Effects of China slowdown spreading

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The effects of China's economic slowdown, reflected most graphically in the ongoing turmoil in the real estate sector, a key driver of growth, are starting to ripple through the global economy. The major impact so far is in East Asian countries where indices of manufacturing are turning down.

Last week it was reported that purchasing managers' indices in manufacturing for August had come in at below 50—the border between expansion and contraction—for Japan, South Korea and Taiwan.

The contraction in South Korea was the 14th consecutive monthly decline, the longest downward run in the history of the survey, while the index for Japan showed its fifth monthly decline in a row.

Describing the situation in South Korea, the *Financial Times* (FT) said the manufacturing slump had "extended to its longest in nearly half a century" while other big exporters were also being hit by slow demand.

It said South Korea was viewed as a "bellwether" for the region's technology supply chains "which has helped underpin global growth for decades."

In another indicator of the extent of the slowdown, South Korean exports in July fell at the sharpest rate in more than three years with one of the main factors being the lower shipments of computer chips to China.

So far this year South Korea's exports to China, which account for around 20 percent of its total, have fallen by 25 percent year-on-year in the first eight months of this year.

The situation is being regarded with increasing alarm in the South Korean political establishment and the country's finance ministry has set up a special task force to monitor the economic situation in China.

"Korea is unlikely to see a recovery any time soon, unless the Chinese economy turns around rapidly," Park Chon-goon, head of research at Standard Chartered in Seoul told the FT.

But there is virtually no possibility of a major lift in the Chinese economy because the Xi Jinping regime is opposed to providing the kind of stimulus measures employed in the past—increased government spending and an expansion of credit—because it fears such action will only exacerbate debt and financial problems.

There is some tinkering around the edges with financial authorities easing credit and lowering interest rates but nothing remotely approaching the measures of the past.

The longer-term significance of the China slowdown is revealed in the fact that from 2010 to 2019, when the world was still suffering the effects of the global financial crisis of 2008, its growth rate averaged around 9 percent. This year, the official target is just 5 percent, the lowest level in more than three decades, with some estimates that it will come in lower.

The effect of China on the global economy can be seen in an analysis by the International Monetary Fund. It has calculated that every percentage point increase in China's growth adds 0.3 percentage points to the global growth rate.

Besides the three key East Asian industrial economies, South East Asian countries are also being hit by the China slowdown.

Vietnam, which exports garments, textiles, footwear and some electronic products, has reported that exports in the second quarter have fallen by 14 percent from a year ago. Growth rates in Malaysia and Thailand are also reported to be slowing.

The Asian economies are among the first to feel the effects of the China slowdown, but they will not be the last, according to an analysis by the Gavekal research organisation, which has a focus on China.

"As China's economy weakens, foreign suppliers that grew fat supplying raw materials and machinery face lean times. The cratering of China's property market will not quickly reverse, and conditions may

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worsen before they improve," it said.

Two economies that fit that category are the US and Australia. The US firm Caterpillar, which supplies construction machinery, has said that the fall in Chinese demand for its products used on building sites is worse than expected.

Australia is a major supplier of industrial raw materials, in particular iron ore and coal. While exports have held up so far, providing needed tax revenue for the Albanese Labor government, the fall in the value of the Australian dollar, widely regarded as a marker for the Chinese economy, is an indication that this situation may not last.

Australia, along with Brazil and other raw material exporters, was one of the major beneficiaries of the previous stimulus measures. But they are not going to be repeated.

In a speech to the China International Finance Annual Forum held in Beijing on Sunday, Cai Fang, a leading labour market economist and policy adviser to the People's Bank of China, outlined some of the reasons why.

Noting the decline in the Chinese population last year, the first ever recorded, he said China had entered a "new normal" which would create new conditions for the economy.

He said a shrinking and ageing population would ultimately affect long-term national growth.

"China's potential in [economic growth] will fall further, even beyond original expectations," Cai stated.

There have been predictions that China's expected growth rate of 5 percent—already well below the 8 percent level that the government used to maintain was necessary to maintain "social stability"—could drop to around 3 percent by the end of the decade.

Dealing with more immediate questions, Cai said there was a mismatch between the labour market and changes in the industrial sector requiring production efficiencies which meant it would be hard to provide jobs, including for young people.

Over the past months the urban unemployment rate for young people aged 16 to 24 has been hitting new records, reaching 21.3 percent, prompting the government to stop publishing the data last month. But past methods to boost the economy are not going be carried out again, Cai told the forum attended by bankers and business chiefs from around the country.

"We need to recognise that traditional stimulus, which concentrated on infrastructure construction, is not going to work under the current economic situation," he said.

"These would not be able to create many jobs, nor would those jobs created be suitable for the young population."

This leaves the Xi government not only with major economic problems but considerable political ones as well. This is because a growing cohort of young people in the cities, many of them well educated but with no prospects, could come into sharp conflict with the regime and, has happened in the past, spark a broader movement in the working class.

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