COMMENT

China Lantern

30 YEARS LATER THE MUCH talked about China magic seems to be fading, very sharply. Chinese capitalism now faces the music of global recession. What a difference a few months make! When the United States' sub-prime mortgage crisis was evolving, many analysts theorised that Asian economies were 'decoupled' from the Western economies, and would continue their strong growth, especially with China pulling the rest along. But the reality is otherwise. The decline is everywhere, all are affected.

In fact, Chinese policymakers and thinkers are going through a re-thinking of their economic and social policies, as the global crisis has hit the country much more seriously than perhaps anyone had predicted.

A large part of China's high growth (10% per year or higher) and its dramatic increase in foreign reserves (to almost US$2 trillion now) was driven by manufactured exports.

But recent months have seen the closure of export-oriented firms. Around 670,000 small firms have closed this year and 6.7 million jobs vanished, many in Guangdong, due to the global crisis, according to State Council advisor Chen Quansheng.

The Ministry of Human Resources reported that 4.85 million jobless migrant workers had returned to their hometowns and villages by the end of November and more than 10 million migrants are now out of work.

This reflects the slump in exports as well as in consumer spending. In November, for the first time in many years, China's export revenue actually fell. Industrial output growth slowed to 8% in October. Total electricity output fell by 7%, an ominous sign as electricity use is the first indicator of the overall state of the economy.

In the domestic economy, vehicle sales were up by only 7.7% in November while the sales of buildmg materials were 33% down in November and private housing sales in January-November were 20% below the same period a year ago.

Small and medium sized enterprises were already in trouble at the beginning of this year. Their profit margins were hit by cost increases caused by rising raw materials prices, the appreciation of the local RMB currency, the implementation of new labour laws including minimum wages, new tax and export rebate policies, and shortages of land supply and credit.

By mid-year, economic analysts were already talking about "the end of low-cost textile exports." Policy-makers were aiming at phasing in higher value-added industries.

Then the financial crisis turned into a real-economy recession in the US and Europe in the past few months. The fall in consumer demand in the West is transforming the problems into a major crisis in China.

The export-led model is over for China, at least for the next several years as the West's recession will deepen and last many years, and consumer demand for Chinese imports is going to plunge.

Export-oriented growth strategy has failed many a third world economy. China can hardly escape the trap. The Chinese brand of ‘‘market socialism’’ is being turned around its head. The global melt-down is likely to cut the 'miracle economy' i.e. China by more percentage points than the loss of GNP growth points in the US, major European countries or Japan. Indications are that things will get worse for China before they finally get better. Twenty million jobs have already been lost as the industries based along the Chinese eastern coast that were producing export items like textiles, shoes, toys, steel etc. have closed. For China's wage labourers it is literally a harrowing situation, having nowhere else to go.

[contributed]