

**CHINA AND ITS MANY GRAVE PROBLEMS:
DOES BEIJING HAVE THE ANSWERS ?**

Or, Will Good Money Be Thrown After Bad Money ?

The economic situation in the People's Republic of China (PRC) is extremely serious.

In fact, the situation is so grave that one cannot rule out widespread civil unrest, something not seen in the country for decades.

One would have to be a nitwit not to realise this.

As the economies of the West continue to deteriorate, the Government of the PRC, realising the many implications of the economic contractions, has been trying to stimulate its economy by trying to create increased domestic demand.

But it is difficult in light of the massive numbers of jobs that have been lost over the past year or so due to a lesser demand for Chinese-made goods by the country's largest trading partners: The United States of America and the European Union (EU), in that order.

It is noted by many economists that many consumers of the most-populous country of the world are extremely concerned about their future and, especially, when that monthly pay cheque will cease.

In the south of the country, the number of factories that have closed due to the lack of orders is legend: It has never happened in the past on the scale of the past 6 months or so.

Exactly how many workers have been sacked is known to be in the hundreds of thousands, but accurate figures are difficult to obtain since such statistics are classified as State Secrets by Beijing.

What is known is that, just before the end of 2008, some 150,000 people, daily, were boarding trains from Guangdong Province to points north.

They were not going home in order to enjoy the Lunar New Year celebrations – in the middle of December.

The outlook for employment in many parts of the country is far from being good, too.

Beijing's stimulus package includes infrastructural projects, worth tens of billions of renminbi, but these projects cannot come close to absorbing the legions of unemployed workers in the country.

The consumer of the Middle Kingdom has, over the past few decades, become very accustomed to a very improved standard of living, relative to the early days of the Government of Chairman Mao Ze Dong () when, in the 1960s, fresh meat was so scarce that many farmers in the Guangdong Province were forced to eat rodents as a source of protein in order to supplement their very meagre diets.

Those days are long gone and it is highly unlikely that the consumer of the PRC will want to accept a lower standard of living.

In fact, while there is that Chinese proverb, Ma Say Lok Day Hang () – when the horse is dead, then, learn to walk – it is unlikely that the average consumer would want to take that retrograde step, back into the past at the time of the late Chairman Mao.

The Government of the PRC has gone on the offensive, throwing money into the economy in an attempt to keep things on a somewhat even keel.

Whether or not this will succeed is questionable, in **TARGET**'s opinion.

The bones of speculators who tried to corner a commodity or the shares of a particular company are scattered, far and wide, their money, having been completely expended along with their vainglorious attempts.

If the present plans of the Government of the PRC should turn out to be dismal failures, as is quite likely, it could lead to far greater problems.

Social unrest could ensure, for instance, on a scale, not seen for many a year.

TARGET () is quite certain that that the senior PRC Government potentates are well aware of that probability and are anxious to avoid it at all costs.

The main problem in the PRC, today, does not stem from the country, itself, but from the knock-on effect from its trading partners, most of whom are in shtook.

The PRC has been, for many a decade, the world's tailor shop, the manufacturing base for hundreds of goods, from condoms, to batteries to power personal computers, to motor-vehicle engines, to accessories for a wide range of manufactured goods, to the production of refrigerators, microwave ovens, etc, etc, etc, and, even to the production and/or refining of a number of strategic commodities.

Things have changed, however, through no fault of the PRC Government, but due to changing circumstances in the US, especially, cascading down to the EU and other parts of Europe.

It had been thought that the PRC would have had a thriving consumer market of its own by now: It has not come to pass.

Households in the PRC are cutting back, markedly, on discretionary spending; cautious financial management is very evident.

Sales of Motor Vehicles Droop

One notes that sales of motor vehicles in the country are way down, compared with this time in 2008.

When **TARGET**, late last year, spoke to Ms Jenny Zheng (), General Manager, Greater China, Rolls-Royce Motor Cars Ltd (), this medium was told by this knowledgeable and forthright lady: *'Financing for a new Rolls! For China? They pay for their motor cars in cash, you know!'*

Those days are relegated to history and Rolls-Royce Motor Cars Ltd must be staring at a veritable mountain of inventory due to former, prospective Rolls-Royce owners in the PRC, walking away from their deposits.

Recently, it has been reported that motor-vehicle sales in the PRC are falling rapidly.

Over the past decade, sales of motor vehicles in the country were running at double-digit levels.

In 2008, sales of new motor vehicles fell to about 7.30 percent, annualised, Year-On-Year.

They continue to fall.

In December 2008, alone, sales of motor vehicles in the PRC fell about 11.60 percent, Year-On-Year.

The first half of 2009 is unlikely to see any improvement in this situation; and, a deterioration in sales seems to be on the cards.

Shrinking demand for motor vehicles has yet to be felt in the workplace.

But it, definitely, shall be felt in due course as PRC manufacturers, those for the domestic market as well as those, making motor-vehicle parts and accessories for export to the US and Europe, will be forced to take similar actions to those of Detroit: Cull staff levels, deeply.

What cannot be weighed, at this juncture, is how many manufacturers of motor vehicles in the PRC will become insolvent and be forced to bite the bullet.

Such statistics may never be fully known since they, too, may be classified as State Secrets.

It is believed that, for some of these manufacturers, Beijing may well come to the rescue, initially.

But for how long will Beijing be willing to take up the slack at these factories?

However, what cannot be hidden from view by the powers-that-be in the country is the plight of those whose way of life has deteriorated, markedly, because of their inability to find a way to make ends meet.

