Further slowdown in Chinese growth

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China's economy is continuing to slow, according to the latest GDP data released this week. It adds to fears that lower Chinese growth will impact on the global economy where key sectors of industry are increasingly unable to function because COVID infections have been allowed to "let rip" by governments elsewhere.

In the fourth quarter of last year, China recorded an annual growth rate of 4 percent, its lowest rate for 18 months. While the figure exceeded the forecast of economists, it was well below the 6.5 percent annual growth rate for the corresponding period in 2020.

Signs of nervousness on the part of government and financial authorities are evident in the decision by the People's Bank of China to cut a key lending rate for the first time since April 2020 at the start of the pandemic.

Releasing the data, the head of the National Bureau of Statistics, Ning Jizhe, said China had sustained the steady growth of the national economy. He noted, however, that "the domestic economy is under the triple pressure of demand contractions, supply shock and weakening expectations."

These issues were reflected in the data. Industrial production rose by only 4.3 percent in December last year compared to 7.3 percent in the same month in 2020. In the fourth quarter of 2021, property investment, one of the key drivers of Chinese economic growth, fell by 7.7 as a result of the financial problems surrounding Evergrande and other major real estate companies.

Retail sales rose by only 1.7 percent year-on-year in December, the lowest rate in 14 months.

A *Financial Times* editorial sounded a worried note on the international effect of the Chinese slowdown.

"Any sustained chill in Chinese expansion," it said, "will have a global impact: according to IMF numbers, China is the biggest contributor to global GDP and was set to account for more than one-fifth of the total global growth in the five years to 2026."

The effects of a slowing Chinese economy are already apparent. An article in the *Wall Street Journal* noted that in November German exports to China fell by 4.2 percent year-on-year, equivalent to $10.1 billion. The auto industry has been hard hit with Volkswagen reporting that sales in China, its largest market, were down by 37 percent year-on-year in the last quarter of 2021.

A continuing theme in the financial media has been that Chinese government policies—the pursuit of "zero COVID" stringent public health measures and the crackdown on the activities of high-tech companies as part of a "common prosperity" drive—are constricting economic growth and the profits of foreign investors.

In an address to the World Economic Forum's (WEF) annual meeting being held virtually this year, Chinese President Xi Jinping sought to address concerns in financial markets on the latter issue.

"The common prosperity we desire is not egalitarianism," he said. "We will first make the pie bigger and then divide it properly through reasonable institutional arrangement. As a rising tide lifts all boats, everyone will get a fair share of development, and development gains will benefit all our people in a more sustainable and equitable way."

The crackdown, particularly on fintech companies, has already led to the loss of billions of dollars on the stock markets for Chinese and foreign investors, leading to uncertainty in financial circles.

Seeking to ease those concerns, Xi said: "All types of capital are welcome to operate in China, in compliance with the laws and regulations, and play a positive role for the development of the country."

On the issue of COVID, where China is coming under pressure to drop its elimination program because of its effect on global supply chains, Xi called for equitable distribution of vaccines to close the immunisation gap.

"Strong confidence and co-operation represent the only right way to defeat the pandemic. Holding each other back or shifting the blame would only cause needless delay in response and distract us from the overall objective."

Xi's remarks exhibited considerable concern about the state of the world economy, even as he maintained that China's economy remained "resilient," with "sufficient potential" as its long-term prospects remained positive.

He told the WEF meeting various risks had to be resolved to "promote the steady recovery of the world economy."

"The global industrial and supply chains have been disrupted. Commodity prices continue to rise. Energy supply remains tight. These risks compound one another and heighten the uncertainty about the economic recovery," he said.

Xi also referred to the risks posed by the moves by major central banks, led by the US Fed, to tighten interest rates in response to rising inflation and called for the maintenance of stimulatory monetary policies.

"If major economies slam on the brakes or make major U-turns in their monetary policies there will be negative spillovers. They would present challenges to global economic and financial stability and developing countries would bear the brunt."

This danger has already begun to emerge, even before there is any increase in interest rates.

The *Financial Times* this week reported that a group of 74 low-income countries face an increase of almost $11 billion in their debt repayments this year, a rise of 45 percent over 2020.

President of the World Bank, David Malpass, warned that "the risk of disorderly defaults is growing," saying: "Countries are facing a resumption to debt payments at precisely the time when they don't have the resources to be making them."

While Xi expressed confidence in China's prospects, there are clearly concerns in ruling circles about the worsening global economic environment and its political and social effects.

These were voiced in a commentary, reported by Bloomberg, published by the Central Political and Legal Affairs Committee, a Chinese Communist Party body, on the eve of Xi's address to the WEF meeting.

It pointed to "shrinking demand, supply shocks and weakening expectations."

"With the economic downturn, some deep-seated problems may surface," it said. "If economic and financial risks are not handled properly, they can be easily transmitted to social and political realms."