

MDGS Millennium Development Goals 千禧年发展计划

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China's bubbles

A lot of things in China carry a whiff of excess. The cost of garlic is among them: wholesale prices have almost quadrupled since March. A halving of the planting area last year, and belief in the bulb's powers to ward off swine flu, provide some justification for the surge. But anecdotes of unbridled trading activity in Jinxiang county, home to China's largest garlic plant, suggest that the most likely cause is the most obvious – the abundant liquidity swilling through the system. New loans in China may top Rmb10,000bn this year, double the run-rate of the preceding years; 2010 should bring another Rmb7-8,000bn.

In the week that Dominique Strauss-Kahn, head of the International Monetary Fund, said asset bubbles were a cost worth paying for reviving growth through loose monetary policy, China needs to distinguish between good ones and bad ones. A bubble in garlic is small, financed by private speculators, and relatively harmless when it bursts. Bubbles in productive assets – roads, bridges, telecom lines – are also tolerable; capital has been put in place that can be exploited by somebody.

But bubbles in property – financed by banks, on non-productive assets – are doubly destructive. Zhang Xin, chief executive of Soho China, one of the country's most successful privately owned developers, believes that rampant wasteful investment in commercial property has already undermined China's long-term prospects. As for housing, which China began privatising just 11 years ago, prices rose at an annualised rate of 9 per cent between September and October – significantly higher than the ongoing 2.25 per cent one-year deposit rate and the 5.31 per cent one-year lending rate. What's more, this was the eighth successive month of above-trend growth in the national house price index. So far, attempts to arrest price rises have been minor – restrictions on second home mortgages here, loan discounts in exchange for bigger down payments there. Two years ago another eight-month hot streak was enough for authorities to start cooling in earnest. They should start again now.