

## *As We See It*

. . . today China is about the only large remaining outlet for the overproduction of the industrialized nations. Therefore, the great interest of the nations is in the *opening up of China*, and their mad scramble to get control of its markets.

—Charles P Steinmetz  
*America and the New Epoch* – Oct. 1916

For much of the past century, China has been viewed with hope and trepidation by western corporations as a vast market with tremendous potential—if only the Chinese economy would develop. China certainly has developed, and the speed at which its economy has grown over the past three decades is truly remarkable.

Historically, the Chinese government—under the concept of central planning—used an *iron fist* to control its economy and firms. However, economic reforms since 1978 substantially changed the institutional landscape. After more than thirty years of dramatic economic transition, China's economy is now neither planned nor market-based. Part communist, part capitalist, China has been moving full speed ahead.

Western corporations have long hoped emerging economies would create a consumer class to augment the declining purchasing power of the United States and Europe. With a population of over 1.3 billion (4.3 times the U.S.), even a small increase in China's purchasing behavior would have large implications worldwide. Due to government reforms, a large *middle class* demographic now exists which owns homes, takes vacations, and is familiar with leading foreign brands. China has even become the world's eighth-largest cosmetics market.

From a structural perspective, China is still a low-income economy in the early stages of industrialization and urbanization. Chinese per capita GDP has risen steadily to \$6,500—but still massively trails U.S. GDP/capita of about \$46,400. Further internal dichotomy is seen among China's population as an estimated 700 million of China's 1.3 billion people still live in the countryside. Of those, at least 80 million live on less than one dollar a day. Therefore, putting massive numbers of underemployed people to work is the biggest challenge for the Chinese economy over the long run. Moving all of these rural people to urban areas and providing them with better paying jobs will take years. China's ability to supply low-priced goods to the rest of the world will likely remain more dominant than their ability to consume goods imported from other countries.

In the process of modernizing, China has become the world's top consumer of steel and copper and the world's number two consumer of oil. Its nearly insatiable demand for raw materials has not yet been met with a strong demand for consumer goods. Although in 2009 automobile sales eclipsed 13 million units, China's net trade balance with the world is still negative—importing just over \$1 trillion worth of goods while exporting about \$1.2 trillion. China has not, in the words of Charles Steinmetz, become the “outlet for the overproduction of the industrialized nations.”

Some economists question the smoothness of the Chinese economy's high annual growth rates. Anecdotal contradictions include a disconnect between automobile production and gasoline sales, and another between power generation and GDP growth. There is competition among local governments to meet imposed growth goals—so much so that it's doubtful the results are always what these governments say they are. But even if one doesn't completely trust the numbers, it is easy to see that something quite real is happening.

China is important in our lives today and its importance is bound to grow. Much like prognostications of the past, today's predictions, whether euphoric or doom and gloom, are unlikely to be right with any degree of certainty. But, for China's sake, and for our own sake, we should wish for China's success, and continually monitor its progress. Directly or indirectly, whatever happens in China will impact our lives.

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