.6 in July. The service sector makes up 43 percent of China's economy, compared to 90 percent in the US. The contracting trend indicated that Beijing's hopes of expanding the domestic market to make up for a slowing manufacturing sector is yielding few results.

The Chinese central bank has cut interest rates twice since June and reduced the reserve requirements for banks three times since November in a bid to encourage lending. The state planning commission has sped up approval of investment projects and boosted railway spending to counter the decelerating growth.

The *China Security Journal* reported last week that local bank branches were instructed to provide credit support to provincial level government-owned entities in 100 better-off counties, to build roads, railways, natural gas and clean energy projects. Some cities are also increasing stimulus efforts, with Changsha last month announcing an 829 billion yuan ($US130 billion) investment plan.

Relaxing lending to local governments is part of Beijing's emphasis on "stable growth." However, cheap credit will worsen the debt crisis facing local governments that are still struggling with huge debts resulting from the last stimulus package. Local government debt was estimated at 10.7 trillion yuan or $1.7 trillion in 2010, but analysts say this is an underestimation.

In a report released on August 3, London-based Capital Economics warned that new local government stimulus measures, from Nanjing and Jiangsu to Changsha and Hunan, could already total 4 trillion yuan, including tax cuts, consumption subsidies and infrastructure investment. The report warned that the 2008-09 stimulus program had "aggravated domestic imbalances in the economy," leaving investment's share of gross domestic product close to 50 percent—"one of the highest levels ever recorded for a major economy during peacetime."

Far from resolving the "imbalance," the push to stimulate growth with further investment will exacerbate the contradiction. Expanding domestic consumption would involve a significant increase in wages and living standards, which is unacceptable to the corporate elite.

The labour market contracted noticeably in the second quarter, particularly in the more economically developed eastern provinces. A Ministry of Human Resources and Social Security survey found that the number of job applicants in China's eastern region increased by 132,000 in the second quarter, compared with the first quarter, while job vacancies increased by just 5,000.

While Chinese authorities still insist there is an "over-supply" of jobs, not workers, the survey revealed the opposite. Workers in the coastal provinces continue to lose their jobs as the manufacturing sector is hit by falling export orders.

In Zhejiang province, small and medium sized factories are being forced to scale back their workforces. In the first half of the year, the province's exports increased by just 5.2 percent—compared to 22.3 percent in the corresponding period last year. In Wenzhou alone, 140 firms have shut and one fifth of industrial enterprises with annual revenues near $3 million yuan have experienced losses.

Zhejiang Wenzhou Apparel Association vice chairman Cai Huantian told the *China Security*

Journal in late July that the business environment was worse than during the 2008 financial crisis. “The number of orders has fallen by around 30 percent from the same period last year, and the average volume of a single order has declined by 70 percent,” he said.

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