

# Global Risk Watch Newsletter

## Chinese Economy – Becoming Uncontrollable?, etc.

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**1. Overview Macroeconomic and Financial Risks (Trends & Topics)**

**# Chinese Economy – Becoming uncontrollable? (Tsuyoshi Oyama, Partner/Head of Center for Risk Management Strategy at Deloitte Touche Tohmatsu LLC)**

While the turmoil looming over the situation in Greece has momentarily subsided with the decision of additional financial assistance by the European Union, conversely, “China shock” has increasingly weighed on the global economy, with market participants everyday fretting over ‘how far has the Chinese economic growth actually decelerated, or ‘how big is its rippling effect on emerging economies, particularly in Asia?’

One of the backdrops for serious concerns of a slowdown in China is that there are no credible measures to assess the ‘health condition’ of its economy. While the quarterly published GDP growth rate should be the most important ‘health barometer’, as Chinese government officials themselves have admitted in the past, the reliability of this statistics is questionable. In this environment, various figures that are difficult to be managed and thus likely reflect

the economic realities such as electricity production, new automobile sales, and exports have shown a significant decline and thus a growing deviation from stable GDP growth rates. This gap has contributed to increasing concerns of investors on the current and also the future development of the Chinese economy.

Lack of a reliable 'health barometer' led investors to read every possible signs of economic health condition, including any policy initiatives by authorities. In this sense, recent measures such as the drastic price-keeping-operations (PKO) in the stock market and devaluation of the exchange rate can be viewed as 'desperate' in the market. Previously, the market confidence in the Chinese government to stave off a free-fall of economy helped suppress the pessimistic outlook. However, recent trends have suggested that this confidence has gradually been fading away and replaced by the concerns that even the government might be incapable to manage it.

The Chinese economic downturn has also cast a big shadow over the East/South East Asian economies that have inherently benefited from China's economic growth up until now. In the past few months, the 'weakening' emerging countries such as Russia, Brazil, and Turkey with new additional members of Indonesia, Malaysia, and Thailand face continued capital outflows and currency devaluation. This could mainly be explained by the rising expectations of an interest rate hike in the US as well as the adverse impact of the downturn of the Chinese economy. In this environment, even the US FRB might reconsider the timing of policy rate hike, which is increasingly dependent on the development of Chinese economy.

As long as the Chinese economy remains 'mysterious', the world economy and the market will continue to 'speculate' the course of economy from any sources of soft data (perhaps the recent explosion accident in Tianjin may be added to such information). In fact, this type of situation could elicit stronger herding behavior in the market, and increase the possibility to significantly rewind the leverage from any happy or unhappy surprises. This could be the time to pay the 'cost' where the 'mysterious' economy is becoming the world's largest.

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