Sagar Dua al. International Journal of Recent Research Aspects ISSN: 2349-7688,
Special Issue: Conscientious and Unimpeachable Technologies 2016, pp. 41-44

A study on Impact of China Crisis 2015 On Asian Countries

Sagar Dua

Department of Commerce, Ch. Bansilal University, Bhiwani

Abstract: **Largest continent of the world 'Asia' is challenged by the China slowdown after getting in the spotlight due to Prudent Monetary policy, devaluation of Yuan, plunging real estate prices and doubts on the reliablityof published data. The current paper seeks to climb on the hardships which are faced by various Asian countries especially India by virtue of main competitor due to anamoly in the Chinese economy. Also, the paper discusses about the measures adopted by the Government of China and People's Bank Of China to provide stability to the vibrant situation of the country. We find out that the countries having strong macroeconomic fundamentals are able to handle the turmoil else have a big reason to worry.**

Keywords: People's Bank Of China, Yuan, Slowdown, Prudent Monetary Policy, Real Estate

I. INTRODUCTION

Globalization implies integration of all the economies of the world. The global economy also comprises of global financial system. Global financial crisis however, is turmoil in the world financial system caused due to some illogical reasons and mismanagement by the financial institutions. The global financial crisis basically reflects a combination of three-factors which marks the worsened situation weakening balance sheets of financial institutions, continuous fall in asset prices, weakening global growth. A worldwide period of economic difficulty experienced by markets and consumers in global financial crisis is a difficult business environment, which is unable to succeed in, since potential consumers tend to reduce their purchase of goods and services until the economic situation improve.

II. ECONOMIC CRISIS IN CHINA 2015

Three Decades ago, brisk rise of China as an economic power marked numerouno big league success stories of the ongoing times. Right from the beginning of economic reforms in 1979 to the premium year of 2014, China's GDP streched to 10% at an annual average rate. The World Bank estimates that from 1981 to 2010, 679 million people in China were raised out of extreme poverty (The World Bank, World Databank, Poverty and Inequality Database). China, being the world's largest economy (on the groundwork of purchasing power parity) manufacturer,holder of foreign exchange reserves and merchandises exporter and importer. Furthermore, the rapid economic growth of China accompanied the considerable rise in bilateral commercial ties with the USA. However, some dignitaries bet against the candid trade practices (such as devaluation of yen and subsidies provided to in-house producers) in order to cumulate the low-cost goods in U.S. markets, which could plunge American Jobs, wages and living standards.Federation of China has pursued various strategies to govern the economy into the "new normal" of sluggish but in calmer, stable and sustainable growth in Chinese Economy. Yet, worries have been rooted and depicted in the recent quarters on the economic health of China.The Chinese slowdown is a concern for the whole world. The Chinese stock market crashbegan with the popping of the stock market bubble on 12 June 2015. One-third of the value of A shareson the shanghai stockexchange was lost within one month of the event. By8-9 July 2015 the Shanghai stock market had fallen 30% over three weeks as 1400 companies or more than half listed filed for a trading halt in an attempt to prevent further losses. Values of Chinese stock market continued to drop despite efforts by the Government to reduce the fall. This has led to global melt down. This crash showed a contraction in the world's second largest economy. China's GDP growth slumped below the crucial 7% level in the third quarter of the year signaling the end of two decades of double-digitgrowth.

III. REVIEW OF LITERATURE

Eichengreen, Park and Shin (2012), estimate that the slowdown usually sets on the basis of average GDP per capita of $16,540 in 2005 constant U.S. dollars at purchasing power parity (or a median of $15,085), consequently the growth of per capita income slows on average from 5.6 to 2.1 percent per year. If those estimates were best of fit, it would imply that China is still far from the level at which it should be set to slow down. Its per capita GDP in constant 2005 purchasing-power-parity dollars was about $10,000 in the ICP statistics for 2011.Although, the follow-up paper, Eichengreen, Park and Shin (2013), found a second "node" in the $10,000-$11,000 range, in addition to the one they had earlier found at $15,000-$16,000.

Christopher Kent (2015), has remarked the implication of commodity prices that even after the industrial production has shown a decline in commodity prices, still there prices will remain high as Bank's index of commodity prices has plunged about 50 per cent from its high, but is still 80 per cent approximately above comparing to early 2000 levels.

Spingel Mark (2015) suggested that a sharp decline in the growth of industrial sector of China is the big signal of sharp decline in China's exports. In contrast, it marked a variance in the service sector of those countries that export commodities to China. From an exporter outlook, gain of a dollar from the increased activity of service sector cannot compensate the loss of a dollar from the industrial sector output.

Krishna G Bhardwaj S (2016) concluded that India has reaped the advantage of lower commodity prices (being a commodity importer) due to devaluation of Yuan, increased government fiscal bonanza, lower interest rate, plunging inflation, comprising all has favored to stable macro factors in India.

