China Slowdown Hits Growth Around the Globe

Asia, Europe and U.S. struggle to adjust to giant's sluggish demand and shifting export patterns

By Chuin-Wei Yap in Hong Kong and William Boston in Berlin
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China's slowing economy is sending shock waves through its trading partners around the world.

Beijing's struggle with domestic weaknesses, including a huge debt buildup, overinvestment and constraints on private businesses, are combining with trade tensions to drag down growth in the world's second-largest economy to its slowest rate in three decades. The falloff in factory production and consumption is taking a toll on how much China buys from companies elsewhere in Asia, the U.S. and Europe. And the slowdown is rippling far beyond stock indexes, retarding economic growth far from China's shores. Years of rapid growth have made China a major trading partner for countries around the world. Over the last decade, it accounted for a fifth of the total growth in global exports and imports, and played a key role in supporting demand during periods of weakness such as the eurozone's financial crisis.

Economic frailty in China now is felt everywhere. Falling demand in China for semiconductor processing equipment and smartphone parts drove down exports from Japan, the world's third-largest economy, by 3.8% in December from a year earlier, the largest decline in more than two years. Germany worked hard to gain exports to China, but that exposure is a central reason why Europe's largest economy grew only 1.5% last year, its slowest pace in five years. Exports to China from large developed economies including the U.S. and other Asian countries were nearly 10% lower last year from 2017, according to Oxford Economics.

"China now has been such a major contributor to global growth that when it slows, that has impact all around the world," said Shane Oliver, chief economist at investment manager AMP Capital.

The dynamic has amped up competitive pressures across Asia, as Chinese industries that aren't selling as much at home turn to exports as a way out of trouble. For Europe, the trend threatens a big, new headwind as the continent's economy sags under political uncertainty and trade disputes. In the U.S., softening sales to China are putting an end to a three-year boom for some manufacturers.

China is a major market for many American manufacturers, and its slowdown has vexed companies from industrial bellwethersCaterpillar Inc. and 3M Co. to smaller firms like tanneries and tool producers. Caterpillar warned on Monday of narrower profit growth this year, blaming slower sales in China.
Germany's Continental AG , a leading automotive supplier, expects Chinese auto production to fall by double digits in January compared with 2018, a development finance chief Wolfgang Schäfer says will have "a direct impact on our order book."
The slowdown is hitting Asia especially hard.

Asian countries sell China products from clothes and cars to the technology that powers the country's manufacturing behemoth. China's falling appetite became sharply visible late last year, a drop-off belied by full-year data reflecting healthier times. That was especially the case for semiconductors, a sector that accounts for 15% of China's imports and is indispensable for the country's growth.

South Korean chip maker SK Hynix Inc. last week said its profits fell by 28% from the third to the fourth quarter of 2018, attributed to weaker Chinese demand for high-end smartphones and uncertainties from the U.S.-China trade fight. Japanese bellwether Nidec Corp. , a supplier ofApple Inc. components, this month cut its earnings forecast, blaming the same factors.

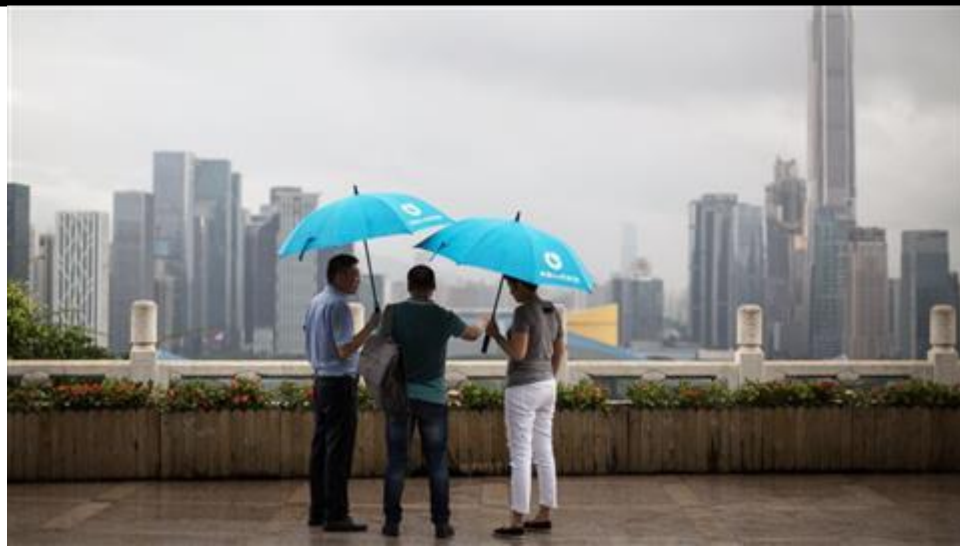
The remains of a sign are seen in Beijing on Wednesday above the window of a fashion store that went out of business. PHOTO: GREG BAKER/AGENCE FRANCE-PRESSE/GETTY IMAGES

South Korea, which sends a quarter of its exports to China, saw its export revenue fall by 14% in December from a year earlier.

