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China

# When Chinese eat grass: the economic crisis amid the coronavirus pandemic

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**LAST YEAR, DURING THE HEIGHT** of the trade war with the US, it was reported that a top Chinese official vowed that China would continue to defy US's bullying, even if this required Chinese people to eat grass instead of rice for a year. The trade war dealt a blow to exports, one of the three main growth engines (the other two being aggregate investment and household consumption).

Early 2020 witnessed a second blow to China's exports - the coronavirus pandemic.

## Signs of economic contraction

Although China's export dependency has been steadily declining for the last decade, one quarter of active labour in the country (200 million workers) still depend on the export sector for jobs. The three most important coastal cities are Shanghai, Shenzhen and Guangzhou. They are all heavily dependent on foreign investment, which accounts for between 60 and 70 percent of the cities' GDP. No wonder we saw a contraction of the national GDP by 6.8 percent year-on-year in the first quarter of 2020. For the first time in thirty years, China has abandoned an annual GDP target for 2020.

Official data on unemployment stands at 5.9 percent, but no one believes it. One of the major flaws of official figures is that they only count those who possess urban household registration. So they exclude rural migrant workers. A Diplomat report put the real figure at 12 percent, and this figure is widely agreed. One report has put it as high as 20 percent, or 70 million unemployed. In China, the party continues to massage figures to make its performance look good.

2020 may also be the year when public revenue growth becomes negative for the first time in thirty years. This may further put pension funds at risk as they have been running out of money despite public subsidies. The recession in the real estate market, which has been one of the main pillars of growth, is also bad news; municipal governments now find themselves unable to sell as much land at a favourable price to developers as before and have seen a drop in their revenue as well.

This will also affect their ability to pay back loans - municipal governments are heavily indebted. Since the 2008 financial crisis, local governments have set up Local Government Financing Vehicles (LGFVs) to borrow money to invest in infrastructure so as to boost demand (they also allow officials to steal public money from state projects). Much of the debt is hidden, but it is estimated at between 16 and 42 trillion RMB (between 2.3 and 6 trillion US dollars).

A report from the Bank of International Settlements put China's total debt at 256 percent of GDP. It warned that it is more than high enough to lead to a banking crisis. However, one needs to be aware of the fact that, unlike the debt of many similar middle-income countries, China's debt is mainly domestic, denominated in RMB, not foreign currency. So it is subject to more governmental control.

## Promoting domestic consumption

With the deterioration in China's relationship with the US, Beijing's most recent response to its sharp decline in exports is to promote the "domestic circulation system" - boost domestic demand. This demand has two sources - investment and household consumption. Raising investment is not the answer as China has already suffered from over-investment. The abnormally high investment rate of more than 40 percent of GDP is the result of a long-term industrialisation strategy promoted by the state. But it has depressed workers' wages and peasants' income, and so it has also depressed household consumption. While household consumption of 60-70 percent of GDP is considered normal internationally, in China it has always been low, on average as low as 50 percent between 1952 and 2019. [1] What is more alarming is its continuous fall, from 47.7 percent in 2000 to 34.6 percent in 2010; since then it has risen again but only very slightly, to 38.8 percent in 2019.

To correct this would require a redistribution of wealth, with a significant rise in the income share of working people, to enable them to buy what is domestically produced. The regime has long realised the danger of such a structural problem, and has, for over a decade, repeatedly called for reform to raise the wage share of GDP. However, they have failed to do this because increasing the income of the poor is against their own interest. They prefer to solve the problem by exporting surplus capital, for instance the Belt and Road Initiative. [2] Yet with the onset of a global contest with the US, this outlet for China's problem also seems to be much less promising.

## State vs private capital

Beijing is now encountering its biggest challenge since its crackdown on the democratic movement in 1989. It is now beginning to turn against its former ally, the private business class. Economically speaking, the private business class, even if not as strong as state capitalism, is still strong. Today, China's private sector accounts for more than half of GDP, although it is the state which monopolises the commanding heights of the economy.

Yet politically the private capitalists are entirely impotent, and they have been the target of state coercion since the economic downturn. On the pretext of fighting corruption, in recent years Xi Jinping jailed a lot of tycoons, amongst them HNA Group's Wang Jian, Anbang Insurance Group's Wu Xiaohui, and movie star Fan Bingbing.

Since late 2018, the state has started promoting the idea that China has to further strengthen the state sector at the expense of the private sector. Since then, 41 listed private companies have sold some of their shares to the state, and it is the state which now practically controls them. Around the same time, the head

The former period of economic prosperity allowed the simultaneous growth of both the SOEs and the private sector, given the depth of the market reform and the huge size of the country.

The working people had to break their backs in order to satisfy both their bosses and the party bosses, but they could still find jobs. The coming of a new stage of slower growth has made it increasingly difficult to simultaneously satisfy the greed of private businesses and party bosses, not to mention the needs of the poor. Hence the tension between the state capitalists and the private capitalists. This has also prompted the latter to pursue capital flight.

## The poor suffer

The bottom layer of Chinese society is now in an increasingly dire situation. There is much less industrial action this year than last year. The pandemic and the economic downturn have prompted many rural migrant workers to stay in

their home villages. Those who are lucky enough to have a job in the cities have become more conforming.

In May, a remark made by Premier Li Keqiang not only put a spotlight again on the millions of working poor. It also might suggest disagreement at the top. He said that China has 600 million people with a monthly income of 1,000 RMB. This is more than 40% of the Chinese population. As one reporter remarked, this amount of money would not be enough just for an employee's monthly lunch expenses in big cities.

Li Keqiang said this in the midst of a huge effort from Xi Jinping to eradicate absolute poverty in China by the end of this year, promoting China to the level of "xiaokang", or a "moderately prosperous society". Li's remark is a slap in the face for Xi.

What annoyed Xi further was Li pushing local governments to support street vendors as a way to provide jobs for the jobless. This is considered to be discrediting Xi's "xiaokang" society. Soon the media was filled with attacks on the economy of "street vendors". This event has exposed differences at the top level in the midst of an economic downturn. Even if Li is more realistic in his policy, it would be the bureaucracy who implement it. The problem is that this bureaucracy is never neutral; it constitutes the core of the exploiting class. Soon it was revealed that cities which had provided a public space for street vendors had also taken the opportunity to levy heavy tolls on them, a tenfold increase in some cities.

In the economic downturn, a lot of Chinese are now feeding on "grass", but the burden is definitely not evenly distributed. It is, again, the working poor who suffer. The party bosses continue to enjoy their more than "moderately prosperous" lifestyle.

Source **Amandla** 71/72 September/October 2020.

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[1] CEIC "[China Private Consumption: % of GDP](#)".

[2] TNI, 29 October 2019 "[The Belt and Road Initiative \(BRI\)](#)".