

# Deepening Crisis of Chinese Economy

China, the biggest industrial and trading country of the world and the second biggest capitalist-imperialist country is now running into deep economic crisis. According to the National Bureau of Statistics (NBS) of China the current situation of China is 'unstable and uneven'. The main reason for this situation is domestic. Recently, on 18<sup>th</sup> October 2021, the data on the GDP of China in the third quarter (July to September of 2021) has been released. It is troublesome for the rulers of China. The data reveals that China's GDP growth rate has increased by 4.8% in the above mentioned quarter. It is to note that rate of the growth of the China GDP was 18.3% in the first quarter of the Year (January to March 2021). This record growth of the GDP was due to the base-effect of Chinese economy. This growth rate created an impression that Chinese economy has recovered after Corona impact. But very soon the balloon of the economic growth of China busted the rate of the increase of China's GDP which came down to 7.9 % in the second quarter of 2021 (April - June 2021).

The fact is that economic growth rate of the China has decreased continuously during recent years. The available data shows that the average annual growth rate of Chinese economy was 15.8% during 1988-2020 (in 32 years) and in 1994 it was at a record level of 36.41%. According to another data the average annual rate of the economic growth of China during 1978 to 2018 was 9.4%. The data of International Monetary Fund shows that the rate of the growth of the Chinese economy is continuously decreasing after 2010. See the table-I, given below.

The IMF has also forecasted that there will be further decrease in the rate of economic growth of China as shown in Table-II.

We know that the rate of the growth of the GDP is regarded as the main scale of the development of any capitalist economy. The downfall in growth rate of a country like China with a huge economy became a cause of concern, not only for the rulers of China, but also for the rulers and theoreticians of all the capitalist countries.

In 2014 the GDP of China was 10.524 trillion dollars, which increased to 14.340 trillion dollars and 16.862 trillion dollars in 2019 and 2021 respectively. But another fact is that Chinese economy is the largest in the world which is sunk in debts. The public-private-corporate debt in China was about 120% of its GDP, which increased to about 245% in 2019. It is to note that the GDP of China has increased much during this period. Due to the increase in debts, the number of Chinese billionaires has also increased and its position in this respect became second after USA.

China was gaining much from its international trade. Even during its 'trade war' with USA, the balance of payment remains in favour of China. The trade surplus of China was

about 535 billion Dollars in 2020, which has certainly increased in 2021. The data of 9 months (January to September 2021) shows that the trade surplus of China has been 429.2 billion Dollars.

<b>Table-I</b>	
<b>Year</b>	<b>% of the Rate of Economic Growth</b>
2010	10.61
2011	9.55
2012	7.85
2013	7.77
2014	7.39
2015	7.02
2016	6.85
2017	6.95
2018	6.75
2019	5.95
2020	2.34

Another reason for the strong economic base of China is that its foreign exchange reserve is the biggest in the world. In the last 2 months i.e. August and September 2021, its Foreign Exchange reserves were 3232 trillion Dollars and 3201 trillion dollars respectively. Although the biggest amount of foreign exchange reserve of China was 3.84 trillion Dollars in 2014. The recent data on foreign exchange reserve of China shows the trend of depreciation.

The main reason for this downfall is that the Government of China implemented many restrictions on foreign investment in order to promote domestic investment. XiJinping, the president of China said clearly in his speech that, there is no alternative to the trend of more and more government control in the economy facing limited consumers demand and over production. This speech has been published in the theoretical journal 'Quishi' of the central committee of China on 8<sup>th</sup> July 2021.

Besides this, there has been a downward trend in the rate of profits in the government and corporate sectors of China since 2013. The rate of profit on the total assets of China was 14.5% in 2013, which came down to 7% in 2020. During this period the investments in factory production, construction sector activities, retail trade sectors etc. declined. The construction sector of China provides employment to huge number of people and due to decline in this sector lakhs of people of China became unemployed. According to the document of the 14<sup>th</sup> Five years plan (2020–2025) of China, the rate of unemployment reached to 5.2%, which was 4.09 % in 2014. Likewise, the rate of inflation has also increased in China. It was 1.99% in 2014 which increased to 2.39 % in 2020. The atmosphere of 'doing businesses' has also deteriorated in China, so the rate of bankruptcy has increased. According to the data, given by the Supreme People's Court of China, about 2000 cases

of bankruptcy used to come to the court yearly up to 2014, but in 2014 the number of such cases increased to 18000.

<b>Table-II</b>	
<b>Year</b>	<b>% of the Rate of Economic Growth</b>
2022	5.6
2023	5.2
2024	5.25
2025	5.11
2026	7.39

It is clear from the above description that, the condition of Chinese economy began to deteriorate after 2010 and the rate of growth of economy started to fall since 2011.

