Economic Turbulence in China, Road to Recovery may be Bumpy

The zero-tolerance Covid Policy and swirling property market are hitting Beijing hard, compelling it to slash its interest rates to boost demand. Amidst rising inflation and a global economic slowdown due to the Ukraine war and the global food crisis, the world's second-largest economy is expected to contract resulting in mounting fear of a global recession. A major slowdown in China's economy is predicted to pose a substantial risk on the global front as its economy accounts for almost 1/5th of the global GDP. The prediction of the World Economic Forum suggests that with every one percentage point decline in China's GDP, there is a 0.3 per cent reduction in global GDP. The Chinese government has lowered its target of 5.5 per cent GDP growth and is reluctant to go for more expansionary policymaking. Though, the country has been successful in keeping inflation under control unlike the countries like UK and US, but, the problem of weak demand for its product both domestically and internationally is a major concern and its trade tension with measure economies like US, is also hampering the growth. The Chinese Yuan has hit its worst in decades, igniting uncertainty in the financial markets and making it difficult for the banks to supply money to the economy. Tech Giants like-Tencent and Alibaba have reported a sharp drop in their revenue. The profits of Tencent fell by 50 per cent while Alibaba's net income fell by half.

Strict and continued lockdowns in many cities of China, including manufacturing hubs like Tianjin and Shenzhen, are forcing many businesses to shut down fostering economic chaos. Reluctancy of the Chinese government to import mRNA vaccines has left the general masses in China with low immunity against the virus and a not-very-advanced healthcare system is adding to the disarray.

Experts believe that the property crash in China is a bigger problem than the zero Covid policy. The real estate sector accounts for 30 per cent of the GDP of the country and S&P global rating estimates the property prices will decline 30 per cent this year, worst decline than the 2008 financial crisis. Chinese property crisis is in fact the result of a deliberate policy decision taken way back in August 2020, where China rolled out a three-red lines policy with the vision of deflating the mounting housing bubble in the economy. The Policy was aimed at reducing the economy's over-dependency on real estate and deflating speculation on house prices that made the housing property out of the reach of many middle-class people in China. The policy required strict adherence to financial health including a 100 per cent cap on net debt to equity in case of borrowing from banks and other financial institutions. The policy-driven decision turned out in severe crush crunch among developers and this delayed the real estate projects' completion deadlines. Home buyers stopped paying mortgages on unfinished properties. The estimation of The Deutsche Bank reveals that the value of mortgages due to unpaid mortgages amounts to roughly 1.8- 2 trillion Chinese Yuan or approximately 5 per cent of all mortgage lending. Though, it is unlikely that the Chinese economy will experience a steep meltdown but it will take years to rebound from the economic slowdown. China has announced a 1 trillion Yuan stimulus package to boost small businesses' real state and infrastructure in the country but such a stimulus package seems insufficient. More investment or infrastructure easy borrowing norms for property buyers and developers along with tax reforms is definitely in line to rebound the situation.

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