China economy: Weakened but still growing

BEIJING: President Xi Jinping is visiting the United States as leader of a China whose image of economic success has taken a beating. Stock market turmoil and a surprise currency devaluation fueled fears of a Chinese slump with global repercussions. But even a weaker China still is on track to turn in some of the world's strongest growth this year. And some industries including retailing are expanding at double-digit rates. China's 5-year-old slowdown is self-imposed as the ruling Communist Party tries to steer the world's second-largest economy to more self-sustaining growth based on domestic consumption. Steel and construction suffered as the party put the brakes on an investment boom, but as job creators they already have been supplanted by e-commerce, tourism and other service industries.

"Those touting China's sudden fragility are either exaggerating current problems or have entirely missed the slowdown of the past several years," said China Beige Book, a US research firm, in a report this week. It said China's image might be "more thoroughly divorced from facts on the ground" than at any time since it began conducting surveys of the country's economy five years ago. Xi started his US visit Tuesday with a stop in Seattle to meet business leaders and visit Boeing Co. and Microsoft Corp. On Thursday, he goes to Washington to meet President Barack Obama.

This year, Beijing is expected to report growth of 6.5 percent to 7 percent. That is down from last year's 7.3 percent but more than double the 3.1 percent forecast for the US by the International Monetary Fund. Only India is expected to grow faster at 7.5 percent. The slowdown came as no surprise: Economists warned nearly a decade ago the model based on trade and investment that delivered three decades of growth had run out of steam. Communist leaders told the public to prepare for wrenching change.

A falling growth rate also is a symptom of China's success. Its economy passed Japan's in size in 2009 and since then has added another 1 1/2 Japans to its output. That means China needs to generate twice as much additional economic activity to keep growing at the same percentage rate. Some forecasters suggest Beijing overstates growth and the true rate might be as low as 5 percent. Even at that level, China will add almost one Indonesia to its economy this year.

BEIJING: A Chinese couple chat as a model poses next to a Mercedes-Benz AMG GT S model on display during a promotional event at a shopping mall yesterday. — AP

Weakness in shipbuilding, construction and heavy industry are signs of progress in Beijing's campaign to transform a nation of farmers and factory workers into a consumer-driven economy and creator of technology. E-commerce, restaurants and other services for China's own consumers accounted for 41.7 percent of employment in the latest quarter, well ahead of manufacturing's 34.7 percent, according to government data.

Retail sales grew by 10.4 percent in August. E-commerce grew at twice that rate, generating new jobs in logistics and delivery services. Business at Tiantian Express, a delivery company in the eastern city of Qingdao, has tripled over the past year, according to its operations manager, Sun Qiang. He said its workforce doubled in size to 150. "There is still big room for growth," said Sun. Faith in China's ability to surge ahead while the rest of the world struggled was shaken by the collapse of a stock price bubble. Yet the economic meltdown many feared never materialized. That was due to the fact that, unlike stock markets in the United States or Europe, China's has few links to what communist leaders call "the real economy". The biggest publicly traded companies are state-owned, so traders make decisions based on official policy and availability of credit. Only about 7 percent of Chinese households own stocks, which is a fraction of levels in the United States, Europe or Japan, so losses had little impact on consumer spending. — AP

Boeing sells China 300 planes, agrees plant

SHANGHAI: US aerospace giant Boeing has reached deals with Chinese firms to sell 300 aircraft and set up a completion centre in China, state media and its local partner said yesterday, as President Xi Jinping began a visit to the United States. The massive order, which was not immediately confirmed by Boeing, demonstrates the vital importance of the Chinese market despite a growth slowdown that threatens to slow the expansion of air travel. The state-owned Commercial Aircraft Corporation of China (COMAC) also reached an agreement with Boeing to set up a "completion centre" in China for its narrow-body 737 airliners, Xinhua said.

It represents a step-up in Boeing's competition in China with European rival Airbus, which already has a manufacturing presence there. The Xinhua report, datelined from Seattle where Xi on Tuesday started his first US state visit, gave no details of the models bought by a group of Chinese companies or the value of the sale. Aviation analyst Shukor Yusof described it as the biggest ever order by a country. Xi was due to visit Boeing's main aeroplane factory in Washington state yesterday. "China's rapidly growing aviation market plays a crucial role in our current and future success," Boeing chairman Jim McNerney said in a statement last week.