There are three main reasons for fall of the rate of growth of Chinese economy in 2021: 1) the fall of Real Estate, 2) Power cuts and 3) crisis in the Tech and Gaming Industries. Let us discuss these causes in details:

### **1. Fall of Real Estate**

About one-fourth of the GDP of China comes from Real Estate. Recently, the Government of China has enacted a law for the Real Estate. The Law has been implemented, which prevented immovable property developers to take more loans. Besides, the Chinese administration has begun to enquire effectively the accounts and transactions of financial institutions and shadow bankers, who were renewing/upgrading the short-term loans of real estate developers. Due to these steps taken by the Chinese government, the crisis of the Real Estate sector deepened. The Giant Real Estate company 'Evergrande' in total has a liability of 305 billion Dollars, which includes bank loans, short term borrowings and suppliers credit. Thus Evergrande, the top seller developer, turned into one of the top debtor company. With the hardening of debt rules by the Central Bank of China, the existence of the Evergrande company is in danger.

It is to note that the actual financial crisis of the Evergrande group is the result of heavy and aggressive borrowings since many years. Taking loans in huge amounts, the company has expanded its trading activities. The company has developed its activities in 280 cities and working on more than 1300 projects, it has become one of the best Real Estate developers in China. The company has extended much in Wealth management, Theme parks, and sealed bottle water, Electric cars, Goods on rent, Dairy products and other activities. The company is the owner of the most popular Football club of China. But, since the sale of properties has come down in China, the economic situation of the company has deteriorated. Now more than 800 projects of this company are unfinished, and it is not able to pay the bonds on due dates. And since the suppliers and investors of this company are waiting for the payments of their bills, the company has been facing their anger. The Evergrande group has been trying to sell their properties to get rid of this situation. But the company is not getting success in this move. As a result, the employees and workers of the Real Estate companies of China including about 2 lakhs employees

of the Evergrande company seems very anxious about their future. Most of the analysts believe that the crisis of Evergrande Company will not be unmanageable and soon the Chinese government will announce an effective plan to save the company.

## **2. Power Cut:**

Chinese government is not supplying coal according to the needs of power production centers, that's why the production of electricity is less. China had decided to control power, which it has not achieved in the first six months of 2021. Due to this power cut, the manufacturing industry of China has been much affected. Power blackout is now not abnormal, which it was, during socialist China. Now power is not supplied in many areas for hours, particularly, in the eastern part of the 'Industrial hub' of China. The problem of power has become very serious, affecting thousands of factories badly. To fulfill the increasing demands of electricity in some strategic areas, and to honor the promises on climate change, Chinese government is reducing the supply of electricity in some areas creating negative impact on industrial production. It is noteworthy that the contribution of Industrial Production in the GDP of China is 40.5%

## **3. Crisis of Tech and Gaming Industry**

The Chinese government has framed new rules for technology and gaming industry, to protect the right of privacy. Under one of the rules, boys under 18 years have been banned to play video games. Their times for playing games have also been limited. According to another rule, the employers of Technology and Gaming companies have been directed to provide more facilities to their employees. Owing to obeying these rules and directions, the cost of Technology and Gaming companies has increased affecting their businesses negatively. The Tech and Gaming Industry business was very developed in China and its contribution to Chinese economy is also significant. Weakening the industry has wrongly affected the economic growth of China.

Economic experts on Chinese economy believe that due to some policy decisions taken by the government, the economy of China is facing economic crisis. According to News Agency, Reuters, the factories of China are facing much loss due to power cut. The industrial sector of China was facing loss due to 'Covid-19' epidemic, the power crisis has aggravated the crisis. In such a situation many companies related with the supply chain of China have begun to wind up their business and seriously thinking to shift to Bangladesh, Malaysia, Indonesia and India.

## **Rulers View on Economy of China**

In the 19<sup>th</sup> Congress of the Communist Party of China (CPC), held in October 2017, a decision was taken to strengthen government control on the economy of China. In this Congress Xi Jinping said that houses are built for living and not for speculation. Till 2017, the cost of houses in China had increased too much. In 2017, the total population of China was about 140 Crores. Today it has crossed 144 Crores. At that time the share of the urban population of China was about 58%, which has reached to about 64% today. So the demand for houses in cities increased. According to NBS of China, the cost of houses in

4 big cities increased by 6 to 7 percent and in other cities 4 to 5 percent from 2002 to 2017. Consequently the burden of loans for purchasing houses increased on big numbers of Chinese families. Due to this, they were not able to finance their essential needs. According to a survey, about 53% families do not want to have even one child and 30% families want to have only one child, while the law of China allows them to have three Children. According to the survey, done by micro blogging sight BB, most of the families were unable to bear the burden of costly houses and children. To deal with this situation, the Chinese government announced '3 Red Lines' to control the activities of Real Estate, under which the limit of Financing was imposed. The Real Estate company Evergrande, also did not meet the criteria of 'three red lines' and it is facing a serious crisis of finance and cash.

