China - The Sleeping Giant Awakens

China's economic growth has been spectacular. But is it sustainable?

By Robert Simpson

Napoleon once said, "Beware the sleeping giant for when it awakes it will have a voracious appetite."

In China's largest and richest city, skyscrapers tower over busy streets lined with expensive stores and shopping malls. Neon lights glow 24 hours a day, illuminating the cars and buses that zip around the city.

The busy metropolis is a far cry from the Shanghai of a decade ago, when just a few skyscrapers dotted the skyline and bicycles were the preferred mode of transportation. Today the city is home to one of the world's tallest hotels, Asia's largest shopping mall, and some of China's most luxurious stores. Experts say Shanghai is the face of China's future—big, bustling, powerful and rich.

By the year 2020, the U.S. National Intelligence Council predicts, China will be an economic powerhouse, vying with the United States for global supremacy. *Mapping the Global Future*, the council's most recent report on the status of the world, says China's economic growth, expanding military capabilities, and large population will guarantee its success. "In the same way that commentators refer to the 1900s as the 'American Century,' the 21st century may be seen as the time when ... China ... comes into its own," the council wrote.

China is already on its way. It is now the third-largest producer of manufactured goods in the world, after the United States and Japan. China is also witnessing the biggest building boom in history. Last year, half of all concrete used in construction worldwide was poured in China.

Scaffolding and cranes are omnipresent in Beijing, China's capital city, as it prepares to host the 2008 Olympic Games. On one building site, at least 18 towers are under construction.

Thousands of citizens from rural China are flooding the cities on the country's eastern coast, pushing the demand for housing through the roof. Experts say the current migration is just the start. In the next 25 years, 345 million people are going to move from the rural areas into the city.

Such explosive growth did not seem possible under Mao Zedong, who founded the People's Republic of China in 1949. Under Mao's rule, the government controlled all property, and all products from Western capitalist nations were banned. In 1977, Deng Xiaoping took power. He eased China's laws so that people could control their own businesses. Jiang Zemin, Deng's successor, and Hu Jintao, the current leader, increased individual rights even further.

Over the past 26 years, beginning when China first introduced policies of reform and open their economy in 1978, China's economy grew about 9.3 per cent per year on the average. In 2003 and 2004, the GDP grew 9.3 per cent and 9.5 per cent, respectively. China's economy doubled in size in the 1980s, then doubled again in the 1990s, and a recent report from the Department of Foreign Affairs and Trade's Economic Analytical Unit, *China Embraces the World Economy*, predicts China will achieve a growth rate averaging 8.5 per cent a year in the present decade. If so, its economy will double yet again.

The Third Largest Economy

What all this growth means is that, if you allow for the fact that one US dollar buys a lot more in China than it does in Japan, China's economy is already the third largest in the world, and already 25 per cent bigger than Japan's. Unless it is knocked off its present trajectory, it should overtake America in size some time in the 2020s.

by industrial production (mostly manufacturing) has risen from 42 per cent to 51 per cent.

Manufactured goods account for 90 per cent of China's exports, dominated by simpler, labour-intensive goods such as clothing, footwear, toys, sporting and travel goods.

Increasingly, however, it is exporting more valuable goods including household electrical items, air-conditioners, televisions and washing machines. China now accounts for about 5 per cent of global computer and office machine exports (although many of these are assembled from imported components).

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A key element in China's economic success story is the sleeping giant's decision to open up to the rest of the world. Like so many Asian countries before, it has been pursuing a strategy of export-oriented growth.

China's exports and imports have been growing even faster than its economy, to the point where, in combination, they now account for more than half of its GDP. China does not yet have the dominance in world trade that its size would suggest, but just give it time and consider its rate of advance. In 1990, it was the world's fifteenth largest trading nation; now it is the sixth.

