There is no Chinese wall around the economy

By Jayne Brocklehurst

No country is immune to the global debt crisis. Even China’s double-digit growth is in doubt as the world economy switches from sustained growth to increasing contraction … but what can the Sleeping Dragon do about it?

The current crisis is not making the same headlines as the financial crisis of 2008: it’s not about high-flying investment bankers falling to ground. It’s about governments paying the bill for bailing them out, corporations cutting jobs to counter falling sales and consumers cutting back on spending to stay afloat. In this kind of environment; no country does well – especially countries whose economies are export-driven, such as China. Even China’s arguably undervalued currency will not help to buoy exports to the United States and Europe when recovery is so slow in these markets as borne out by the latest jobless figures from the United States – China’s single-biggest foreign customer.

What’s more, any additional injection of capital into the global economic system – another round of quantitative easing by the US Federal Reserve, for example – will only lead to more inflationary pressure on the Chinese economy. Professor **Jonathan Story**, Emeritus Professor of International Political Economy at INSEAD, however, remains optimistic that “systems are going to continue to run and trade surpluses will keep on piling up.”

Others view the crisis as an opportunity: Professor **Keyu Jin**, Assistant Professor of Economics at the London School of Economics argues that world events can be the impetus to promote more regional economic integration. “One thing people don’t realise is that China’s largest trade volume is intra-regional,” he told the Khaleej Times in August 2011.

Given the huge unsatisfied demand of the bulk of China’s citizenry outside the “fertile crescent” between Beijing and Shanghai, many analysts believe the solution to what ails China in the wake of the West’s economic malaise involves China’s being able to stimulate domestic consumption and investment and move away from a reliance on exports. This would help curtail the country’s rising inflation rate (around 6 percent), the result of a weak currency linked to cheap exports.

There is evidence this is already happening, according to Wang Tao, China Economic Research Head of UBS Securities. “The good news is that China has become less reliant on export growth than before the 2008 global financial crisis,” he told the Khaleej Times in August 2011. “And the property market is not in a deep downturn as it was back in 2008. China will be affected by what is going on globally, but we are not expecting a hard landing.”

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