China Moves Cautiously In Face Of Worsening Slump

Joe McDonald, AP Business Writer

BEIJING (AP) — Summer should be the busy season for Shen Lin's musical instrument workshop in the southwestern city of Kunming. But her monthly sales of traditional wooden flutes are dwindling as China's economy slows, with no sign of a widely anticipated rebound in sight.

"I have less for my workers to do, which means they are paid less. They complain, but I have no choice," said Shen, who runs the company with her husband. "I don't know when things will improve."

China's economic recovery is taking longer than expected. But facing a collapse in export growth and weak consumer spending, Beijing is avoiding an aggressive stimulus and sticking to a gradual strategy of small interest rate cuts and modest spending increases.

A repeat of China's huge stimulus in response to the 2008 crisis, based on a government-led flood of investment, could push up overall growth. But it would set back efforts to nurture a self-sustaining expansion based on domestic consumption, reducing reliance on exports and investment in a shift economists say is needed to keep incomes and living standards rising.

The 2008 stimulus helped China emerge quickly from the global crisis but fueled inflation and a building frenzy that left some communities with underused highways, stadiums and other facilities and debt they might not be able to repay.

"The government isn't sitting on its hands. It has been acting," said Capital Economics analyst Mark Williams. "People remember what happened in 2008, and obviously compared to that, it seems like a pretty lackluster reaction. But a re-run of that would do more harm than good."

Forecasters initially expected China's falling growth rate to rebound as early as the first quarter of this year. That has been pushed back repeatedly amid a drumbeat of bad news from debt-plagued Europe and a sluggish U.S. recovery.

July export growth fell to just 1 percent from the previous month's 11.3 percent. Consumer spending and factory output also weakened.

Now analysts expect a recovery late this year but say it will be too weak to drive global demand without support from Europe and the United States.

Last month, the International Monetary Fund cut its forecast for China's growth this year from 8.2 percent to a still-robust 8 percent and warned a hard landing, or

abrupt slowdown and a surge in job losses, still was possible.

China still is one of the strongest economies, with growth of 7.6 percent in the three months ending in June. But the abrupt decline from double-digit rates of previous years hurts companies that depend on high growth to drive demand for new factories, apartments and other goods.

The slowdown is due largely to government efforts in 2010-11 to use lending and investment curbs to cool overheating and inflation.

Communist leaders reversed course in late 2011 and promised more bank lending and help to struggling exporters after global demand plunged.

Beijing has cut interest rates twice since early June, approved multibillion-dollar investments by state companies and boosted spending on building airports and other public works. Analysts expect one more rate cut this year.

Local governments have jumped on the bandwagon, announcing trillions of yuan (hundreds of billions of dollars) in planned construction. It is unclear, though, how many of those projects might be built, because they still must win approval from cautious planners in Beijing.

Chinese retailers and manufacturers in some industries such as shipbuilding say sales are down by as much as 50 percent from a year ago. The newspaper China Times said this week 46 shipyards might face bankruptcy if orders fail to improve.

"Most of my friends think the economy will be better in the second half of this year, but I am afraid it could be next year," said Zou Jiahong, the boss of Sichuan Chuanwei Zhiguang Food Co., a food processor with 100 employees in the western province of Sichuan.

Beijing's response is complicated by political wrangling ahead of a once-a-decade handover of power to younger Communist Party leaders that begins in October. It lasts through early next year, when a new premier and other top government officials will be installed.

"We do not expect the outgoing government to jump to remedy slow domestic demand with fiscal stimulus," said Carl Weinberg of High-Frequency Economics in a report this week. "If needed, this task will be left to incoming leaders."

Shen, the musical instrument manufacturer, said that instead of rising as usual during the April-to-September tourist season, monthly sales are down 20 percent.

"I heard from guides there are not many tourists this year," she said. "Business online is even worse. I sold 300 to 400 instruments every month last year during the busy season, but it is down to just dozens lately."

Chinese leaders have avoided giving a forecast for the timing of a rebound. Premier Wen Jiabao, due to step down in March after a decade as China's top economic

official, warned last month the economy still faced "relatively large" pressure to slow further.

"There is no rush," said Weinberg. With growth at 7.6 percent, "Beijing can be patient."

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