China's slowing economy: What's wrong?

AFP, *Shanghai*

GLOBAL stocks have been hit hard over concerns for the Chinese economy, with a gauge of the country's manufacturing activity on Friday providing the latest sign of a slowdown in the world's second-largest economy.

Although China, a major engine of global growth, has been slowing for some time, financial markets in China and elsewhere have tumbled. Here are a series of answers to key questions on the subject:

China's economy expanded 7.4 percent last year, its weakest since 1990, and has slowed further this year, growing 7.0 percent in each of the first two quarters.

It is a far faster growth rate than most other major countries, but a surprise currency devaluation last week raised suspicion that the economy is worse than officials have revealed. Coming on the heels of a stock market rout in June and July has added to the gloom.

China second quarter gross domestic product (GDP) figure exactly met the government's full-year target of "around" seven percent, leading some analysts to question the announcement, which came after several weak indicators. China has long faced accusations that the government massages economic figures during times of slowdown.

Experts say China's ruling Communist Party needs to deliver improved living standards, lifting more people out of poverty and satisfying the growing middle class, in exchange for acceptance of its rule. The government also needs to maintain a minimum level of economic growth, which some analysts put at seven percent, in order to create jobs for millions of people and prevent social unrest.

With Europe's economy weak and the US preparing for lift-off, the world has looked to China's thirst for raw materials to keep its economy humming. With more than 1.3 billion potential consumers, the country is also a big market for manufactured goods such as cars. Any weakness in demand could be keenly felt by producers.

Analysts are mixed on the question. Weaker manufacturing activity could be partly a reflection of a September 3 holiday to mark the end of World War II, which has caused production halts, and last week's explosions at the port city of Tianjin -- a major centre for industry.

"The multi-year low in the PMI (purchasing managers' index) confirms that the economy is still not on a solid footing and (we) look for a flat growth profile in H2, with continued downside risks," Barclays Bank said in a research note.

But others said China still has plenty of weapons in its arsenal, including further cuts in interest rates and fiscal spending.

"We continue to believe that sentiment is currently overly downbeat and that policy support will limit the downside risk to economic activity over the course of the next couple of quarters," Capital Economics said. Still, there are fears market volatility could derail economic reforms and cause the government to fall back on pump-priming instead of shifting to domestic consumption for more sustainable growth.

The Shanghai stock market is now at almost exactly the same level as the bottom of a recent market rout on July 8 -- just as Beijing stepped in with a vast rescue package.

Analysts say the stock market might go lower, though so far the government's "national team" has bought stock to defend the key 3,500 point level.

After a shock currency devaluation of nearly two percent on August 11, which caused the yuan to tumble almost five percent last week, the unit is widely expected to weaken more against the US dollar, although the central bank is likely to intervene to prevent steep slides.

Japan's Nomura expects the yuan, currently around 6.4 yuan to the dollar, to depreciate further to 6.6 by the end of the year.

STAR

Bankers and analysts attend a discussion on "regulatory guidelines for mobile financial services in Bangladesh", organised by The Daily Star at its office in the capital yesterday. Story on B1

Story on B1

US presses China to continue reforms after yuan devalued

AFP, *Washington*

US Treasury Secretary Jacob Lew pressed China to continue with economic and financial reforms Friday in the wake of Beijing's surprise devaluation of the yuan last week.

Lew told Chinese Vice Premier Wang Yang in a phone conversation that Washington recognized the progress China had made on financial reform, especially toward a more transparent, market-determined exchange rate for the yuan, according to a Treasury Department account of the call.

"But, Secretary Lew emphasized that it is critical China continue with reforms which are necessary to move towards an economy driven primarily by household consumption rather than exports, which is in both China's and America's best interests," the Treasury said.

Long under US pressure to free up its controls on the yuan, which Washington has seen as undervalued versus the dollar, Beijing let the currency drop 2.8 percent last week in response to a weakening economy.

The People's Bank of China also adjusted the way the yuan's value is set to better reflect market trends, although the value has moved little since the initial slide of August 10-12.

ADB provides $1b to ease Kazakh currency pain

AFP, *Astana, Kazakhstan*

The Asian Development Bank (ADB) said Friday it had approved a $1 billion loan for energy-rich Kazakhstan after the Central Asian country's currency lost a quarter of its value against the dollar Thursday, spreading panic throughout the region.

