Talking Point: Beware the Red Ponzi — China's growth is just smoke and mirrors
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Premier Will Hodgman speaks about his recent trip to China. Picture: LUKE BOWDEN

PREMIER Will Hodman has just been on another hyperactive "trade mission" to China.

Like all such ventures by political leaders, the news generated from it is optimistic and sunny. But one wonders whether Mr Hodman and those in his touring party have taken note of what former Reagan administration budget director David Stockman calls the "Red Ponzi".

China is on the brink of a crash. It is not just Mr Stockman saying it.

He was joined last week by two eminent and savvy types in the billionaire investor George Soros and the English commentator Ambrose Evans-Pritchard.

But first, here's the backstory, the one missing from the Tasmanian media and the spin of the Tasmanian Government media handlers.

China's first quarter 2016 growth figure was purportedly 6.7 per cent. Beijing, as we know, has relied on stellar economic growth to keep its burgeoning middle class (that is, the very investors who are apparently in love in Tasmania) happy. And how does it produce such growth? By shelling out easy money to all manner of inefficient state-owned enterprises, property developers and infrastructure projects.

A growth figure of 6.7 per cent seems very impressive but it is built on a house of sand. As the insightful and wonderfully iconoclastic Mr Stockman put it last week:

"The red suzerains of Beijing are already proving in spades that when the music of credit expansion finally must stop, they will have no clue about what to do or capacity to execute if they did. In that respect, it now appears that in the first quarter China's banking system generated new credit at a $4 trillion annual rate or nearly 40 per cent of GDP."

This fanciful and doomed activity by Beijing has seen the notoriously short-term commentators in the Australian financial markets yelling that iron ore prices are up and that the Turnbull government will reap the budgetary rewards.

But as Mr Stockman observes: "China's so-called 'iron rooster' was given a new lease on life as a result of even more artificial demand for capital investment and infrastructure that is already massively overbuilt."

George Soros, the hedge fund king who has amassed billions with smart betting on market outcomes told Bloomberg last Wednesday that China: "Eerily resembles what happened during the financial crisis in the US in 2007-08, which was similarly fuelled by credit growth. Most of the money that banks are supplying is needed to keep bad debts and loss-making enterprises alive."

Recently we also had Ambrose Evans-Pritchard, a respected commentator who writes for London's Daily Telegraph and is syndicated globally, signal his concern about China.

Mr Evans-Pritchard on April 14 said that the International Monetary Fund's last Global Stability Report section on China reads like a "horror story".

He cites the Fund's data showing debt "at risk": " ... has risen from 4pc to 14pc in five years, reaching 39pc for steel, 35pc for mining and retail, and 18pc for manufacturing and transport. The average payment to suppliers has been stretched to 72 days. Reported non-performing loans are 6pc of GDP but not much is reported. The figure for loans 'potentially at risk' has soared to 15.5pc or $1.3 trillion."

We have also heard last week from broker CLSA which is predicting that the Chinese currency, the yuan, will drop by 19 per cent by the end of 2017.

CLSA makes the valid point that the Chinese cannot keep propping up the yuan forever and a day because it is running down foreign reserves to dangerous levels.

A decline in the yuan has real implications for investment by Chinese in property, tourism and in the numbers of Chinese venturing to exotic locations like Tasmania.

The point is this. While Tasmanian politicians and their bureaucrats like the tyre-kicker general (formally known as the Co-ordinator General) get high when they hear the phrase "Chinese investor" are they digging deep enough to see how secure the investment really is?

And are they cognisant of the increasing likelihood of a China collapse or a longer term economic meltdown caused by demographic challenges and the lack of truly free markets where risk can be properly priced?

One of the Premier’s boasts in his April 18 media release regaling us with all the hard work he did in China was that there was a “meeting with the China Development Bank”.

“They are developing a ‘Tasmania investment prospectus’ under the auspices of our MoU which will be finalised in coming months,” said Mr Hodgman’s release.That would be the same China Development Bank which is groaning under the weight of bad debt and dodgy loans being offered to prop up state owned businesses.

China has been a fun while it lasted — ask the Western Australians. But Tasmania is unwise to focus too heavily on Mr Stockman’s Red Ponzi.

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