



China's Egg Shell Economy

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Introduction

American's Achilles' heel is the US dollar. Does China have its Achilles' heel? Would it be the Renmibi? No it is its booming and growing economy. China is playing juggernaut since the GDP growth running at the neck breaking 9-10%. The growth is not evenly distributed in all sectors, all level of people and all provinces. The imbalance creates tremendous challenges that no other countries have faced. China has to walk its own way.

How did it happen?

After the Chinese Communist Part gained control over mainland China, it was an isolated world dubbed the Bamboo Curtain. The only support was from the international communist country. The main effort was the Soviet Union of Russia. But Russia had its agenda that were no different from the Czar imperialism; poaching the resources of China. The friendship was fortified during the Korean War which brought international to China but also created astronomical debt to Russia. This relationship seeded the splitting of these two countries during the Vietnam War when China helped North Vietnam to fight. The military assistance created a clash between the two countries for the interest of Southeast Asia Peninsula. To improve the economy and technology, it was not sufficient to depend on the Russian. Ping-Pong Diplomacy was the outcome of the think tank to break the wall built by Russian and American. When Nixon tried to escalate its personal prestige for one more presidency, Kissinger played the messenger's role to recognized China by the American government.

During the first twenty five years of People's Republic of China, Hong Kong played the significant role of entrepot for delivering non-military sensitive embargo to China. This role delayed the return of Hong Kong until the Chinese government had a firm setting on international trade through the help of low price product manufacturing starting the mid-1980s. The financial institutes at Hong Kong also played a significant role to provide the Letter of Credit for the export. With the British, Chinese banks setting up branches in Hong Kong that can collect Hong Kong dollar deposit which provided the desperately needed foreign exchange for foreign trade.

With the help of Japanese and American offering manufacturing contract to China to import the deflation, the Chinese open the door during the later part of 1980's. The rest is history.

Lord of Rings

The economic development from the 1980s was actually controlled by a few rings. The Southern China Guangdong Province, the Southeast China Fujian Province, and Shanghai City. These are the coastal area which a large number of Chinese relatives and friends

over the world that provided the help to build the economy. Beijing was a beneficiary because it was the political centre. Outside these area, most of it still are, could not share the benefit of the economic well being. The imbalance of wealth has created the so called 'Blind Flux' which are people from low economic opportunity migrated to a few highly concentrated business centre. The migration interrupted the social planning of the country.

When a country has highly localized economy, it is not sustainable in long term. It is the government's policy to entice foreign and local business to share the opportunity with the less fortune. Less forget the politics and just look at it from the academic. When small pockets of the country generate the GDP, the human resources are not efficiency. The government will have the burden to financial sustain the less privileged area. At the end, the balance creates many unwarranted social unrests which is happening now.

Framework of the Egg Shell

The uneven development of the Chinese economy is managed in several aspects.

Infrastructure. The infrastructure such as telecommunication, highway, railway, aviation and seaports are building as fast as possible. The goal is not to cover a small sectors. Like the Internet 2 project, it is a project that covers the whole country at the four corners with the involvement of international companies such as Cisco, Alcatel and also local company such as Hwa Wei. The involvement of local company will help the acquiring of the high-tech knowledge transition as part of the development plan. The new railway to Tibet has its political agenda but more important to secure the transportation which means business to Tibet area.

Money Supply. The low cost manufacturing brings over US\$800B of foreign reserve to China. As the result, there is no need to control the foreign exchange. The glut of money is in the hand of a few major franchises which succeed during the last few years. To assist those under developed province to share the wealth, the competitiveness could not be reduces by appreciating the Renminbi or higher interest rate. This is the reason China has to resist any international pressure to reevaluate Renminbi. Higher value of Renmibi will cut the competitiveness. Higher interest rate will cost more for the borrower. Therefore the government has to employ unusual expansive budget. First, the majority of employees are civil servants. They are paid the same in all cities. To stimulate the economy, the wages of civil servants was raised last year. The raise was multiple steps in attempt to avert fast inflation growth. For the wealthy cities, the change is negligible but it has impact for central and west part of China.

Another major problem of the money market is bad debt. With the glut of money and less sophisticated experience of bankers, the bank has exceptional high bad debt in comparison with the West. The bank has to be more selective. The series of raising deposit reserve ratio will provide an education opportunity for Chinese bankers to be more selective. In the west, the common practice is to raise interest but this will hurt the

underdeveloped provinces. So we could see the reserve ratio raising will be continue for a while.

Employment. There are millions of university graduates every year. Although the retirement age of Chinese could be as low as 45, employment is always tight. These professionally trained Chinese are heavily invested by the country. To get the return, they have to work. In the past, the government practiced compulsory migration to underdeveloped province for everyone even it might be working in the farm. But this is not an effective investment return policy because the job must match the skill for high return. The only way to expand the payroll is through increasing the skilled labor sector. Individual cities in the central and west have succeeded to entice companies such as Intel and IBM to open research centre at the more remote cities which cost is attractive.

To ensure the Chinese could upscale the skill set, China has practice the policy that purchased commodities have to be assemble in China. Under this policy Bombardier and EADS are setting up assembly plant for the delivery of the plane. This does not only increase employment but also ensure technology independent. We could conclude that Chinese can learn much faster than any other countries. Three years ago, Shanghai bought the magnetic levitated train from German for demonstration. In two years, they could manufacture their own design. In general, what take Korean 10 years to learn, Chinese can do it in two year; a factor of 5.

Unstoppable Train

In the eye of west, the Chinese government does not control its overheated economy could burn the candlestick fast. The reality is that this train could not be stopped because it will break the fragile economy. The train can slow down when the imbalance of wealth be reduced.