

China - end of the boom?

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After decades of expansion, rs21 member Charlie Hore explores how a changing demographic, environmental issues and inherent instability pose serious threats to the growth of the Chinese economy.

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The [Wall Street Journal](#) has called it – ‘China’s 40-Year Boom Is Over. What Comes Next?’ There’s no question that China’s economic problems are multiplying, with declining growth across the economy as a whole, a surge in youth unemployment, and most obviously the slow but steady collapse of China’s real estate and construction sectors, which in recent years have accounted for almost a third of China’s economic growth.

In August Evergrande, the biggest construction company in China, with debts of over 300 billion US dollars, [filed for bankruptcy protection](#) in the USA, and in the last two years many other companies have gone under. The ripple effects of what’s going on in real estate and construction go much wider than those industries, though. In recent years local authorities in China have become increasingly reliant on land sales to property developers for revenue, but [in 2022 land sales fell by almost half](#). And tens of millions of people have either bought properties that haven’t yet been built (and may never be), or invested personal savings in property companies or property. As they move their savings into safer vehicles, the property sector’s debts get even worse.

The property boom of the last two decades is the product of mass urbanisation, as people have left the countryside to move to old or new cities, in the process triggering what Marx and Engels described as an [‘epidemic of over-production’](#). China’s economic history since the 1980s has been punctuated by such epidemics in different sectors of the economy – epidemics that arise out of the success of China’s growth model, while at the same time destabilising it.

This dynamic instability is driven by market competition, though not necessarily private enterprise – provinces compete with provinces, cities with cities, and counties with counties for investment and prestige projects, which both drive economic growth and generate huge amounts of waste through duplication and over-capacity.

The property bubble is nothing new – an *Al Jazeera* journalist first reported on ‘ghost cities’ in 2009 [\[1\]](#) (though many of the ghost cities do eventually fill up, even if not to their full capacity). Very high levels of debt are also nothing new, but much of the reporting on debt fails to take into account the particular nature of debt in China.

Three factors are particularly important. Firstly, almost all Chinese debt is held in China, with just [five percent of the total held outside of the country](#). Secondly, almost all debt is corporate or

government (at all levels), with household debt underpinned by very high levels of personal savings (concentrated among the most well-off). Lastly, the state-owned banks hold the great bulk of debt, which makes it easier for the central government to simply roll over the debts of state-owned or -controlled enterprises. 'Unsustainable' levels of debt (in monetarist terms) turn out to be quite sustainable if the political will is there (and if the state holds the bulk of it). As one writer rather crudely put it: *When considering domestic 'debt' in China, what we're really discussing is the amount of money the Communist party owes to the Communist Party.* [2]

He goes on to explain that trust in the state as a lender of last resort determines:

the prevailing attitude of investors in China's new cities. They all talk about the bubble that's soon to burst, while they inflate it even further. They assume that when it pops their government will be there to pick up the pieces - and given the track record of the Communist Party in such matters there is little reason to doubt this. [3]

China's current internal development strategy largely depends on sustaining both the housing bubble and increasing levels of debt - in computing jargon, they are both bugs and features. And the CCP still has a large number of options for periodically deflating the bubble and micro-managing the issues around debt, though the expansion of the unregulated [shadow-banking sector](#) has made it harder for CCP planners to grasp the full extent of the problem. What they can't do, though is get rid of the bubble. The longer that it persists, the greater the danger that the balancing act will no longer manage to keep the contradictions in check - as the small print says, past performance is no guide to future results.

The demographic deficit

While China's rulers still have a degree of control over their housing and debt issues, they have far less ability to influence one of the deeper malaises facing the economy - the 'demographic deficit'. China's explosive economic growth from the 1990s onwards was dependent on a seemingly never-ending supply of cheap labour from the countryside. But as early as 2006, export-processing industries in Guangdong province were reporting labour shortages, as migrant workers moved to better-paying jobs further north. By 2012 China's labour force had begun to shrink, as more people died or retired than joined the workforce. And in 2022 the [population fell for the first time](#) since the early 1960s, with live births falling by 10% from 2021.



China's birth rate since 1950, downloaded from South China Morning Post.

Covid has accelerated this process, but it is primarily driven by the success of China's one-child family policy - which saw China's fertility rate fall to just 1.6 births per woman by 2015 [4] - and college-educated women in particular [choosing to marry later](#) (if at all) and to have fewer children. Thirty years of rapid economic growth and urbanisation have massively expanded the economic choices open to women (as well as creating [the world's largest LGBT community](#), estimated at 60 to

70 million people).

However, the more immediate issue for China's rulers is ironically a huge rise in youth unemployment, as the consumer economy remains sluggish after Covid lockdowns. In June it was recorded at over 21%, at which point the government stopped publishing the figures. Part of this is a mismatch between where workers are and where the jobs are, but as [the Guardian noted](#), most of the unemployed are *...school leavers who are unable to get the types of service-sector jobs that have previously kept China's cities buzzing. Millions of would-be hospitality workers, security guards, couriers and nannies are unemployed.*

Environment/climate change

China's rulers also face an overlapping array of environmental problems, which are both exacerbated by and contribute to climate change. In 2022 China underwent the worst heatwave and drought for sixty years, and [this year's heatwave](#) started even earlier, while in July a typhoon hit large parts of eastern and northern China, leaving Beijing with the [heaviest rainfall since records began](#) 140 years ago. Decades of unregulated growth have led to increasing water shortages and some of the worst polluted air and water anywhere in the world; *...in December 2016 and January 1917...much of northern China disappeared from satellite view under an immense blanket of smog that smothered half a billion people.* [5]

While China has become the world leader in solar and wind power, with [more solar capacity](#) than every other country combined, coal and oil still account for [almost three-quarters](#) of China's energy usage, and new coal-fired power stations are [still being built](#), despite a pledge to reach 'net zero' carbon emissions by 2060. Urbanisation has led to much higher rates of consumption and energy use than before, and even if economic growth slows down, the sheer size of China's economy means that maintaining lower growth levels still puts major strains on limited resources. The government can speed up the transition to renewable energy, but there is no such fix for water supplies, and the [increased policing of farmers' crops](#) show the extent to which the government is concerned about maintaining grain production.

