Issues with Chinese economy

Why in news?

\n\n

After decelerating for six consecutive years, real GDP growth of China appears to be inching up in 2017.

\n\n

What is the status of Chinese economy?

\n\n

\n
- Chinese economy is in the midst of an extraordinary structural transformation—with a manufacturing-led producer model giving way to an increasingly powerful services-led consumer model
\n
- The 6.9% annualised increase just reported for the second quarter exceeds the 6.7% rise in 2016.
\n
- It is well above the consensus of international forecasters, expected growth was to be closer to 6.5% this year,
\n
- The growth is expected to slow further to 6%, in 2018.
\n

\n\n

Why Chinese economy is vulnerable?

\n\n

\n
- The pessimism over the Chinese economy has focused on the twin headwinds of de-leveraging and a related tightening of the property market.
\n
- In the midst of the worst global contraction since the 1930s, the Chinese economy still expanded at a 9.4% average annual rate in 2008-2009.
\n

- China is a high-saving economy that owes its mounting debt largely to itself.
  \n
- According to the International Monetary Fund, China’s national savings is likely to hit 45% of GDP in 2017.
  \n
- China, with its far larger savings and much smaller sovereign debt burden (49% of GDP), is in much better shape to avoid sovereign debt crisis.
  \n
- There is a rising middle class needs for affordable housing.
  \n
- With the urban share of China’s population rising from less than 20% in 1980 to more than 56% in 2016 and most likely headed to 70% by 2030 is one of the reason.
  \n
- Chinese home prices up nearly 50% since 2005—nearly five times the global norm affordability is obviously a legitimate concern.
  \n
- The challenge for China is to manage prudently the growth in housing supply needed to satisfy the demand requirements of urbanisation, without fostering excessive speculation and dangerous asset bubbles.
  \n
- Forecasters find it difficult to resist superimposing the outcomes in major crisis-battered developed economies on China.
  \n

\n\n

\n\n

Source: Financial Express

\n\n

\n\n

Quick fact

\n\n

Sovereign debts crisis:

\n\n

\n
- A sovereign debt crisis is generally defined as economic and financial problems caused by the (perceived) inability of a country to pay its public debt.
\n
- This usually happens when a country reaches critical high debt levels and suffers from (perceived) low economic growth.
\n
- 2015 Greece financial crisis is of this type.
\n
- It is measured by % of Sovereign debt with respective to GDP, the sovereign debt ratio of japan is 249% of its GDP, where as India has 52.3% of its GDP.
\n

\n