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Mounting problems in Chinese economy will have global effects

After a delay of a week, China statistics officials have released gross domestic product data for the third quarter, showing the economy grew by 3.9 percent over the year.

While this was higher than market expectations of 3.3 percent growth, it was well below the government target of 5.5 percent, itself the lowest rate in more than three decades.

A man wearing a protective mask walks in front of an electronic display board in the lobby of the Shanghai Stock Exchange building in Shanghai, China, Friday, Feb. 14, 2020. [AP Photo/AP Photo]

No official reason was given for the delay in the release of the data, but much commentary suggested it was because it would distract from the Chinese Communist Party congress held last week at which President Xi Jinping was given a third term as CCP leader.

The delay was accompanied by another surprise decision. Contrary to usual practice, the National Bureau of Statistics released the figures without holding a press conference to discuss the quarterly data.

The figures showed a series of mounting problems for the Chinese economy. Retail sales rose by only 2.5 percent, well below a forecast by Reuters of 3.3 percent.

Industrial production was up by 6.3 percent, better than expectations, and fixed investment increased by 5.9 percent over the first nine months of the year. However, the property market continued to contract under the impact of the unresolved financial problems of the giant developer Evergrande and other companies.

It has been estimated that property development accounts for more than 25 percent of the Chinese economy when its flow-on effects to other areas are considered. Property sales were down 22 percent, new construction starts have fallen by 38 percent and property investment has dropped 8 percent.

The conclusion is being drawn that the lower growth is not a conjunctural downturn but signifies a major shift in the Chinese economy. Some of the key issues were summed up in a blog post by Alex Brazier and Serena Jiang, two economists at the giant investment fund BlackRock.

As part of the international pressure on China from governments and financial interests to relax or even end its “zero COVID” policy, much of the blame for lower growth has been placed on public health measures instituted by Chinese authorities.

According to the BlackRock economists, the “big focus on Covid-related ups and downs in activity” ignores the more fundamental issues.

“The Chinese economy grew apace in the ten years prior to the pandemic, by 7.7 percent on average each year. But it now faces a set of acute challenges that … mean it is entering a stage of significantly slower growth.”

Covid controls were reducing potential economic output and, while they may be eased, the potential growth rate of the economy might have fallen to below 5 percent and could go even lower to just 3 percent by the end of the decade, they wrote.

Outlining the reasons, they continued: “Most importantly, the working age population, having grown rapidly is now shrinking. …Fewer workers mean the economy cannot produce as much without generating inflation, unless productivity growth accelerates.”

But that requires the development of new technologies which is being constricted by the sweeping restrictions imposed against China as part of the war preparations by the Biden administration.

Having crippled the tech giant Huawei, the US is extending the attack to the whole of the technology sector. These moves recall the oil embargo imposed on Japan in the late 1930s, which played a key role in sparking the war in the Pacific, part of World War II.

According to the BlackRock blog, “international trade and tech restrictions, as well as tighter regulations on companies operating in China, will dampen productivity growth.”

The growth slowdown, both in the short- and longer-term, will have a major effect on the global economy.

Drawing out the global implications of the shift in the Chinese economy, the BlackRock economists wrote: “In the past, when countries faced a slowdown, they could still rely on Chinese consumers and companies to buy up their cars, chemicals, machinery, fuel—even as consumers at home tightened their belts.”

And they could also rely on China to continue supplying an abundance of cheap products as the rapidly growing population enabled it to keep production costs low.

“Not so anymore. Recession is looming now for the US, UK and Europe. But this time, China won’t be coming to its own, or anyone else’s rescue,” they concluded.

The release of the GDP data coincided with a violent response in the Hong Kong and Shanghai stock markets on Monday to the consolidation of power by Xi and his appointment of his supporters to key posts.

Hong Kong’s Hang Seng Tech index fell 9.7 percent, its second-largest one-day fall, exceeded only by its slump in response to the 2008 financial crisis. Overall, the Hong Kong market dropped by more than 6 percent for the day.

The selloff extended to Wall Street where the NASDAQ Golden Dragon index, which tracks the shares of Chinese companies listed in the US, fell by a record 14.4 percent, leaving it down by around 50 percent so far this year.

In mainland China, markets fell by 3 percent and the renminbi dropped to a 14-year low against the US dollar.

The executive director of research at Kingston Securities, Dickie Wong, described the fall on the Hong Kong market as a “panic selling moment.” He attributed the fall to the Chinese CCP “leadership reshuffle and the tensions between China and the US” which continued to drag down sentiment and add to uncertainty.

The general response in the markets was that the appointments by Xi meant that he would continue with policies that were not “market friendly” under conditions where the key focus is on “national security” in response to the measures of the Biden administration.

The *New York Times* noted that in his opening address to the party congress on October 16, Xi mentioned security six times more than he referenced the economy.

Arthur Kroeber, head of research at Gavekal, a China-focused research firm, told the *Times*: “It is clear that before the party congress there had been a lot of wishful thinking in large swathes of the financial community that there would have been some kind of clear signal of commitment to the traditional liberal economic reform, and that has now been exposed as a delusion.”

The expected long-term decline in Chinese economic output as a result of the tech restrictions being imposed on it, and the immediate market selloff in response to the party congress, are both responses to the accelerated war drive against China by the US. As the recent National Security Strategy document makes clear, the US regards China as the greatest threat to its continued global dominance.

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