China slowdown deepens global crisis

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The oft-expressed hope that continued economic growth in China would provide a new basis for the expansion of the world capitalist economy has suffered severe blows in recent weeks as a string of economic statistics have pointed to a marked slowdown.

The figures have a global significance for they make clear that, as the fourth anniversary of the collapse of Lehman Brothers approaches, the economic breakdown it triggered is deepening and extending to all parts of the world.

The importance of China for the world economy is underscored by the fact that since the onset of the global financial crisis in 2008 it has accounted for more than 35 percent of all global economic growth. Over the same period, the major advanced capitalist economies have stagnated, with the economy of the euro zone actually contracting by 2 percent.

One of the most important linkages of the Chinese economy to the rest of the world is via trade, and it is here that the slowdown is expressed most clearly. The latest figures show that the growth of exports almost ceased in July, rising by only 1 percent, well below market forecasts and the 11.3 percent increase in June. Imports rose by only 4.7 percent, indicating that domestic demand has not been expanding as fast as government authorities had hoped when they adopted a looser monetary policy in June.

A breakdown of the export figures reveals that, far from providing a source of stimulus to the rest of the world, the Chinese economy is being dragged down by the recessionary currents in all of the major capitalist centres. Exports from China to the euro zone have shrunk by 16 percent over the past year, with some of the biggest falls in the major economies. Exports to Italy, for example, plunged by 36 percent.

The official Chinese news agency Xinhua has described the situation as “grim.” There are predictions that the target of a 10 percent increase in exports for the year will not be met amid warnings that 2012 bears a resemblance to the period immediately after the bankruptcy of Lehman Brothers, when exports held up for a few months and then collapsed.

That led to the laying off of 23 million Chinese workers, to which the government responded with a major stimulus package, estimated at around $500 billion, and a directive to the banks to loosen credit. But these measures, while boosting the economy, led to the development of major imbalances. Investment now accounts for about 50 percent of Chinese gross domestic product (GDP), indicating how dependent the economy has become on government infrastructure projects and real estate development.

But there are indications that these measures are not having the same impact as in the past. Chinese GDP grew by 7.6 percent in the June quarter from a year earlier, the slowest expansion in more than three years. Industrial production growth dropped to 9.2 percent from 9.5 percent, retail sales growth fell to 13.1 percent from 13.7 per cent. Investment growth was steady at 20.4 percent.

While these growth rates are high compared to the advanced capitalist economies, narrow profit margins in much of the Chinese economy mean that a relatively small decline in the rate of growth has a significant impact. A report issued two weeks ago, for example, showed that in the first half of the year the profits of Chinese steel makers declined by 96 percent compared to a year earlier, with one official describing the industry as a “disaster zone.”

Profits at state-owned enterprises, which still comprise a significant proportion of the economy, fell by 11.6 percent in the first six months of the year, the worst outcome since the onset of the global financial crisis at the end of 2008.

The slowdown in the Chinese economy will have a major impact on the politics and economics of a range of countries. One of the key effects of the Asian economic crisis of 1997-98 was a significant shift in the economic orientation of many of the countries of South East Asia. Increasingly, instead of producing consumer goods directly for the US and European markets, they became engaged in the manufacture of components for commodities that were finally assembled in China.

For all these economies, the slowdown in Chinese trade is a worrying sign. The Thai Central Bank issued a statement this week warning that the slowdown in export growth would hit Thai industry, which is a significant supplier of components. A spokesman for the bank said that the “negative impacts of the euro crisis on our trade partners” would grow in the second half of the year. The bank has already revised downwards its GDP forecast.

Major exporters of raw materials to China, in particular Australia and Brazil, will also be impacted. This week, an official of the Brazilian iron ore exporter Vale declared that the China slowdown meant the “golden years” were gone. The company, which shipped about 44 percent of its iron ore and pellets to Chinese steel producers in the second quarter of this year, announced a 59 percent fall in its profits, with prices for iron ore down to their lowest levels since December 2009. With the Brazilian economy already experiencing a major slowdown, the government has announced a series of privatisations, with more expected in the coming weeks.

The China slowdown will have significant economic and political ramifications in Australia, which is highly dependent on the Chinese market for its exports of coal, iron ore and liquefied natural gas. There have already been expressions of opposition from within sections of the mining industry and other quarters to the Labor government’s support for the US “pivot” to Asia and its increasing hostility to China. These rumblings within ruling circles are likely to increase under conditions where the slowdown means the struggle for export markets in China is going to become more intense.

Tensions between the US and China could also increase. The slowdown in export growth means that Chinese authorities are going to be far less inclined to allow the value of the renminbi to rise. Earlier this month, the state-backed *China Securities Journal* noted that “depreciation” of the currency would be “beneficial by enhancing exports” and it should fall by an “appropriate” amount. But any significant decline is certain to bring a swift response in the United States, which is seeking to hold down the value of the dollar in the struggle for export markets.

The intensification of contractionary trends within the world economy, of which the slowdown in China is an expression and to which it in turn contributes, means that increased political tensions are going to accompany a worsening economic situation.

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