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BUSINESS

ECONOMY

CRACKS APPEAR IN CHINA'S GROWTH

Investors are backing away from deals, factories are moving abroad and companies are cutting jobs

Agence France-Presse

The world's second-largest economy is losing steam, hitting its slowest growth in almost three decades last year, and flagging further in recent months.

While gross domestic product grew at 6.6 per cent in 2018, a rate that would be the envy of most nations, China's efforts to cut its debt mountain have weighed on the economy.

Private businesses face new hurdles as costs rise and financing becomes harder to come by, while the trade war with the United States has not helped.

Feeding the country's addiction to video games seemed an easy bet for Beijing Yixin Technology, a tech start-up behind the mobile game Farm Take Home.

The game allows players to harvest wheat, raise chickens and plant apple trees, a bucolic refuge from the pressures of urban life.

But in real life, the tech firm has struggled to find investors.

"In December our company's funding ran out, we had an investment lined up, but the money never came through," chairman Cui Yi said.

"This month I arranged another investor, then he backed out too. I think we can't hold out."

His company is not alone. Venture capital funding dried up at the end of last year. Total investment in the fourth quarter fell 13 per cent from a year earlier, according to data from Preqin market research.

Policymakers are partly to blame, pushing a war on debt and financial risk that has cut the funding that flows into investment firms, industry insiders say.

Another government diktat halted new video game approvals for months, because of youth gaming addiction concerns.

Other companies are facing the fallout from the trade war with the US.

More than a handful of exporters have sought to get around US tariffs by building factories outside China, according to a review of public stock filings.

Others are sending workers home early for the Lunar New Year or cutting overtime. Last month, mainland exports fell.

"It has hit our profits," Harry Shih, manager of Runfine Bearings in eastern Zhejiang province, said of the trade war.

Washington slapped 25 per cent taxes on many types of ball bearings in July. Shih said he had shared the cost increase with his customers, roughly half of whom are from the US.

"Business is going down for most companies including factories. Like me they have the same problems, profits are going down" as costs rise, Shih said.

Slowing disposable-income growth and tighter credit have hit consumer spending, with car sales falling last year for the first time in more than 20 years.

"Volumes have fallen by half," said Wang Jingjing, a fast-talking 23-year-old salesman at a Ford showroom in Beijing, noting about a third of the salespeople had been fired or left. Wang's own salary has roughly halved, he said, from about 10,000 yuan (HK\$11,600) a month in 2017 down to less than 5,000 yuan.

"I've definitely controlled my own spending, going out to eat

less, buying less, cutting down on these things," he said.

Official data shows unemployment rising slightly to 4.9 per cent last month. But independent data paints a different picture.

From October to December last year, advertised tech positions fell by 20 per cent from a year earlier, after declining 51 per cent in the third quarter, according to data from Zhaopin, the mainland's largest recruitment website, and Renmin University.

The economy "faces downward pressure, and to some extent this pressure will be transmitted to the job market," said Meng Wei, a spokeswoman for the National Development and Reform Commission, the mainland's state planner.