



Economic Slowdown in China

Why in News

Recently, **China's National Bureau of Statistics** has reported that third-quarter **Gross Domestic Product (GDP) growth** has **slowed to 4.9%**.

- There are concerns that a slowing Chinese economy could **impact the incipient global recovery and regional economies like India as well.**

Key Points

▪ Reasons for Slowdown in Growth:

- **Base Effect:** China did well in **reviving economic growth after the Covid-19 pandemic.** Therefore, the **reference point of higher levels of growth rate** in the previous quarter is resulting in a lower growth rate.
 - China is going through a **'mature' stage of economic development** i.e. an economy which has witnessed a double digit growth for two decades is bound to face a slowdown.
 - The **base effect** refers to the effect that the choice of a basis of comparison or reference can have on the result of the comparison between data points.
- **Fuel/Power Crisis:** A **surge in coal prices** and a **resultant electricity shortage** prompted provincial governments to cut power supplies.
 - This fuel/power crisis in China continues to affect factories and units across the country's industrial heartland in its south east have had to curtail output.
- **Turmoil in the Real Estate Sector:** The Real Estate Sector which accounts for about a quarter of China's GDP, is now beginning to show signs of perceptible slowdown.
 - The reason for this slowdown can be primarily attributed to the **Evergrande fiasco.**
 - Evergrande Group is a real estate giant in China, which is struggling to avoid defaulting on billions of dollars owed to bond holders.

About Evergrande Crisis

- The real estate sector, **led by Evergrande,** was the **main driver of the post-pandemic Chinese economic recovery.**
 - However, **progressive slowing down of China's property market and reduced demand for new houses** adversely impacted its cash flows.
- This has led to a condition where **nearly three quarters of the country's household** wealth is locked up in housing.
- Any collapse at the biggest real estate company could have a serious knock-on effect on the entire economy, and potentially setting off a **cascading impact on the global commodities and financial markets.**

- However, several economists say the threat to global financial markets is small.
- **Impact on Global Economy:**
 - **Impending Global Recovery:** China's control of pandemic and restarting its industries has played an instrumental role in the post-pandemic global economic recovery.
 - The Chinese economy falling into systemic risks could lead to overall **loss of momentum to the global post-pandemic economic recovery.**
 - **Impact of Trade War:** [US-China trade war](#), has resulted in slowdown in Chinese exports resulting in **losses for the countries** (especially South Asian Countries) **that depend on China for 'Supply Value Chain'** for producing components and other finished goods.
- **Impact on India:**
 - **Imports:** India's **bilateral trade** with China has grown nearly 50% in the first nine months of 2021.
 - Further, India depends majorly on imports from China including smartphones and automobile components, telecom equipment, [active pharmaceutical ingredients](#), and other chemicals.
 - Thus, slowing the Indian economy will have an impact on India's consumer market and infrastructure development.
 - **Exports:** Further, India's buoyant iron ore exports, much of which is headed to China, could also see an impact if the twin crises in China triggers an extended slowdown in the Chinese real estate market.
 - **Investments:** Slowing Chinese economy can trigger an investment outflow from India. If India can expedite the economic reforms, it can become the next global manufacturing hub.

Recent Economic Reforms in India

- [PM Gati Shakti Scheme](#)
- [National Monetisation Pipeline](#)
- [Labour Codes](#)
- [Atma Nirbhar Bharat Scheme](#)

Way Forward

Apart from carrying out economic reforms, **India should go for import diversification** from China, **develop export competitiveness**, and become part of global supply chains.

[Source: IE](#)