

**THE ECONOMY  
OF THE PEOPLE'S REPUBLIC OF CHINA:  
SCREAMS FOR DASHED DREAMS**

The dream of many that the Government of the People's Republic of China (PRC) will be able to turn the economy back onto the road of higher, annual growth rates and that, for the remainder of this calendar year, there will be more than just an uptick in the values of key economic statistics, is just that: A dream.

Looking at the latest statistics, recently released by approved, PRC Government departments, and having analysed them, objectively, in the opinion of **TARGET** (), as things stand, today, one may expect, if anything, a material, further deterioration in the values of the key economic indices with regard to the most-populous country in the world.

In brief, the statistics suggest, rather definitively, that there is likely to be a further – and, perhaps, steeper – decline in the economy of the world's second-largest economy.

In fact, this appears to be almost a certainty.

If a steeper decline in the PRC's economy should come to pass – as seems more than likely – then, one must expect to see further falls in the key indices of the PRC's two equity markets: The Shanghai Stock Exchange; and, The Shenzhen Stock Exchange.

And, there is quite likely to be, also, a knock-on effect from the falls in the indices on the two PRC equity markets with regard to the key index of The Stock Exchange of Hongkong Ltd: The Hang Seng Index.

It is an odds-on favourite that the key indices of a number of international equity markets, on noting the problems, facing the economy of the PRC, will be forced to bear the brunt of the economic slowdown in the Middle Kingdom, too.

**The Statistics**

In the month of June, statistics, recently released by the PRC Government's The National Bureau of Statistics () and The General Administration of Customs (), indicated that the demand for oil in the country had suffered a fall of about 59 percentile points, compared with the quarter, ended March 31, 2015.

In June alone, imports of oil rose 4.10 percent, Year-On-Year, to about 11.25 million barrels per day.

In contrast, in the first quarter of 2015, the PRC increased oil imports by about 10 percent, Year-On-Year.

Demand for jet fuel for aeroplanes and gas oil – used extensively in the PRC for heating applications and, when used to power motor vehicles or for industrial purposes, it is usually referred to as diesel fuel – also saw a determined contraction in demand.

As for the PRC's refineries, the PRC's statistics indicated that throughput in the month of June averaged about 10.59 million barrels per day. That was an increase, Year-On-Year, of about 1.90 percent.

In respect of the first half of this year, the PRC's net imports of all oil products rose by about 58.40 percent, Year-On-Year, mostly due to imports of fuel oil and naphtha.

Declining economic growth in the PRC is, of course, the reason for the decline in imports of oil and oil-related products, other than imports of fuel oil and naphtha. Naphtha is usually used as a solvent and as an ingredient, added to petrol.

Even the once, thriving motor-vehicle sales in the PRC are feeling the effects of the slowing economy, with passenger, motor-car sales for the month of June, having declined, materially.

This was the first decline since 2013.

June's statistics, according to data, compiled by The China Association of Automobile Manufacturers, an organisation, founded in Beijing in 1987 with the approval of the PRC's Ministry of Civil Affairs (), saw Year-On-Year sales of about 1.51 million units, down about 3.40 percent, Year-On-Year.

The China Association of Automobile Manufacturers stated that motor vehicles, sold in June, fell by about 5.30 percent from May's figures to 1.80 million units.

This was the smallest, monthly sales figures, compared with the previous, four-month period.

Sales in June experienced, also, a 2.30-percent dip from the like month in 2014.

Vehicles, sold in the first half of 2015, numbered 11.85 million units, a growth of 1.40 percent from the same period in 2014.

In contrast, in the 2014 calendar year, the growth rate of motor-vehicle sales in the PRC was about 8.40 percent, Year-On-Year.

It is clear that the motor-vehicle manufacturers in the PRC will be suffering for the remainder of this year – at least.

From the Department of Service Statistics of The National Bureau of Statistics came data, indicating the PRC's Manufacturing Purchasing Index (PMI) fell by 0.20 percent to 50 percent in July, Month-On-Month.

Compared with the figure of August 2014, the PMI had fallen by about 3.29 percentile points, down from 51.70 percent.

In a rather rare admission, the Department stated:

*'Production index was 52.4 percent, a decrease of 0.5 percentage points month-on-month, and was higher than the threshold, indicating that the manufacturing production maintained growth, at a slower rate.'*

*'New orders index was 49.9 percent, decreased 0.2 percentage points month-on-month, and dropped below the threshold, showing a slightly weakened demand of manufacturing sector.'*

*'Employed person index was 48.0 percent, decreased 0.1 percentage point month-on-month, and was still below the threshold, indicating that the labor employment of manufacturing enterprises fell back.'*

*'Main raw materials inventory index was 48.4 percent, a decrease of 0.3 percentage points over last month, staying below the threshold, indicating that the raw material inventory for manufacturing production continued to reduce.'*

In respect of Industrial Profits, The National Bureau of Statistics made the following announcement:

*'From January to June, the industrial profits of enterprises above designated size achieved 2,844.18 billion yuan, a year-on-year decrease of 0.7 percent, and the pace of decline narrowed by 0.1 percentage point over the first five months of 2015.'*

*'In June, the industrial profits of enterprises above designated size achieved 588.57 billion*

yuan, a year-on-year decrease of 0.3 percent, while that in May was up by 0.6 percent year-on-year.

