

The Year of The Growing Pig (and Pain)

It is that time of the year again - No, not just loud fire-crackers but stunning official results. Although Chinese government figures are notoriously unreliable, they do give out signs. No doubt the economy, regardless of its actual size, is growing fast. Perhaps a little too fast with numerous run-away problems, which the central government seeks to rein in with initiatives after initiatives as the 2008 Olympic "finish line" nears. This year is to be watched...

By Shawn He Yuxun
Feb. 24, 2007



Amid the blasts of the Lunar New Year's fire-crackers came 2006's stunning (unless your ears have long been numbed) official results; for one the GDP grew 10.7%, although there are signs that the actual number is higher.

Despite deceleration measures introduced earlier in the year (and claimed effective) by the government, 2006 still finished as the fastest growing year in a decade! (We simply can't wish away the [3Cs of China](#) overnight, can we?) Otherwise get ready for *another* [official GDP upward revision](#) later on aimed to shrink the figure by employing a larger base (Watch out, [Germany!](#) [China is going to pass you by next...](#))

To toy with the GDP a bit further, if the US government were right in their [allegation that RMB is artificially undervalued by up to 40%](#), wouldn't that make China ready to overtake Japan as the No. 2 and rival the U.S. much quicker than originally thought?

And we haven't even mentioned [PPP adjustment](#). Jack Perkowski, a Wall Street banker-turned China hand/manufacturer who now runs ASIMCO, one of the largest [FIEs in China](#), always likes to carry in his pocket a US\$100 bill and an RMB100 bill to show his point, that the Chinese would have inherent cost advantages because a Chinese manager would view the RMB100 bill the same way his American counterpart would the US\$100 bill.

Mindset aside, in fact the two bills often possess comparable purchasing powers in their respective markets and segments (i.e., don't try to compare the burger price at a 5-star hotel in China with your local diner's).

Regardless of its size, China's economy is far from being a free-market one; the elite SOEs (although much fewer of them than before are left standing) still have near-monopoly over resources and capital markets. According to official stats, while the prices of raw materials and

fuel jumped 6% last year, those for industrial products only rose about 3%. The reason? While those SOEs continue to earn record profits, most of the down-stream private enterprises are barely surviving, burdened by overcapacity all around. Apparently the so-called 'race to the bottom' continues...

So, does the real size of China's economy really matter? To most of us, other than understanding its impact and implications, the answer is perhaps no. In fact, even if it did, it would still be hard to determine what the number truly is. For example, if you were to count all the 'gray-area' economic activities (especially those associated with corruption), you could probably add another trillion to the total. BTW, did you know that the government reportedly spends over US\$25bn a year on free food and drinks for its officials? Try imagine those 'under-the-table' spendings... Incidentally a joke in China states that corruption is healthy for the economy because it drives consumption...



Photo credit: Shawn He

A fairly typical government banquet scene

Speaking of corruption, it was recently announced that [a new national anti-corruption bureau will be established this year](#). In fact, with the 2008 Olympics 'finish line' in sight, China seems poised to launch many new undertakings this year (e.g., [relaxation on individual foreign exchange control](#) (making domestic companies' overseas listing easier); [China RoHS](#) (a legitimate trade barrier?); [unions and party branches within multinational companies](#) (better control of all sectors of economy); People's Congress and [17th Party Congress](#) (power reshuffle and new tax and patent laws); a new vehicle to [invest a portion of the gigantic \\$1tn reserves overseas](#)...) All these will surely make 2007 look like a year of the "Guinea Pig" (grin) as well.