Shape of the slowdown

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China's capacity to manage its economic transition has implications the world over

- The Chinese growth juggernaut is slowing down.
- The world's second-largest economy has reported that its exports for December fell by 4.4%, the sharpest fall in two years amidst rising trade tensions with the United States and fears of a global economic slowdown.
- China's trade surplus with the U.S. has increased to $323 billion, its highest level since 2016 and up 17% from a year ago.
- This is likely to put added pressure on Chinese exports to the U.S. Besides, China's factory activity contracted to a two-year low by the end of December while car sales in 2018 dropped for the first time since 1990, pointing to faltering demand from Chinese consumers.
- There are increasing fears that the Chinese government may further drop its growth target to 6% this year, from 6.5% last year.
- Given its implications for global growth, markets across the world have naturally been worried about the fate of the Chinese economy.
- It is believed that the Chinese government may be prepping for a stimulus worth trillions of yuans to step up spending in the economy.
- China has been struggling to transition from its earlier growth model led by cheap exports and huge capital investments into a more domestic consumption-led economy.
- In particular, the government and the central bank have in recent years tried to wean the economy off cheap debt that fuelled its impressive growth run.
- The Chinese central bank fully opened the credit taps of the economy in the aftermath of the 2008 global financial crisis that threatened to derail growth.
- But even as it tries to steer the economy towards more consumption-led growth, the state has been wary of allowing economic sectors like real estate that were earlier boosted by the availability of cheap credit to go

bust.

- A true restructuring of its export- and state-led economic model will not be possible until China allows the liquidation of uneconomical projects that were begun only because of the availability of ample amounts of cheap credit.
- This will be the first step towards building a more market-driven economy.
- But it is not clear whether China is willing to bite the bullet and stop feeding its economy with cheap credit.

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