China’s stock market fall sounds alarm bells

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Throughout 2022 the imperialist powers and global corporations applied tremendous pressure on the Chinese government to lift its successful anti-COVID public health measures. Their eventual success at the end of the year led to death of as many as 2 million people.

Today international finance capital is waging a campaign for Beijing to implement an economic stimulus package. If it does not, the threat is that the fall of the stock markets in Hong Kong and Shanghai will continue, leading to major financial problems.

Like the scrapping of the anti-COVID measures, this pressure is a demonstration of the fact that the nationalist policies of the Xi Jinping regime are directly subject to the forces generated by global capitalism with major political ramifications.

Above all, it illustrates the bankruptcy of the schema promoted in some pseudo-left circles that China, along with others, could form a counterbalance to the depredations and power of US imperialism and lead to the development of a so-called “multi-polar” world.

The fall in the markets is clearly causing concern at the top levels of the government. Most of the international finance that came into the markets at the beginning of last year had been withdrawn by the end.

On Tuesday, premier Li Qiang called for “more forceful and effective measures to stabilise the market and boost confidence.”

Hong Kong’s Hang Seng index, which fell almost 14 percent last year, has fallen a further 10 percent this year. It rose by 2.6 percent on Tuesday, its biggest rise for the year, but the effect was described as “short-lived” and markets in Shanghai and Shenzhen barely moved.

Since they reached a peak in February 2021, stocks in mainland China and Hong Kong have lost $6 trillion. That is roughly equivalent to the entire market capitalisation of Japan. In another measure of the extent of the fall, the Chinese market has never been as far behind Wall Street as it is at present.

In a comment to Bloomberg, George Magnus, a long-time China analyst at Oxford University’s China Centre said: “Xi Jinping’s people are almost certainly telling him that the rout in the equity market is a stability risk.

“Investors aren’t just abandoning Chinese stocks for normal reasons of valuations, but because the whole economic policy and political environment has atrophied. Getting confidence back probably requires major changes in both.”

With his call for “forceful” measures, Li announced the establishment of a 2 trillion yuan ($US278 billion) fund to buy up Chinese mainland stock by state-backed institutions through their offshore trading links.

Over the past year, authorities have introduced several measures aimed at trying to boost the market. They include directives to institutions not to sell stocks. Market regulators have issued instructions known as “window guidance” that prevent some investors from being net sellers of equities on certain days.

Some of these restrictions had to be relaxed at the beginning of the month because mutual funds, which are based on the money provided by smaller investors, were facing redemptions from customers who wanted to get out of the market because they feared further falls.

However, the efforts by the government to halt the stock market slide, not only through restrictions but also inducements such as reducing trading stamp duty and increased purchases by state-backed funds, have largely fallen flat.

Michelle Lam, Greater China economist at the global finance firm Société Générale, referred to the Chinese stock market crisis of 2015 in which it lost around one-third of its value, sending reverberations around the world. She told Bloomberg the experience had shown

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that “even when the government steps up buying the rally is not necessarily sustainable unless we have a bigger stimulus package to address the economic issues.”

China faces a growing list of problems with one of the key issues being the debt accumulation in the real estate and property sector as well as by local government authorities. The government and financial authorities are desperately trying to avoid the kind of debt-based stimulus measure they have used in the past out of fear it will exacerbate the huge debt levels.

After the global economic crisis of 2008 the regime turned to property real estate and infrastructure development to power the economy. It is estimated that as a result, non-financial debt rose to 294 percent of gross domestic product in November last year, up from 160 percent a decade earlier.

This rapid expansion led the rating agency Moody’s to downgrade its outlook for Chinese debt late last year.

The problems in the property market are being exacerbated by the onset of a deflationary cycle in which producer prices have been dropping for the past year and consumer prices were stagnant or falling for most of the last half of 2023. Deflation works to increase the debt burden.

The lack of what is known as “consumer confidence” about the long-term economic outlook is also reflected in the falling birth rate which, together with COVID deaths, contributed to the fall in the population in 2023 for the second year in a row.

The Chinese regime recognised some time ago that dependence on real estate and property development as the basis of the economy was not viable in the long term and turned to high-tech advancement as a new source of growth.

However, here it has run headlong into the dictates of US imperialism which as imposed trade restrictions on high-tech components in an effort to stifle Chinese economic advancement. The US regards China as the greatest threat to its dominance of the global economy.

These measures have been accompanied by the escalation of military threats and provocations over Taiwan. The US has all but recognised Taiwan as an independent state, abrogating in practice, if not yet in words, the “one China policy.”

The fall in the stock market is being regarded as a serious problem both in government and financial circles.

An article on Bloomberg published yesterday began: “A year ago, Hong Kong’s finance industry was hoping that a China reopening would unleash pent-up consumer demand and bring deals and prosperity to the city. There is no such illusion left.

“As the Hang Seng Index selloff deepens, bankers and traders are preparing for the worst. This does not feel like 2008 when the Global Financial Crisis hit but 1998—in the midst of the Asian Financial crisis… The late 1990s started with Thailand. But if another one erupts, China will be its root cause and Hong Kong the epicentre.”

The so-called “Asian Crisis”—it was in fact the expression of the deepening crisis of world capitalism—was characterised by then US president Bill Clinton as a “blip” on the road to globalisation.

However, it had major consequences in the US itself. It set off a crisis in the Russian ruble, leading in turn led to the collapse of the American investment firm Long Term Capital Management. It had to be bailed out in a $3 billion operation organised by the New York Federal Reserve lest its demise set off a crisis for the entire US financial system.

The consequences of the developing crisis in the Hong Kong and mainland China markets threaten to be no less severe.

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