Buiter W (2015) stated about the Helicopter money in China, the U.K. and the U.S., the Euro area, debt restructuring in local government,banking and corporate in China, Euro area and UK, could prevent the turmoil of longer recession if implemented immediately. Still the situation is associated with two risks: 1) Systematic debt crisis in DM's and EM's. No one could analyze how much to engage in macroeconomic stabilization in leveraged environments or tackle the crisis without surging the magnitude of next crisis 2) Protectionism, which whenever tried by each nation do not damage the global recoverybut the uncoordinated trials of devaluationin order toto support and boost national economic activity, things could get much worse and stay for longer.

Albert et.al (2015) revealed the impact of rebalancing strategy adopted by China on various countries from which they would be able to return on a healthier and more sustainable path despite negative short-term effects. By virtue of their financial links and close trade with China, countries like Singapore and Hong Kong. Nevertheless, they are delighted with strong macroeconomic fundamentals, which empower them to cope up with international turmoil. Mongolia, on the other hand, is tied to China for their demand of commodities but lacking the safety nets of strong macroeconomic fundamentals.

IV. OBJECTIVES

1. To know the impact of China's economic crisis on India.
2. To know the reasons responsible behind Chinese economic crisis.
3. To know the steps taken by Government of China to tackle with economic crisis.

V. REASONS FOR THE SLOWDOWN IN CHINESE ECONOMY

a) Prudent Monetary Policy by People's Bank Of China
PBOC continued to maintain its status quo by providing more stimulus in Chinese economy keeping credit growth and stable at the same time having its hands free to fine-tune policy whenever necessary. From February 28, 2015 – October 23,2015, PBOC cut the basis rate 5 times by 25 Basis points on each bi-monthly monetary policy review. Also the PBOC cut reserve requirement ratio in February, 2015 and in April, 2015 in order to revive the economy from deflationary risks and for the purpose of lowering of financing cost. The hardships were faced by big destocking pressures on housing market. Also the 25 Basis rate cut on October 23,2015 didn't impress the Chinese stock market which resulted in 0.2 percent plunge in CSI300 index in Shanghai and Shenzhenand 0.1 percent in Shanghai Composite Index.

b) Credit Binge
Total debt(inculcating the corporate, federation and the houshold) surges to 250% approximately and was about 100 % points since 2008(http://www.economist.com/blogs/economist-explains/2015/03/economist-explains-8). Although, this credit powered China through global financial crisis but on the flip side has left the china with heavy repayment burden. The most disturbing event is the heavy flows of credit into the palms of real estate developers. The inventory of unsold homes in China is at record high. The real estate sector account for between 25% and 30% of china's GDP (if upstream and downstream in industries such as Cement, Glass,Steel, Furniture and Appliances are included).Plunging housing prices will not hurt affluent Chinese who have poured their fortunes into investment properties but it will also trigger default by overleveraged real estate developers who can no longer service or repay their bank loans.After considering it, this might be considered that turmoil in the real estate sector is largely cyclical not structural.

c) Steel Sector
Decline in steel sector is the other reason for the slowdown in Chinese economy .Decline in automobile sector and construction sector (those industries require Steel and Iron) cause a threat to Chinese economy because china is the world's largest producer of steel. It will cause overproduction of steel and iron and their prices are reduced because of lack of demand.

d) Global Slow Down
The first main reason is that manufacturing contribute around 59% to Chinese GDP and all of it is exported to other countries but the slowdown in EU, JAPAN, SOUTH KOREA had led to reduce demand. These countries are trading partners of china.

VI. IMPACT OF CHINA FINANCIAL CRISIS ON INDIA

China's economic crisis has a deep impact on Indian economy because automobiles are exported to China. Due to economic crisis of china demand for them is reduced, that cause a loss for automobiles manufacturer.

1) FOR AUTOMOBILE PRODUCERS
Automobile exporters and manufacturers especially Tata motors felt a pinch as China was its fast growing market especially for JLR and the company was investing in the market to drive future growth. But auto–ancillary suppliers will be hit as China consumption falls. China

was a leading destination of Indian exports of automobiles. With slowing consumption, their demand will fall. Due to this share of TATA motors decline by 6.2%.

2)ADVERSE EFFECT ON INDIAN EXPORTS

China is one of the largest consumer of metals in the world. A slowdown in China means metal prices will fall Indian metal producing companies such as Vedanta and Hindalco have seen their stock prices dipping which led to the NIFTY dropping 6850 points.

