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CHINESE CHECK: ON ECONOMIC TROUBLES

Relevant for: Indian Economy | Topic: Issues relating to Planning & Economic Reforms

The Chinese economy is seeing the first signs of trouble after long years of sustained growth that rode on cheap labour and high volumes of exports. Data released by the National Bureau of Statistics on Monday revealed that the economy grew by 6.2% in the second quarter, its slowest pace in 27 years. This is in contrast to the growth rates of 6.4% and 6.6% reported for the first quarter and the full year of 2018, respectively. The faltering growth rate was due to a slump in exports in June amidst China's ongoing trade war with the United States and the downturn witnessed by sectors such as housing construction, where investor sentiments play a major role. Many economists believe that the worst may not yet be over for China and that economic growth could further worsen in the coming quarters. But just as growth seems to be faltering, the latest growth figures also showed that the retail sales and industrial output components of the growth numbers witnessed steady growth, suggesting that domestic demand may be compensating for the dropping appetite for Chinese exports weighed down by high tariffs. But with China still heavily reliant on exports and its trade war with the U.S. showing no signs of coming to an end, the pressure on growth is likely to remain for some more time. So the Chinese government, which has tried to boost the economy through measures such as tax cuts, increased public spending and a relaxation in bank reserve requirements to encourage banks to increase lending, will hope that domestic demand for its goods will hold up the economy.

China's quarterly GDP numbers, while useful in many ways, don't reveal very much about the underlying challenges facing the country. One is the need to improve the credibility of data released by the Chinese government. An even larger challenge is the urgent need to restructure the Chinese economy from one that is driven heavily by state-led investment and exports to one that is driven primarily by market forces. The high-growth years of the Chinese economy were made possible by the huge amount of liquidity provided by the Chinese state and the large and affordable workforce that helped build China into an export powerhouse. But now, with China's tried and tested growth model facing the threat of getting derailed as the export and investment boom comes to an end, the Chinese will have to build a more sustainable model, or forfeit hopes of double-digit economic growth in the future. As of now, there are no signs to suggest that the Chinese authorities are looking at implementing deep-seated structural reforms reminiscent of its early decades of liberalisation that can help fundamentally restructure the economy. There might not be a need for radical macroeconomic changes, but China's economic troubles will not go away unless the government boosts domestic consumption and reduces the reliance on exports.

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