China's long-sought admission to the World Trade Organization in 2003 will be a further boost to its trade and its economy. The new report estimates that it will add one percentage point a year to China's potential rate of economic growth over this decade.

hina's economic growth is being led by the expansion of its private or foreign-owned manufacturing sector. Since 1990, the share of its economy accounted for by agriculture has fallen from 27 per cent to 15 per cent. The share represented

Where is the capital and know-how coming from to make all this possible? It's from huge investment by foreign multinationals. For some years, China has been the world's second-largest recipient of foreign direct investment, taking the lion's share of all the investment flowing to developing countries. This year it is set to overtake the largest recipient and will take in a record $US50 billion. As the report explains, "many multinational manufacturers of higher-value products — including JVC, LG, Panasonic, Sony and Samsung — are shifting a significant part of their production to China and exporting from there."

So here is the phenomenon that is putting China to the forefront in the eyes of businesspeople, politicians and economists around the world: we're observing a significant proportion of the entire globe's production of manufactured goods shifting to China.

It also seems that this process is at the heart of the explanation for another remarkable phenomenon. For some years now, the prices of many manufactured goods around the world have been falling rather than rising.

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Canadian Economy Gains

Canada has everything to gain and little to lose from China's rise as a global manufacturing powerhouse. For a start, we have already bitten the bullet on the reform of our labour-intensive manufacturing industries and, more positively, our economic strengths complement China's, particularly within the commodities sector where since 1988 Canadian exports to China have doubled and appear that by 2006 they will double again.

In 2003, Canada exported a record $4.8 billion worth of goods to China. Wheat exports no longer dominate as they used to a decade ago. Now our leading exports to China are industrial minerals—especially metals like iron, steel and nickel. China's growing appetite for materials has fueled the recent boon in commodity prices and helped the Toronto Stock Exchange outperform U.S. markets.

We are also importing a lot more from China. In 2003, China imports totalled C$18.6 billion, up more that 16 per cent from the year before and almost four times what they were in 1995. Where toys once dominated imports from China, electronic equipment and mechanical goods now lead, followed by toys, clothing and footwear.

Canada is also trying to attract Chinese investment. Some recent Chinese interest in Canada, however, has attracted some concern from nationalists. A state-run Chinese company, for instance, tried to buy Noranda, Canada's oldest mining company, but soon realized it could not compete in the North American market.

Canada has always been a trading nation. The prospect of selling our goods to 1.3 billion consumers is intoxicating. So too is the prospect of cheap imports. But China's economic revival poses obvious problems for both countries. How do you compete with a giant that pays its workers a fraction of what they earn in Canada? For many in Canada's textile and furniture industry, they already know the answer. The challenge that lies ahead is how to manage the economic and social disturbances.

In China, economic growth has not reached all of its citizens, especially in rural areas. About 160 million of the country's 1.3 billion people live on less than a dollar a day. That poverty has prompted rural inhabitants to head for the cities' paying jobs. The shift in demographics has taken a toll; cities and factories are slowly engulfing China's farmland. Once almost self-sufficient, the country now imports huge amounts of grain and oil. Pollution is another disadvantage of the country's economic growth. China is home to 16 of the 20 most-polluted cities in the world, according to the World Bank.

If all this sounds a bit disturbing, the point should be made that middle-class Chinese workers are getting their cut from all of this growth. Among China's rural population, ownership of refrigerators has risen from one per 100 households in 1990 to 12 today. Ownership of washing machines has gone from nine to 29. Ownership of colour televisions has risen from five to 49. In urban areas, the rise in affluence has been even more spectacular.

Despite environmental and other obstacles resulting from the overwhelming growth, most are optimistic that China will fulfill its superpower destiny. So much so, that in a recent address to the National People's Congress, Premier Wen Jiabao said the economy would countinue to roar ahead, but placed a cap on exports to allay foreign fears of being crushed by the Asian juggernaut.

Charting the Future

The economic growth target has been set at eight per cent, a level needed to create enough jobs for the nation's millions, Wen told the opening session of the National People's Congress, or parliament in January 2005. "Maintaining steady and rapid economic development is an important issue that the government must successfully handle," Wen said in his speech. "This is a period of important strategic opportunities for China, and the economy should grow rapidly, but not be allowed to overheat," he said.