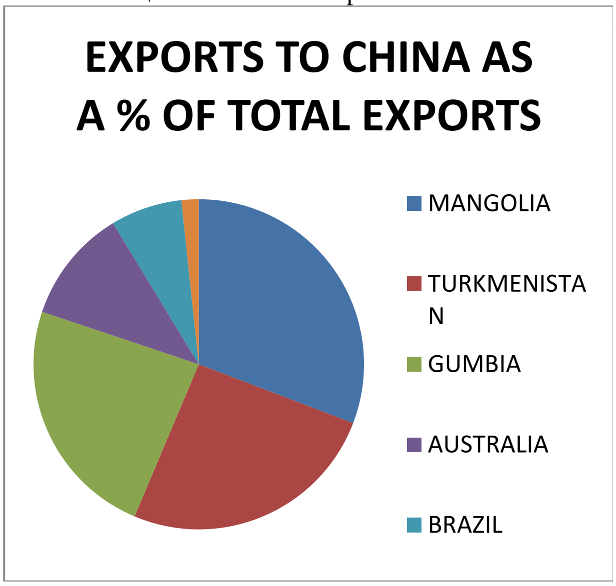
3) INCREASING TRADE DEFICIT

In last quarter of 2015 the exports of engineering products decline by 15.68% and devaluation of Chinese currency makes Indian exports more expensive in global market. It cause increase in trade deficit of our country.

WHICH COUNTRIES ARE MOST VULNERABLE TO CHINA CRASH

COUNTRIES	EXPORTS TO CHINA AS A % OF TOTAL EXPORTS
MANGOLIA	88
TURKMENISTAN	73
GUMBIA	68
AUSTRALIA	31.9
BRAZIL	20
INDIA	4.8

This table depict that India export to china is 4.8% which was 13.4 US $ billion of total exports.



MEASURES TAKEN BY CHINESE GOVERNMENT TO TACKLE WITH ECONOMIC CRISES

1) The Government is essentially buying stocks

The Government of china gave orders to the China's securities finance corporations known as CSF announced that it will lend Billions to big Chinese brokerage firms so that they can buy current stocks. The goal is to purchase enough shares that stock prices stop plunging.

2) Over half of the China's stocks have stopped trading

China has allowed half of the companies on the stock exchange to halt trading intheir shares. Around 1400 companies were suspended from trading.

3) More Government spending

China will also speed up infrastructure spending that the Government was already planning to do such as building roads and utilities in those areas of economy which need the most.

4) Big shareholders cannot sell for 6 months

China security regulatory commission prohibited big shareholderswho stakes more than 5% to sell their shares for 6 months so that their shareholding will not reduce and crisis can be controlled.

5) China is even buying small stocks

The CSF also pledge to buy to buy more small and medium sized stocks although there was no specific amount given of how much would be spent.

6) New stimulus

A new $40 billion (250 billion YUAN) plan announced to foster the growth in areas of economy that needs the most.

7) Central bank slashed rates

China's central bank has cut rates by 25 basis points to create more liquidity or to pump more money into the system.

8) Increase Market Transparency

On 16 January 2016 XIAO gang the head of china securities regulatory commission defended the CSRC'S crisis management of the abnormal volatility in the stock market. XIAO promised to crack down on illegal activities increase market transparency and better educate investors in a period with rising uncertainty in external markets including the global equity market slump plummeting commodities prices and currency devaluation in emerging market.

VII. CONCLUSION

China's economic crisis of 2015 impacted India very much because china is the trading partner of India. The Indian export sector (include Textile, Garments, Automobiles) are effected due to the Chinese economic downturn. The devaluation of Chinese currency (YUAN) makes Indian exports expensive because our products would not be able to compete against the cheaper Chinese products. India's current account deficit cause GDP ratio slowdown in exports and increase in imports of Oil, Coal and Gold. Various measures are taken by the Government of China to control the crisis. The objective of Government is to minimise damage to the real economy .Central bank has cut the interest rates and lowered the amount banks are required to keep on reserve, making it cheaper to take out loans and easier for banks to lend. Government also takes steps like boosting infrastructure and slashing taxes.

VIII. REFERENCES:-

[1]. Morrison, W. (2015). "China's Economic Rise: History, Trends, Challenges, and Implications for the United States", *Congressional Research Service*, RL33534.

[2]. Krishna, G. &Bhardwaj, (2016). "Impact Of China Slowdown On India", Centre For Policy Research.

[3]. Mai Le, V.,et. al. (2015). "China's financial crisis – the role of banks and monetary policy", *Cardiff Economics Working Papers*, Working Paper No. E2015/1.

[4]. Buiter, W. (2015). " Is China Leading The World Into Recession? " ,*Global Economics View*,

[5]. Chivakul, M., et. al. (2015). " Understanding Residential Real Estate in China", *IMF Working Paper*,WP/15/84.

[6]. http://articles.economictimes.indiatimes.com/2015-09-08/news/66326752_1_indian-economy-china-slowdown-global-economy.

[7]. http://indianexpress.com/article/business/market/chinese-crisis-slip-of-the-dragon/.

[8]. http://morungexpress.com/chinese-economic-crisis-and-its-impact-on-indian-economy/.

[9]. http://www.businessinsider.com/the-financial-crisis-of-2015-2011-1?IR=T

[10]. http://qz.com/480615/india-and-the-devalued-yuan-the-good-the-bad-and-the-ugly/

