Written by **Bob Adelmann** on March 4, 2016

China's Economy Continues to Unravel as Gov't Lays Off 5M Workers

Reuters reported Thursday in an exclusive report that China's government is planning to lay off between five and six million workers in its basic industries over the next couple of years. Wrote Reuters, "China aims to cut capacity gluts in as many as seven sectors, including cement, glassmaking … and shipbuilding." It will begin layoffs in its coal and steel-making industries.

These are the industries that fueled China's rise from a third-world nation to first-world status. And those industries were fueled with digital money that built empty cities, factories, and airports, all under the now-provably false assumption that with enough of that money China could vault itself into the first tier of advanced industrial nations.

For a while it appeared that the assumption was valid. In 30 years China's gross domestic product rose almost vertically as its government relaxed pressure on its nascent free market, putting people to work making products that customers and consumers around the world wanted to buy. Underlying the boom was an enormous increase in digital money created out of nothing by China's central bank, rising from $3 trillion 10 years ago to more than $34.5 trillion today.

Inevitably the unsustainability of China's economy began to appear as it started to unravel. Gordon Chang saw it coming in 2001, writing in the forward to his book *The Coming Collapse of China* that "the People's Republic is a paper dragon…. The symptoms of decay are everywhere: deflation grips the economy, state-owned enterprises are failing, banks are hopelessly insolvent, foreign investment continues to decline, and Communist party corruption eats away at the fabric of society."

Michael Pettis, professor of finance at Peking University, claims he saw it coming in 2006 while George Soros told a conference in January that "China has a major adjustment problem. I would say it amounts to a crisis. When I look at the financial markets, there is a serious challenge which reminds me of the crisis we [in the United States] had in 2008."

The Shanghai Composite Index warned investors last May when it hit 5,178 and has been losing 45 percent of its value since. For emphasis, in four trading sessions at the start of 2016, all China's stock market gains in 2015 were wiped away, destroying more than $1 trillion in paper wealth.

Although the National Bureau of Statistics (NBS) continues to report that China's economy is still healthy, growing at a 6.9 percent annual rate during the third quarter of last year, Willem Buiter, Citigroup's chief economist, begged to differ, suggesting that China's real growth was half that, perhaps as low as 2.2 percent. Wrote Chang:

> The most reliable indicator of Chinese economy activity remains the consumption of electricity, and for the first eleven months of [2015] electricity consumption increased by only 0.7 percent according to China's [state agency] National Energy Administration.

The experience of one of China's billionaires serves not only as an example but perhaps more importantly as a metaphor for what is happening there. Wang Jing acquired a 37 percent interest in a telecom company in its infancy and when he sold that interest in 2013 he became *Forbes* magazine's 12th richest man on the planet with a net worth estimated at more than $10 billion. Dazzled by his sudden wealth, Jing began to make big plans. He announced the construction of two deep-water ports, an airport, an artificial lake, a tourist area, a free-trade zone, along with new roads and factories. His biggest plan, however, was to build the Nicaragua Canal to connect the Caribbean Ocean to the Pacific Ocean. He even got permission from Nicaragua's National Assembly in June 2013 to build it at an estimated cost of $40-50 billion. Jing announced that construction would begin in November, 2015.

But then reality set in, just as it is setting in in China itself. Jing's net worth, thanks to the Chinese stock market, fell by 90 percent to an estimated $1.1 billion, and the project was put off. As Chang noted, "That grand project … is now on hold because China's stock market crash, beginning in mid-June [2015], resulted in the loss of most of Wang's net worth. Wang may still harbor grand ambitions, but now he has no means to achieve them."

China is coming to realize that its vaunted and heralded vault into first world status, fueled by digital money invested in non-economic ventures, is likely to mirror Jing's future. In a meeting with the *Wall Street Journal,* an anonymous senior Chinese official told its editors that the Chinese "economy will follow an L-shaped path, and [not] a V-shaped path going forward."

Perhaps the best that China will be able to do is what Japan has been able to accomplish over the last 20 years. It's known as Japan's "Lost Two Decades."

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