

# The slowdown of china economy economics essay



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Macroeconomics is concerned with the big economic issues involves the overall economic performance of the nation rather than whether one particular individual earns more or less than another. Each of these connections between the overall economy and the lives of individuals involves a central macroeconomic concept such as unemployment, inflation and economic growth. The basic task of macroeconomics is to study the causes of good or bad performance of these three concepts, why each matters to individuals, and what (if anything) the government can do to improve macroeconomic performance.

Other than a euro - zone crisis, the hottest topic was the slowdown of China economy. This also was the most famous headline uses of the mainstream media such as newspaper and broadcast media recently. “ China’s economy, the world’s second-largest, has expanded at its slowest pace in almost three years”, “ China has said it will take measures to boost demand and investment amid fears of a slowdown in its economy”, “ is china heading for a hard or soft landing?” and so on are the headlines on the BBC News website recently.

We would like to analysis the issue on the slowdown of China economy based on macroeconomic concept such as unemployment, inflation and economic growth. We also will suggest some measurement that can be taken by China government to solve this problem.

## ANALYSIS

### PRODUCTIVITY (GROSS DOMESTIC PRODUCT, GDP)

The productivity is the average output per hour of work that a notion produces in total goods and services. It is measures in the figure of real gross domestic product (GDP). Gross domestic product measures current production of goods and services, while real means that the measures have been corrected for price change.

As the world's second- largest economy, China' growth has been slowing in recent times. Analysts forecast an expansion of 8. 3% for the first quarter. But the latest report shows that Gross domestic product (GDP) of China expanded by an annual rate of only 8. 1% in the first quarter, down from 8. 9% in the previous three months, the slowest pace in almost three years. In fact, the China government has set a target of 7. 5% growth in 2012, the lowest since 2004. " China's gradual slowdown is expected to continue into 2012, as consumption growth slows somewhat, investment growth decelerates more pronouncedly and external demand remains weak," said Ardo Hansson, the World Bank's lead economist for China.

Here are some economists who agree that this situation is not serious. " It's more of a natural deceleration," says Robert Howe, of Geomatrix. China's average growth for the last eight years has been 10%. " Growth cannot be sustained at 9. 2%, let alone in double digits, 8. 2% are within the policy makers' comfort zone," says Song Seng Wun, from CIMB Research.

Richard Jerram, of Bank of Singapore have given a comment on China current situation, " external demand is weakening, but more importantly, this is a lag effect of the government's effort to slow down the economy." " The government has been trying to rebalance its economy to have a better

quality growth, he says." Growth is definitely less export-driven," he adds. "The government has successfully rebalanced towards the domestic engine, but it is still too reliant on investment rather than consumer spending."

According to Richard Jerram, China is too reliant on investment and export rather than domestic spending. As the euro-zone debt crisis has escalates day to day, European countries start to cut down their spending such as Greece, it may dent consumer sentiment in the region and further influence demand for China's exports. China concerned enough the risks coming from the European crisis towards its growth slowdown and downside.

China's policymakers should take some measures to loosen its monetary policy. The central bank is playing an important role in monetary policy through cut down the reserve ratio requirement, the amount of money that banks need to hold in reserves. This allows the banks to increase lending with the hope that result in higher spending and boost domestic demand. Besides that, the central bank may further reduce the interest rates for the same idea.

## INFLATION

Inflation rate refers to a general rise in prices measured against a standard level of purchasing power. The most well known measures of inflation are the CPI which measures consumer prices, and the GDP deflator, which measures inflation in the whole of the domestic economy.

A high level of inflation rate means that the prices, on average, are rising rapidly, while a low level of inflation rate means that the prices, on average,

are rising slowly. An inflation rate of zero means that prices remain essentially the same, month after month. In other words, a high inflation rate has decreases the purchasing power of people. They buy less as prices go up.

The inflation rate in China was recorded at 3.40 percent in April of 2012. The inflation rate hit a three-year high of 6.5% in July 2011. It has since slowed down after consumer prices in March 2012 rose by only 3.6% from a year earlier. In fact, it is lower than the government expectation of 4% for the year. Historically, from 1994 until 2012, China inflation rate averaged 4.3 percent reaching an all time high of 27.7 percent in October of 1994 and a record low of -2.2 percent in March of 1999.

This will be a lag effect of government's effort that tries to boost domestic demand by easing its policies in a bid to sustain growth. If the central bank reduces the reserve requirement for banks in the coming months as well as cut interest rates to boost domestic demand indirectly increase the property and consumer prices the country. This may lead to a bad situation that the economic disparity between rich and poor enlarges. In fact, rich people are easier to loan from bank compare to the poor. This can make the consumer prices grow up because of the increase of domestic demand that comes from rich people. The poor may continue suffer with the same amount of income but they buy less compare to before. This is because of the increase of the consumer prices that decreases their purchasing power. This shows that the measures to loosen the monetary policy may works on boost domestic demand but not an efficient way to slowdown the inflation rate in particular poor people or who stays at rural area.

Government can subsidize some goods that can reduce the burden of poor or middle class people instead of reducing reserve requirement of bank and interest rate. Subsidization on the normal consumer goods and services such as food, clothing, transportation, education, water, electricity fuel and so on that can reduce the burden of poor for the rising of consumer prices.

