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China to rein in outward investment as domestic growth stalls

Beijing has signalled plans to curb Chinese firms' investment in foreign assets, after revealing that companies from China are on course to spend 1.12 trillion yuan (£130bn) on everything from British football clubs to a Hollywood film producer in 2016.Companies from China ramped up their spending on overseas assets during the year, as a weakening domestic economy saw investors turn their attention overseas. A diverse array of targets included the maker of Godzilla, Aston Villa Football Club and the pub in which former prime minister David Cameron and Chinese premier Xi Jinping once shared a pint. The spending spree boosted non-financial overseas investment 55% in the first 11 months of 2016, putting Chinese companies on course to spend £130bn this year, compared with £86bn in 2015, said commerce minister Gao Hucheng.

While foreign investment has soared, the amount of money flowing into the country is set to remain broadly flat at £92bn. This means the difference between investments abroad and those coming into China has reached an unprecedented £39bn.The widening gap has triggered concerns about capital flight, where investors send their money out of the country rather than investing it to spur domestic growth. Gao signalled that Beijing would move to address the investment gap by reining in Chinese firms' overseas spending and making it easier for firms from abroad to access the Chinese economy.

He said the government would "promote the healthy and orderly development of outbound investment and cooperation in 2017", in remarks at a conference that were published on the commerce ministry's website. In November it was reported that China was preparing a clampdown on non-Chinese mergers and acquisitions. Separately, the ministry said on its blog that China would sharply reduce restrictions on foreign investment access in 2017 to make it easier for overseas firms to spend their cash in the People's Republic. No details were given on what restrictions would be changed.

Major Chinese investors have spread their investment around the world and across multiple sectors during 2016. One of the most high-profile purchases was part of a multi-billion dollar bet on high-end US real estate by Chinese buyers. Insurer Anbang spent $6.5bn (£5.3bn) on luxury group Strategic Hotels & Resorts from private equity group Blackstone, continuing a flood of Chinese money into prime US property.

FED Rate Cut by a Quarter point

Last week, the US Federal Reserve raised interest rates by a quarter point. The financial press applauded the start of a tightening phase as reflecting economic stability. This happened last year too. On 16 December 2015, the Fed also raised rates by 25 basis points (0.25%). It forecast four rate hikes for 2016. We got one. The forecast is now three for 2017. If the past is prelude, we might get another one. For eight years, the Fed has institutionalised a policy of being wrong, on forecasting rate hikes, economic growth, and financial stability.

That's why "emergency measures" to provide liquidity (to banks) became an eight-year strategy for providing artificial stimulus to banks and markets. Once the Fed initiated its 2008 zero interest rate policy (ZIRP) and quantitative easing programmes, they were exported globally. Central banks copied these policies and added regional flavour.

Last year, Fed chair Janet Yellen anticipated "gradual adjustments in the stance of monetary policy" with a moderately-paced expansion of economic activity and strengthening of the labour market. This year, the federal open market committee (FOMC) assured: "The stance of monetary policy remains accommodative." According to Yellen, the Fed is acting "under a cloud of uncertainty". That's code for waiting for the other shoe to drop, on the markets or banks. The message is that rate hikes follow economic growth. But voting in the US and globally says something else.

During the first presidential debate, Donald Trump accused "this Janet Yellen of the Fed" of being "political by keeping the interest rates at this level". Establishment democrats that supported Hillary Clinton were enraged. They noted the real economy wasn't as bad as Trump made out. Yet Trump won. Not because his voters were racist, xenophobes (though some are), but because of prevalent economic anxieties of working class Americans, notably in the rust-belt states he swept.

Commodity price falls mean poorest countries miss UN poverty goals

Hopes that half of the world's 48 least developed nations could emerge from extreme poverty by the end of the decade have been dashed after a UN body reported the weakest year of growth in more than 20 years. The UN conference on trade and development (Unctad) said plunging commodity prices had hit the group of least developed countries hard, with 13 of them suffering a fall in living standards in 2015. A 2011 UN action plan set a target of 7% growth per year for least developed countries' economic growth over the subsequent decade but the Unctad report said the goal had only been achieved once, in 2012. The reliance of many of the world's poorest nations on exports of commodities meant that growth slowed to 3.6% in 2015 – the weakest since 1994 – as the prices of oil and industrial metals fell sharply.

