China’s Economic Downturn Raises Concerns about Political Instability

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Amid continuing global share market volatility, the financial elites around the world have been intently focussed on the movement of Chinese stock markets and more broadly on the state of the Chinese economy. Yesterday’s rise of the benchmark Shanghai Composite Index, after falls in six successive trading sessions, produced an almost audible sigh of relief as share prices responded by rising on major markets internationally.

The deluge of media commentary on the Chinese economy reflects the degree to which the world economy as a whole is dependent on continued growth in China. Speaking on the Australian Broadcasting Corporation’s “Lateline” program last night, Ken Courtis, chairman of Starfort Holdings, pointed out that “this year we’re expecting 35 to 40 percent of all the world’s growth to come from China.” If that did not happen, “then we have a real problem.”

Concerns in ruling circles that China’s economic slowdown will lead to political instability were evident in an article published in the *Financial Times* (FT) on Tuesday entitled, “Questions over Li Keqiang’s future amid China market turmoil.” Analysts and party insiders who spoke to the FT suggested that the Chinese premier was “fighting for his political future” after the Shanghai Composite Index plunged by 8.5 percent on Monday—its largest decline since early 2007.

Analyst Willy Lam from the Chinese University of Hong Kong told the newspaper:

> “Premier Li’s position has certainly become more precarious as a result of the current crisis. If the situation worsens and if there comes a point where [President Xi Jinping] really needs a scapegoat, then Li fits the bill.”

Li and Vice Premier Ma Kai were closely associated with efforts in early July to stem the falling share markets, including a ban on short selling and new stock offerings and share sales by large investors. According to the FT, state-owned institutions pumped an estimated $200 billion into the share market, only to see it plummet over the past week.

The Chinese leadership is more broadly under fire. A lengthy article in the *New York Times* last weekend reported that Xi had been told by powerful party elders to focus more on restoring economic growth and less on his anti-corruption drive.

Xi, however, has exploited high-profile anti-corruption cases to consolidate his grip on power, jail potential rivals or challengers, and intimidate factions critical of his government’s accelerating pro-market reform and further opening up to investment. A shrinking economy will only fuel tensions within the isolated and sclerotic Chinese Communist Party (CCP) regime and open up the prospect of renewed factional infighting.

Having all but abandoned its socialistic posturing, the CCP leadership has depended for its legitimacy on continued high levels of economic growth. The fear in Beijing and major financial centres around the globe is that rising unemployment and deepening social inequality will lead to social unrest, particularly in the working class, which is now estimated to number 400 million.

The official growth figures have fallen this year to 7 percent—well below the 8 percent level that the CCP long regarded as the minimum required for social stability. Many analysts, however, regard even 7 percent as significantly overstating actual growth. A recent Bloomberg survey of 11 economists put the median estimate of Chinese growth at 6.3 percent.

Others put the figure far lower. Analyst Gordon Chang told the *Diplomat*website that "influential people in Beijing" were "privately saying that the Chinese economy was growing at a 2.2 percent rate." He pointed to other indicators of declining economic activity: rail freight (down 10.1 percent in the first two quarters of 2015), trade volume (down 6.9 percent), construction starts by area (down 15.8 percent) and electricity usage (up by just 1.3 percent).

While the Beijing leadership is under pressure to boost the economy, the slowdown in China is bound up with the broader global crisis of capitalism. The restoration of capitalism in China over the past three decades has transformed the country into a vast cheap labour manufacturing platform that is heavily reliant on exports to the major economies.

In highlighting China's contribution to world growth, Ken Courtis noted on "Lateline" yesterday that "Japan is contracting or in great difficulty still, the US is growing at 2, 2.5 percent, [and] Europe is slugging around at 1.5, 1 percent." These economies, however, are precisely the markets on which China depends. The latest figures for July showed that exports slumped by 8.3 percent year-on-year, with exports to Europe and Japan down 4 percent, partially compensated by a rise of 7 percent to the US.

Following the 2008 global financial crisis, the CCP leadership only maintained economic growth through a massive stimulus package and the expansion of credit. However, with exports and industrial production stagnating, the money flowed into infrastructure spending, property speculation and, more recently, stock market speculation. Notwithstanding occasional rallies in response to government measures to ease credit, falling property prices over the past year, and now plunging share prices, underscore the fact that these speculative bubbles are unsustainable.

The Chinese regime is under international pressure to accelerate its pro-market reform agenda, including privatisation of state-owned enterprises (SOEs) and the further liberalisation of the financial sector to open up new profit opportunities for foreign investors. Such measures, however, will only heighten the social gulf between rich and poor and provoke wider social unrest. The last round of privatisations in China resulted in the destruction of tens of millions of jobs.

The Beijing regime, which represents the interests of the tiny layer of Chinese millionaires and billionaires, is deeply fearful of the emergence of a movement of the working class. The fact that questions are being raised about the future of Prime Minister Li Keqiang is an indicator of the existing sharp tensions that will only intensify as financial and economic turmoil worsens and impacts on the lives of hundreds of millions of people.

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