*‘From January to June, the profits of state-holding industrial enterprises above designated size gained 598.02 billion yuan, decreased by 21.2 percent year-on-year; that of collective-owned enterprises reached 23.53 billion yuan, an decrease of 0.1 percent; that of joint-stock enterprises stood at 1,855.26 billion yuan, down by 1.7 percent; that of foreign funded enterprises, and enterprises funded from Hong Kong, Macao and Taiwan achieved 721.67 billion yuan, increased by 4.2 percent; and that of private enterprises gained 977.13 billion yuan, an increase of 6.3 percent.*

*‘From January to June, the profits of mining and quarrying gained 139.61 billion yuan, decreased by 58.8 percent year-on-year; that of manufacturing was 2,443.64 billion yuan, an increase of 6.1 percent; that of production and distribution of electricity, gas and water reached 260.93 billion yuan, up by 17.2 percent.’*

Not very encouraging statistics, to be sure.

### **Tumbling Oil Prices**

The reduction in imports of oil products by the PRC may be considered surprising to some people in view of the falling prices of crude oil on international commodity markets.

In the first week of August, the price of West Texas Intermediate (also known as West Texas Light) fell to its lowest level since last May.

The Athens Stock Index General fell by about 16 percent on Monday, August 3, and continued its decline, the following trading day.

This was hardly surprising, however, everything taken into account with regard to the failed economy of Greece.

But on Wednesday, August 5, the falling key index of the bankrupt economy of Greece had a direct and disastrous effect on international oil markets – with prices, giving up early gains, and continuing to head south, as they do, today.

While it is true that the Greece’s financial situation is but a hiccough on the world’s economic stage, all things, taken into account, at the same time, the repercussions of that country’s financial problems are being viewed and having the ability to cascade throughout many parts of Western and Eastern Europe unless definitive action is taken by the powers-that-be in the European Union, action, displaying perspicacity and nous.

Greece, in its present, bankrupt situation, is being forced to borrow money on just about any terms – Beggars can hardly be choosers, can they? – in the certain knowledge that it can never hope to repay the latest loans and the accumulated previous loans of the past five years – in the next three decades.

### **Structural Issues in the PRC**

For the PRC, its economic expansion, during the past decade or so, has created structural issues that the Government appears to be taking much too lightly, according to quite a number of economists, Asian, American and European.

These structural issues have not been properly addressed in the past – and continue to be swept under the PRC’s Government’s convenient carpet of things to be done, somewhere in the future.

This is not completely unlike the situation that caused Greece to find itself in its current financial predicament.

Premier of the PRC, Mr Li Ke Qiang (), has gone on record, stating, inter alia, that the country's economy must grow '*at a proper rate*' of about 7.50 percent per annum.

This smacks of a planned economy, an unwelcome remnant of years long gone.

Is the figure of 7.50 percent a realistic one?

In this medium's opinion, probably not.

The one question that remains unanswered by the PRC Government is, simply put:

*'From where is the growth in the country's economy going to come?'*

In the quarter to June 30, 2015, the PRC's **Gross Domestic Product (GDP)** – the total value of all goods and services, produced over a specific period of time – did, in fact, rise 7.50 percent.

But it was the first rise in quarterly growth for the previous nine months!

Since last April, the PRC's economic gurus have engaged in taking measures that, in time, might well come back to haunt them.

These well-intentioned gurus have loosened reserve-requirement ratios for banks, sliced through loan-to-deposit ratios, and have encouraged spending on infrastructures in select towns and railways.

All this – and more – has been done in order to inject more money into the economy.

At the same time, it is to encourage managements of banks to afford loans to customers, without being too pernickety.

Sobriquets have become widespread in order to describe the PRC's newest plans to kick-start the economy in the same way that, when the US Federal Reserve needed to kick-start the largest, single economy of the world, it applied the term, '*quantitative easing*', defined as buying specified amounts of financial assets from commercial banks and other financial institutions, thus raising the prices of those financial assets and lowering their yield, while, simultaneously, increasing the money supply.

One is forced to learn terms, such as '*mini-stimulus measures*', in order to describe select actions of the PRC Government.

As with the PRC Government's attempts to try to stop the key indices of The Shanghai Stock Exchange and The Shenzhen Stock Exchange from continuing their downward plunges, sometimes at horrific and frightening paces, by pumping tens of billions of renminbi into the buying of stocks and shares as well as causing well-heeled, Chinese stockbrokers to come to the Government's party, it did not work.

Even proscribing certain publicly listed companies from having their shares, traded on the two equity markets, did not stop the rot.

One has to ponder whether or not the PRC Government is more intent on introducing and employing more political programmes rather than encouraging the concept of a market-led economy where laissez faire takes precedence over politics.

Any PRC Government programme, aimed at mending that which is seen as having been broken in the economy, has its limitations.

This was made very evident with the failure of the PRC Government to halt the key indices of the country's two equity markets, falling out of bed.

Statistics, in respect of the fixed-asset investments in PRC's real-estate industry, fell in the month of June by about 4.08 percentile points, from 14.70 percent in May to 14.10 percent in June.

As for new home starts, they were, once again, in negative territory in June, compared with May.

The contraction in June was a negative 13.80 percent, compared with a contraction of a negative value of about 12 percent in May.

And so it continues.

That which is required in the PRC, today, is a well thought-out, long-term plan, one that is aimed at encouraging realistic, sustainable growth, not an airy-fairy romantic concept where one senior official spouts his dream statistic in respect of a forecast of GDP growth, a statistic that is meaningless other than being an attempted placation for the digestion of the masses.

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