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The Entrepreneur

What China's Economic Slowdown Means

China caught the attention of the global economy beginning in the eighties when it opened up its market to the world and launched an aggressive campaign to attract investments and boost exports.

The Chinese government, according to a working paper published by the International Monetary Fund (IMF), titled "Why Is China Growing So Fast?" written by Zuliu Hu and Mohsin S. Khan of the IMF's Research Department, implemented a major reform program in 1978, after years of state control of the national economy, and opened up business to private enterprises, including foreign investors.

As a result, China's economic growth sped up from an annual average of 6 percent in terms of gross domestic product (GDP) prior to 1978 to more than 9 percent, and even higher than 13 percent during some peak years.

That period is gone. China, now the world's second-largest economy, was also adversely affected by the crisis in the euro zone and the sluggish American economy. News reports cited information from Hongkong & Shanghai Banking Corp. that said China's manufacturing activity contracted for the 11th straight month in September, which would make it difficult for the country to achieve its GDP growth target of 7.5 percent for 2012.

This year's target of China is already significantly lower than the 9.3-percent growth in 2011 and 10.4 percent in 2010. Its GDP, according to China's National Bureau of Statistics, grew by 7.4 percent in the third quarter of 2012, missing the official growth target.

What does this mean as far as the Philippine economy is concerned? As part of the global economy, a slowdown in China will also have a ripple effect on our economy. We are already feeling its impact, together with the spillover from other major markets, specifically in terms of exports.

The latest report from the National Statistics Office shows that Philippine merchandise exports dropped by 9 percent to $3.798 billion in August 2012, from $4.173 billion in the same month last year. Electronics exports, which accounted for 46.5 percent of total exports for the month, plunged 14.5 percent to $1.76 billion, from $2.07 billion. And for the first eight months of 2012, merchandise exports reached $35.28 billion, up 5.4 percent from $33.48 billion year-on-year.

Exports to China, the Philippines's fourth-largest export market, plummeted by 42 percent to $376.55 million in August 2012, from $649.46 million a year ago. On a cumulative basis, exports to China improved by 3.67 percent to $4.29 billion, equivalent to 12.19 percent of total merchandise exports, from $4.14 billion in January-August 2011.

Based on the performance of exports in the first eight months, it will be difficult for the Philippines to achieve its 10-percent export growth target for the whole year. With the continuing global slowdown, and particularly with the dimming prospects for China, I see two options for the Philippines.

First, we have to be more aggressive and creative in diversifying our exports. Electronics exports, driven by the fast-changing technologies, will likely remain on top of our merchandise export list, but we have to identify other products that the global markets need, and identify the specific markets to sell those products. Food and other agricultural products quickly come to mind, especially because of the current international demand for our coconut water as a health drink. Coconut sugar is also showing strong potential, if we can offer big volumes.

The second option is to go back to manufacturing. In the past, the fast growth of China and its reputation as a cheap manufacturing hub (because of low wages) encouraged a defeatist attitude that it would be useless to promote manufacturing industries here because we could not compete with China.

China, to reiterate my message in previous columns, is losing its competitive edge because salaries have been rising, and investors are looking for other places to put up factories.

We cannot expect everybody to leave China. It is still the world's biggest domestic market. But, despite China, we have a large pool of skilled and hardworking people who can make manufacturing industries viable and competitive.

In the end, manufacturing is still our more permanent source of sustainable growth, and this is the kind of growth that will give employment to more of our people.

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