

Wenzhou's local debt crisis and its national implication

Description

China Premier Wen Jiabao appeared in Wenzhou a couple of days ago in the wake of extensive media report about business owners in this city, one of the most affluent places in China which churns out most of the lighters and shoes in the world, fled insurmountable debts borrowed largely from private lending market with unbearably high interest rates, often tens of times the official lending rate set by China central bank.

Wenzhou's local financial crisis is not the first one exposed by media. Previously another small county in northern Jiangsu province saw a similarly dreadful debt crisis where thousands of grassroots people found themselves losing the money they had lent to other loan sharks.

But why did Wen come to Wenzhou this time?

Wenzhou is famous in China and probably in the world to some extent for its products such as lighter, shoe and clothes, and for its people's wealth that has flooded domestic property market throughout the country and also property market in Vancouver, California and London and some other places in recent years. It is one of the manufacturing powerhouses within China with many successful privately owned enterprises. The health of local economy can be well taken as an indicator of the conditions of the national economy. Due to the insanity of China property market that has ranked the most profitable industry in China for many years, local enterprises that are engaged in industrial manufacturing are lured into real estate market either as developers or as property flippers/speculators. As a result, many entrepreneurs diverted their money into real estate sector taking the blood out of local manufacturing sector which has seen manifest retraction and operation difficulty due to the shortage of funding. To survive, many enterprises have to turn to private lending market for financing and the cost is mind-bogglingly high with interest rate tens of times the official lending rate. Given the slim profit margin in the current round of difficult economic conditions, local enterprises simply cannot shoulder the burden of heavy debts. They collapsed. It was reported in media that more than ninety entrepreneurs fled Wenzhou leaving tens of billions of debts rotten, a hotbed for social unrest.

Unfortunately, the siphonage of funds from manufacturing sector into real estate is not alone in Wenzhou. Another industrial powerhouse in Southern China, Dongguan has seen a similar situation.

The fleeing of Wenzhou local bosses apparently declared that the local economy is on the brink of collapsing and rescue work is urgently needed. It is possible that these local events can spark a nationwide panic about the economy of whole country. Therefore, Wen was in Wenzhou clearly with the intent to put the lid on. So we heard Wen saying something to the effect that borrowers fleeing debts are only a few (is he really aware of how many) and basic situation in Wenzhou is actually healthy, trying to play down the severity of an actually acute crisis.

Personally from an array of recent economic and financial events, I believe there is real trouble beneath the plausibly healthy national economy. In particular, the real estate market will see (actually is unfolding) a plunge in prices even in the first-tiered cities in China. When real estate market is hit

hard, other sectors of the economy will also be plagued. Let us wait and see.

Maybe it is good time to cash in on your properties in China.

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