

Book review

China's Second Heavy Machinery Group in southwestern China's Sichuan Province is the proud owner of "the world's biggest closed-dye hydraulic press forge", at 22,000 tons a piece of very heavy machinery indeed. The forge is able to exert 100,000 tons of force on a piece of metal, powerful enough to warp the hardened alloys used in aircraft engines and mining drill bits into shape. More than twice enough. The most powerful forge in the United States has only half the capacity, but seems to do just fine.

On the opposite side of China, the Baoneng Shenyang Global Financial Center, a skyscraper taller than One World Trade Center, is being built in the capital of northeast China's Liaoning Province. An even taller super-skyscraper, Wuhan's Greenland Center, is going up in central China's Hubei Province. Both buildings stand half-built and entirely empty, construction stalled for more than a year. When One World Trade Center opened in 2014, nearly two-thirds of its floorspace had already been leased.

These days, if you want to see the biggest of anything, go to China. Even regional China. But bigger doesn't always mean better. In a state-dominated economy prone to corruption, like China's, it's often the case that the bigger the project, the greater the misallocation of resources. And if it's stories of misallocation you want, Dinny McMahon's China's Great Wall of Debt is the book for you.

The subtitle, Shadow Banks, Ghost Cities, Massive Loans, and the End of the Chinese Miracle, says it all. McMahon, a former Wall Street Journal and Dow Jones journalist based in China for ten years, traveled the length and breadth of China collecting anecdotes for this magnificently entertaining take on China's ever-expanding financial bubble. Eschewing examples from China's well-travelled and well-reported international cities, McMahon focuses instead on the less glamorous locales of what might with some allowance for cliché be called "the real China".

Whether it's explaining why the remote industrial city of Shiyuan leveled a mountain to create land for factories that no one wanted to build, documenting the petty depredations of the local salt monopoly in Jinzhou, interviewing the architect of a beautiful but empty new town in Tieling, or reporting how Zhengzhou actually managed to fill its ghost city at the cost of billions of dollars in subsidies and tax incentives, McMahon brings China's bubble economy to life with stories of the strange but revealing.

One of the strangest and most revealing is the story of the securitization of vintage Moutai. A premium Chinese spirit famously served to Richard Nixon by Zhou Enlai in 1972, Moutai is distilled in a factory, not lovingly aged in wooden barrels in a French country cellar. But a credit bubble inflates all asset classes, including Moutai. Vintage Moutai now sells for more than all but the rarest French wines.

To coax it out of the attics and cupboards of elderly couples who put aside a bottle on their wedding day, Moutai auctioneers rely on bank-brokered wealth management products (WMPs). Despite the promise of windfall profits, the elderly owners of the last remaining bottles of vintage Moutai typically won't part with their bottles on consignment, which is how auctions usually work in the rest of the world. And the auction houses don't have the capital to buy the bottles from them. So the auctioneers turn to a state-owned bank, which in turn sells WMPs to investors.

Because they are dealing with a state-owned bank, the investors assume that their investments carry an implicit state guarantee (though there is no explicit guarantee). The investors' money is used to pay the Moutai owners a substantial down payment on their bottles, the bottles are sold at auction, the investors get their money back with 10% interest, the auctioneer takes a commission, and the balance is remitted to the elderly owners. China's banks are eager to offer Moutai-backed WMPs because, in the words of the auctioneer interviewed by McMahon, "there's no risk".

McMahon is equivocal on exactly where all this will end up. He is a journalist, not an economist, and China's Great Wall of Debt is a work of reportage, not prognostication.

Tellingly, though, the final section of his final chapter is labeled "No Good Options", and he concludes that China "looks poised to suffer a painful and uncertain end to its economic miracle."

That may be, but a critical reader might demand a little more detail about McMahon's vision of China's future and a little more reasoning behind it than plain common sense. The alternative is to just mine the book for data and come to your own conclusions. Luckily for readers, data mining has rarely been so much fun.

Salvatore Babones

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