

Economies: China bemoans falling growth rate



China's upset. Whilst the rest of the world falls into what economists call negative growth and the rest of us call recession, the growth rate at the world's factory is a "mere" 9%. But that's enough to cause alarm.

China has announced that its economy is not growing at its previously rapid rate. With a growth rate of 9%, it is still, in global terms, an absolute star but the Chinese government and the Chinese people are now wondering if it's a falling star they can catch before it hits the ground.

On the face of it, there's no need to panic - it's all going according to plan. Or at least, it's going according to one of the plans. In March 2005, Sun Xiaoyu, the deputy irector of the State Council Development Research Centre told the China Development Forum in Beijing that the Chinese economy was expected to grow at an annual rate of 8% between 2005 and 2010.

At the same event, a spokesman for the National Bureau of Statistics reportedly publicly but informally stated that China's economy was geared up for annual growth of 8% to 9% "over the next five to ten years."

And Han Wenxiu, a Deputy Director of the Department of National Affairs at the National Development and Reform Commission told the conference ""China has reasons to maintain rapid economic growth over the next 20 years, although the rate may decline slightly."

[\(here\)](#) explains the factors that the projections were based on.

So, if the current position is well within those projections, why the concern now?

The simple answer is that the projections hugely under-estimated the growth rates since they were made - and China's got used to the good times.

It was Zhang Xiaoji, of the State Council Development Research Centre who sounded warnings in a press conference on the sidelines of the event. He said that there was, in recent years, increased spending on housing and cars. But, recognising a Chinese tendency towards prudence and accumulation of wealth (displayed by Chinese communities all over the world), he said that this allowed for increased spending on healthcare, provision for old age and education as the focus for a greater percentage of the population moved away from basic shelter, food and clothing to the discretionary items such as telecommunications, entertainment and travel. That all sounded good: but, he said, there were substantial gaps between different regions, and between rural and urban populations. That would produce an income gap that would have an effect on social stability.

That social stability is one of the things the Chinese government has tried to manage as 1,000 million people decide not to be subsistence workers and to grow their families wealth by converting a communist society to a benign socialist / semi-capitalist model. The pace of change is revolutionary not evolutionary and the last thing China - or the world - needs is a breakdown of civil order amongst such a large population. Many of the complaints of "human rights activists" come down to this: they don't like the way that China is undoing more than three quarters of a century of centralised economic and social control in a managed way. The Chinese approach is that the sacrifice of a small percentage of the population (however that sacrifice is defined) is better than all-out political, social and economic anarchy and that whilst it is not ideal, it is the least worst option.

The cost of production in a handbag or a pair of shoes is not in the design, and much of it is not in the materials. It is in the fact that machines cannot assemble them and perform quality control checks. So willing and nimble fingers are much sought after, especially if they are cheap. And for a long time, China's fingers were willing, nimble and cheap - and by the standards of assembling in most (but not all) of Europe and the USA, they still are. But the current mass-production shoe manufacturing capital of the world is no longer China - yes, it still has the lion's share of the market but it is shrinking massively as the business moves over the border to Vietnam, buoyed by Vietnam's perceived language advantages, the fact that it's undeveloped by, in particular, US fast food chains (usually the first, after Coca-Cola and Pepsi to enter consumer markets in developing countries) and a recent accession to WTO. And the fact that a lot of senior US executives have been there, although not recently.

China is the factory for Hong Kong and Taiwan. Guandong (formerly Canton) province has developed as the production centre for Hong Kong where people and land were expensive. Hong Kong style housing development dominates the Guandong skyline, at least near the border which, if not fully open, is certainly- at least at the formal crossings- a lot more relaxed than it used to be.

And China has fuelled, by its labour, a massive export surplus, primarily in selling to the USA and Europe. Chinese businesses are rumoured to have more than USD1 billion (that's twelve zeroes) held outside China as a result of "split invoicing" or "intervening purchaser" schemes.

But as the global economy tightens, as ChiefOfficers.Net noted several times over the past year, discretionary spending dries up. The first to go are toys, and not just for children.

In fact, in Guandong, the local government says that more than 20 children's toy factories have closed in the past year. Some of that is due to quality / safety fears (even though it has been established that some of those arose not through any fault in China but as a result of flaws in the product design originating with large US companies). China's export of milk products is collapsing.

China's central bank has tightened up on credit card spending, recognising that the financial system would be compromised by widespread default - which some see as inevitable as incomes fall and costs rise.

The result is that an estimated 20% of China's manufacturing plants have closed this year. The situation is becoming so bad that demonstrations (technically illegal but so far no one has stopped them) have been held. Factories have simply closed and locked their workers out, many with arrears of pay that the companies have no money to meet. China's TV shows not just pictures of desperate workers - who know that the chances of re-employment are not high - but also of company bosses with piles of unsold goods and equally piles of unpaid bills. The blame, often, is put on cancelled orders from the US and the EU.

Chinese consumption is down as the population battens down the hatches. This is a population that has never known prosperity until the past ten years. Now brand-name stores are empty, conspicuous consumption is out of fashion, car sales have collapsed. Saving and investing in health-care, education and provision for old age is once more the norm.

As plants are abandoned instead of being mothballed, the question for China now is how to manage expectations more than how to manage the economy. That's something the Chinese government has been trying to do in the face of international condemnation for its methods. It's still a long way from the brutality that both the UK and the US delivered to recalcitrant workers when their own industrial revolutions faltered and led to mass redundancies.