Kazakhstan's currency, the tenge, fell a record 23 percent on Thursday following the country's switch from a costly currency corridor with the dollar to a free-floating exchange rate as the country battles to cope with lower oil prices.

"This loan from ADB's Countercyclical Support Facility will give the country the fiscal leeway it needs to mitigate the unanticipated and significant negative impacts of the steep decline in world oil prices and the economic slowdown of the neighbouring countries," said Lotte Schou-Zibell, principal economist in ADB's Central and West Asia department.

Kazakh President Nursultan Nazarbayev said Thursday the switch to the free-floating exchange rate was a "necessary step" given gloomy medium-term forecasts for oil prices and exporters' demands for a more competitive exchange rate.

The damage to the tenge -- which is currently trading at 252.47 to the dollar -- has sent ripples through ex-Soviet Central Asia, a region threatened by depressed global hydrocarbon prices and economic chaos in Russia.

In economically fragile Kyrgyzstan and Tajikistan, for which Kazakhstan is a key trade partner, dollars were being sold at five to six percent above their respective official rates on Friday. Turkmenistan, the region's leading exporter of natural gas, also faces trying economic times.

The reclusive country, which devalued its manat currency by a fifth at the beginning of the year, depends on oil and gas for 90 percent of its exports.

AFP

Amit Jain, *left*, president of Uber India, and Srini Gopalan, Bharti Airtel's director for consumer business, hold a replica of a mobile phone displaying a map from the Uber app during a press conference in Mumbai on Friday. Uber India has entered into a strategic partnership with Bharti Airtel telecommunications to provide 4G wi-fi internet access to Uber cab riders.

Tourists head to Thailand despite bombing fears

AFP, *Bangkok*

BUSLOADS of visitors from China flocked to Bangkok's glittering Grand Palace on Friday but, days after a bomb at another of the city's popular attractions killed five Chinese tourists, Thailand's biggest spending holidaymakers are rattled.

Monday's attack on a Hindu shrine, particularly popular with Chinese devotees, did not prevent Jay Chou and his family from travelling to the kingdom, though it has left them on edge.

"We are closely following the news, we shouldn't go to any place which is dangerous," said the 18-year-old engineering student from Shanghai outside the palace where an already heavy security presence was boosted in response to the bombing.

The attack on the shrine, apparently by a still-unidentified young man who placed a backpack with explosives under a bench, killed 20 people and injured more than 100 others.

Most of the victims were ethnic Chinese tourists from around Asia, with five of the dead from mainland China and two from Hong Kong.

While Thai authorities have yet to make an arrest or say which group was behind it, they have repeatedly said it was clearly aimed at damaging the tourism industry.

Though in the midst of confusing and sometimes contradictory information on the investigation, one message from authorities has been clear -- Chinese tourists were not the target.

For the country's ruling generals, losing their biggest spending group of visitors is a hit the kingdom cannot afford as it struggles to revive a sclerotic economy.

Tourism accounts for around 10 percent of Thailand's economy.

Chinese holidaymakers spend far more than any other group of visitor -- 190 billion baht ($5.3 billion) in the first half of this year, according to Thailand's tourism authority.

This is more than five times the spending of Malaysians and Brits, the next two largest spenders.

And the number of Chinese visitors soared by 138 percent in the first six months of this year compared with the same period in 2014, when Bangkok was paralysed by often violent protests before May's military coup.

Thailand is counting on a surge in Chinese visitors in October for the annual National Day holiday, a week-long break in China when hundreds of millions travel domestically and abroad.

So soon after the attack in politically volatile Thailand, which before the coup experienced repeated outbreaks of deadly street violence in a decade-long power struggle, it is difficult to gauge the long-term impact of the blast on tourism.

At a hotel popular with Chinese tourists in Bangkok's Chinatown, assistant manager Praparat Boonsai said some guests had been frightened away.

"We are worried because our customers are cancelling from China," she told AFP, saying that six checked out early after Monday's blast and several had cancelled upcoming trips by phone.

Woranut Srisamboon, a spokesman for the Thai Chinese Tourist Association, said some tour groups had cancelled trips while holiday agents in China were constantly calling to check on security.

Woranut's VLC Travel company, catering to mainland Chinese tourists, reported 20 groups of up to 40 people strong had pulled out since Monday.

