Predicting a serious slowdown in the mainland has long been a losing bet. Ask the Sino-American author Gordon Chang, whose book *The Coming Collapse of China* was released at the turn of the century, just as the mainland began its inexorable rise. Since then, China has dealt with every challenge thrown its way. Even the global financial crisis barely registered. Beijing merely flooded its domestic market with cheap money, creating an artificial infrastructure boom. While Britain's economy shrank by 4.3 per cent in 2009, and America's by 2.8 per cent, China grew by 9.2 per cent.

China's National Bureau of Statistics has released data showing the economy expanding by 7 per cent in both the first and second quarters of the year. But the NBS is constantly accused of cooking the books — it's notable that their figures tally precisely with state forecasts set out late last year.

A more realistic assessment comes from Andrew Polk, a senior economist at The Conference Board (TCB) in Beijing, who believes output grew at 4 per cent in each of the past two years, and will continue to expand at or below that rate for the foreseeable future. 'For a fast-growing emerging market like China's, which is in the mode of playing catch-up with the wider world, a growth rate of 3 per cent or 4 per cent is in or close to recession,' he says. 'It's like zero growth in a mature economy like Britain's or America's.'

Anne Stevenson-Yang, co-founder of the independent Beijing consultancy J Capital Research, has spent the past few months in the industrial north-east of the country, wandering deserted factories and building sites. 'That part of the country has been in rough shape for some time, with falling bank deposits, halted construction projects, high inventories and plummeting sales at auto dealers. I visited a large machinery factory running at 80 per cent of the capacity it was at two years ago, and that is not atypical.'

She found the same problems in the once-bustling cities of the far south, where discontent and joblessness is rising fast. 'Everyone I meet is looking for a job, and considering moving to Shanghai,' she laments. During a tour of a vacant cold storage facility in rural China with a party official, her group was confronted by an angry mob, who forced them to flee. The official later explained why: 'There used to be an orange grove on that site, so we chopped down the trees to build the facility to create jobs. But no one wanted to invest in it, and now there are no jobs, and no oranges.'

This gathering storm helps explain Beijing's reaction to the bursting of the latest stock-market bubble, which had been driven by speculative retail buying. When shares in Shanghai and Shenzhen topped out in mid-June, having more than doubled in just seven months, China's leaders had two choices: to let prices settle at a more natural level, or to intervene.

Having tacitly encouraged the boom by lifting restrictions on buying shares with borrowed money, Beijing saw little choice but to intervene, particularly when day-traders, deeply in debt to loan sharks, began flinging themselves from office windows. Party leaders clamped down on 'short selling', forced tame banks and brokers to buy and hold shares, and blamed the whole sorry mess on meddlesome foreigners, who had played no part in it at all. In fact, the real losers in June and July were holders of securities listed in the West. A generalised anxiety provoked by tumbling Chinese shares (contradicting the view of some London pundits that it was all a local difficulty, of no great relevance to western investors) knocked the stuffing out of the FTSE 100 index, and dragged British blue-chip stocks to their lowest levels since January.

The reason for the party leaders' heavy-handed action, which makes a mockery of China's much-trumpeted desire to reform the financial system and wrest market share away from inefficient state firms, is simple. 'China's leaders are panicking,' says Polk. 'They don't want any volatility in the financial sector, as they truly don't know how shaky its foundations are.'

There's a strong and abiding fear of economic slowdown here. The last time growth seriously stuttered was a quarter of a century ago, when China's political leaders made a series of panic-induced and near-fatal missteps. Hasty reforms designed to boost wealth and improve the lot of farmers led to a credit glut and a brief but unruly housing boom, and inflation exceeded 30 per cent in late 1988. With living conditions deteriorating the following year, tens of millions of migrant workers flooded into the cities, while students spilled on to the streets. The party panicked and sent in the tanks. China's global image is still recovering.

But China's economic troubles today are nothing for the rest of the world to feel smug about. We should be desperately worried about a sharp contraction in an economy that really matters. Many spent the summer fretting about contagion stemming from a failed Greek state. Greece accounts for less than 0.3 per cent of the world's economic output. China's share is 13.4 per cent and rising. A blowout in one or more of its tyres would hurt everyone, from indebted multinationals who have bet heavily on continued Chinese growth to overleveraged nation states whose finances would be devastated by another slump.

In recent weeks, everyone from fund managers to multinationals has begun to speak about what might happen if China's economy falters. Audi, Jaguar Land Rover and BMW have all slashed local production forecasts or issued local profit warnings. Ford is expecting car sales in China to fall for the first time since 1990. Given how integral China is to global trade, this matters. Last year, Beijing was the largest sovereign importer of crude oil, copper and soy beans. It is a voracious buyer of French cheese, Scottish salmon and New Zealand lamb, and the world's biggest consumer of cars and smartphones. There is virtually no industry that it does not influence, nor any multinational that does not include Chinese land, labour or capital somewhere in its supply chain.

We simply don't know what a slump in 21st-century China would look like. Will it be short and sweet, allowing the economy to cleanse itself of a huge backlog of toxic bank loans before emerging invigorated? Or will it mark the beginning of the end of the Chinese dream: the moment when, from Washington to London to Tokyo, we see that the new emperor really has no clothes? To Fraser Howie, co-author of *Privatising China*, the greater concern is whether the current leadership is capable of keeping calm and carrying on. 'Look at the way the government handled a simple stock crisis,' he says. 'How are they going to manage a genuine debt or bank crisis? Everyone's confidence in the competence of the government has been shaken, and they are now seen as highly reactive and highly incompetent. It should be worrying for everyone.'

The last time China's economy actually shrank was way back in 1976, a year also marked by the death of a dictator and the denouement of one of the most horrific revolutions in human memory. Back then, a recession in the People's Republic would have been of only peripheral concern to the outside world. Now, it could drag the whole world economy down with it. Little wonder that alarm bells are ringing in Beijing and beyond.