China's factory activity shrinks as US tariffs, slowdown hit orders

Beijing opens more sectors to foreign investment

BEIJING: China's factory activity shrank more than expected in June, an official manufacturing survey showed, highlighting the need for more economic stimulus as US tariffs and weaker domestic demand ramped up pressure on new orders for goods.

The Purchasing Managers' Index (PMI) stood at 49.4 in June, China's National Bureau of Statistics said yesterday, unchanged from the previous month and below the 50-point mark that separates growth from contraction on a monthly basis. Analysts polled by Reuters predicted a reading of 49.5.

The weak manufacturing readings are likely to cast a shadow over the apparent progress US and Chinese leaders made at the G20 summit in Japan over the weekend in restarting their troubled talks over tariffs amid a costly trade war. They will also spark concerns about stalling growth in China and the risk of a global recession, despite slightly better-than-expected export and industrial profits data in May. Many economists still expect the economy to face strong headwinds in coming months as domestic demand falters and external risks rise.

"Although the outcome of the G20 summit (in Osaka) might boost confidence for some entities, organic growth in the economy is still insufficient, and counter-cyclical stimulus policies need to be maintained," researchers at Huatai Securities wrote in a research note yesterday. "The PMI index continued to fall across the board this month, and only the raw material inventory sub-index was up due to weak demand," the research note read. In June, China's factory output growth slowed, with the subindex falling to 51.3 from 51.7 in May while the contraction in total new orders accelerated to 49.6 from 49.8.

Export orders extended their decline with the sub-index falling to 46.3 from May's 46.5, suggesting a further weakening in global demand. Import orders also worsened, reflecting softening demand at home despite a flurry of growth-supporting measures rolled out earlier this year.

Southwest Securities said weak new export orders reflected a fading of the front-loading effect, which had temporarily boosted exports as Chinese companies rushed to place orders before more tariffs took effect. Presidents Donald Trump and Xi Jinping held ice-breaking talks at the G20 summit on Saturday. However, Chinese state media warned yesterday Beijing and Washington will likely face a long road before the two countries could reach a deal. Analysts at Nomura expect any gains achieved on a temporary trade deal between China and the United States would prove fleeting with a renewed escalation likely further down the road.

Trump has already imposed tariffs on $250 billion of Chinese goods and is threatening to extend those to another $300 billion, which would effectively cover all of China's exports to the United States. China has retaliated with tariffs on US imports.

To deal with the economic challenges, policymakers have released a range of measures and are expected to launch more. Premier Li Keqiang last week pledged to cut real interest rates on financing for small and micro firms. Goldman Sachs said the lack of any substantive progress in Sino-US trade talks at the G20 over the weekend suggested stimulus, including cuts to banks' reserve requirements, was likely to be needed. "We expect more policy easing (two more reserve requirement ratio cuts in 2H this year, more fiscal measures to support infrastructure investment) to come in the next few months," Goldman Sachs said in a note.

Foreign investment

China will soften or lift restrictions on foreign investment in new sectors from July 30, authorities announced yesterday, after Beijing and Washington decided to restart negotiations in their trade war. Foreign investors in China have long complained of unfair treatment, with restrictions covering sectors including maritime transport, gas pipelines, cinema, entertainment and telecommunication services, according to the Ministry of Commerce and the NDRC, the powerful economic planning committee.

China has a "negative list" that states which industries are closed to, or regulated for, foreign investment. On July 30 that list will be reduced from the 48 sectors currently included down to 40 according to the Ministry of Commerce and the NDRC.

The announcement comes a day after China's President Xi Jinping and his US counterpart Donald Trump met on the sidelines of the G20 summit on Saturday, agreeing to restart trade talks that were abruptly halted in May. China and the US have been embroiled in a trade war since last year, slapping tariffs on goods worth $360 billion in two-way trade.

Trump has demanded Beijing implement structural reforms that guarantee an even playing field for foreign companies. Earlier this month, Chinese premier Li Keqiang promised his country's market would be opened further to non-Chinese businesses.