But Woranut said the impact so far had been limited, putting it down to a "special relationship" between China and Thailand.

"Thailand and China are like brother and sister," he said with a smile, saying tourism authorities in both countries were in constant touch.

While Hong Kong warned its residents after the attack to avoid travelling to Bangkok, China's national tourism body only cautioned its nationals to "be aware, pay attention to travel safety, and choose reasonable travel routes".

In Bangkok's historic quarter on Friday, long lines of Chinese tourists followed tour guides, many dressed in identical hats and holding up umbrellas to block the midday sun.

Happily chattering in Mandarin, these groups of travellers had stuck to their long-planned holiday itineraries.

At the entrance of the sprawling palace compound, Chinese tourist Lily Chu said she had continued with her holiday plans despite being worried about safety.

The 33-year-old Buddhist even went to pray at the bombed shrine on Wednesday, believing it was important to pay respects to the dead.

"I prayed for people who died... (so they can) rest in peace," she said.

AFP

Chinese tourists pose for a group picture before visiting the Grand Palace in Bangkok on Friday.

Oil plumbs 6.5-year low on oversupply, China woes

AFP, *London*

The oil market extended its dramatic descent this week to strike a 6.5-year nadir close to $40 per barrel on mounting fears of oversupply and poor demand, particularly from China.

Tumbling world stock markets fanned worries that weak global economic growth will hurt commodity demand, especially in the wake of downbeat Chinese manufacturing data.

However, gold was catapulted higher, benefitting from the precious metal's status as a safe bet in times of turmoil.

OIL: New York's light sweet crude plunged Friday to $40.04 per barrel, the lowest level since March 2009, as the market was rattled by China jitters.

London's Brent crude hit $45.21, a point last witnessed in mid-January and not far off a six-year trough.

Sentiment has dived since China's central bank devalued its yuan (renminbi) currency last week in a surprise move seen as aimed at boosting the country's flagging exports.

However, in more bad news, the preliminary reading of Caixin's Purchasing Managers' Index (PMI) came in at 47.1 this month, its worst reading since March 2009 and significantly below analysts' forecasts.

"The renewed slump in Caixin's PMI for the manufacturing sector in China in August is likely to increase concerns about demand among market participants, especially since the oil market is significantly oversupplied," said Commerzbank analysts in a research note.

European, Asian and US shares all sank Friday, continuing a global equities sell-off on the back of China's economic troubles.

"Oil prices continue to be plagued by the supply glut problem," added Bernard Aw, market strategist at IG Markets.

"Sharp falls in global equities, particularly US shares, further contributed to worries that global growth would be sluggish. This suggests that demand for energy may remain tepid."

Analysts fear a slowdown in China, the world's second-biggest economy, could drag on global growth and curb energy demand -- bad news for oil prices at a time when markets are already oversupplied with crude.

The market also took a tumble on Wednesday as a surprise rise in US stocks fuelled supply glut fears.

The US Department of Energy said commercial oil stockpiles rose 2.6 million barrels in the week ending August 14, and reported a 300,000 barrel rise at the closely watched Cushing, Oklahoma, trading hub.

The US and producers from the Organization of the Petroleum Exporting Countries have decided against cutting high production levels despite falling prices as they fight over market share.

By Friday on London's Intercontinental Exchange, Brent North Sea crude for delivery in October tumbled to $45.91 a barrel from $48.95 a week earlier for the September contract.

On the New York Mercantile Exchange, West Texas Intermediate or light sweet crude for October slid to $40.91 a barrel from $44.21 for the September contract.

Samsung eyes first entry into US stock markets

AFP, *Seoul*

South Korea's dominant Samsung conglomerate will make its first entry into US stock markets next year with the listing of a biotechnology affiliate, a company official said Friday.

The listing of Samsung Bioepis on the Nasdaq Stock Market is aimed at securing funds for investment in the field of biosimilars -- a new breed of drugs that mimic the effects of far more costly biologic drugs made from living cells.

"With an underwriter already designated, preparations are under way for the public stock listing of Bioepis in the first half of next year," the Samsung official told AFP.

Bioepis will be the first Samsung affiliate to list in the United States.

Samsung Electronics, the world's largest mobile phone maker which accounts for the lion's share of the group's sales and profits, controls 46 percent of Samsung BioLogics, which in turn holds 90 percent of Bioepis.