


Revisiting China's Economic Slowdown

Kotbee Shin



Ph.D., Associate Research Fellow,
China Team/International Macroeconomics Team
Korea Institute for International Economic Policy 

Amid escalating U.S.-China trade disputes, the Chinese economy grew at 6.6% in 2018. The figure was slightly above the target growth rate of 6.5%, but still the lowest level since 1991. At the National People's Congress, China announced its economic growth rate target for 2019 as 6.0–6.5%. Setting a target range of growth, rather than a specific number, can be attributed to China's acknowledgement of increasing uncertainties and complicated circumstances. There are many reasons for concern about the Chinese economic slowdown as Christine Lagarde, Managing Director of the International Monetary Fund, has warned the Chinese slowdown will act as one of the “four clouds” undermining progress in the global economy.

Looking at the breakdown of GDP expenditure, China's final consumption expenditure grew by 5.03 percent in 2018. The final consumption expenditure growth is a main driving force of growth, contributing 76.2 percent to GDP growth. In particular, retail sales growth was 9 percent despite subdued sales of automobiles and mobile phones. Retail sales in rural areas outpaced retail sales in urban areas thanks to e-commerce

www.kiep.go.kr

market growth. Online sales reached 1.37 trillion yuan¹ in rural areas, increasing by 30.4 percent. Consumption growth seems also well backed by disposable income growth, which went up by 6.5 percent in real term.

Gross capital formation was in an overall slump last year compared to final consumption expenditure, growing by only 2.14 percent and contributing 32.4 percent of GDP growth. Fixed asset investment increased by 5.9 percent last year. The main downside factor is that infrastructure investment grew only 3.8 percent, slowing down sharply from 19 percent last year. However, growth in manufacturing investment has been picking up, rising to 9.5 percent by the end of 2018, and real estate investment expanded by 8.3 percent.

Net exports dragged down China's growth by 8.6 percent last year. Exports rose 9.9 percent from 2017 while imports grew faster, by 15.8 percent. One noticeable fact is that despite the U.S. imposing additional tariffs on Chinese goods, Chinese exports to the U.S. surged by 11.3 percent.² This increase may reflect front-loading by exporters. Due to diversification in the Chinese export market, exports to Brazil, Australia, ASEAN, New Zealand and Russia also rose more than 10 percent year-on-year. However, considering that the effects of tariffs will mainly be realized in 2019, the export growth rate is likely to slow down considerably this year.

Although macroeconomic conditions point to a modest slowdown in real economic activity in 2018, the Chinese economy seems to be facing increasingly tough headwind. The impacts of protectionism triggered by U.S.-China disputes will be realized this year, feeding downward pressure on the Chinese economy. It will also be necessary for the government to pursue a deleveraging campaign to promote the economy's long-term sustainable growth.

In order to mitigate the effect of internal and external challenges, the government pledged a proactive fiscal stimulus plan to boost the economy at the National People's Congress. The Chinese government has announced an additional cut in the value-added tax (VAT) on top of last year's reduction, which will make most goods and services cheaper for households and should spur consumption. The government is also planning to cut corporate taxes and vari-

¹ China Global Television Network. 2019. China's Online Retail Sales Exceeded 9 Trillion Yuan in 2018. Available at <https://news.cgtn.com/news/3d3d674d3551444f32457a6333566d54/index.html> (accessed April 25, 2019).

² Tan, Huileng. 2019. US Trade Deficit with China Grows to a Record and It's Likely Even Worse Than the Data Show. Available at <https://www.cnbc.com/2019/01/14/china-2018-full-year-december-trade-exports-imports-trade-balance.html> (accessed April 25, 2019).

ous fees, including the social security fee companies have to shoulder, by nearly 2 trillion yuan. In addition to this, local governments will be allowed to issue 2.15 trillion yuan of special purpose bonds for infrastructure investment, up 0.8 trillion yuan from last year.

To be sure, the Chinese economy will slow down in the long-term as it continues to mature. It is also likely to show further slowing this year, considering the exacerbated external conditions. However, the Chinese government is taking the challenges seriously and will increase its grip on the economy. As we refer to the statistics, Chinese growth no longer depends heavily on external conditions. Given the Chinese domestic market expansion and fiscal policies, the concerns about the Chinese slowing down seem to be overstated. **KIEP**