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# Deflationary Concerns in Mainland China

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In recent times, many criticisms have been hurled against mainland China, an attempt to rein in this influential latecomer as it challenges the United States for global hegemony. Some critics argue that the economy of mainland China is in disarray following the collapse of the real estate bubble, while others point out that the nation faces a deflationary risk. The author is of the view that mainland China is fully capable of producing stable economic growth of approximately 5% as long as the Xi Jinping administration appropriately guides the expansion of consumption and infrastructure investment in line with the pace of growth. This is because the people of mainland China are still eager to purchase consumer goods and because there is demand for infrastructure development, such as that related to electricity, water, gas, and roads. In other words, real demand persists. While there are short-term concerns about deflation, such concerns seem to be somewhat exaggerated from a medium- to long-term perspective.

Even so, there are various concerns on a global scale. Take, for instance, the chemical industry in Brazil, which is a member country of BRICS, an intergovernmental economic organization comprising Brazil, Russia, India, mainland China, and South Africa. (It should be noted that BRICS is under the strong influence of mainland China.) Brazil's chemical industry is expressing concerns that mainland China is exporting deflation. Some observers suspect that the Brazilian government may have responded to such concerns by preparing to launch an anti-dumping investigation against steel and petrochemical products from mainland China. According to this view, Brazil is taking action under the assumption that its economy is likely to be adversely affected by the ultra-low-price offensive of mainland China. South Korean steelmaker POSCO is also considering filing a request for an anti-dumping investigation against imported steel sheets, including those from mainland China. Meanwhile, steel exports from mainland China reportedly reached 15.9 million tons in January and February of this year, the largest since 2016. Such developments are not limited to the steel industry. Other key industries are also being affected by the expansion in worldwide sales of ultra-low-priced products from mainland China. There is an increasing sense of crisis regarding mainland China's export of deflation. Some observers argue that mainland China, which faces a slowing real estate economy and sluggish domestic consumption, is clearing its domestic inventories by exporting them at low prices and that this is occurring in key industrial sectors such as steel, electrical equipment, auto, batteries, petrochemical, and distribution. While the ultra-low-priced products exported by mainland China to the global market may benefit consumers in the short term, they may negatively impact businesses and the overall industry in the medium to long term. Businesses worldwide may have to sacrifice profit to compete with low-priced products from mainland China. Businesses that increased their debt load during the COVID-19 pandemic have recently been expecting that their earnings would soon turn around. However, some observers argue that their performance may once again deteriorate because of mainland China's export of deflation.

According to the import and export statistics released on March 7, 2024, by the General Administration of Customs, mainland China's customs authority, the total import and export value reached 6.61 trillion yuan during the January–February period of this year, an increase of 8.7% from the same period a year earlier. In particular, the export value rose 10.3% year on year to 3.75 trillion yuan. Exports of electromechanical products such as integrated circuits, ships, general machinery and equipment, computers, and automotive parts, as well as labor-intensive products such as clothing, textiles, plastic products, bags, toys, and furniture, are all reported to have increased. The Ministry of Commerce of the government of mainland China explains that the export growth for the two-month period was a result of an effort to diversify markets and optimize the export structure. However, neighboring countries see the situation differently. During the "first China shock" of the latter half of the 1990s, when mainland China suddenly emerged as the "world's factory," low-priced products from the country had the effect of boosting consumption in major countries such as the United States. However, this also led to the collapse of manufacturing industries in various nations, weakening their industrial competitiveness as a result. The "second China shock," which the world is currently experiencing, is also a concern because there is a strong likelihood that it may trigger a long-term economic downturn. Prices will decline when low-priced products are imported in large quantities, but such imports also threaten the industrial base of the importing country. Low-priced products may benefit consumers in the short run, but the industry may lose price competition and deteriorate in the long run. This could lead to a vicious cycle of declining employment and consumption. In fact, some argue that low-priced steel and petrochemical products from mainland China have hampered the orderly functioning of the market in Southeast Asia and that this phenomenon is also spreading to Latin America. Meanwhile, ultra-low-cost distributors such as AliExpress and Temu are now seeking to expand sales of consumer goods from mainland China to the entire global market, including North America. The prices of electric vehicles and batteries are further declining in the face of slowing demand. Thus, if mainland China's export of deflation expands not only to developed countries but also to developing countries, there is no doubt that the negative impact on the global economy would be more extensive than that experienced in the 1990s.

Further, there is a danger of a closed global economy if major countries consider implementing further restrictions to prevent the collapse of domestic industries. In particular, if Donald Trump becomes president of the United States again, there is a danger that the nation will implement his “America first” policy and that a similar mindset will spread to Europe and other regions. In September of last year, the European Union (EU) launched an investigation into allegations that the prices of electric vehicles from mainland China were artificially lowered by a large number of illegal government subsidies, distorting the European market. Thus, some observers suspect that the EU may impose tariffs on electric vehicles from mainland China in the latter half of this year. The Brazilian government has also been pursuing anti-dumping investigations over the past six months in at least six areas, such as steel, chemical products, and tires, at the request of the nation’s business community. Brazil’s steel industry is urging the government to impose tariffs ranging from 9.6% to as much as 25% on imported steel products, including those from mainland China. Deflation, as the reader may already know, refers to a price decline that occurs during a recession. Mainland China has recently been exporting domestically produced goods overseas at low prices as domestic demand slowed and inventories surged. Thus, many countries are importing low-priced products from the nation. This is referred to as “export of deflation” from mainland China.

**(This is an English translation of the article written by SANADA Yukimitsu, a university Professor, which originally appeared on the e-forum "Hyakka-Somei (Hundred Ducks in Full Voice)" of CEAC on April 23, 2024.)**