China's slowdown - and two reasons why British Business should remain optimistic

IT'S EASY to be down on China. Last week's negative headlines after the unexpected revaluations of the renminbi (RMB) played into the "China slowdown" narrative which has taken root as this year's accepted story. But we're not giving China enough credit. By opening up the RMB to more market forces, it has moved one step further towards more liberal financial markets. This is a necessary rebalancing step on what could be a rocky road.

China has indeed had its slew of weak economic data, with slowing factory output and disappointing exports. So in the UK, you'd forgive the boss of a mid-sized firm thinking of exporting or investing in China for the first time for having second thoughts. But it would be a mistake to hold back.

Let's be clear – there may be more bad headlines to come. Everyone agrees China's transition to a "new normal" of lower growth, driven by domestic consumption instead of credit-fuelled investment, isn't going to be easy. There's a growing consensus that growth in 2015 will fall below the 7 per cent target, and, in the medium term, it is likely to settle towards the lower end of the 5-7 per cent bracket Chinese Premier Li Keqiang outlined in his World Economic Forum speech in January. Thus China will likely find itself outpaced by India over the next couple of years.

There are other worrying numbers too. Since 2008, China's economy has become much more leveraged, and non-financial corporate debt now stands above 140 per cent of GDP. Combined with the sharp drop in real estate prices, this has the potential to reveal more financial fragilities.

So far, so gloomy. Why be optimistic?

First, it's worth reminding ourselves what 5 per cent GDP growth – let's call it the "worst case" scenario growth rate – would mean for a country of China's size. According to the IMF, China's GDP in 2014 was $10.3 trillion. That means 5 per cent growth in 2015 would add around $520bn to its economy. That's the equivalent of adding a country the size of Belgium to the global economy in a single year.

My second reason to be cheerful, as I've witnessed on my trips to Dalian, Shanghai and Beijing, is that we'll continue to see urban consumers on the rise, bearing fruit for British businesses prepared to take advantage.

We can see some of this resilience in retail sales, which are still growing by more than 10 per cent. The China-Britain Business Council estimates that there are already 170m middle income urban households in China, with household consumption predicted to triple in the next 10 years, reaching £2.7 trillion by 2022.

This, of course, is a large part of the reason leading UK fashion brands like Burberry, Cath Kidston and Ted Baker have invested in China, and also why Jaguar Land Rover has seen demand for its cars sky rocket. Our leading professional and financial services firms are thriving there too. Prudential's recent announcement of a

17 per cent increase in operating profits, driven in part by strong growth in its Asia business, went largely underreported.

President Xi Jinping has a busy autumn ahead, with state visits to the US and Britain. He may be tempted to remind Messrs Obama and Cameron of the old Chinese proverb: “be not afraid of growing slowly, be afraid only of standing still”. For while China is definitely transitioning, it certainly cannot be accused of remaining idle.

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