PRC slowdown offers a chance to readjust trade priorities

Around the world, researchers and analysts are closely watching the economic performance of the People's Republic of China in the wake of its recent slowing growth and the possible impact of that downturn on developed and developing economies.

The Asia and Pacific region is anxious, and the rest of the world has reason to worry about the consequences of a slowdown in the world's second-largest economy.

But the slowdown allows countries to fine-tune their trade and currency policies to better benefit from the PRC's next growth cycle.

At the turn of the decade, the PRC's processing exports, that is, produced from processing and/or assembly of imported inputs, accounted for nearly half of its total exports.

In 2006, 51.5 percent of the PRC's trade within East Asia was in machinery products, of which more than half was trade in parts and components. Annual growth in machinery parts and components within East Asia was 22.7 percent between 1993 and 2006.

The integration of the PRC into the global economy in general, and East Asia in particular, has seen unprecedented fragmented international production, where products may be built in many parts by many countries and assembled at specific locations.

The world economy has undergone a profound structural change since the 1990s.

Over the past two and a half decades, the PRC has emerged as a dominant global economic player. With its large trade surplus, the PRC has already established itself in the world economy. Asia and the United States are the PRC's top trading partners.

It also has strong links with the Republic of Korea; Japan; Hong Kong, China; Singapore; Taipei,China; Malaysia; Indonesia; the Philippines; Thailand; and India.

And the PRC is significantly visible in Africa and Latin America.

With US President Donald Trump's withdrawal from the long-planned and intricate Trans-Pacific Partnership, which would have created the world's largest trading bloc, Beijing is now actively promoting its so-called "Silk Road" initiative to accommodate land and maritime trade and strengthen its links with Central Asia and Europe, and global value chains.

But if there is a crisis in the PRC, how much does it affect developed and emerging or developing economies?

The PRC, since Deng Xiaoping's policy of openness in 1978 with the end of the Cultural Revolution, is present throughout the world, and in the 21st century, it has become the leading destination for foreign direct investment and a leading exporter and investor in its own right. On the downside, as globalization increases, so too does exposure to risk because of fluctuating supply and demand and unstable currencies.

Every economy is now interconnected through different channels such as labor and capital movements across countries, cross-border trade in goods and services, sharing scarce resources, financial assets, and political and technological developments.

GDP growth depends on both internal and external factors such as exports, net inflows of foreign direct investment, and openness.

Sometimes, foreign direct investment may boost a country's economic growth. It solves currency problems and plays an important role in promoting economic growth and development, raising a country's technological level and creating jobs and improving overall quality of life.

Worldwide foreign direct investment flow has been increasing rapidly since the beginning of the 21st century.

The most attractive regions are East, South, and Southeast Asia, and the largest foreign direct investment flow among developing economies goes to the PRC.

The PRC's economy is expected to continue to grow rapidly, if at a slightly slower pace, but credit-fueled growth in investment since the global financial crisis in 2008 has increased the chance of a sharp slowdown, and that started in 2015.

Recognizing the risk, the PRC has adopted reforms to tackle economic imbalances, shifting production from idle sectors to active ones, and it started to devalue its currency. The PRC's exports may increase but the volume of its imports may decline in the face of a slowdown in the country.

The PRC is banking on access to many markets for exports and imports to balance its productive capacity.

In connecting the rest of the world, the PRC grew faster than any other country, at more than 10 percent annually from 2000 to 2012.

A major slowdown in the PRC will lower trade and foreign direct investment in other developing countries, but it gives policy makers breathing space to readjust trade and currency policies to take better advantage of the PRC's return to growth.

This episode was based on research by Soumyananda Dinda, a professor at the Department of Economics, University of Burdwan, West Bengal, India.

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