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China’s brave new world? | 28 October 2015

Weeks on from the Chinese stock market crash the markets have calmed down, but what does it mean for the global economy?

With last week’s visit of China’s Premier, Xi Jinping, promoting such debate in the street around our relationship with China, it’s worth reflecting on their economic power and influence on a global stage and how it can impact the UK construction market but perhaps more particularly, activity levels in the capital.

Several weeks on from the Chinese stock market crash, the markets have calmed down somewhat - yet views on what it means for the global economy vary. Has the world’s fastest growing economy hit armageddon or is this merely a temporary road block in China’s journey to long-term prosperity? Most commentators seem to think the latter. The country is trying to manage a very difficult transition from an industrial, exporting economy to one much more driven by domestic consumption and there’s a popular view that there will be more pain to come before stability is delivered.

Partly to do with lack of trust in China’s official economic data, there is a range of forecasts for its growth this year: from 4% to close to 7%. It is decelerating, yes, but that’s a GDP growth that most Western economies would be very pleased with.

The issue is that global growth has been underpinned by a consistently high Chinese GDP increase of around 10% per annum, which clearly could not be sustained (and which arguably markets should have realised).

So, why hasn’t London caught a cold from China’s recent bout of flu? One reason is that the capital has been existing in something of a bubble in recent times, with vast amounts of foreign investment creating an over-heated construction industry that is struggling to build an array of highly-priced apartment blocks, office schemes and other buildings, constrained by skills and resources.

It could be argued that the turmoil of China has actually reinforced London’s position as a relative safe haven of political and economic stability, meaning that this inward investment will show little sign of abating anytime soon, which is also encouraged by a dearth of good quality office space in the capital.

However, the situation is perhaps made more precarious by recent events as the world economy has been shown to be fragile and volatile. This affects the confidence of investors - as shown by Saudi Arabia’s decision to redirect its sovereign wealth investments back home. But countering this is the UK government’s selection of China as a trade partner, and the encouragement of investment in the UK infrastructure to reinforce the government’s intentions to put money into this area.

It would seem that London and the UK will hold off that cold for a while, but will doubtless encounter a slowdown at some point driven by global asset price corrections.

The extent and speed of its effect will depend upon a number of factors that include our ability to finally deliver on infrastructure investment, finding a solution to the housebuilding crisis and, of course, the continued flows of international money into the country.

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