Consumer prices included the prices for all the goods and services as well.

With the subsidization releases from government, it can maintain or increases the purchasing power of the poor during an increase of inflation.

Besides that, subsidization can slowdown the effects of inflation towards the GDP. Inflation may cause the domestic demand decreases and next affects the consumption of consumer since their purchasing power lower than before and no increases of their income in short term. Subsidization reduces the effects of inflation towards the consumption of consumer.

## UNEMPLOYMENT

The unemployment rate can be defined as the number of persons unemployed (jobless individual who are actively looking for work or are on temporary layoff) divided by the total of those employed and unemployed.

The higher the overall unemployment rate, the harder it is for each individual who wants a job to find work especially university graduates. Besides that, there also raises the chance that the adult will be laid off and unable to pay their bills. Moreover, the rate of crime, mental illness and suicide also will increase.

The urban unemployment rate in China was last reported at 4.1 percent in the first quarter of 2012, down from 4.3 percent in the previous three

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months. Historically, from 2002 until 2012, China unemployment rate averaged 4.15 percent. It was reaching an all time high of 4.3 percent in December of 2003 and a record low of 3.9 percent in September of 2002.

Even though the unemployment rate has been decreases, but China concerned enough the risks coming from the European crisis towards its growth. European countries start to cut down their spending due to the euro-zone debt crisis. This will directly decrease the demand of China's exports. Naturally, the companies at China will also cut down the production cost especially cut down the staff because of decrease of output in current and future time. There is a different story if China pays more attention on domestic spending compare to exports.

## CONCLUSION

Professor Sang Baichuan, Institute of International Business, University of International Business and Economics, said: " There was a labor shortage in the northeast in August last year but it has now subsided. But even though China's growth has continued, the rate of growth has declined and inflationary pressures are still evident. The unemployment situation is still severe."

China's economic, as the world's second-largest with its productivity, inflation rate and unemployment rate, we found that it is a natural situation for China during the world economic facing the euro-zone debt crisis. The situation is still within the policy makers' comfort zone. China government needs to take cautious measures to solve the any complicated economic

problem in future time to make sure it is not steps into another economic predicament.

## APPENDIX

### **CHINA ECONOMIC GROWTH DIPS TO 8. 1% IN THE FIRST QUARTER**

13 April 2012 Last updated at 03: 26 GMT

#### **China's economy, the world's second-largest, has expanded at its slowest pace in almost three years.**

Gross domestic product increased by an annual rate of 8. 1% in the first quarter, down from 8. 9% in the previous three months. That is less than many analysts had forecast with most of them expecting a figure closer to 8. 3%. China has been hit by a drop in demand in key markets including the US and Europe. At the same time domestic demand has proved tough to stimulate. " We are slightly disappointed. The main downside was with exports and some in terms of consumption," said Kevin Lai of Daiwa Capital Markets.

#### **' Gradual slowdown'**

On Thursday, the World Bank warned that China's economy may slow further in the coming months. " China's gradual slowdown is expected to continue into 2012, as consumption growth slows somewhat, investment growth decelerates more pronouncedly and external demand remains weak," said Ardo Hansson, the World Bank's lead economist for China. The bank cut its growth outlook for the Chinese economy for 2012 to 8. 2% from its earlier projection of 8. 4%. It cautioned that a slowdown in Beijing's key export



markets and “ the ongoing correction in China’s property markets” were key risks to growth in the future.

## **Too slow?**

The rise in property and consumer prices in the country has been the focus of China’s policymakers over the past few months. The central bank has taken various measures to curb lending in an attempt to control consumer price growth and keep property prices in check. The measures appear to be having the desired effect. The rate of inflation, which hit a three-year high of 6.5% in July last year, has since slowed down. Consumer prices in March rose by 3.6% from a year earlier, lower than the government’s target of 4% for the year. At the same time, property prices have fallen for a five consecutive months, easing concerns about the formation of asset bubbles. However, analysts said that while the government’s policies had yielded positive results, authorities needed to ensure that they maintained a balance between sustaining growth and keeping prices in check. “ The basic threat is that the credit squeeze may hurt investment and slow growth more than the policymakers would want,” said Richard Jerram of the Bank of Singapore. “ It is difficult to manage it precisely, which is why people continue to be worried that things might slow down too much.”

## **‘ Likely to improve’**

China’s policymakers have already taken some measures to loosen its monetary policy. The central bank has cut the reserve ratio requirement, the amount of money that banks must hold in reserve, twice in the past few months in a bid to boost lending. The move has been successful as data out on Thursday showed that banks extended 1.01tn yuan (\$160bn; £100bn) in

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new loans in March. Analysts had forecast a figure of 800bn yuan. At the same time, data out on Friday showed fixed asset investment, one of the key drivers of China's economy, grew 20.9% during the first quarter. Analysts said increased lending was likely to boost investment and growth in the coming months. "We have seen a good sign that liquidity from reserve ratio requirement cuts and open market operations is moving into the real economy," said Dongming Xie of OCBC Bank. "As such, I think the growth picture is likely to improve in the second quarter."

Origin: BBC News Business

Websites: <http://www.bbc.co.uk/news/business-17686247>