China Is Crashing. Credit Bubble, Financial and Industrial Bankruptcies, Debt and Bond Busts

By Global Research News and Washington's Blog
Global Research, March 08, 2014
Washington's Blog

Region: Asia
Theme: Global Economy

The head of China's sovereign wealth fund noted in 2009: "both China and America are addressing bubbles by creating more bubbles".

He's right …

Global credit excess is *worse* than before the 2008 crash.

The U.S. and Japan have been easing like crazy, but – as Zero Hedge notes – China has been much worse:

> Here is just the change in the past five years:
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> You read that right: in the past five years the total assets on US bank books have risen by a paltry $2.1 trillion while over the same period, Chinese bank assets have exploded by an unprecedented $15.4 trillion hitting a gargantuan CNY147 trillion or an epic $24 trillion – some two and a half times the GDP of China!
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> Putting the rate of change in perspective, while the Fed was actively pumping $85 billion per month into US banks for a total of $1 trillion each year, in just the trailing 12 months ended September 30, Chinese bank assets grew by a mind-blowing $3.6 trillion!
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> Here is how Diapason's Sean Corrigan observed this epic imbalance in liquidity creation:
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>> Total Chinese banking assets currently stand at some CNY147 trillion, around 2 ½ times GDP. As such, they have doubled in the past four years of increasingly misplaced investment and frantic real estate speculation, adding the equivalent of 140% of average

> GDP – or, in dollars, $12.5 trillion – to the books. For comparison, over the same period, US banks have added just less than $700 billion, 4.4% of average GDP, 18 times less than their Chinese counterparts – and this in a period when the predominant trend has been for the latter to do whatever it takes to keep commitments off their balance sheets and lurking in the 'shadows'!
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> Indeed, the increase in Chinese bank assets during that breakneck quadrennium is equal to no less than seven-eighths of the total outstanding assets of all FDIC-insured institutions! It also compares to 30% of Eurozone bank assets.

Truly epic flow numbers, and just as unsustainable in the longer-run.

And here:

So what's the problem?

Well, the world's most prestigious financial agency – the central banks' central bank, called the Bank of International Settlements or "BIS" – has long criticized the Fed and other central banks for blowing bubbles. The World Bank and top economists agree. So do many others.

As such, it was easy for us to predict a crash in China when the bubble collapses.

We argued in 2009 that China's period of easy credit was analogous to America's monetary easing starting in 2001 … and Rome's in 11 B.C.

We noted in 2009 and against in 2011 that China is suffering from a lot of the same malaises as the American economy, including corruption, crony capitalism, and failure to disclose bad debt.

In 2010, we asked "When Will China's Bubble Burst?"

China's $23 Trillion Dollar Credit Bubble Is Bursting

International Business Times noted last year that China's debt-laden steel industry was on the verge of bankruptcy.

Quartz reported in December that a huge coal company called Liansheng Resources Group declared bankruptcy with 30 billion yuan ($5 billion) in debt.

Chinese Business Wisdom argues (via China Gaze) that waves of bankruptcies are striking in 10 Chinese industries: (1) shipbuilding; (2) iron and steel: (3) LED lighting; (4) furniture; (5) real estate development; (6) cargo shipping; (7) trust and financial institutions; (8) financial management; (9) private equity; and (10) group buying.

AP notes today:

> Chinese authorities have allowed the country's first corporate bond default, inflicting losses on small investors in a painful step toward making its financial system more market-oriented.
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> A Shanghai manufacturer of solar panels paid only part of 90 million yuan ($15 million) in interest [it owed] …
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> Until now, Beijing has bailed out troubled companies to preserve confidence in its credit markets. But the ruling Communist Party has pledged to make the economy more productive by allowing market forces a bigger role.

