China slowdown sends chill through trade partners

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China's abrupt growth slowdown is sending a chill through Asian economies and as far away as Australia and Africa as its voracious demand for imports fades.

Beijing is cooling its economy with lending and investment curbs after explosive 11.9 percent first-quarter growth fed fears of overheating. Growth is slowing more sharply than expected, cutting demand for American and European factory machinery, industrial components from Asia and iron ore and other raw materials from Australia and Africa.

The timing is awkward for exporters that were buoyed by China's quick rebound from the global crisis and are seeing sales elsewhere weaken. The country had become more important than ever to its neighbors as its stimulus-driven expansion helped to cushion the blow of weak U.S. and European sales.

"It's definitely going to show in slower growth in all of the Asian economies that send goods to China," said Mark Walton, senior economist for brokerage CLSA Asia-Pacific Markets.

China, which overtook Japan as the second-biggest economy in the second quarter, is a major market for Asian nations. It buys 28 percent of Taiwan's exports, 25 percent of South Korea's and more than 20 percent of mining giant Australia's. More than half of Hong Kong's exports go to the mainland.

Japan, which Monday reported sharply lower second quarter growth, saw a significant slowing in exports to China during the period. Its exports to China in April were up 41 percent from a year earlier but by June the growth rate had slackened to 22 percent.

But suppliers of iron ore for steel production and other raw materials are expected to be hardest-hit by slowing growth in China. They range from Australia, Indonesia and Malaysia to Brazil and parts of Africa and profited from a construction boom fed by China's 4 trillion yuan ($586 billion) stimulus and a flood of bank lending.

"Chinese efforts to prevent overheating in asset markets will have negative effects on our markets," CEO Tom Albanese of Anglo-Australian miner Rio Tinto Ltd. said this month.

Construction faded fast as Beijing wound down its stimulus and clamped down on credit in April to prevent bubbles in real estate and stock prices. That slowed a surge in housing costs but slashed demand for steel, cement and other materials. That prompted some forecasters to cut their growth outlook for this year, though they say China easily can meet the government's target of 8 percent.

The expansion in Chinese factory output, retail sales and investment slowed so sharply that some analysts said Beijing might need to ease its controls to revive growth, which fell to 10.3 percent in the second quarter and is expected to drift lower.

July import growth fell to 22.7 percent over a year earlier from June's 34.1 percent, startling economists who expected a decline of only a few percentage points. Housing sales plunged 19.3 percent from a year earlier and auto sales weakened.

Suppliers of manufactured goods also face a hit, though less severe.

Taiwan is a major source of components for Chinese factories that make televisions and other electronics, many for export to the United States. The island could suffer a double blow as Chinese and U.S. spending weaken at the same time.

"I expect to see smaller economic growth for quarter two than quarter one, and the upcoming quarters will again see smaller growth than quarter two," said Hu Chung-ying, vice chairman of the Cabinet's Council for Economic Planning and Development.

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Associated Press Writers Debby Wu in Taipei and Tanalee Smith in Adelaide, Australia, contributed to this report.

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