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 defend its interests 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 investment and household consumption).
Early 2020 had witnessed a second blow to China's exports – the coronavirus pandemic.
Although China's export dependency has been steadily declining for the last decade, one fourth of active labour in the country, or 200 million workers, still depends on the export sector for jobs. The three most important coastal cities – Shanghai, Shenzhen and Guangzhou are all heavily dependent on foreign investment, which accounts for between 60 to 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 30 years, China has abandoned an annual GDP target for 2020, so announced by Premier Li Keqiang in his report to the National People's Congress (NPC).

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 and hence exclude rural migrant workers. A Diplomat report put the real figure at 12 percent, and this figure is widely agreed. An individual report put the figure at 20 percent, or 70 million unemployed. In China, the party continues to massage figures to make its performance look good.

2020 may also be a year when public revenue growth becomes negative for the first time in thirty years. This is especially bad for retiring workers as pension funds have not been enough to pay them even with 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 hence 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 LGFVs (Local Government Financing Vehicles) to borrow money to invest in infrastructure so as to boost demands and also to further industrialise the country (plus allowing officials to steal public money from state projects).
Much of the debt is hidden and therefore the public does not know the actual size of the debt. It is estimated at between 16 and 42 trillion RMB.

This leads us to a brief discussion on the issue of China's debt. The IMF published a report in December 2017 and identified three 'major tensions' in China's financial system that could derail the economy, and debt was one of them. This was followed by a report from the Bank of International Settlements this March, warning that China's debt now surpasses an amount that could lead to a China system fallout.
It put China's total debt at 256 percent of GDP. This is comparable to developed countries but

exceptionally high for a developing country like China.

Although one needs to be aware of the fact that unlike many similar middle income countries' debt, China's debt is mainly domestic debt denominated in RMB, not foreign currency, and hence subject to more governmental control. As a kind of state capitalism Beijing possesses greater leverage in containing economic crisis. The state is now pumping rescue package money into the market.

On the other hand, this state capitalism is also increasingly manufacturing more problems for itself. In recent years the state has, on the pretext of fighting corruption, jailed a lot of tycoons, for instance HNA Group's Wang Jian, Anbang Insurance Group's Wu Xiaohui, and movie star Fan Bingbing.
Since late 2018, the media (it is nearly all state owned) began to promote the new idea that, in a period of escalating conflict with the US, China has to roll back the private sector and support the further strengthening of the state sector so as to strengthen the country's ability to fight the US. Since then, 41 listed private companies have sold some of their shares to the state but their practical control has been handed over to the latter.
Another form of state control is stationing party cadres in private companies to oversee everything. Around the same time, the head of Alibaba, Jack Ma, announced that he would retire from the giant he founded in 2019, although he was only 54. It is widely believed that he had to step down to allow the party to have control over his company. Behind this party's attack on the tycoons there is a growing tension between the party and the business class in general.

The private sector accounts for more than half of the GDP but the SOEs (State Owned Enterprises) monopolise the commanding heights of the economy, such as banking, insurance, finance, transport, communication, aviation and so on, and hence they are more price setters, not price takers. They devour a large amount of bank loans and state subsidies.
The top party bosses, through controlling the SOEs, have been plundering the country's wealth. Another channel of plundering is through their control of the government, for instance handing out state contracts to their cronies. This is why I describe this regime as a special kind of state capitalism, namely bureaucratic capitalism. By combining state power and the power of money, the party bureaucracy has enriched itself enormously.

In a period of economic prosperity, given the depth of the market reform and the huge size of the country, this allows the simultaneous growth of both the SOEs and the private sector, feeding the bellies of both the bureaucracy and the private business class at the same time. The working people have to break their backs in order to satisfy both their bosses and the party bosses, but they can still find jobs.
Yet China has entered into slower growth since several years back, and it is increasingly difficult to simultaneously satisfy the greed of both private businesses and party bosses, not to mention the poor.
Hence, we are witnessing fear among private businesses of having their assets "appropriated" by the party for a second time (the first time was in the middle of 1950s). With the economic crisis setting in, it has been reported recently that although tax on the private sector has been cut during this economic downturn, the SOEs have forced their private trading partners to hand back the tax cut to the former by providing huge discounts in their procurement. The party's attack on the tycoons and the SOEs' bullying of the private sector has worried a lot of business people and so they have been trying hard to transfer their money abroad. This is one of the reasons for the huge capital flight in recent years.

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

- either prompted many rural migrant workers to stay in their home villages,

– or likely made those who are lucky enough to have a job in the cities more conforming out of fear of losing their jobs.

Meanwhile they have been desperately trying to keep themselves safe from the pandemic, but for a while masks were very expensive for them. Labour activists had to provide education on why fellow workers should not pick up used masks, and why workers should not keep on using used masks but should dispose them. One of the tasks of activists is to pool together money to get proper masks for their fellow workers.

But last May a remark made by Premier Li Keqiang once again put a spotlight on the millions of working poor. 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, or 600 million people. As one reporter remarked, this amount of money would not be enough for an employee’s lunch expenses alone 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 of Xi. What annoyed Xi further was Li’s pushing of local governments to support street vendors as a way to provide jobs for the jobless. This is considered to be downgrading 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. But this saga of bureaucratic capitalism was not over. 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 an 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, while the party bosses continuously enjoy their more than “moderately prosperous” lifestyle.

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