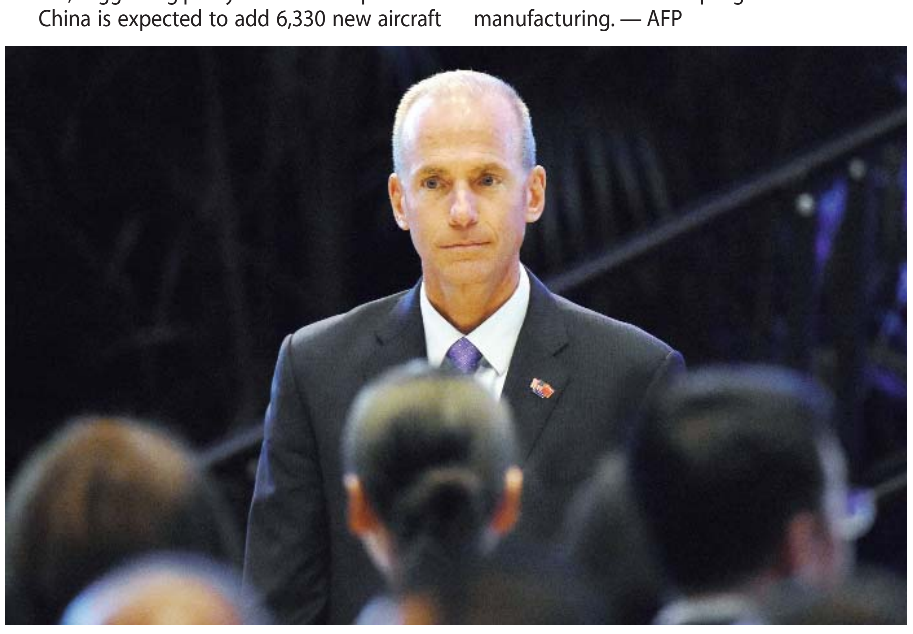
COMAC confirmed to AFP that it will set up a joint venture with Boeing for interior completion, painting and other delivery support services for Chinese customers. "This shows cooperation between Boeing and a Chinese enterprise has been lifted to a major-manufacturer level," it said in a statement. The wording echoes the "new model of major country relations" phrase that Chinese officials use to describe ties with the US, suggesting parity between the powers.

China is expected to add 6,330 new aircraft worth $950 billion to its commercial fleet by 2034, Boeing said last month in its annual China Current Market Outlook. "The emerging middle class in China is helping to boost demand," Mohshin Aziz, an analyst at Malayan Banking Bhd, told Bloomberg News. "Most of the planes ordered will be for growth and very few will be for replacement."

Shift for Boeing

A completion centre in China for the medium-range Boeing 737 will be the firm's first outside the US. European rival Airbus already has a final assembly operation for medium-range Airbus 320 aircraft in the northern port city of Tianjin, and plans to open a completion and delivery centre for long-haul A330s. But the move could be controversial for Boeing at home. Ray Conner, chief executive officer of Boeing Commercial Airplanes, said in a memo to employees Tuesday that it will not result in layoffs at its Washington state plant, Bloomberg News said.

A report by the Shanghai Securities News on Tuesday said plans for a Boeing facility in the eastern Chinese province of Zhejiang have already been submitted to the central government for approval. COMAC is already developing a Chinese narrow-body, the C919, as well as a smaller regional jet, the ARJ21, in the commercial hub Shanghai. Shukor, with Malaysia-based Endau Analytics, said China was unique in that orders came from the government and planes were then distributed to the airlines and leasing companies. "To put it simply, it's a trade-off," he told AFP. "China buys 300 aircraft and Boeing builds a plant in China in return." Shukor said China was leveraging the rivalry between Boeing and Airbus to get the best of both worlds in developing its own aircraft manufacturing. — AFP



SEATTLE: Boeing Co Chief Executive Dennis Muilenburg attends the welcoming banquet for Chinese President Xi Jinping at the start of his visit to the United States at the Westin Hotel on Tuesday. — AP

SHANGHAI: A man passes by a Maserati showroom, run by Chinese luxury automobile dealer Sunfonda Group, on Sept 21, 2015. — AFP

China slowdown slams brakes on auto market

Developments changing nature of competition

SHANGHAI: Chinese luxury auto dealer Sunfonda was in the fast lane to success as the country boomed but a slowdown in the world's number two economy has slammed the brakes on the firm's ambitions. The worst economic performance in a quarter century and a prolonged government crackdown on corruption have hammered luxury car sales in the country, and Sunfonda last month announced a 75 percent slump in first-half net profits. Sunfonda set up its first dealership for Germany's Audi in Xian 13 years ago, and accelerated as China overtook the US to become the world's biggest auto market in 2009.