The President of China Xi Jinping explained the concept of 'New Philosophy of Development' and 'Socialist Modernization' in his famous speech given on 11<sup>th</sup> January 2021. He said that, 'we have changed our views of accepting the growth rate of GDP as the scale of success.... We should concentrate our efforts on the quality of economic development and reform in return, promotion of a healthy economic development and reall development in domestic production rather than fake development'. He further said that 'our economy is in a slow stage of development, it is a painful adjustment stage and it is a stage to absorb the adverse impacts of past incentive policies.... We have started structural reform in supply side.... To promote structural reform in supply side there are five priorities:

- i. To cut excessive capacity
- ii. To reduce the stock of excessively produced goods
- iii. To distribute loan dependency
- iv. To reduce cost and
- v. To strengthen weak sectors'

Besides this Xi Jinping said that, 'we should be active in reducing the gap between urban and rural areas, the rich and the poor'. In this important speech, the president of China also spoke about promotion of domestic demand and market, reducing the downfall of the rate of growth and solving the problem of unemployment. To solve all these mentioned problems the 19<sup>th</sup> Central committee of the CPC formulated a 'New Philosophy of Development', to be implemented in 15 years, from 2020 to 2035.

### **Political Discourse on the New Philosophy of Development of China**

Some left parties and analysts believe that the 'New Philosophy of Development' in the direction of 'Modernization of Socialism' as advanced by the Chinese government under the leadership of Xi Jinping is in real sense the forward stage of socialist economic development. According to them Xi Jinping is a true Marxist and he is building socialism according to the peculiarities of China. In this context, he is increasing the control of communist Party and government upon private companies and industry.

But, the fact is opposite. It is to note that in the 1980's, Xi Jinping was very curious in promoting the market reform policies of the capitalist roader Deng Xiao Ping. Xi Jinping himself had announced to lead the market forces in the end of 2013. Besides, he worked for investing more in the share market, relaxing the government control on the currency of China and handing over the operation of Companies to the professional managers. Again Xi Jinping has mentioned the problems of economy of China (in his speech) which are the result of capitalist mode of production. The capitalist mode of production and production relations are governed by objective laws, which works according to their dynamics and independent of our will.

### **Marxist Explanation of Capitalist Economy**

The main proponents of scientific socialism has proved much before, that the principle reason of the crisis of capitalist, is the contradiction between the social production and individual ownership. Due to this basic contradiction, there is revolt of modern productive forces against the modern stage of production. And then the crisis period started. The crisis starts as 'periodic crisis' and it comes after a fixed time. During such crisis the epidemic of over production rages on. To deal with these 'periodic crises', the Capitalist classes on the one hand destroy a big part of productive forces forcefully and on the other, they occupy new markets. Periodic crisis does not come in all industries at once. As a result workers leave those industries facing crisis and join other industries. During this period, Capitalists try to reduce the cost of production by using developed technology for increasing labour productivity and extending the hours of work along with reducing the facilities being given to the workers. But due to 'cut-throat competition' among capitalists, the small producers are forced to come out of markets. In this process, monopoly capitalism comes into existence. When the free competitive capitalism turned into monopoly capitalism in the last quarter of 19<sup>th</sup> century the production increased exponentially and the market available for selling products became small. As a result, wars were organised for the redistribution and capture of markets. Thus the situation of world wars and colonial exploitation in many countries increased. Now, the crisis is not only limited to economic sector, but it engulfs political, social, cultural and military sectors also. After this, the 'periodic crisis' of capitalism turns into 'general crisis'. Thus, the era of imperialism (dying capitalism/moribund capitalism) starts. Hegemony of finance capital, destruction of means of production at large scale and spells of wars and pseudo wars become the special characteristics of this era.

We know that the theoreticians of scientific socialism has regarded imperialism as the highest stage of capitalism and during this stage, all the above said characteristics remain in the capitalist mode of production. The crisis of capitalism becomes so deep and extended that its further development becomes impossible. Thus the downfall of this parasite system is inevitable.

Some Marxist thinkers believe that the crisis of capitalist-imperialist China is taking the shape of general/permanent crisis. However hard the Government of China may try, it is not easy to come out of the crisis. But if China comes out of this, it will again land in

a greater, deeper crisis. The crisis will continue until the parasitic capitalist system is overthrown and a Peoples' Democratic and Socialist system is built.