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ECONOMY

Growth in exports slows to its lowest level in two years

Meeting GDP target looks increasingly difficult, analysts say, as Covid-19 controls wreak havoc

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Strict zero-Covid controls contributed to sending China's export growth to its lowest rate in almost two years last month, with hopes of recovery set to face multiple headwinds from prolonged lockdowns, global inflation and geopolitical tensions.

Amid the ongoing war in Ukraine, China's imports from Russia soared by 56.6 per cent from a year earlier to a record US$8.8 billion last month, although exports fell by 25.9 per cent to US$3.8 billion.

China's overall exports grew by a better-than-expected 3.9 per cent last month from a year earlier to US$273.62 billion, compared with growth of 14.7 per cent in March, data released yesterday showed, but the figure represented the lowest growth rate since June 2020.

And the country's export momentum is likely to remain weak in the coming months, with domestic coronavirus control-fuelled supply chain disruptions set to continue into next month, according to Tommy Wu, lead China economist at Oxford Economics. "External demand will continue to be weighed by elevated global inflation, as well as uncertainty created by the Russia-Ukraine war, including impacts of formal and informal sanctions," Wu said.

Overall, China's imports remained flat last month from a year earlier at US$222.5 billion, compared with a fall of 0.1 per cent in March, although this was also better than expected.

The country's total trade surplus was US$51.12 billion last month compared to US$47.3 billion in March.

"The sharp decline of export growth is mostly driven by the lockdowns in many cities, including Shanghai. Export growth may stay weak in May, as disruptions to supply chains force manufacturers to lower output," Zhang Zhiwei, chief economist at Pinpoint Asset Management.

"Trade is sensitive to the 'zero-tolerance' policy. The Politburo meeting on May 5 emphasised the importance of managing [the] risk of the virus spreading to China through cargo. This indicates the inspection of imports is likely to become tougher, which may slow imports further, and affect exports as well."

Beijing's gross domestic product (GDP) growth target of "around 5.5 per cent" is being increasingly questioned as the rigid lockdowns that have been in place since March have already taken a toll on retail sales, production capability and logistics.

Externally, the Russia-Ukraine war has driven up global commodities prices, forcing the world's largest buyers of iron ore, crude oil, soybeans and many other products to pay more, while ongoing tensions with Washington and Brussels have blurred the outlook for exports.

Additionally, some foreign investors have trimmed their holdings of Chinese stocks and bonds in anticipation of more interest rate increases by the United States Federal Reserve, putting pressure on the yuan exchange rate and foreign exchange market.

Wu warned that China's "dynamic zero-Covid" strategy would continue to weigh on spending and sentiment this year, with annual growth expected to be 4 per cent, down from a previous estimate of 4.8 per cent.

"The effect of the stimulus will largely depend on the scale of Covid-19 outbreaks and whether potential lockdowns will be swift as the government continues to fine-tune its Covid-19 policy," he added.

Along with the generally weak trade data, China's yuan lost more ground, with onshore trading yesterday falling to weaker than 6.7 per US dollar for the first time since 2020.

"Since exports have been the single largest growth driver since the spring of 2020, a sharp slowdown in export growth would substantially increase the downward pressure on GDP growth and make achieving the 'around 5.5 per cent' GDP growth target for 2022 increasingly difficult," said economists at Nomura led by chief China economist Lu Ting.

Nomura expected China's export growth to drop to zero this month before potentially contracting.

Overall, the 10 countries of the Association of Southeast Asian Nations (Asean) retained their place as China's largest trade partner last month, followed by the European Union and the US.

"The blame rests partly with China's Covid-19 outbreak, which has led to manpower shortages and bottlenecks in the logistics sector. But the extent of these disruptions shouldn't be overplayed," said Julian Evans-Pritchard, senior China economist at Capital Economics.