Lay's reading materials for Group B

July 16, 2019

The fconomist

China's growth is the slowest in nearly three decades: get used to it

The trade war with America hurts, but the government is wary of stimulus

Finance and Economics

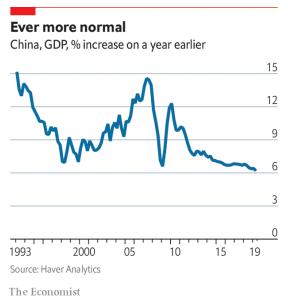
Jul 15th 2019 | SHANGHAI

CHINA'S ECONOMY is slowing, again. After a good start to the year annual growth slipped to 6.2% in the second quarter, the country's weakest expansion in nearly three decades. But that is hardly cause for panic. For an economy now worth nearly \$14trn, such a growth rate is impressive. As the trade war with America hurts exporters, it also underlines the extent to which China's economy is now fuelled by domestic demand. The question for the coming months is whether that domestic strength will remain sufficient to offset the trade turmoil.

The export picture has clearly taken a turn for the worse. Last year, when America's president, Donald Trump, first levied tariffs on China, the country still managed to increase its exports by 10%. This year Chinese exports have all but stopped growing. Moreover, the fight with America is getting more serious. In May Mr Trump ratcheted up tariffs on Chinese goods, and he has threatened to hit it with yet more duties if trade negotiators fail to resolve an impasse in the talks. The uncertainty is already taking a toll: foreign companies have started to shift more operations away from China.

So far China has looked rather well insulated from all these troubles. Activity actually accelerated towards the end of the second quarter. Investment in factories, roads and other fixed assets increased 6.3% in June compared with a year earlier, up from 4.3% in May. Retail sales also were robust, rising 9.8% in June compared with a year earlier, up from a year-on-year increase of 8.6% in May.

Yet there are doubts about how long this resilience will last. Some of the apparent strength is transient. Car sales, which have been in the doldrums for a couple of years, surged in June to double-digit growth, pushing up retail sales more broadly. But that was largely because dealers had slashed prices to run down inventories before tough new emission standards were imposed in July. The property sector, a bellwether for the economy, also seems set to soften.



The government, anticipating a slower patch, has started to spend more on infrastructure, a tried-and-tested method in China for revving up growth. Having tightened its purse strings for a couple of years, in recent months it has made it easier for municipal officials to raise funds for building railways and highways.

But there are limits as to how far it will go. China's president, Xi Jinping, has

declared that containing financial risks is a matter of national security. The odds of another giant stimulus, routine in the past whenever growth slowed, are much lower this time around. And in any case the government has less money to work with, having already racked up so much debt over the past decade. It also wants to conserve its limited fiscal firepower in case the trade war turns uglier. In the meantime, get used to headlines about Chinese growth dipping to its lowest in nearly three decades: they are likely to appear again in three months and, again, three months after that.