

What is it about China?

China is the world's second-largest economy and in recent years, the main contributor to global growth. It is the world's largest manufacturer, largest merchandise trader and largest holder of foreign reserves. The state of China's economy has been a hot topic in recent weeks, amid deepening worries that it is slowing significantly. CHIA YAN MIN identifies some red flags and examines what the slowdown means for Singapore.

7%

SLOWING GROWTH

The Chinese economy is expected to expand **7 per cent** this year – its slowest pace in almost a quarter of a century.

Policymakers are trying to rebalance the economy away from investment towards consumption, for more sustainable long-term growth.

China's economic growth

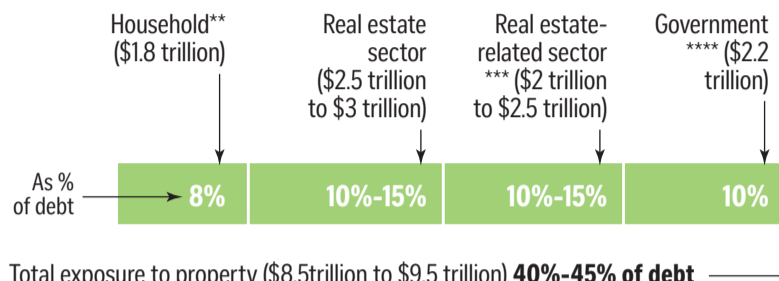


4x

MASSIVE DEBT

Fuelled by the real estate industry and shadow banking, China's total debt has nearly **quadrupled** since 2007.

Debt exposure to property, real economy Q2 2014*



* Real economy debt excludes financial-sector debt.

** Mortgages in household debt.

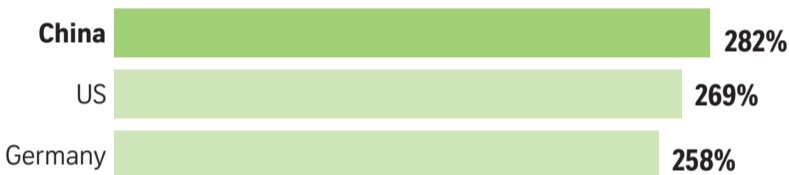
*** Including basic materials, mining, and other highly correlated sectors.

**** Local government financing vehicles, spending for social housing, and other construction projects.

NOTE: Numbers rounded off

SOURCE: MCKINSEY GLOBAL INSTITUTE

China's debt as a share of its gross domestic product – a widely used measure of economic health – was larger than that of the United States and Germany last year.



Minus 40%

TUMBLING STOCK MARKET

China's stock market has lost about **40 per cent** of its value since its peak in June.

Shanghai Composite Index

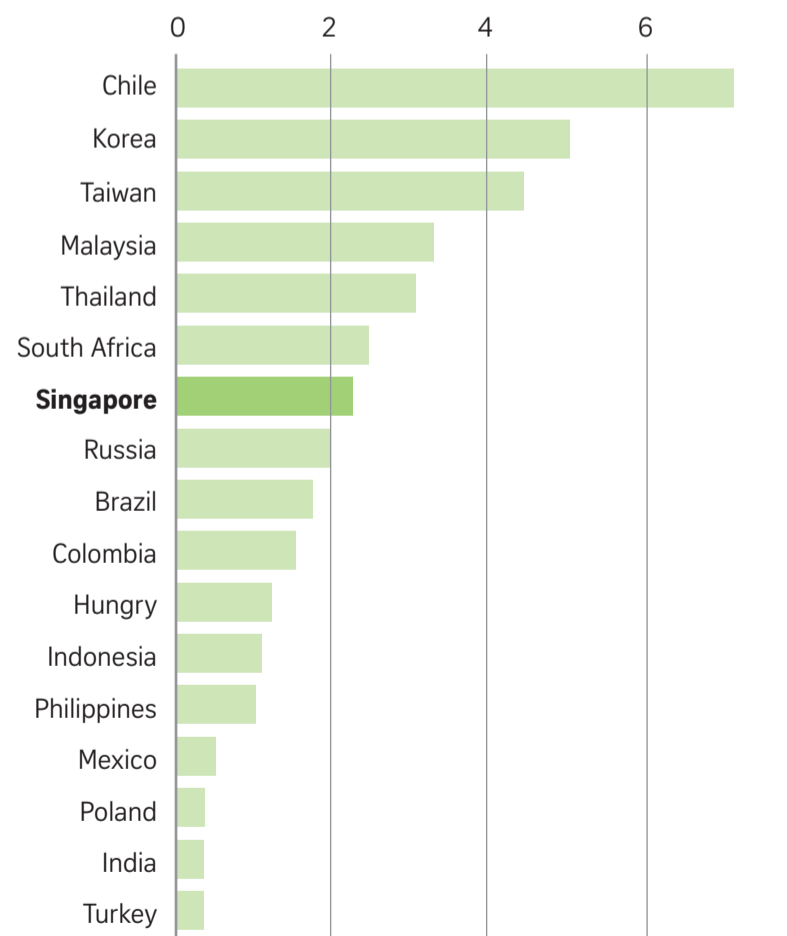


Impact on Singapore

- China is Singapore's top trading partner and export destination.
- Total trade between the two countries amounted to \$121.5 billion last year.
- This means Singapore, as well as the rest of Asia, is being hit hard by a significant slowdown in China's growth.

Exports to China

% of exporter's GDP



SOURCES: INTERNATIONAL MONETARY FUND, BARCLAYS RESEARCH

BUT WHAT'S REALLY GOING ON?

- Some economists have pointed out that China's lack of statistical transparency makes its economy a black box.
- For instance, while the manufacturing sector appears to be flagging, data shows services growth is still robust – a sign that

government reforms might be taking effect.

- Many market watchers also doubt that China's economy grew at 7 per cent in the second quarter, as the country's official statistics say.

- It remains to be seen if Chinese policymakers will be successful in their attempts to make China's growth more balanced and sustainable in the long term. In the meantime, it is likely that there will be more speed bumps ahead for Singapore and the region.