"Thirteen LDCs [least developed countries] experienced a decline in gross domestic product (per capita) in 2015," Unctad said in its 2016 least developed country report. "This performance has been strongly influenced by the sharp decline in commodity prices, which has particularly affected African LDCs. Such weak economic growth is a serious obstacle to generating and mobilising domestic resources for structural transformation and investment in the development of productive capacities."

Unctad said the weak performance of LDCs hampered progress towards the UN sustainable development targets – a series of goals for human development intended to be achieved by 2030.The UN classifies a country as an LDC if it has low per capita income of just over $1,000 a year, is perceived as economically vulnerable and scores badly on a range of human indicators, including nutrition, child mortality and enrolment in schools. Graduation is only possible if a country shows a sustained improvement in two of the three categories.

Since the term LDC was coined 45 years ago, only four countries have graduated: Botswana (1994), Cabo Verde (2007), Maldives (2011) and Samoa (2014). Other countries, such as Equatorial Guinea, Tuvalu and Angola will graduate over the next few years. Unctad said the number of graduations in the coming years was likely to fall well short of the 2011 target, "showing only 10 countries as meeting the graduation criteria by 2020, against a target of 24. By 2025, only 16 countries are projected to have graduated".

It said LDCs were affected by three vicious circles.

"First, many LDCs suffer from a poverty trap, with low income and limited economic growth giving rise to high levels of poverty, which in turn act as a brake on economic growth. "Second, many LDCs suffer from a commodity trap, as they depend heavily on commodity production and trade for employment, income, savings and foreign exchange. In the overwhelming majority of LDCs (38 of the 47 for which data are available), commodities accounted for more than two-thirds of merchandise exports in 2013–2015. "Third, weak productive bases and limited export diversification in LDCs give rise to a very high import content in production and consumption, and chronic current account deficits. These factors in turn result in aid dependence and the accumulation of foreign debt."

UK trade gap narrows despite fears of Brexit slowdown

News of a pick-up in exports has fanned hopes the UK economy will finish the year on a strong note, confounding earlier fears that the Brexit vote would spark a sharp slowdown. Official figures showed the UK's trade deficit with the rest of the world narrowed more than expected in October as exports rose and imports fell. But statisticians said there was little evidence that the weak pound – which makes UK goods cheaper overseas – was boosting exports.

The Office for National Statistics (ONS) also significantly revised earlier figures to show the UK's trade deficit in the three months following the Brexit vote had ballooned to a near-three-year high rather than narrowed. The revision followed corrections to the way gold trade had been calculated. The deficit on trade in goods was £9.7bn in October, narrowing by £4.1bn from September 2016 and beating economists' forecasts for £11.8bn in a Reuters poll. That reflected a £2.1bn increase in exports and a £2bn decrease in imports, the ONS said.

Economists highlighted a worse picture when using less volatile figures for the three months to October. They showed goods export volumes fell by 2.1%, while imports rose by 4.4%."Given the steep fall in sterling, one would have expected this to be the other way round, with exports rising and imports falling," said Chris Williamson, chief business economist at the consultancy IHS Markit.ONS statistician Hannah Finselbach echoed that: "Following the EU referendum the UK trade deficit widened in the third quarter of 2016 and then in October it narrowed again," she said.

"There remains only limited evidence so far that the depreciation of sterling has led to a marked increase in UK exports."Taking together goods trade and estimates of the UK's trade in services such as consultancy and banking, an area where the country runs a surplus, the gap for October was £2bn, a narrowing of £3.8bn from September 2016.

The revisions made to the third quarter trade figures showed the trade deficit for goods and services was now estimated at £14.9bn, the biggest since the end 2013 and a widening of £6.7bn from the second quarter. The ONS had previously said the deficit had narrowed by £1.7bn in the third quarter. But statisticians said the changes would not affect its estimate that the overall economy grew 0.5% in the third quarter. Economists said the latest trade data pointed to a similar pace of expansion for the final quarter of the year.

"While the monthly data are extremely volatile, the narrowing in the trade deficit in October sets a solid base for trade in the fourth quarter," said Scott Bowman at the consultancy capital economics. "What's more, trade should be further supported in the coming months by the fall in sterling seen since the EU referendum, which should improve exporters' competitiveness and encourage domestic production at the expense of imports."

Separate figures from the ONS showed construction output, which accounts for around 6% of the economy, fell in October, disappointing expectations of a rise. Output was down 0.6% on the month in October but September's performance was better than previously expected with output growth revised up to 0.9% from 0.3%. That left construction output was 0.7% higher over the year.

