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Will there Turn out to be a "China Import Bubble" Too?

Could Safety Issues, Global Slow Down, New US Administration Flatten or Even Reverse Chinese Import Levels?

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Could we soon add Chinese imports to the list of bubbles popping all around us (home prices, oil, metals, shipping)?

The credit crisis and global economic slow down are already playing havoc on China's exports, a critical area of its overall economy and growth. Some economists are saying current economic conditions could soon lead to flat levels of export growth in China, a condition almost unimaginable just a few months ago.

In response, the Chinese government announced this week a $586 billion economic stimulus package to keep the economy moving. The package includes infrastructure projects and tax deductions for exporters, among other elements.

But some are wondering whether other forces may be at work that will also reduce imports from China. The tainted milk scandal of the past few months is another in a long series of issues that have raised questions and concerns about quality and safety of Chinese products. Some suspect this will reduce the level of food and ingredient imports from China, at least for a time, and possibly have some impact in other product areas.

Boo Chanco, a columnist in the Philippines, says that a quality and safety first mentality is in general not well steeped in Chinese manufacturing cultures.

"Playing a cat and mouse game with [safety-related] regulatory agencies is seen as a battle of wills with the under equipped and under supported bureaucrats," in China, Chanco recently wrote.

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The incoming Obama administration and more Democrat-controlled Congress may consider various barriers to imports and offshoring, which could further reduce the level of Chinese sourced goods. While Obama has made few clear policy statements regarding China and offshoring, he has been publicly if vaguely critical of some elements of the North American Free Trade Agreement (NAFTA), perhaps indicating some potential reconsideration of overall trade policies.

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In a February 2008 speech at the General Motors plant in Wisconsin, Obama said he "will not sign another trade agreement unless it has protections for our environment and protections for American workers." What that statement really means is not clear, however.

As a senator in 2007, Obama wrote to Treasury Secretary Hank Paulson that "At least partially as a

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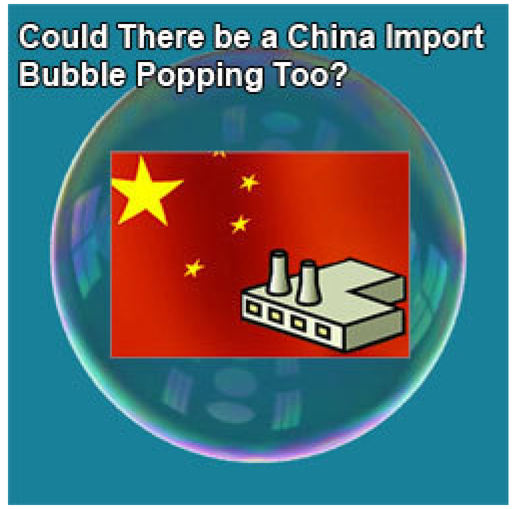
result of the Administration's failure to address Chinese currency manipulation, the U.S. imported more than $232 billion in goods from China than we sold to it last year," referring to the charges by many that China was intentionally under valuing its currency to keep its export machine stoked by reducing purchase costs to importers in the West.

Chinese government statistics show that 67,000 factories of various sizes were shuttered in China in the first half of the year. By year's end, more than 100,000 plants will be shuttered, experts predict.

As more factories in China shut down, stories of bosses simply running away have become familiar, exacerbating the damage of the Chinese manufacturing decline.

The LA Times recently reported that there have recently been at least six major bankruptcies, including Jianglong, the country's largest textile dying company; Feiyue Group, China's biggest sewing machine maker; and Zhejiang Yixin Pharmaceutical Co., among the largest manufacturers in that industry

What this means is that even when economic growth picks up, China will have lost a tremendous amount of capacity to produce to potential demand.



The LA Times says the descent of textile dyer Jianglong was astounding. The owner simply closed up shop one day, burning financial books, selling some assets, and disappearing.

Overnight, Jianglong 's four factories, a campus the size of 31 football fields, 4,000 workers were done – along, the owner hoped, with its $200+ million in debt.

Add to all that rising Chinese labor costs, and China's export economy may face some incredibly strong headwinds. While the current comparative slow down may dampen wage growth from previous years, in Eastern China they have in many cases already risen to levels that change previous sourcing economics.