Even in lagging inland provinces far from China's developed eastern coast, new fortunes built on a resources boom and property speculation fuelled demand for luxury cars. Sunfonda now has 28 outlets in seven provinces, grouping brands such as Porsche, Mercedes and Maserati, and more than 2,000 employees. But stumbling growth and a crackdown on graft launched by Chinese President Xi Jinping more than two years ago have hit the company.

Chinese share prices have plummeted since June, wiping out paper wealth and knocking sentiment, crucial to high-end auto sales as an uncertain future makes people less likely to spend big. "It is a reality that China is now seeing slower economic growth and a sluggish luxury car segment," Sunfonda said in a letter to a dealer industry group, which was seen by AFP. China is crucial to foreign auto makers, which dominate the market, given weak sales in Europe and a still recovering United States.

There were 23 million vehicles sold last year, a 6.9 percent annual rise, but some forecasters are predicting a fall this year, forcing manufacturers in the country to slash prices and cut production. Some dealers have even demanded compensation from automakers, in cash or subsidies, as unsold stocks mount. "Inventories are increasing, sales slowing and (manufacturers) are starting to reconsider their production strategy - all signs of increasing competition and a much tougher environment," said Lian Hoon Lim, managing director of advisory firm AlixPartners. He added that 2015 was likely to be a "downbeat year".

Driving Away?

In the latest blow for Sunfonda, Italian sports car builder Maserati has said it is terminating agreements for dealerships in Xian, Taiyuan and Yinchuan. According to a Sunfonda executive the three have lost at least 24 million yuan ($3.8 million) combined. The Chinese company is now seeking legal arbitration in Shanghai over the termination, claiming the original contracts were unfair. "It was OK before as conflicts were hidden while everyone was making money," the Sunfonda representative told AFP, declining to be named due to the legal proceedings. "However, low profitability has now revealed the conflicts."

Maserati said in a statement it was not pulling out of the three cities, only changing its local Chinese partner to give its brand more focus. But Maserati CEO Harald Wester told AFP in April that maintaining China sales at last year's 9,400 vehicles would be "a very difficult task". Hong Kong-listed Sunfonda is responding to the downturn by adding dealerships for more budget-oriented brands such as Ford of the United States and Volvo, owned by China's Geely, as well as expanding its auto servicing and used car offerings.

In the first eight months of the year, China's overall auto sales reached 15.02 million vehicles, flat from the same period in 2014, according to an industry group. But the China sales of US auto giant General Motors dropped 4.8 percent year-on-year in August, according to the company. Ford, which has already cut production in China, recorded a 3.0 percent fall in its sales in the country last month. The developments are changing the nature of competition in a market that once offered dazzling prospects. Yale Zhang, managing director of industry research firm AutoForesight in Shanghai, told AFP: "In a weak economy, whoever slides the slowest will be the winner." — AFP

China manufacturing activity slowing again

BEIJING: Chinese factory activity shrank at its fastest pace in six and a half years in September, data showed yesterday, the latest in a litany of bad news undermining hopes of an uptick in the world's second-largest economy. The news sent Chinese stock markets down and will come as a further worry to global investors already fretting about the spillover effects of China's slowdown. It also comes a day after the Asian Development Bank became the latest international body to lower its growth forecasts for China, a key driver of the global economy.

Preliminary figures from financial publisher Caixin's closely watched Purchasing Managers' Index (PMI) showed manufacturing had slowed for the seventh consecutive month. The details do "not bode well for future production" said economists at Nomura. "Demand - especially external demand -remains sluggish." China is the world's biggest trader in goods, whose manufactured items sell worldwide, so lower demand for its products is a telling sign of the state of global economic health.

Slowing production lines need less from commodity-supplying countries, meaning a knock-on effect for economies around the world. Chinese authorities are trying to rebalance the economy - which accounts for one out of every eight dollars of worldwide GDP - from one reliant on exports and heavy government investment in infrastructure to one where domestic consumption is the main driver. But weak data in the current quarter has raised alarm bells over how rapidly the old economy is slowing and whether the new one is expanding fast enough to take up the slack.

