China’s growth slows to lowest level since 1992

By Nick Beams
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China has recorded its lowest quarterly growth rate since 1992 in a clear sign that the US trade war measures are starting to impact on the world’s second largest economy.

The economy grew by 6.2 percent in the June quarter compared with a year earlier, down from the 6.4 percent recorded in the first three months of the year. The figure is still within the range of 6 to 6.5 percent which the government set as its target in March, but the trend is clearly down.

A report in the *New York Times*, as well as comments published elsewhere, noted that “much of the growth in the quarter may have taken place in April and May when public confidence was high because of a tax cut in March and heavy infrastructure spending as spring began.”

The outlook changed markedly after May 10 when trade negotiations broke down and Trump threatened tariffs on an additional $300 billion worth of Chinese goods. This was followed by the decision of the Commerce Department to place the telecom giant Huawei on its Entity List, requiring US tech firms wanting to supply it with components to get a licence to do so.

There are clearly growing concerns in the Chinese government that the growth figure could go lower in the months ahead.

At a news conference on the release of the data, Mao Shengyong, spokesman for China’s National Bureau of Statistics said: “Economic conditions are still severe both at home and abroad, the global economic growth is slowing down, the external instabilities and uncertainties are increasing, the unbalanced and inadequate development at home is still acute, and the economy is under new downward pressure.”

In line with the regime’s assertions that it is successfully resisting Trump’s trade war attacks, Mao downplayed the significance of trade, saying the economy was becoming more reliant on domestic consumption.

However, trade data, both imports and exports, showed a significant movement. China specialist George Magnus told the *New York Times* there was a “surge in activity through April” but then “something happened in May.”

Exports rose by only 0.1 percent in the first six months of the year compared to the same period last year. Most of the downturn in growth came from the fall in exports which were down 1.3 percent in June on a year-on year basis. Imports, an indicator of industrial activity, fell by 7.3 percent compared to a year earlier.

Mao said China had “sufficient policy reserves” to stabilize the economy in the second half of the year, including tax cuts and measures to boost infrastructure spending. But economic commentators have expressed doubts over whether this can be sustained.

Julian Evans-Pritchard, the senior economist at the consultancy Capital Economics, told the *Guardian* he doubted the more supportive policy of the government marked the start of a turn around and policymakers faced more weakness in the economy.

“We think that construction activity will come under pressure in the coming quarters as the recent boom in property development unwinds. Combined with increasing headwinds from US tariffs and weaker global growth, we expect this to culminate in a further slowdown over the coming year,” he said.

Industrial output rose by 6.3 percent in June, up from the figure of 5 percent in May, which had been the lowest rate since 2002.

US President Donald Trump hailed the slowdown in the Chinese economy as evidence of the effectiveness of his trade war measures.

"United States tariffs are having a major effect on companies wanting to leave China for non-tariffed countries," he tweeted.

"Thousands of companies are leaving. This is why China wants to make a deal with the US and wishes it had not broken the original deal in the first place. In the meantime, we are receiving billions of dollars in tariffs from China and possibly much more to come."

As usual, Trump's remarks contained a series of fictions. The breakdown in the trade talks did not result from China walking away from a deal.

The talks collapsed because of the continued US insistence that the tariff measures it had put in place would remain even after an agreement was signed and the Chinese government had to rewrite laws on intellectual property in accordance with Washington's dictates. Beijing had indicated from the outset that both demands were unacceptable.

As for the "billions" in tariff revenues, these are not paid by Chinese firms but by US companies importing Chinese goods.

There is evidence that some US companies are moving out of China, with an article in the *Wall Street Journal* detailing a number of consumer goods firms planning to shift their manufacturing operations. It said that Apple was also considering moving some of its final assembly operations out of China in order to avoid US tariffs.

Contrary to the assertions by Trump, however, these companies are not shifting operations back to the US. Rather they are moving to cheap-labour platforms elsewhere. US imports from Vietnam, for example, are expected to increase by 36 percent this year from their levels in 2018.

International economic bodies, including the International Monetary Fund, have warned that the US trade war measures will have a significant impact on already slowing world economic growth. And the signs of that have started to emerge.

Last week, the trade-dependent Singapore economy reported an unexpected contraction in the second quarter. Gross domestic product (GDP) shrank by 3.4 percent on an annualized basis compared to the previous three month, the biggest fall since 2012.

The contraction is significant because Singapore is often regarded as a bellwether for global demand and the state of world trade because of its export dependence that amounts to 176 percent of GDP.

Chua Hak Bin, an economist at a Singapore-based research institute, told Bloomberg: "Singapore is the canary in the coal mine, being very open and sensitive to trade." The data pointed to the "risk of a deepening slowdown for the rest of Asia."

"I thought the numbers might be bad, but this is ugly. We thought it might be shallow, but the risk now is that it might be deeper," he said.