"Overall the data paint a mixed picture of the sector," said Kay Daniel Neufeld at the consultancy Centre for Economics and Business Research."Positive contributions to output growth came from new private house building, while a decrease in infrastructure output exerted a drag on growth. The sector continues to face various challenges ranging from financial constraints to a shortage of skilled labour. "However, given the announcements in the latest autumn statement, we can be cautiously optimistic that investments in infrastructure and house building will support the industry throughout 2017."

Savers are slowly choking off the life of the world economy

Long seen as a badge of prudence, much of our savings are, in truth, unpaid tax revenue secured in investments that government has no choice but to protect Property, once regarded as a risky investment, now has its value defended by the British government almost as a matter of policy

Saving is always said to be a good thing. Not a week passes without a central bank governor or finance minister telling us we don't save enough. But they are talking about households and their spare cash. And cash accounts for only a small proportion of the savings held by most people. These days our accumulated wealth is our savings – and far from being a way to protect us from financial shocks, they are toxic and slowly killing the world's economies.

Firstly there is the sheer scale of savings held by individuals, companies and governments. Earlier this year the International Monetary Fund felt the need to add it all up and declared it a savings glut. It says institutional investors such as pension funds, insurance companies and mutual funds, along with the sovereign wealth funds of oil-rich nations and central banks, hold around $100 trillion in assets under management.

This huge sum compares to US GDP of around $18 trillion and the total market value of US-listed companies in 2015 of $19 trillion (which today is more like $25 trillion).Mostly it is invested in stock markets and property or lent to companies and governments in the form of bonds. The remainder is invested in commodities such as oil, or financial derivatives of various assets and insurance products that hedge any potential losses on those assets. The unprecedented size of these savings might not matter if investors only wanted a modest return. Unfortunately investors are greedy and there are simply not enough things to invest in that can offer the high returns they demand.

So how do investors react? For decades, they have bullied governments to release assets for sale that can then be leased back at high returns. In the UK, this is why we have privatised utilities and a swath of other safe, previously state-owned, assets in private hands. Then there is the way most people, businesses and governments have accumulated their savings. Just a quick look at the $100tn total and we can see that most of it is the result of tax avoidance.

The Japanese are famous for their savings and investments. But middle-income families can only save because they don't pay enough tax for officials in Tokyo to provide basic services. Every year the Japanese government runs a 10% budget deficit, such that its accumulated debt is worth almost 250% of GDP. The same tax shortfall plays havoc with the UK's finances, though on a smaller scale. Voters who tend to be older, own a home and have a pension – many of whom are also investors – have voted to pay less and less tax since the 1980s.

Privatisations brought in cash to make up some of the gap, but that hasn't been enough. Successive governments have funded capital projects off the balance sheet through vehicles like the private finance initiative, which were another way for investors to extract an income. Why pay tax, voters asked themselves, when you can keep the money and earn a return by lending it to the government (or fleecing the government by investing in a private contractor with a state contract)?

The next thing that makes savings toxic is the way investors have bullied governments into making them safe. It could have been argued 20 years ago that most of the funds in the IMF's $100tn were in fact risky investments and totally different from bank savings. But in the last two decades, and especially since the 2008 crash, investments have been considered almost as safe as a regulated deposit. Property is protected from any significant devaluation by ultra-low interest rates. Regulators might argue that mortgage lenders can fail under the new post-crash regime. But such is the importance of property wealth to consumer confidence that politicians have made it clear prices must be protected to prevent a more general economic meltdown.

The protection offered to the stock market is illustrated by

Janet Yellen, the boss of the US Federal Reserve, who said last year that the threat of a stock market slump was a key factor in the central bank keeping interest rates at historical lows. Now she is raising them, but only in tiny increments and only because the arrival of Donald Trump and his promise of a government-funded spending spree offers a bigger payday than ultra-cheap central bank money.

Pension funds are another element of the $100tn that see themselves as benign if not beneficial. Yet a large proportion of saving is only in the pension ledger after avoiding a 20% – or more likely 40% – tax rate. If these savers had paid tax first and then saved from their net income, governments would have enough money to provide services without the need for extra borrowing.

The IMF says governments should work harder to attract investor funds to build vital infrastructure and close their budget deficits. But when investment banks demand between 10% and 15% returns and pension funds think we should be grateful they only want 6% to 9%, the IMF is supporting a rip-off perpetrated by today's savers on tomorrow's taxpayers. Instead it should use its intellectual muscle to shift the debate and support higher taxes on wealth