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HD **Chickens fly home to roost in China**

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China's property developers are so desperate to sell new apartments that they are offering ridiculous gimmicks and fat incentives. In one case, a developer in the city of Nanning offered 1000 live chickens to people who turned up at an opening.

But in the event there were more people than chickens, but not more buyers, as locals moved in to get a free meal: "Mayhem ensued when the developer let the chickens loose and eager locals scrambled to grab as many as possible," reports the Financial Times.

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"Within 15 minutes all that was left of the promotion were piles of chicken feathers and a few lost shoes."

In the south-western city of Kunming, host to one of China's famous "ghost towns" of row upon row of new, empty apartments, some developers are offering "buy one floor, get two floors free" deals, according to International Business Times.

And then there are the buyback offers.

In the city of Hangzhou, Shanheng Real Estate is giving home buyers an option to sell back their apartments in five years for 40 per cent above the purchase price, the China Daily reports.

Is that a sign of the developer's brimming confidence in future price rises? No, it's a measure of its desperate hunger for cash.

The world economy has been on a China real estate standard for most of the past decade. Everything has depended on rising prices for Chinese property.

The property sector is the biggest industry in China, and China has been the biggest source of growth in the world economy.

But the price of the benchmark commodity has been falling for some time now, taking China's economic growth rate with it. This is finding expression in everything from the fall in the price of Australian iron ore to the fall in the price of Saudi Arabian oil.

The average price of new homes in China fell in November for the seventh consecutive month, according to the firmChina Real Estate Index System. Of 100 cities surveyed, prices fell in 76.

The government is trying to prop the market up. It has eased mortgage restrictions. Last week it cut official interest rates.

And China boosters still rush to assert that all will be well, that the country's unique features will sustain the real estate market for many years to come.

This is always the way with every vast real estate or sharemarket boom in history. There is always a factor that makes this boom different. It will never collapse like those that went before. In the China boom, the unique factor is urbanisation, the mass migration of country folk into the cities.

Urbanisation is real and will continue. But the boom in prices and supply far outstripped demand. Market forces are simply forcing a correction.

The number of empty homes in China is estimated at between 20 million by Bank of America economist Ting Lu, and up to 64.5 million on an extreme estimate.

On top of that, the government is building another 36 million homes over five years as part of its affordable housing plan.

China has had real-estate slowdowns before. It was three years ago that a developer got headlines around the world for giving away a new BMW with every apartment sold.

The government has stepped in with new stimulus each time and the market has rallied somewhat. Until the next downturn.

The simple reality is that China's recent growth is based on an investment surge of enormous historical proportions. And that surge is now exhausting itself.

This is standard; it happened in Japan in the 1960s to 1980s, closely imitated by South Korea and then Taiwan and then by the economies of south-east Asia.

Growth was achieved by adding new dollars of investment, rather than better productivity in the way those dollars were deployed.

This accumulation path to growth is very successful until it reaches maturity. Then it exhausts itself. Always.

Or, as the International Monetary Fund put it two years ago: "China now requires ever higher investment to generate the same amount of growth."

In the 1990s, the scale of China's over-investment was in line with the experience of those earlier Asian economic success stories.

But in the past decade "it has since gravitated to an extreme outlier position". the IMF said, way above the level that preceded the Asian crisis or the Japanese stagnation.

China's authorities know they need dramatic reform to make the economy depend on consumption instead of investment. President Xi Jinping has laid out a five-year reform plan, but it has yet to bear fruit.

Because China doesn't depend on the outside world for its capital, it won't suffer an abrupt stampede-style crisis like Thailand or South Korea but a more controlled, slow-motion one.

But it means Australia needs to find other sources of growth.

Luckily, the United States is finally returning to full growth. That will last for a few years yet.

However, the US recovery was based on six years' worth of free money, $US4 trillion of it, from the central bank. As the Federal Reserve gingerly raises the price of money back to levels approaching normal, the US will be sorely tested once again.

What can Australia do?

The only sensible recourse for a smart country is to do everything it can to reduce its vulnerabilities and build its homegrown strengths now.

As the Abbott government's midyear economic report card is going to reveal in the days ahead, that task is getting harder.

It is also getting more urgent.

At the end of Australia's long boom, the country needs to salvage a great deal more than piles of feathers and lost shoes.

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