

Shanghai shipping slump as IMF warns China on euro slump

Shanghai shipping volumes contracted sharply in January as Europe's debt crisis curbed demand for Asian goods, stoking fresh doubts about the strength of the Chinese economy.



The shipping data came as the International Monetary Fund warned that China is vulnerable to the 'clear and present danger emanating from Europe'. Photo: ALAMY



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The shipping specialist Lloyd's List said container traffic through the Port of Shanghai - the world's largest - fell by 100,000 boxes in January from a year earlier, or 4pc. Volumes fell by over one million tonnes.

The figures may have been distorted by China's Lunar Year but there has been a relentless slide in the Shanghai transport data for months.

"China's shipping markets face grievous challenges," said the Shanghai International Shipping Institute. It

acknowledged that the industry in the grip of downturn and likely to face a "worsening situation" in early 2012.

The biggest falls in container volumes have been on the Asia-Europe route.

The data came as the International Monetary Fund warned that China is vulnerable to the "clear and present danger emanating from Europe" and could see growth halve to roughly 4pc if the crisis escalates.

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"China's growth rate would drop abruptly if the euro area experiences a sharp recession. In the unfortunate event such a downside scenario becomes reality, China should respond with a significant fiscal package," it said.

A fall in global growth by 1.75 percentage points would cut Chinese growth by more than twice as much unless Beijing took active steps to counter the shock, showing how distorted China's economic model has become.

"China would be highly exposed through trade linkages," it said. The report is a none-too-subtle reminder that China has a huge stake in Europe's stability and should be ready to stump up more money for an IMF-led rescue.

The Fund said China had "ample room" to boost stimulus by 3pc of GDP if need be, but warned against another credit blitz through the banking system or fresh infrastructure projects.

"China still has a long way to go to digest the side effects of the surge of credit unleashed in the wake of the

global crisis. A large external shock would bring many of these domestic risks more forcefully to the forefront," it said.

The IMF fears that China had already pushed debt to safe limits. The ratio of loans to GDP has doubled to almost 200pc over the last five years - a larger jump than in the US during the sub-prime bubble.

Much of this leaked into property, exacerbated by interest rates on deposit accounts last year of minus 3pc in real terms that pushed investors into hard assets.

Credit curbs have punctured the bubble, but there are worries that this could go too far. Top developer China Vanke reported a 39pc fall in home sales in January, while Guangzhou R&F recorded a 57pc drop.

"Things will be very difficult in 2012: it will be a winter and a test for the entire industry," said Mao Daqing, Vanke's vice president. A price war before Christmas failed to halt the crash in sales.

Caixin Magazine said China's once-hot property market is "turning polar" and reported that Moody's fears Hong Kong-based developers may struggle to refinance foreign debt this year.

The IMF advised Beijing to stay the course on the housing curbs. If stimulus is needed, the authorities should run a bigger budget deficit with "targeted transfers and unemployment benefits".

In a remarkable twist, the IMF proposed direct subsidies for white goods, a sort of Chinese 'cash-for-clunkers'.

"A fiscal package should be the front line of defence," it said.



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