Shanghai Composite Index slides on economic growth concerns

Stiglitz: China is in a 'slow process of slowing down'

China isn’t facing a "cataclysmic" economic slowdown and last week’s market turmoil was more about badly designed stock market circuit breakers, said Nobel-prize-winning economist Joseph Stiglitz.

The circuit breakers, which caused local exchanges to close early on two days last week after stocks plunged to a 7 percent limit, weren’t as well designed as they could be, Stiglitz, a professor at Columbia University in New York, said in a Bloomberg Television interview in Shanghai.

The market closures and lower daily fixing rates for the nation’s currency against the dollar roiled global markets, heightening anxiety that it could presage a deeper slump with growth already at a 25-year low in 2015. The Shanghai Composite Index slid again Monday, pushing its decline in 2016 to 15 percent.

"There’s always been a gap between what’s happening in the real economy and financial markets," said Stiglitz. "What’s happening in China is a slowdown by all accounts. It’s a slow process of slowing down. But it’s not a cataclysmic" slowdown.

Regulators said last week the circuit breakers rule exacerbated rather than calmed the stock-market panic and scrapped it on Thursday. The events show that market rules matter and they can either diminish volatility or increase it, Stiglitz said.
The short-lived circuit breakers, which halted exchanges for 15 minutes after a 5 percent drop in the CSI 300 Index and for the rest of the day after a 7 percent retreat, were criticized by analysts for exacerbating losses as investors scrambled to exit positions before getting locked in.

Stiglitz said the government’s new focus on supply-side economic reforms could precipitate a deeper downturn if not accompanied by measures to boost demand. Policy makers plan supply-side reforms to deal with issues including overcapacity and excess labor in state-owned industries.

"Immersed Itself"

"The focus just on supply measures doesn’t pick up what’s happening in the global economy," said Stiglitz. "What’s going on is a shortfall in global demand. China has immersed itself in this global economy. There are domestic things that are affecting it and exacerbating it, but if they don’t have enough demand-side measures there could be a deeper downturn."

China’s leaders signaled last month at the end of the Central Economic Work Conference that they will take further steps to support growth, including widening the fiscal deficit and stimulating the housing market, to put a floor under the economy’s slowdown.

Monetary policy must be more “flexible” and fiscal policy more “forceful” as leaders create “appropriate monetary conditions for structural reforms,” according to statements released at the end of the meeting by the official Xinhua News Agency. It said the fiscal deficit ratio should be raised gradually.

Stiglitz said the tumultuous start to 2016 supports his belief there’s no reason to expect the global economy will be any stronger this year than in 2015. Even before the market turmoil erupted last week, the U.S. Federal Reserve was set to pause on further interest rates rises anyway because the "American economy is not back to health," he said.

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