China slowdown continues as imports fall

Nick Beams
15 October 2015

Reporting from Lima, Peru, during the International Monetary Fund-World Bank meeting at the weekend, *Financial Times* market analyst John Authers expressed the view that a recent rise in commodity prices may have been due to the belief that Chinese authorities were in control of the economy and the slowdown may not be as severe as had been feared.

In its *World Economic Outlook*, the IMF had revised down growth in almost every region and for the world economy as a whole but maintained its previous forecast for China.

However, these upbeat assessments have taken something of a blow with the release of Chinese trade figures this week. They showed a nearly 18 percent fall in renminbi terms for imports in the year to September and a decline in exports. In dollar terms, the decline in imports—comprised of raw materials and components destined for Chinese factories—was even greater. They were down by more than 20 percent for the year.

Exports fell by 3.7 percent compared to a year earlier in dollar terms following a 5.5 percent drop in August, reflecting a general trend across the region with Taiwan and South Korea both experiencing a fall.

Following the trade figures, all eyes will be on the figures for gross domestic product due to be released on Monday, with most analysts predicting that they will show real growth below the official target for the full year of "around 7 percent."

The forecast by UBS China economist Harrison Hu was typical of many. "We expect the upcoming [third quarter] data to show real GDP growth sliding to 6.6 percent year on year, weighed down by continued property destocking, stumbling industrial activity, shrinking stock market turnover and weak exports," he wrote.

The ANZ Banking Group has the lowest forecast, coming in at 6.4 percent. Even if growth were to hit 7 percent it would still mark the lowest level for more than a quarter of a century.

According to a report in the *Financial Times*: "Economists say that while China is mired in a cyclical downturn due to oversupply in the property sector and weak external demand for Chinese exports, even a reversal of those headwinds will be insufficient to return the country to the double-digit growth rates of the mid-2000s."

Economists for the Japanese financial firm Mizuho wrote in a recent research note: "China's economic situation generally worsened further in the third quarter, as production and investment slowed, and the contribution from the financial intermediation sector was weaker following the stock market turmoil."

The announcement of the trade figures, described in a *Financial Times* article as "horrific" impacted directly on commodity-exporting countries dependent on Chinese production. The currency of Brazil, which is already in recession, had its worst day for six months, falling by 2 percent. Other commodity dependent countries were also hit with the currencies of Indonesia, Russia, Columbia and South Africa all falling.

Data on prices released yesterday added to concerns about deflationary pressures. They showed that consumer prices rose by only 1.6 percent in September from a year earlier, below the expectation of a 1.8 percent increase, while producer prices were down by 5.9 percent, the 43rd straight month in which they have fallen.

Yesterday the China-dependent Singapore economy only narrowly avoided a technical recession—defined as two consecutive quarters of negative growth—with the announcement that GDP for the third quarter had increased at an annualised rate of 0.1 percent, following a 2.5 percent contraction in the second.

The Singapore central bank eased its monetary policy for the second time this year saying weakening prospects for global growth would "exert a drag on the

© World Socialist Web Site

external-oriented sectors in Singapore in the quarters ahead."

The official scenario is that the slowdown in Chinese growth, and its impact on dependent economies, is the result of a structural shift organised by the government away from investment projects financed by the expansion of credit towards a more sustainable growth path. According to this perspective, the decline in trade is a product of this necessary shift and indicates the restructuring is on track.

However, this outlook ignores the global impact of the shifts in the Chinese economy, which are themselves the outcome of global processes, rather than any kind of master plan devised by the Chinese government and economic authorities.

Following the global financial crisis of 2008, the government initiated a massive stimulus package, based on government spending and a credit-backed investment boom, in order to try to counter the downturn in exports which led to the loss of some 23 million jobs in 2008-2009. The hope was that there would be a recovery in the advanced economies whereupon China would be able to resume its previous growth path.

Such a recovery has not eventuated. For example, economic output in Europe, which is China's largest export market, is still below where it was before the eruption of the financial crisis. Faced with the prospect that the investment and credit boom would lead to a major crisis in the absence of global growth, the Beijing regime made the shift to a greater role for services and domestic consumption. The ill-fated government-promoted stock market boom was part of this process.

Rather than reflecting a new orientation, falling Chinese growth is the expression of global recessionary and deflationary trends which themselves will impact on the world economy as a whole.

In an article published yesterday, *Financial Times* economics correspondent Martin Wolf spelled out some of its implications.

"It used to be said that when the US sneezed, the world economy caught a cold. This is still true. But now the world economy catches a cold when China sneezes," he wrote, losing its "last significant credit-fuelled engine of demand."

This fall in demand, pointed to by Wolf, is reflected in the Chinese import figures which have fallen by one-fifth in the course of just a year.

The shift in the Chinese economy, he wrote, would increase "secular stagnation"—the tendency for demand to be weak relative to supply—and had "big implications for global economic risks."

"Commodity-exporting and debt-burden emerging countries will now have to retrench, just as the crisis-hit eurozone countries had to a few years ago. Just as was the case in the eurozone, these economies look for external demand to pick them up. They may wait in vain."

There was, he continued, no sign, or likelihood of a big burst in spending in any of the high-income countries, with any boom in the euro zone "especially unlikely." Rather than providing a source of demand for the world economy as it has in the past, China was "almost certain to suffer from a worsening demand shortfall in the next few years' with "deflationary pressures ... likely to rise worldwide."

To contact the WSWS and the Socialist Equality Party visit:

wsws.org/contact

© World Socialist Web Site