California-based Nvidia Corp. , a major supplier of graphics-processing chips to China, on Monday said weak Chinese demand would likely knock $500 million off revenue, pushing it down for its fourth quarter to $2.2 billion.

For Europe, China's slowdown hits amid political troubles including Britain's looming exit from the European Union and protests in France over economic grievances. The continent is also suffering from a trade tiff with the U.S., and its biggest economy, Germany, narrowly avoided a technical recession last year.

In recent years, China has become a much more important customer for European manufacturers. By 2017, China had become the second-largest export market for the bloc after the U.S. It accounted for 10.5% of EU exports in 2017, up from 5.8% in 2007.



China's economy grew at its slowest pace since 1990 last year. The 6.6% growth rate is due in part to the continuing trade conflict with the U.S. and China's efforts to get a handle on debt. Photo: EUROPEAN PRESSPHOTO AGENCY

[Adidas](#) AG , the world's second-largest sportswear maker behind [Nike](#) Inc., warned in November its business in China would slow in the final quarter of the year.
Chinese retail-sales growth weakened to near-record lows late last year. Slowing consumer spending is manifesting elsewhere, too.

Wang Yu, 36 years old, works at a state-owned cultural-communications firm in Beijing. She said she planned to stay put for the Lunar New Year holiday because of the economic slowdown. Last year, she spent the break in Thailand and Nepal.

"Less projects, less business, less income," said Ms. Wang, about her company, as she lined up outside a milk-tea shop in the capital. "My boss has not announced layoffs yet, but I know he's thinking about it."

Hong Kong-based jewelry and watch companies reported a sharp slowdown in the last months of 2018, largely due to weak demand from Chinese customers.

Jeweler [Luk Fook Holding](#) s Ltd. this month said same-store sales fell 10% in the last three months of the year from a year earlier, with a 14% drop in mainland China. Same-store sales at Chow Tai Fook Jewellery Group Ltd. fell 7% in mainland China during the period.

The China slowdown has helped some Asian manufacturing rivals that have displaced their Chinese competitors in recent years by becoming the cheaper exporter to some markets.

Rafeeque Ahmed, a footwear exporter in the Indian city of Chennai, said his wares have become more attractive to U.S. customers facing tariff-laden Chinese competitors. Her said his export sales this year could rise 25% from last year, to $200 million. Those brighter prospects have attracted Taiwanese investors trying to decide whether to move their manufacturing facilities from China, he said.

“It is impacting us favorably,” Mr. Ahmed said. “We are getting more business, so we are happy. I only pray [the trade conflict] becomes more severe.”

His enthusiasm may be premature. “China will try to push their exports to all countries, more so in Asia because of the proximity,” said Madan Sabnavis, chief economist at Mumbai-based Care Ratings Ltd.

In some cases, Chinese industries have already begun to funnel more products abroad to offset the domestic slowdown. Net exports of steel products in the last quarter of 2018 edged up 3.5% from a year earlier, even though such exports for the full year declined from 2017. In response, regional producers such as Hoa Sen Group in Vietnam say they are holding back investment plans and trying to reduce inventories.

Pumping OutAs domestic demand falls, Chinese refinersare shifting more oil abroadRefined oil exportsSource: Wind
.million metric tons2017’18’19012345678

Chinese oil refineries also are exporting more. Exports of refined products last year rose 12.4% from 2017, the second-highest annual uptick in the last five years.
“The prospect of increased gasoline exports out of China poses downside risk to regional gasoline margins,” credit analysts Fitch Solutions said this month . “Among the biggest impacted will be other gasoline powerhouses in the region, notably Singapore and South

Korea, whose major gasoline export destinations overlap with those targeted by Chinese refiners."

Demand is holding up in some pockets of global industry. Chinese imports of Australian coal last year rose 4%; its imports of Australian iron ore in the last quarter rose 1.2%, even as full-year imports fell 1%.

Still, a Chinese slowdown is weighing on Australian services. Tourism and education are among Australia's largest sources of earnings from foreigners, their growth fueled by China. Navitas Ltd. , an educational service, says it isn't attracting Chinese students at the same pace as last year. The number of Chinese passengers passing through Sydney Airport grew only 4.5% last year, compared with growth of 17% in 2017.