Time asks whether China has reached its "Bear Stearns moment":

> A dangerous build-up of debt and an explosion of risky and poorly regulated shadow banking have raised serious concerns about the health of China's economy. That's why the Chaori default — the first ever in China's domestic corporate bond market — has sparked fears that the country could be headed for a full-blown economic crisis like the one that slammed Wall Street in 2008. "We believe that the market will have reached the Bear Stearns stage," warned strategist David Cui and his team at Bank of America-Merrill Lynch in a report to investors.
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> The concern of Cui and others is that the Chaori default will be the tip-off point for an unravelling of China's financial system. The default could wake investors and bankers to the realization that companies they thought were safe bets are potentially not, and they could begin to reassess other loans and investments to other corporations. In other words, they might start redefining what is and is not risky. That could then lead to a credit crunch, when nervous bankers become wary of lending money, or lending at affordable interest rates. More bankruptcies could result. That eventually causes the financial markets to lock up — and we end up transitioning from a Bear Stearns moment to a Lehman Brothers moment, when the financial sector melts down. "We think the chain reaction will probably start," Cui wrote. "In the U.S., it took about a year to reach the Lehman stage when the market panicked … We assess that it may take less time in China."

The Financial Post reported in January:

> The U.S. and Europe learned the hard way about the dangers of shadow banks in the financial crisis but, five years later, China appears set to get its own painful lesson about what can happen when large capital flows get diverted to unregulated corners of the financial system.
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> "We estimate that 88% of the revenues of Chinese trust companies is at risk in the long term," said McKinsey and Ping An.

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> Billionaire investor George Soros recently wrote on a popular news website that the impending default and the growing fear reflected in Chinese markets has "eerie resemblances" to the global crisis of 2008.

The big picture: the $23 trillion dollar Chinese credit bubble is starting to collapse.

As Michael Snyder [wrote]() in January:

> It could be a "Lehman Brothers moment" for Asia. And since the global financial system is more interconnected today than ever before, that would be very bad news for the United States as well. Since Lehman Brothers collapsed in 2008, the level of private domestic credit in China has risen from $9 trillion to an astounding $23 trillion. That is an increase of $14 trillion in just a little bit more than 5 years. Much of that "hot money" has flowed into stocks, bonds and real estate in the United States. So what do you think is going to happen when that bubble collapses?
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> The bubble of private debt that we have seen inflate in China since the Lehman crisis is unlike anything that the world has ever seen. Never before has so much private debt been accumulated in such a short period of time. [Note: [Private debt is much more dangerous than public debt]().] All of this debt has helped fuel tremendous economic growth in China, but now a whole bunch of Chinese companies are realizing that they have gotten in way, way over their heads. In fact, it is being projected that Chinese companies will pay out the equivalent of [approximately a trillion dollars]() in interest payments this year alone. That is more than twice the amount that the U.S. government will pay in interest in 2014.
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> As [the Telegraph pointed out a while back](), the Chinese have essentially "replicated the entire U.S. commercial banking system" in just five years…
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> > Overall credit has jumped from $9 trillion to $23 trillion since the Lehman crisis. "They have replicated the entire U.S. commercial banking system in five years," she said.
> >
> > The ratio of credit to GDP has jumped by 75 percentage points to 200pc of GDP, compared to roughly 40 points in the US over five years leading up to the subprime bubble, or in Japan before the Nikkei bubble burst in 1990. "This is beyond anything we have ever seen before in a large economy. We don't know how this will play out. The next six months will be crucial," she said.
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> As with all other things in the financial world, what goes up must eventually come down.
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> The big underlying problem is the fact that private debt and the money supply have both been growing far too rapidly in China. According [to Forbes](), M2 in China increased by 13.6 percent last year…
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> > And at the same time China's money supply and credit are still expanding. Last year, the closely watched M2 increased by only

> 13.6%, down from 2012's 13.8% growth. Optimists say China is getting its credit addiction under control, but that's not correct. In fact, credit expanded by at least 20% last year as money poured into new channels not measured by traditional statistics.

Overall, M2 in China is up by about 1000 percent since 1999. That is absolutely insane.

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But I am not the only one talking about it.

In fact, the World Economic Forum is warning about the exact same thing…

> Fiscal crises triggered by ballooning debt levels in advanced economies pose the biggest threat to the global economy in 2014, a report by the World Economic Forum has warned.

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What has been going on in the global financial system is completely and totally unsustainable, and it is inevitable that it is all going to come horribly crashing down at some point during the next few years.

It is just a matter of time.

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