

Vast malls fail to lure China's e

Economy

Domestic demand is rising, but not fast enough to keep pace with investment, writes **Simon Rabinovitch**

As crowds shouted and pushed for the latest iPhone in Beijing last Friday, a glitzy mall across the street was bathed in silence, with just a handful of shoppers hunting for bargains.

The frenzy at the Apple store underscored the rise of the Chinese consumer, a development analysts say is needed to support the global economy and make China's growth more sustainable.

But the empty Soho complex casts a different light on what is happening in the world's second-largest economy: consumption is rising, but not nearly as fast as vast shopping centres are being built.

A boom in the number of malls without a matching rise in shopping gets to the

heart of what analysts see as the fundamental problem of the Chinese economy: too much investment, too little consumption.

"There was an exponential two or three years where record numbers of malls were built around the country," said Frank Marriott, senior director for Asia at Savills, the property consultant. "It has to take a bit of a breather."

Within a half-hour walk from Beijing's fashionable Sanlitun district, eight shopping complexes have opened in recent years. While one mall called the Village – home to the Apple store that was pelted with eggs last Friday – is bustling, many of the others are visibly struggling.

At the Soho mall, shuttered stores in its six retail buildings drastically outnumber the open ones. One building was padlocked, while the only activity in another was a five-day sale of discount clothes.

"We came here just because one of the restaurants was recommended. We wouldn't actually shop here when there's so many



Beijing police control crowds at an Apple store, but such retail frenzy is rarely seen

elusive consumers

good stores [in the Village] across the street," said He Tian, a university student.

When China announces its 2011 growth rate today, the figure is expected to be about 9 per cent as the country continues its 30-year boom. It might also reveal that China has reached a turning point, with consumption becoming the biggest driver of growth.

The problem is that this change does not appear to be happening quickly enough.

Household consumption has fallen during the past decade to just over a third of GDP, according to official data which even if understated is exceptionally low for a major economy in peacetime. Meanwhile, investment has soared to 48.6 per cent of GDP, which economists say marks an unhealthy dependence on capital spending.

With much of Chinese investment concentrated in property, fears have mounted about the waste and the potential for bad debts. Concerns have focused on the vacant

apartments that can be found throughout China, but empty shopping malls are a very public symptom of the same disease.

Just south of Soho, Beijing's cavernous new Fortune Mall echoed with the sound of gunfire – a bored retailer was playing a video game during what was supposed to be the peak shopping period a week before China's new year festival.

Upstairs, a lady in a red parka paced outside one of the several stores whose

windows had been papered over. "They sold jade here. I was their part-time accountant. But they seem to have left and didn't even tell me," she said.

The glut of retail space in Beijing is part of a broader trend. Guo Zengli, president of the Mall China Information Centre, said last year that the number of shopping centres nationwide would increase 893 per cent between 2001 and 2015.

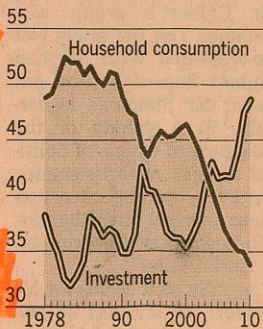
Developers are hoping a new generation of consumers will spend far more, emboldened by rising wages and government efforts to build up the social security system. To a certain extent, they are correct.

"Whatever money I make, I spend... we don't have to worry about saving for old age like our parents," said Jiang Qiong, 24, a jewellery shop manager.

Retail sales have risen about 17 per cent annually for the past couple of years. The growth is impressive, but hardly enough to fill the 760 shopping centres Mr Guo forecast will open across China in the next three years.

Demanding trend

Chinese consumption and investment (as % shares of GDP)



Source: Haver Analytics