Steep fall in China imports continues

A reporter
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The extent of the slowdown in China and its impact on the global economy, especially for commodity-exporting countries, is revealed in the country's latest trade data released on Sunday.

They show that in US dollar terms imports fell by 18.8 percent in October from the same month a year earlier, following a 20.4 percent decline in September. Exports fell by 6.9 percent, an even worse result than the 3.7 percent decline in September, reflecting falling global demand for the output of Chinese manufacturing industries.

The fall in trade is throwing the economic planning of the Beijing regime awry. At the start of the year the Communist party set a target of 6 percent growth for total trade this year. However in the last ten months it has fallen by just over 8 percent compared to a year earlier.

The main reason for the fall in imports is the sharp drop in the prices of industrial commodities, which are used in Chinese manufacturing industries. According to estimates by Oxford Economics, reported in the *Financial Times*, if price effects are stripped out the fall in Chinese import volumes was 2.6 percent compared to a year earlier.

But rather than providing a reassurance that the slowdown might not be as severe as the data initially indicated, the figures point in the other direction because they illustrate the extent of the deflationary downdraft extending through the world economy.

They signify that commodity-exporting countries that rely on the Chinese market, including Brazil, Canada, Australia and many sub-Saharan African countries, have lost around one-fifth of the revenue previously derived from the Chinese market.

In addition, the volume data themselves also are an indication of the extent of the slowdown flowing from the end of the Chinese investment and construction boom. Iron imports fell by 12.3 percent by volume in October compared to the previous month and by 4.9 percent from the same month in 2014.

Coal imports into China were down 21.4 percent from September and by 30.7 percent from a year earlier. Measured in value terms coal imports are down by 40 percent for the year to date.

The global slump in basic industries is reflected in the fall in the iron ore prices which are heading for their lowest level in a decade, having risen only once in the past four weeks.

Media coverage of the Chinese trade data was universally downbeat. According to a Reuters report, the trade figures "disappointed analyst expectations by a wide margin … reinforcing views that the world's second-largest economy will have to do more to stimulate domestic demand given stubborn demand softness in overseas markets." Despite government measures to lower the exchange rate of the Chinese currency and repeated cuts to interest rates, the trade data suggested that the "risk of a hard landing remains."

A report published on the Australian web site *Business Spectator* adopted a similar tone. It said that the "disappointing figures" showed that the Beijing regime was "struggling to keep the world's second-largest economy on the rails" and that it could be heading for a "hard landing."

"As the planet's biggest trader in goods and a key driver of already subdued growth," the report continued, "the figures will also add to signs that the global economy is facing its toughest year since the height of the financial crisis."

There is no end to the present deflationary environment in sight. This was the message delivered by International Monetary Fund managing director Christine Lagarde to a meeting of finance ministers and central bankers of the Gulf Cooperation Council (GCC) held in Doha, Qatar, last weekend.

"We believe that the price of oil will probably persist at the level where it is for a number of years and as a result all GCC countries should undertake some degree of fiscal adjustment," she said at a press conference. So-called fiscal adjustment, involving cuts to already limited social services will take place not only in the oil-producing states but across those economies dependent on the Chinese economy for export revenue.

At the same time the Chinese government is facing growing problems as a result of slowing global growth. The official policy of the Beijing regime is that the economy should make a transition, reducing dependence on investment and construction and increasing domestic consumption and service industries. The liberalisation of the financial system is a key component of this program.

But according to a detailed report in the *Wall Street Journal* (WSJ) the slowdown in the Chinese economy has opened up divisions at the top levels of the regime, which came to the surface at a September 22 conference. The meeting brought together officials of the National Development and Reform Commission—the planning agency—and the finance ministry.

Planning officials called for increased spending on airports, roads and other government projects that have played such a crucial role in boosting economic growth over the past five years. However, financial ministry officials apparently disagreed, the article stated, citing internal minutes of the meeting, and called for plans to encourage consumers to spend more on the goods produced by Chinese factories, including cars, electronics and clothes.

But on one key question it appears that both sides were united: plans to further open up the economy to free market forces and to reduce state control of the financial system will have to be put on hold.

The fear is that money will flood out of the country if financial controls are relaxed, with one worst case scenario cited in the WSJ article pointing to the possibility of an outflow of $5 trillion over the next few years unless investment opportunities are created within China.

Financial authorities received a rude shock in the summer months when the plunge on the stock market saw more than $2 trillion wiped off market valuations in the course of a month. This was accompanied by a movement of money offshore as the value of the renminbi fell.

A financial ministry official reportedly told the September 22 meeting: "The outlook for the economic situation is quite pessimistic and is probably worse than people think."