"We will soften entry to more sectors to create an international business environment, founded on the market and law," Li told representatives of multinational companies at Beijing's opulent Great Hall of the People. China adopted a law in March that aimed to give foreign investors the same privileges as Chinese companies in most sectors, except those placed on the "negative list". — Agencies

Employees work on a drilling machine production line at a factory in Zhangjiakou, Hebei province. — Reuters

'Golden age' of Australian economy fades as dark clouds loom

SYDNEY: Australia's record-breaking economic run isn't about to end because of a ban on plastic bags-as one lobby group spuriously claimed-but consumers are buying less, offering a cautionary tale for the rest of the world. Once dubbed the "Goldilocks economy" for avoiding the pitfalls of the global financial crisis, Australia has seen 27 years of uninterrupted expansion-unprecedented in the developed world.

But the outlook appears increasingly bearish, and resilient Australia's faltering growth could be the canary in the coal mine for the world economy. The economy grew just 0.4 percent in the first three months of this year, after near-zero expansion in the second half of 2018. Strip away gains from population growth and the country is technically in a recession. "The big issue is the consumers," National Australia Bank chief economist Alan Oster said. Like many advanced economies, Australia's unemployment rate is not too bad, but like elsewhere there has been a troublesome mixture of high personal debt and stagnant wages.

In response, Australians are being more thrifty-spending less on eating out, paying little heed to almost constant high street discounts, and, crucially, spending less on rent and accommodation. House prices in Sydney have now fallen almost 15 percent from their peak two years ago.

The emperor's clothes

The downturn has exposed weakness in the Australian economy that had been masked by China's insatiable appetite for Australian commodities. The economy now looks less like Goldilocks and more like the emperor with no clothes. That's a big lesson for the rest of the world as it picks up the pieces after the financial crisis, Gabriele Gratton of the University of New South Wales said.

"The Australian economy didn't diversify enough and it exposed itself to a situation where Australian households are highly indebted," Gratton said. Chinese growth also contributed to the sharp rise in housing prices as both locals and foreigners piled into the market, particularly in the major cities Sydney and Melbourne. But the Chinese economy has been losing momentum in recent years, reducing the demand for commodities and properties in the sun. "If prices do not collapse, then nothing happens. But if prices do collapse, it will cause the type of (problems) that we've seen in Ireland or in Spain," Gratton said.

The Reserve Bank, which just a year ago appeared more likely to raise interest rates, has reversed course and cut, with more cuts expected. With interest rates already so low, stimulus spending could be on the cards. But both the central bank and the government have limited room for manoeuvre.

"The problem is you don't have the policy instruments that we can pull now that we pulled in the global financial crisis," Oster said. Despite the pessimism, most economists do not believe Australia will slip into recession.

The Australian dollar has been weakening, boosting exports, state and federal governments have been splashing out on public services such as healthcare and infrastructure, and population growth remains strong. Prime Minister Scott Morrison has promised to cut taxes and red tape.

But forecasts over the last year have been repeatedly over-optimistic. Central bank governor Philip Lowe has taken the unusual step of asking the government to spend more-lest the porridge go cold. — AFP

Australia's economy grew just 0.4 percent in the first three months of 2019. —AFP

Ghana farmers sweet on cocoa minimum price drive

ACCRA, Ghana: Kwame Boadu was forced to abandon his cocoa plantation to work in Ghana's capital Accra, but when the government announced plans for a price floor he began dreaming of a return to his fields. A higher guaranteed price for the crop means a cocoa farmer "can afford fertilizer, he can afford weedkiller, he can employ more laborers, so he can increase his production", he said.

And moreover it would guarantee that farmers get more money when they increase output, the 34-year-old added. Earlier this month key producers Ivory Coast and Ghana threatened to stop selling their production to buyers unwilling to meet a minimum price of $2,600 per ton.

The two African nations-which together account for 60 percent of the world's cocoa production-want to end a situation where cocoa producers make only $6 billion in a global chocolate market worth around $100 billion. The move sent world cocoa prices briefly above $2,500 per tonne, but they have since fallen back below that level.

After spending much of 2015 above $3,000 per ton, world cocoa prices slumped, fluctuating around $2,000 in 2017. The price drop squeezed farmers, who welcome government intervention.

