

# China's exports plunge further

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The world's second largest exporter, China, registered a record year-on-year fall in exports of 26.4 percent in May. The result followed similar trends in other export-led Asian economies including Japan, South Korea and Taiwan, indicating continuing weak global demand.

China's May export figure was worse than the 22.6 percent fall in April and is the seventh consecutive month of decline. The slide of exports is the worst since the data is collected in 1995. Imports also fell 25.2 percent year-on-year in May—a further indication of weakening exports as China imports large amounts of semi-finished goods and components for re-export.

Other Asian exporters have been hit by the recession in the US, Europe and Japan. South Korea and Taiwan saw 25-30 percent annual falls in exports and imports in May and Japanese exports tumbled by 40.9 percent. Overall world trade volume plunged by 17 percent by the end of March, from a peak in 2008, a contraction that is greater than in the same initial period of the Great Depression in 1930s.

Despite these figures, the World Bank this month lifted its 2009 forecast for China's growth to 7.2 percent, up from the previous 6.5 percent. Most of the growth is attributed to the government large stimulus spending, which will moderate due to the growing budget deficit. "China's economic growth is unlikely to rebound to a high single digit pace before the world economy recovers to solid growth," the bank stated. Its latest forecast for the global economy in 2009 is a 2.9 percent contraction, down from a previous negative 1.7 percent.

When China slowed to just 6.1 percent growth in the first quarter, commentators rushed to conclude that the economy had hit bottom and was ready to surge back. Now economists and Chinese officials are more cautious, warning that the recovery is more likely to be slow and

unpredictable. Ben Simpfordorfer, a Royal Bank of Scotland economist, warned: "Strong [factory output] result will be hard to sustain in the second half because of still weak exports."

China's once vibrant manufacturing export hub, Dongguan, for instance, recorded an unprecedented 2.5 percent economic decline in the first quarter. Guangdong province as a whole, which accounts for 28 percent of China's exports and 12.5 percent of national Gross Domestic Product, recorded 5.5 percent growth in the first quarter, the slowest in 20 years. The once booming coastal export province of Zhejiang grew at just 3.4 percent, a decline of 8.4 percentage points from the same quarter last year.

Most growth now comes from inland regions, which are using government stimulus spending to build infrastructure. Their cheaper labour is also attracting multinationals that are shifting factories and offices from the coastal areas. Nine of the 11 provinces with double-digit growth rates in the first quarter were western and central provinces.

These imbalances have been covered up in the overall economic data. According to the Bureau of National Statistics on June 11, urban fixed asset investment in the first five months rose 32.9 percent from the same period last year to 5.35 trillion yuan—more than the total for last year. The number of new investment projects jumped by 47 percent in the same period to 123,878. Property investment rose 6.8 percent. Industrial output increased 8.9 percent in May from a year earlier. Retail sales rose 15.2 percent after a rise of 14.8 percent in April.

For economists desperately looking for "green shoots" of recovery, these figures appear to provide the answer. Lu Ting, a Bank of America Merrill Lynch economist told Bloomberg news on June 11: "There is no problem in China achieving its 8 percent economic growth target for this year."

The statistics are deceptive, however. Bank lending, which has been surging, is now slowing down, due to fears of inflation and large levels of bad loans. New loans in May were 664.5 billion yuan (\$97.2 billion), up from 591.8 billion in April—but far below the average 1,520 billion each month in the first quarter. Total lending so far this year has already exceeded the official target of 5,000 billion yuan, creating pressures on prices.

Alistair Chan, an economist with Moody's, told the *Financial Times* on June 11: "The surge in bank lending has resulted in a large increase in real estate transactions, possibly of a speculative nature, which may explain the rise in volumes. Fixed asset investment in China continues to increase on the back of state-directed projects... This will help keep the economy growing, but there are increasing concerns about the amount of lending that has been required to fund the projects."

China's Shanghai Composite Index has risen by over 60 percent this year, reflecting not so much the strength of the underlying economy, but the large amounts of speculative capital flowing into equity markets. One indication of the underlying weak investment in actual production is foreign direct investment (FDI), which fell 20.4 percent to \$34.05 billion in the first five months, compared to the same period last year.

The *Australian* noted that China's stockpiling of commodities reflected an uncertain recovery. Australia's key export to China—iron ore—was the subject of rampant hoarding and speculation. "Port warehouses are full and iron ore that is coming into China at almost double the 30 million tonnes a month that its steel sector is consuming." Demand of steel for infrastructure had risen, but there was little new demand from manufacturing.

Chairwoman of JP Morgan China equities, Jing Ulrich, insisted: "For China's nascent economic recovery to be sustainable beyond the short-term, policy makers must take steps to ensure that consumption remains on a firm growth trajectory and that the investment boom does not exacerbate the economy's structural imbalances."

However, growing unemployment and declining incomes among rural migrants and urban workers will only lower consumer spending. Since last September, 23 million rural migrant workers have been laid off, mainly

in export industries. Clement Chen, the head of the Federation of Hong Kong Industries, told Reuters that many firms in the Pearl River Delta were running below full capacity and were cutting costs. "In the long term they believe that hiring fewer workers and putting in automated machinery, higher production machinery, will basically be their strategy," he said.

Unemployment will impact heavily on rural areas, where remittances from relatives working in the cities have been vital. Beijing has allocated \$3 billion in subsidies for farmers to buy televisions, refrigerators and other electrical appliances, but the idea that impoverished rural areas can substitute for major export markets is a fantasy. For the past 30 years, rural areas have been a vast source of cheap labour. Rural incomes are several times lower than in the cities and are further eroded by heavy taxation.

Consumer confidence is falling, with a survey released by China's central bank this month showing that 43.3 percent of Chinese households complained that prices were "high and hard to accept," up sharply from 26.1 percent in the first quarter. The number of households feeling "comfortable" was the lowest since records began in 1999.

The Chinese regime is deeply concerned about the consequences of mass unemployment. The *Financial Times* on June 12 reported that Beijing had ordered state-owned firms not to lay-off workers, but instead cut wages. Companies must obtain government approval before firing large numbers of workers. "The government fears widespread unemployment could lead to social unrest. But many officials are more fearful of high inflation, which could spark public protests," the newspaper warned.



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