China will aim for slower growth of eight per cent, keep a tight grip on economic controls and push ahead with reforms to its fixed currency in 2005. The government would maintain "stable and healthy" monetary and fiscal policies, setting the agenda for guiding the world's third largest economy in the coming year. "In the light of current economic conditions, macroeconomic controls cannot be relaxed," said Wen, who is trying to shepherd the economy through challenges ranging from overhauling ailing banks to finding jobs for millions of workers laid off from state firms.

Reflecting his role as point man on the economy, Wen said consumer price inflation would be about 4 per cent, similar to last year's rate of 3.9 per cent. The 8 per cent economic growth forecast contrasts with the usual 7 per cent forecast issued in previous years, Esso Imperial Oil

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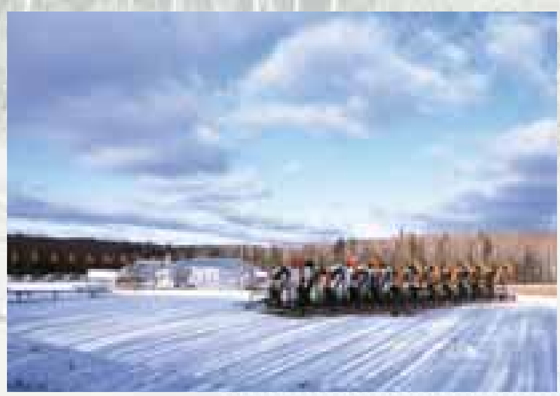

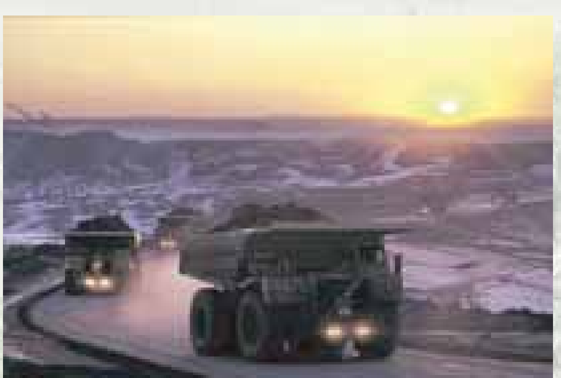

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which is routinely exceeded. China's gross domestic product was 9.5 per cent higher in 2004 than in the year before.

But a question on many minds is: if this current growth rate is maintained, when will Chinese demand overwhelm what the planet can provide for it?

China's economic boom has been the biggest single factor in the steady rise of commodity prices worldwide. Chinese consumption of each of the five basic commodities used in food, energy and industrial economies, namely grain and meat, coal and oil, and steel—already has overtaken that of the United States in all but oil. What happens if Chinese per capita consumption reaches the levels of North American consumption?

Chinese per capital income is estimated at about US$5,300 dollars a year, only about 14 per cent of Canadian per capita income of about C$38,000. If the economies annual growth rate continues at 8 per cent per year, China will reach current Canadian income by 2031.

Assuming the eight per cent growth rate, food consumption would increase from the current 291 kilograms to 935 kilograms per person. That would bring total Chinese grain consumption in 2031 to 1.352 billion tonnes from only 382 million tonnes used in 2004—equal to two-thirds of the worlds total grain harvest.

Even more daunting are similar estimates for energy production. If, by 2031, the Chinese use oil at the same rate as Canadians doe today, it would need 99 million barrels of oil a day, or 20 million barrels per day more than the entire world produces. Similarly, if China's coal brining were to reach current North American standards of two tonnes per person per year, the country would use nearly three billion tonnes annually by 2031. Current worldwide coal production is 4.8 billion tonnes annually.

If steel production per person in China were to climb to North American levels, it would mean that China's aggregate steel use would double by 2031 to a level equal to the consumption rate of the entire western world.

It is these predictions that have many questioning if the growth rate of China is sustainable, not to mention India or the other developing counties in the Asian pacific regions. It is the geopolitics of oil, grain and raw material scarcity that could lead to economic instability, political conflict and disruption of the social order that has many worried.

In future generations, balancing the social and economic issues that go along with waking a sleeping giant will be a challenge for the Alberta Resource industry and all Canadian companies doing business eager to expand business with China. ■