"We don't have anything to sell apart from cocoa," said Alhaji Alhassan Bukari, who heads up Ghana's farmers' union. "So if the government has thought about the farmers, they come together to fight for the farmers, we support them," he said.

Cocoa is a key sector of the national economy, according to the Ghana Cocoa Board, both in terms of providing employment to around 800,000 families and generating revenue for the government's coffers. Ghana's Vice President Mahamudu Bawumia said earlier this month at a meeting with farmers and buyers that Ghana and Ivory Coast made their proposal to ensure farmers get "a fair share of the wealth that the industry generates". Establishing a price floor would also help revive rural communities. "A satisfactory price of cocoa beans will go a long way to complement the government's investments in rural infrastructure and improve the wellbeing of the communities," said Bawumia.

From cocoa to chocolate

But farmers aren't the only ones concerned by the discussion over cocoa prices. While chocolate has long been a marginal product in Ghana, despite the country being a major producer of its primary ingredient, in recent years a new batch of chocolate makers has set up shop. Selassie Atadika, the chocolatier at Midunu, a maker of handcrafted chocolates, says she has noticed more local chocolate on the shelves in Ghana's shops.

"I think in general there is more awareness, people are using it at more events and things like that so there is probably an increase in people's interest in buying chocolate." These local producers have an interest in cocoa prices, and fear a jump in prices could hurt their businesses.

Atadika said she hopes a price floor would help cocoa farmers. But for those trying to develop chocolate as a product "issues remain, even if the price of cocoa beans does not change, the price of sugar, milk powder and electricity will still be a major influence in their capability to make the chocolate", she said. One thing is clear for her, however: "If the (cocoa) price goes up it will have a negative impact on us." But it isn't clear that the price floor will impact domestic producers as the proposal concerns exports, which come from the main harvest.

Local producers buy beans from the second, smaller harvest. Moreover, they enjoy a subsidy on the purchase of beans from this harvest, according to the Ghana Cocoa Board.

"What would make an impact on domestic chocolate makers is if there was a loosening of regulations regarding who can sell and buy main crop beans, which would open opportunities for new domestic sourcing routes for cocoa," said Kristy Leissle, a cocoa industry expert and lecturer at the University of Washington Bothell. — Reuters

Two cocoa pods, which can each hold some 30 to 40 cocoa beans that are used to make chocolate. — AFP

ECOWAS adopts 'ECO' as name for planned common currency

ABUJA: Leaders of the member states of the Economic Community of West African States, known as ECOWAS, formally agreed Saturday to name a planned common currency the "ECO". The 15-member group announced at the end of a summit in Abuja, the Nigerian capital, that "ECO was adopted as the name of the ECOWAS single currency."

The idea of a common currency for the West African region was first mooted almost 30 years ago in the hope of boosting cross border trade and economic development. The aim is to have the currency in place by next year and leaders in Abuja reaffirmed the "gradual approach to the single currency starting with countries that meet the convergent criteria," a statement said.

It said the currency would be based on a flexible exchange rate regime, coupled with a monetary policy framework focused on inflation targeting. Member states should pursue appropriate policies and structural reforms that will sustain accelerated growth and the structural transformation of their economies, it added. Economists say they understand the thinking behind the currency plan but believe it is unrealistic and could even be dangerous for the region's economies which are dominated by one single country, Nigeria, which accounts for two-thirds of the region's economic output.

ECOWAS was set up in 1975 and comprises Benin, Burkina Faso, Cape Verde, Gambia, Ghana, Guinea, Guinea-Bissau, Ivory Coast, Liberia, Mali, Niger, Nigeria, Senegal, Sierra Leone and Togo-representing a total population of around 385 million.

Eight ECOWAS countries-Benin, Burkina Faso, Guinea-Bissau, Ivory Coast, Mali, Niger, Senegal and Togo-currently use the CFA franc. They are moored to the single European currency and are gathered in an organization called the West African Monetary Union, or WAMU. — AFP

This photo taken in a N'Djamena, Chad, shows CFA banknotes of the CFA currency issued by the Central Bank of West African States (Banque Centrale des Etats de l'Afrique de l'Ouest, BCEAO) and used in the eight west African countries which share the common West African CFA franc currency. — AFP