China growth slows to lowest level since financial crisis

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The growth rate of the Chinese economy has fallen to its lowest level since the beginning of 2009 in the immediate aftermath of the global financial crisis.

Official figures released at the end of last week put the annual growth rate for the third quarter at 6.5 per cent. This was below market expectations of 6.6 percent and down from the rate of 6.8 percent for the first half of the year.

While the trade war launched by the US has yet to make a significant impact on growth, the official government statement accompanying the release of the data referred to what is called the "severe international situation."

One of the main contributors to the growth decline was the reduction in industrial output growth which weakened to 5.8 percent in September from 6.1 percent in August. Retail sales growth for the first three quarters was 9.3 percent compared to 10.4 percent in the same period last year. Car sales are significantly down, falling for a third straight month in September, with the Chinese market on track for its first annual decline in nearly three decades.

Exports were up, but this has been attributed, at least in part, to exporters front-loading their shipments in an effort to escape the effects of further US tariff increases. In addition to the 25 percent tariffs on $50 billion of industrial goods, the Trump administration has imposed a 10 percent duty on an additional $200 billion worth of goods, covering a range of consumer products, which is set to rise to 25 percent at the start of next year. Trump has also threatened tariffs on a further $250 billion worth of products, which would mean that all China's exports to the US would be covered.

Moreover, the trade war is set to intensify with the White House top economic adviser Larry Kudlow accusing Beijing of doing "nothing" to defuse trade tensions. In an interview with the *Financial Times*, Kudlow said: "We gave them a detailed list of asks, regarding technology for example, [which] basically hasn't changed for five or six months. The problem with the story is that they don't respond. Nothing, Nada."

While China has offered to increase its imports of US goods, the reason for its lack of response to the core demands of the Trump administration, first issued last May, is that they are impossible to meet. In essence, they amount to a demand that China shelve its plans for technological and industrial development under its Made in China 2025 plan.

The slowing economy and the intensifying trade war are compounding the concerns of the government and financial authorities over the sharp fall in the stock market which is down by around 25 percent so far this year. This is a loss of $3 trillion, equivalent to more than the market capitalization of the French stock market.

Shortly before the release of the growth data, three top officials, the governor of the Peoples Bank of China (PBoC), the top security regulator, and the key banking and securities regulator, issued statements urging investors to remain calm. The PBoC governor, Yi Gang, said "abnormal fluctuations" in Chinese stock markets did not reflect economic fundamentals and the country had a "stable financial system."

The Chinese President, Xi Jinping, added his voice to official reassurances about the state of the economy. According to the official Xinhua News Agency, he has vowed "unwavering" support for the country's private sector.

"Any words and practices that negate and weaken the private economy are wrong," he said in a letter to business chiefs. "Supporting the development of private enterprises is the Party Central Committee's consistent policy."

These comments followed a meeting between Vice Premier Liu He with policymakers on Saturday in which he said they needed to implement measures to encourage a healthy development of the economy, according to a statement in the State Council's web site.

In an interview with Xinhua last week, Liu, the government's chief trade negotiator, said the overall economic situation was stable. He sought to dispel concerns over the effect of US trade war measures, saying the "psychological impact is bigger than the actual impact."

Commenting on the fall in growth, Liu said if the analysis of the Chinese economy was only on one period then "you might feel it faces difficulty". "But if you look at it from a larger historical perspective, the outlook is very bright."

Notwithstanding these assurances, the National Bureau of Statistics issued a statement accompanying the growth data in which it said China faced "an extremely complex environment abroad and the daunting task of reform and development at home." While emphasising the country's "resilience," it warned that the economy would experience "greater downward pressure" in the future.

China expert Eswar Prasad, professor of trade policy at Cornell University, told the *Financial Times* that China's "slower but strong headline growth masks rising domestic and external vulnerabilities that are likely to presage a further growth slowdown in the absence of concerted policy measures."

The growth figure is always of central political concern for the Chinese government. Previously it considered a growth level of at least 8 percent was necessary to maintain "social stability." Now the official growth target is down to around 6.5 percent.

Among the "daunting" tasks facing the regime is the reduction of debt levels while at the same time maintaining the spending on infrastructure that has played a crucial role in the continued expansion of the Chinese economy since the global financial crisis of 2008.

Last week S&P Global Ratings issued a report that the actual level of debt issued by local governments could be several times higher than is officially reported. With the central government cutting back on quotas for the issuance of local government bonds, local authorities have resorted to local government financial vehicles (LGFVs) to fund infrastructure projects that support regional growth.

According to the report, the off-balance-sheet local government debt could range between $4.3 and $5.8 trillion above official levels. "The potential amount of debt is an iceberg with titanic risks," the S&P credit analysts wrote.

The result could be a rise in defaults, according to the S&P report, because the LGFVs do not necessarily have the full backing of local governments, and central authorities may allow more of them to go under as they seek to reduce debt levels.