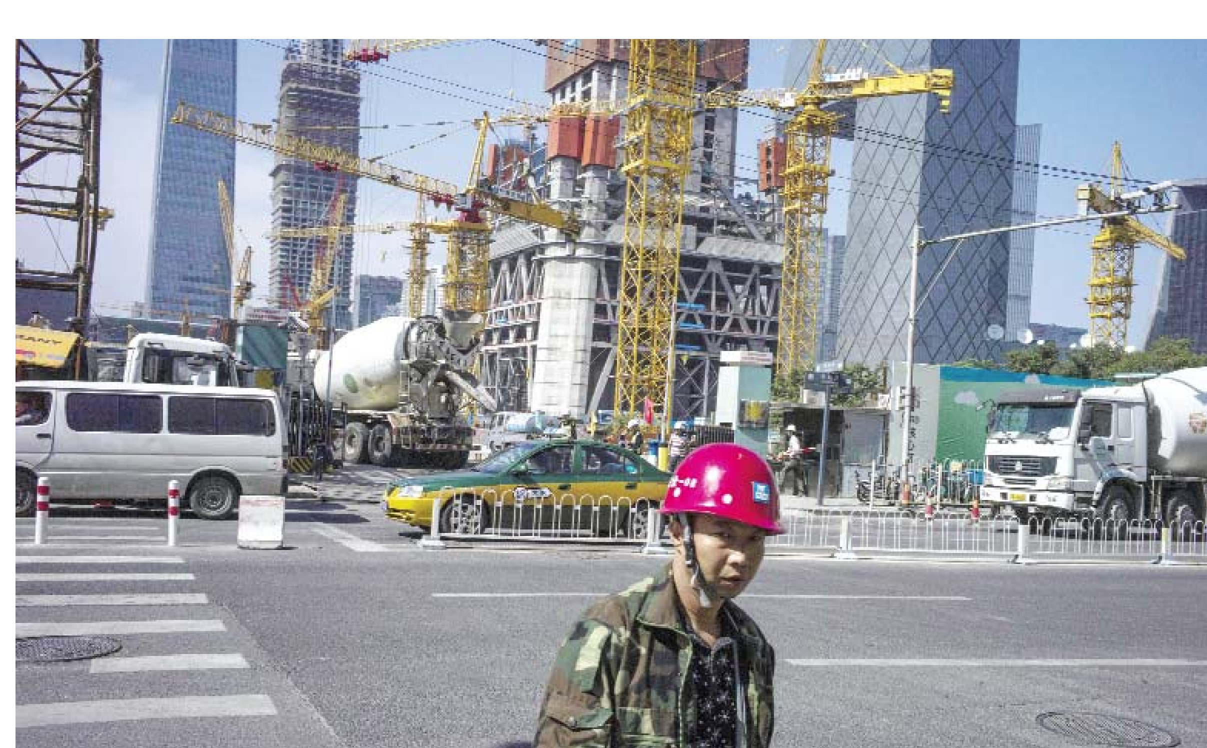
The Caixin PMI is closely watched by investors around the world for clues on China's economic health as it is the first regular statistic to be announced for each month. The preliminary figure of 47.0 was the seventh consecutive month of contraction and the worst since March 2009, in the depths of the global financial crisis. It was below August's result and also missed economists' forecasts according to Bloomberg News. A result below 50 indicates the manufacturing sector is shrinking, while anything above shows expansion.

He Fan, chief economist at Caixin Insight Group, which released the data, said the decline showed manufacturing industry had "reached a crucial stage in the structural transformation process". In a statement accompanying the PMI figures, he blamed the weakness mainly on sluggish external demand for Chinese goods and lower export prices. The benchmark Shanghai Composite Index ended down more than two percent on Wednesday after the PMI figures, while other Asian markets also sank.

'Downward Risks'

China's economy expanded 7.3 percent last year, the weakest pace since 1990, and slowed further to 7.0 percent in each of the first two quarters this year. The government has cut interest rates five times since November as part of efforts to shore up growth. It also lowered the Chinese currency's central rate against the US dollar by nearly five percent in a week, which should make Chinese goods cheaper overseas. The finance ministry earlier this month also vowed to adopt "stronger" fiscal policies.

But authorities' aggressive intervention to try to shore up share prices as a bubble burst on China's own stock exchanges has raised questions over their economic management and commitment to market reforms. Capital Economics analyst Julian Evans-Pritchard said current pessimism about China was "overdone". The country still faces "structural drags" on growth including a continued slowdown in property construction, he said. But key leading indicators such as fiscal spending and credit growth were showing positive signs. "We continue to expect a cyclical recovery in economic activity over the coming quarters," he wrote in a note. — AFP



BEIJING: A Chinese laborer walks in the Guomao district of the capital yesterday. Chinese factory activity shrank at its fastest pace in six and a half years in September. — AFP