The Big Picture – China Slowdown

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Watch Video At:

https://youtu.be/7R2ZdquB6U4

The government of China, for the year 2019, has targeted the growth of 6.0 to 6.5 percent for its economy, lowering the range from 2018. In 2018, the government set the target around 6.5 per cent and recorded official growth of 6.6 percent - the slowest pace in nearly three decades. China is a country which, for a very long period, witnessed the trend of double digit growth. In the last three years up to 2017, China witnessed an average growth of 10%.

Reasons

- **General Process:** An economy that has fully utilized all its available resources and has seen continuous high growth for years is bound to witness slowdown for some time. This general process helps in making an economy a mature economy.

- **Reduced Workforce:** After 2012, proportion of productive workforce in China's total population has declined owing to its One Child Policy and as a result wages have also gone up.
- **Trade War with U.S.:** China and the United States continue to dispute tariffs placed on goods traded between them. This has not only affected exporters of China but also some raw material importing industries.
- **Infrastructure Sector is saturated:** China has continuously invested in its infrastructure which boosted its exports and thus the economy but now there is no more scope in investment in infrastructure is left.
- **Huge debt:** Debt on China is about 300% of its GDP.
- **Western Markets** are not growing enough to absorb Chinese Exports.

Concerns

- **Only around 1% of Chinese actually pay income tax honestly.** This shows grave dislocations in the financial system of China.
- **Politics and economy being mixed very seriously in China.**
- Lot of initiatives like One Belt One Road (OBOR), recently taken by China involve huge financial allocations but no expected future returns.

Impact

- Growth rate for some time will remain half of what China used to witness in past.
- Layoffs in China in industries like steel, where it has overcapacity.
- Softening of the prices of commodities like copper, hydrocarbon etc. that is imported by China from the world is expected.
- To counter slowdown, China recently has opened its companies for FDI. This will result in the increase in investment in China from all over the world.

Suggestions

- Besides providing tax cuts, China needs to push spending in its economy.
- China needs to continue to develop its leadership in Technological Spectrum over the world. It is already a leader in production of Electric Vehicles, Solar Power and Nuclear Power.
- Factors such as huge exports and low inflation will help China in the recovery from slowdown.

Opportunities for India

- Because of labour shortage in China, Indian exports will become more competitive.

- Also, India can build upon the space vacated by China in Labour Intensive Industries. India can attract investment in such industries and thus can provide boost to the goods produced in such industries.

China is a country that will continue to advance internationally, despite prevailing economic crises. If India wants to take advantage of the present situation in China, it needs to make itself more competitive in global manufacturing.

For further reading, click on the link below:

OBOR-CPEC