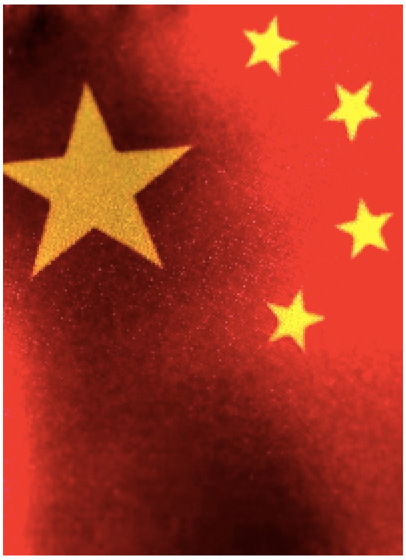
Is Chinese Economy a Paper Tiger?



Zhou Xianchuan, Governor of China's Central Bank, pushed in 2009 for a new global currency to be managed by the International Monetary Fund, which would replace the dollar for purposes of international financial transactions and currency reserves. That call for a new currency reflected China's increasing concerns about the dollar, whose value has plunged since President Obama's “stimulus" spending began.

China has interests beyond its own economic success. Its rulers are attempting to assert a leadership role in global economics, through trade deals (especially with Russia and Brazil) to make the yuan more liquid as a currency, and by massive purchases of euros, which will enable China to cast itself in the role of the savior of Europe during the eurozone's economic crisis. Xia Ban, a leading adviser at the People’s Bank of China, recently uttered these soothing words about the unstable euro: “In the long run, it is not a problem. Europe will definitely solve the problem. We don’t want to see the euro disappear. Walking on two legs is certainly better than walking on one leg” (the second leg being the yuan as an alternative currency).

The *International Business Times* has a different viewpoint:

> Can China save euro? Answer is ‘no'…. On Thursday Spanish daily *El Pais* reported that China has offered to purchase Spanish sovereign debt worth about $7.89 billion. There is euphoric expectation that China, armed with its $2.6 trillion reserves, will emerge as the ultimate white knight for Europe. Is that belief founded on facts and substantiated by strategic thinking?

The problem with seeing China as the economic savior of Europe (or of any troubled currency) is that sober economic analysis suggests that its economy is much weaker than it appears.

Respected international economists Julian Jessop and Mark Williams caution:

> China is unlikely to be able or willing to do much to solve the debt crisis in the euro-zone. China’s leaders naturally want to be polite to foreign hosts and visitors, but their actions frequently fall short of the expectations raised by their words.

China is not a free nation. Although relieving the Chinese people from the iron manacles of Mao Tse Tung has increased economic growth in the country, and though the naturally productive and thrifty people have created modest prosperity, these alone are not the foundations of a healthy, resilient economy.

Size is not what makes an economy or a currency strong. Consider that the currencies of tiny Switzerland and Singapore — both based on honesty and prudence — are among the sturdiest in the world, while the euro — theoretically supported by a large group of major nations — is in crisis. But the eurozone's bigger-is-better thinking may be leading Europeans to believe that China's vast size is an evidence of its inherent economic stability.

In fact, China may be riding a bubble of its own. Though middle-class Chinese have been increasingly investing in real estate, the many empty rental properties in the country's urban areas suggest that China's real estate boom may turn into a bust. Bloomberg recently had this to say about a high-profile commercial rental property in China: “The reality at South China Mall is … shuttered shops, unfinished, never occupied by a single tenant. The few retailers that are here have favorable leases, but little profit." Internet videos show that consumers are almost nonexistent in some of these malls — perhaps reflecting an absence of real purchasing power, or misallocations in what is ultimately a command economy. But China's many retail outlets which lack tenants — like the empty housing in its cites — may suggest an economy about to contract.

At the heart of doubt as to China's role as savior of the eurozone is the fact that it remains a communist nation ruled by iron-fisted bosses. What makes a good business leader in China is an embrace of Marxism and its love of planning, even when no one really believes in it anymore. Communists may embrace market economics and create spurts of positive activity — Lenin’s New Economic Policies are a good example of that — but any nation run by Communist Party functionaries who are themselves immune to market realities cannot be considered stable or healthy over the long run.