One massive problem that **TARGET** notes is the likelihood that many family units which, only 2 years ago, committed a large proportion (or all) of their savings and future income to purchasing a home of their own, furniture for the new home, as well as all of the modern conveniences, including a new motor car, may not be able, in today's world, to meet the debt service in respect of those purchases.

Such families may well be looking at losing everything.

The PRC Government will be viewed as the evil hobgoblin that is munching on the fruit of the family unit.

Such a situation, by extension, leads straight to civil unrest.

There have been suggestions that the PRC Government will be successful in continuing to support the economy of the country with its massive financial reserves, but **TARGET** does not hold this view.

There has to be a limit.

The economies of the US and most of the EU are in recession and it seems unlikely that 2009 will see an end to this situation, regardless of how much money President-Elect Barak Obama pumps into the economy.

The economy of the PRC continues to be dependent on its exports, to a great extent, but if the US and the EU cannot improve their lot, it is highly unlikely that imports of PRC-produced goods will recover anywhere near the volumes even in respect of the first half of 2008.

Last Tuesday, it was announced, officially, that exports from the PRC had dropped in the biggest decline of the past decade.

Year-On-Year, in December 2008, exports were off by about 2.80 percent, a figure that was larger than the November 2008 figure of a decline of about 2.20 percent.

It is, indeed, rare for the PRC Government to permit such statistics to be announced without good reason.

TARGET suspects that the Government of the country is trying to prepare the populace for even worse

things to come so that last Tuesday's official release was aimed at softening the blow that is almost certain to come, later on in the year.

It is said the misery likes company.

Perhaps, even worse than the value of declining exports from the PRC was a dramatic decline in imports.

It has long been held that the strength of an economy can better be measured by the strength of its imports rather than improvements in the values of its exports.

In the case of the PRC, many of the exports are relatively simple assembled goods, the components of which are imported from overseas.

As export orders dry up, therefore, imports of these components wane, accordingly.

As far as imports are concerned, in the month of December 2008, official PRC Government statistics indicate that they were off by about 21.30 percent by value, Year-On-Year.

In November 2008, the value of imports declined by about 17.90 percent, Year-On-Year.

The figures for December 2008 were:

Exports \$US111.20 billion

Imports \$US72.20 billion

In respect of the largest trading partner of the PRC, it was reported that, for calendar 2008, Sino-US trade, by value, came in at about \$US333.70 billion.

That figure represented an increase over the 2007-Year of about 10.50 percent, but it was less than half of the PRC's total exports.

In the second half of 2008, one noted steep declines of exports to the US and the EU, the EU, being the second-largest trading partner of the PRC.

Property In Shtook, Also

Property prices in the PRC continue to fall and property developers are known to be facing very difficult times.

Many of them will be forced into liquidation, no doubt.

According to statistics, in December 2008, the average price of a new home in Shenzhen and Guangzhou fell, Year-On-Year, by about 18.10 percent and 9.40 percent, respectively.

The south of the country had been among the hottest regions for PRC property developers to attack because the export boom of the past 2 decades had seen hundreds of factories, sprout up in the Guangdong Province, all of which factory owners were clambering for staff to man machines, churning out toys, garments, pots and pans, etc.

These workers were housed, initially in dormitories, provided by the factories, but, as things improved and the workers had more disposable income, many of them purchased their own homes in the region.

Those days, also, are long gone, to be sure.

Many factories are standing vacant.

Flats are standing empty.

Property developers are left with a large inventory levels of unsold flats and houses.

The PRC Government may try to stimulate property purchases with relatively cheap money, but, if a worker does not have a job, he can hardly afford to buy a home of his own or, for that matter, even afford to rent a flat.

With many would-be, home-owners, staring at the prospect of having negative equity in their homes, they may well just walk away from their financial commitments in a similar manner to that which happened in California only a few years ago.

The cool temperature of the PRC property market is bound to result in exacerbating the already climbing rate of unemployment in the country.

What was once the land of milk and honey where one could taste the sweetness of success, to many, today, this same land has become the vinegar of despair.

Disenchantment is almost certain to follow.

The PRC Government is said to be intent on encouraging the construction of low-cost housing for the people and this will, undoubtedly, ameliorate the present situation, somewhat.

But, in this medium's opinion, only somewhat.

Such actions will be akin to trying to put a band-aid on a sliced artery in an attempt to stop the bleeding.

The situation with regard to the difficulties in the property market is not isolated just in the south of the country because it was reported, recently, that a complex in Shanghai and another in Beijing have been caught badly short, too.

The complexes comprise 2 hotels at Shanghai's city centre and a mixed development in Beijing.

Work on both projects, one is told, has been halted.

Confirmation has been obtained from the Luwan District Government in respect of the Shanghai hotel project to the effect that work on the project has stopped.

With regard to the Beijing mixed development, no workers have been seen on the job for the past month, at least.

Major Hongkong money is known to be behind the Shanghai project, but, clearly, the credit squeeze is taking its toll on even the well-heeled businessmen of the territory.

The overall property situation in the Middle Kingdom looks grim if the above 2 examples may be taken as a precursor of things to come.

Even if the hotel project in Shanghai can be completed as well as the Beijing mixed development project, whose heads will sleep on those carefully ironed pillows in the new hotels and from where will the money come for the purchase of those hundreds of new flats that will be created at these projects?

And this is only in respect of 2 major cities of the country.

As the economic situation in the PRC in 2009 becomes more and more apparent, with more and more workers, walking the streets, looking for jobs, the Government of the country will be facing one of the biggest challenges of the past 30 years.

Throwing lots of money into the pot may not mean that one is holding the best hand: The bluff does not always work.

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