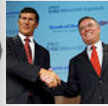


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Chinese Growth Plunges, With Global Aftershocks

Slowing Demand Hits Region's Exporters; GDP Rose Only 6.8%

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By ANDREW BATSON

BEIJING -- Three of Asia's powerhouse economies -- China, Japan and South Korea -- are stalling as demand for their goods from the U.S. and Europe wilts, and there are few signs of a hoped-for increase in Chinese consumption that might help keep the global economy afloat.

The financial crisis has slashed China's growth almost in half within a single year: gross domestic product expanded just 6.8% from a year earlier in the fourth quarter of 2008, and 9% for the full year, the government said Thursday. That compares to annual growth of 13% in 2007.



Efforts to stimulate consumption in China are running up against a gloomy economic climate that is making consumers more cautious, as well as a government legacy of encouraging corporate investment over individual spending.

China's slowdown is starting to pummel its neighbors, who had profited in recent years from Chinese demand for their machinery and components. Trading partners have

hoped China's government can help support global growth by buying more from abroad, rather than aiding only its own exporters.

Japan's exports to China had held up well until recently. But shipments started shrinking year-to-year in October and the decline has been accelerating since. In December, Japan shipped 750 billion yen (\$8.39 billion) of goods to China, down 36% from a year earlier -- worse than the declines of 25% in November and 0.9% for October -- according to data released Thursday by the Ministry of Finance.

"We knew China-bound exports were shrinking but we were shocked by the size and abruptness of the decline," said Akira Maekawa, a Tokyo-based economist for UBS Securities.

South Korea's economy is braking harder than many forecasters and government officials expected just weeks ago. The central bank reported Thursday that gross domestic product shrank 5.6% in the fourth quarter from the previous quarter.

A big driver was a decline in manufacturing output, reflecting a downturn in exports to China, its biggest customer. In December, South Korea's exports to China fell 35%, worse than the 17.9% drop in total exports and accelerating from the 33% decline in November.

The export-driven city-state of Singapore also notched its deepest economic contraction on record in the fourth quarter of 2008, and revised its outlook with a forecast that its economy will shrink as much as 5% in 2009. The government announced a stimulus package Thursday.




Many of the goods Asian countries export to China are components that are assembled into finished products and exported to the U.S. and other markets. With U.S. imports drying up, there have been hopes China would rouse its own consumers and make up for at least some of that

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lost demand. An upturn in Chinese consumption could help to rebalance a global economy whose biggest consumer, the U.S., is wallowing in recession.

Yet major indicators of Chinese demand -- such as plunging imports and housing sales -- signal the current slowdown is already worse than the last one a decade ago, during the Asian financial crisis. China hasn't published updated quarterly growth rates, making precise comparisons impossible, but according to estimates by Goldman Sachs, the fourth-quarter expansion is the slowest since the second quarter of 1998, when Goldman Sachs estimates the economy also grew 6.8%.

Like consumers around the world these days, Chinese people fret about their future. Cindy Wang, a 33-year-old employee of a Beijing advertising company, says she is spending less and saving more because her job looks much less certain. Most of her company's clients are car makers, who have responded to a sales decline by cutting ad budgets. "I don't know whether I will be laid off soon, though I'm working very hard," Ms. Wang said.

Though headline retail sales were up 21.6% last year, many economists discount the figures because they include purchases by companies and the government, not just households.

Other short-term indicators from China aren't encouraging. Measures of consumer confidence have been falling since August. Housing sales have declined every month since April and car sales have dropped in four of the past five months. Growth in rural and urban incomes slowed in 2008, which some economists expect will translate into slower consumption this year.

Many economists expect the latest weak data for China, and the likelihood that conditions will continue to worsen, will prompt Chinese authorities to cut interest rates further and announce more stimulus measures.

But nearly two percentage points of cuts in deposit rates since October haven't had much impact on spending. China's already-thrifty households are instead socking away cash at an accelerating rate. Savings deposits in Chinese banks at the end of December were up 26% from a year earlier, twice as fast as the 13% increase in May and well up from the 5.8% gain in December 2007.

"There is no evidence that a cut in interest rates reduces the household saving rate" in China, said Eswar Prasad, a professor at Cornell University who has worked on China at the International Monetary Fund. "It's very difficult for them, given the way things are set up, to encourage consumption."

Bank-deposit rates in China have been so low for so long that cutting them doesn't make much of a difference to most households -- especially when worries about the future encourage them to save more. Economists say low deposit rates were part of a longer-term policy to favor corporate investment by also keeping lending costs low.

That may be one reason why the government's initial announcement of a four trillion yuan (\$585 billion) stimulus program in November focused almost entirely on government-led infrastructure projects such as railroads and airports. Such spending can get investment moving into the economy fairly quickly.

"Because the economy is bad, there are lots of sales now," said Feng Airong, who works in a state publishing house. She says she is keeping an eye on her spending, in part because she's trying to save money to help her son study abroad in a couple of years. "I just bought several outdoor coats at a big discount, but the cost is still within my budget," Ms. Feng said.

In recent weeks, new policies have shown a greater focus on shoring up consumption. Ahead of the traditional Chinese New Year holiday, the government said it would give one-time cash payments to the nation's poorest households. The subsidies range from 90 to 180 yuan (\$13 to \$26) and will aid 74 million people.

The government has also approved a long-discussed overhaul of the nation's health-care system, which is often criticized for the heavy financial burden it places on households. The expansion of health-care coverage, which is expected to cost 850 billion yuan over three years, could eventually leave households with more money to spend on other things.

"These measures are designed to treat both symptoms and root causes, to both overcome immediate difficulties and lay a foundation for long-term development," Ma Jiantang, the head of the National Bureau of Statistics, said Thursday. "I am confident that China's consumption can maintain a relatively fast growth rate."

Others are less optimistic. "China's fiscal package is unlikely to create significant numbers of jobs or support consumption in any meaningful way," said Stephen Green, economist for Standard Chartered in Shanghai.

The high savings and low debt of Chinese households at least mean they are in a solid financial position, unlike many of their U.S. counterparts. "Looking at household balance sheets, there is

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very great potential for consumption," Yi Gang, a deputy governor of the central bank, said in a recent speech. Whether policy makers can unlock that potential is a big question for China and its neighbors.

—Yuka Hayashi in Tokyo, Evan Ramstad in Seoul and Kersten Zhang in Beijing contributed to this article.

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