Conclusion

As dire as all this sounds, one author of a major study of China's debt noted that: *...no crisis has been prophesied as repeatedly and for so long as the one that has so far failed to materialise in China.* [6] Another put it more succinctly: *To read the history of modern China is to read the history of China collapse theories.* [7] Much of the press coverage reflects the wishful thinking of Western powers threatened by China's rise as a global power, and more narrowly the priorities of companies investing in or competing with China - in the words of a [New Left Review blogger](#): *The essential thing to bear in mind about Western coverage of the Chinese economy is that the bulk of it responds to the needs of the 'investor community'.*

China remains the world's second largest economy, [the third largest exporter of capital](#), and the biggest trading partner to [most countries in the world](#). This year it became the world's biggest exporter of cars, a growth fuelled in particular by sales of electric cars to Europe.

That economic strength remains matched by China's continuing global reach, as evidenced by the [recent expansion of the BRICS bloc](#), Beijing's related success in arranging the recent easing of tensions [between Iran and Saudi Arabia](#), and the continued [expansion of the Belt and Road Initiative](#)

[\(BRI\)](#), the most ambitious investment programme in the history of capitalism, which has now spread to 154 countries. And while Biden has clawed back some of the ground lost by Trump's counter-productive tariff war with China, his '[imperialist Keynesianism](#)' has yet to reverse the decline of the USA's economic and political power.

On the debit side, Biden's strategy of offering a counterweight to China in southeast Asia is steadily gaining ground, most notably with the recent [historic trade deal with Vietnam](#). Although China has managed to stay out of Russia's war in Ukraine, Putin's recent meeting with Kim Jong Un has opened up an unwelcome link between Russia and North Korea. Perhaps most importantly, India has emerged as a major challenger for influence in both Asia and the Pacific, with [higher economic growth rates](#) over the last decade (although from a lower base), and an ability to keep a place in all camps, as a member of BRICS and Russia's closest Asian ally, but also a member of the anti-China Quad military alliance.

The challenges to China's rulers are multiplying both in the world economy and at home. While it's too soon to say that China's expansion is over, there's plenty of evidence that this particular phase is coming to an end, but this has happened before and China's rulers have adapted. Deng Xiaoping's initial economic reforms after 1978 caused an economic crisis in 1988 that led to the political explosion in 1989; the rebooting of China's economy on the basis of cheap exports to the West after 1992 stuttered after the Asian economic crash of 1997, and came to a sudden end after the 2008 crash; and the most recent phase of massive state investment and attempts to increase domestic consumption resulted in huge over-investment in infrastructure and a consequent spiraling of debt, both of which have proved to be unsustainable.

For one analyst: *In each case, a successful policy generated a decade of growth but ultimately ran into its limits...the cycle ended in crisis, but that crisis proved a trigger for far-reaching reforms that - combined with the economy's underlying strengths - catalyzed the next decade of growth.* [8]

It would be unwise to rule out a new period of expansion - China was the first major industrial economy to bounce back after Covid first hit - but the internal and external environment is far less favourable than in the past. The demographic deficit and the multiple environmental challenges both constrain China's rulers far more than in past decades. And while past developmental strategies benefitted from [what Trotsky called](#) 'the privilege of historical backwardness', the sheer speed and scale of China's expansion have left far fewer openings in the world economy for further expansion.

As economic historian Ho-fung Hung [recently argued](#) *The current weakening of the economy and hardening of authoritarianism are not easily reversible trends. They are, in fact, the logical outcome of China's uneven development and capital accumulation over the last four decades. This means they are here to stay.*

Lastly, China's rulers also have to take into account popular reactions to changing economic and social conditions, which can be extremely volatile, as [last year's protests](#) over Covid restrictions showed. The very success of China's rulers in sustaining growth over so many years has created expectations about continuing prosperity which may prove increasingly difficult to meet. The boom may not be over, but the CCP's ability to shape the future direction of the economy faces multiple constraints - not least the never-absent prospect of a challenge from below.

Charlie Hore

P.S.

• rs21 -14 October 2023:

<https://www.rs21.org.uk/2023/10/14/china-end-of-the-boom/>

Footnotes

[1] Wade Shepard, *Ghost cities of China*, (London: Zed Books, 2015), p67-76.

[2] *Ghost cities of China*, p190.

[3] *Ghost cities of China*, p64.

[4] Leta Hong Fincher, *Betraying Big Brother - the feminist awakening in China*, (London: Verso, 2018), p71.

[5] Richard Smith, *China's engine of environmental collapse*, (London: Pluto Press, 2020), p72.

[6] Dinny McMahon, *China's great wall of debt* (London: Little, Brown, 2018) p xv.

[7] Thomas Orlik, *China - the bubble that never pops*, (New York: Oxford University Press), 2020, p194.<

[8] *China - the bubble that never pops*, p202. Orlik sees 1997 as marking the end of one such period, but the expansion of export industries carried on well into this century - 2008 was the decisive turning point.