China abandons economic figures, signals grim future for workers

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BEIJING
PUBLISHED MAY 22, 2020
UPDATED 4 HOURS AGO

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Chinese president Xi Jinping, center, and top members of government and delegates, many wearing masks, stand during the national anthem at the opening of the National People's Congress, at the Great Hall of the People, in Beijing, on May 22, 2020.

KEVIN FRAYER/GETTY IMAGES

China has paid a steep price for the pandemic that began within its borders, and it's now abandoning specific economic targets for the coming year, providing the strongest signal yet that government planners don't expect economic difficulties to ease any time soon.

“At present, and for some time to come, China will face challenges like never before,” said Chinese premier Li Keqiang in an annual work report delivered Friday. Its relative brevity reflected a country grappling with an uncertain future, as the deadly coronavirus erodes both the domestic economy and the trading partners on which China relies.

China’s plans for the year ahead reflect a deep-seated worry about jobs in a country whose official unemployment numbers show few problems, but whose underlying labour issues are believed to be much more serious. The days ahead for Chinese workers, economists believe, hold more struggle and less reward.

Beijing on Friday said it will earmark nearly $400-billion for local governments, with specific instructions that the funds be spent on bolstering employment, upholding basic living standards and supporting private companies, through reductions in rental costs and subsidies for consumption.

“This is a prescription that local governments have to keep businesses afloat, so that employment can be stabilized,” said Iris Pang, chief economist for Greater China with ING Economics.

Central authorities are also pledging to spend at least $20-billion to put more than 35 million people through vocational skills training in the next two years, while expanding enrolment in vocational colleges by two million.

“The government has emphasized tremendously on job stability. This means jobs are a challenge, employment is a challenge,” Ms. Pang said. For the moment, ”they don’t really care about what the GDP figure is.” In part, that reflects uncertainty over the shape of the coronavirus pandemic over the coming year, both in China and in other countries on which it depends for trade.

China already reported a 6.8 per cent contraction in first-quarter GDP, and a slight rise in unemployment. But detailed budget documents released Friday paint a grimmer picture: government revenues fell by 14.5 per cent in the first four months of 2020. Government spending on epidemic control reached nearly $30-billion in that same period.

In response, Beijing is setting out on a wide-scale plan to borrow and cut, in hopes it can buy economic stability.

Beijing will trim taxes and fees by $500-billion this year, and increase its deficit-to-GDP ratio to "more than" 3.6 per cent, an increase of at least 0.8 percentage points. Local governments will accrue vast amounts of new debt, with the issuance of $750-billion in special-purpose bonds – a 75-per-cent increase over the number issued last year – in addition to national pandemic-related bonds of $200-billion. Beijing promised a special $120-billion transfer to local governments.

It also pledged an additional $20-billion in rail spending, but Mr. Li's work report contained just two references to new types of infrastructure, an indication that Beijing does not plan to follow a long-established playbook to boost economic growth by spending heavily on concrete, iron and steel. China has used "new infrastructure" to refer to the construction of 5G network towers, electric car charging stations and other ways to underpin more high-tech development.

Rather than GDP targets and other spending, "government is trying to highlight something more important: improving people's well being and helping them live through the current trials," said Yu Miaojie, a professor of economics at Peking University.

But what Beijing has put forward "is certainly not an expansionary budget," said Andy Xie, a prominent independent economist. It is instead a plan to "force the people to absorb all of the economic adjustment," he said. He pointed to deflationary signals that have already emerged in wages, food prices and rent.

"China is just getting the people to adjust. And the adjustment is really accepting a lower living standard," he said. Officially, China expects to see a 3.5-per-cent rise in its consumer price index this year. But, said, Mr. Xie, "it is possible we're going to see double-digit deflation."

That's on top of what already amount to straitened circumstances for large numbers of people in a country with high rates of inequality.

”Over 560 million people have no bank savings. Based on Marxist economic theory, under such a condition, people neither have enough motive to consume nor sufficient material to invest,” said Ding Changfa, a professor of economics at Xiamen University.

“It’s definitely going to be a year full of difficulty for China. That’s not merely a warning in the work report – it’s a fact we have to face.”

China’s total debt already stands at nearly 300 per cent of gross domestic product, and the spending plans released Friday will only add about another five percentage points to that tally, Ms. Pang said. But, she said, mid-year adjustments are likely to drive the real borrowing number above current forecasts.

The country continues to pledge, however, that it will meet a goal to eliminate the most extreme forms of rural poverty this year and “achieve the goal of building a moderately prosperous society in all respects,” a target that involves doubling GDP and average per-person disposable income from 2010. Reaching that target requires GDP growth in excess of 6 per cent this year – it’s unclear how China can achieve that, although government subsidies have been used to prop up incomes.

“Though many people misunderstand [moderately prosperous society] as a single concept, overall well-being actually includes many indices, and GDP growth is just a part of it,” said Li Huiyong, vice-president of Hwabao WP Fund Management, a Shanghai-based wealth manager.

”Against the backdrop of today’s China, it’s clear that chasing after high-speed growth isn’t wise or rational,” he said.

Few expect China to permanently abandon GDP goals, which have governed the country’s development path for four decades.

Some, however, said China might be better continuing with that practice after this year.

“Personally I really hope the era of GDP targets will be over,” said Prof. Ding, although he acknowledged that is unlikely.

Still, the years of fixation on GDP has created “a lot of unnecessary waste in the process of chasing a numerical goal,” he said. “For example, in small rural villages, the same road is destroyed and rebuilt many times, just because that process creates GDP growth. But the point is, we haven’t created any tangible wealth, or anything truly effective.”

With reporting by Alexandra Li

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