

# China's Economic Growth in a Global Context

China's economy posted a rather frenetic 9.1% GDP growth for the third quarter of 2011, short of analysts' expectations for an annual growth rate of 9.3% and slower than the 9.5% registered in the second quarter. It is widely regarded that a growth rate of over 8% is a base line and is required to sustain social order. While 9.1% growth would be the envy of many a developed country it is considered a slowdown by Chinese standards. It appears that China has other problems, most notably inflation.

Inflation in September slowed to 6.1% from a peak of 6.5% in July. It would appear that measures to restrict overheating credit growth have been successful. It is expected that inflation will fall further in the coming months due to base effects and monetary tightening policies. Headline numbers could fall below 5% at year end. Be that as it may, the headline number hides a more detailed picture of inflation.

Non food inflation is a paltry 2.9%. Food inflation runs at an eye-watering 13.4% with no signs of abating. Meat products are rising at some 28.4% but is showing some signs of moderation albeit a sharp drop below 20 would probably require, or signal, a concomitant recession. Vegetables and fruits are highly volatile but currently run in the low to mid single digits. Shelter inflation was running around 7% before 2008, it fell to -6% in 2009 and has since recovered to a more moderate 2.5%. Clearly the worry is food inflation which accounts for a larger share of rural household's consumption.

From a social standpoint, China's policymakers are likely to focus more on inflation than on growth. It is a fine balance they need to find between maintaining employment and keeping prices stable, however, employment numbers have exhibited low volatility while consumer prices have been less stable.

In a highly globalized economy China's economy needs to be considered in an international perspective. A significant proportion of Chinese employment is dedicated to the production of US and other developed world goods (by trademark, copyright or patent). As the USD weakens relative to the RMB some of the cost advantages of producing in China have been eroded and are likely to continue to be eroded. The case for repatriation or relocation of production becomes stronger. This

has consequences for unemployment and growth. This is over and above the impact on exports.

As the world economy expanded in the last 10 years it became very much more globalized and interconnected. As the pie shrinks on the back of a natural deleveraging in the developed world, some of that globalization will be reversed.

Naturally there will be resistance to change. The risk of trade war, mercantilism and indeed nationalism is heightened. The world needs to be careful that the decades of prosperity are not reversed.