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# China

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This land of enormous scope, enormous opportunity, enormous population, enormous challenge, enormous pollution, and enormous growth continues to generate enormous emotion (OK, maybe one too many) as to its future role in the global community...

...some see the Chinese economy as an invincible force moving toward eventual near-domination of Asia and the global economy, with continuing aggressive accumulation of global natural resources

...some see China eventually stumbling badly, brought down by massive losses on questionable loans by state-owned banks, rising social unrest, and rampant pollution of its air and water

...others see China continuing to grow at a solid, but less rapid pace, with enormous (sorry) global pressures for many Chinese firms to reluctantly accept rules of international law in regard to contracts, patents, copyrights, etc.

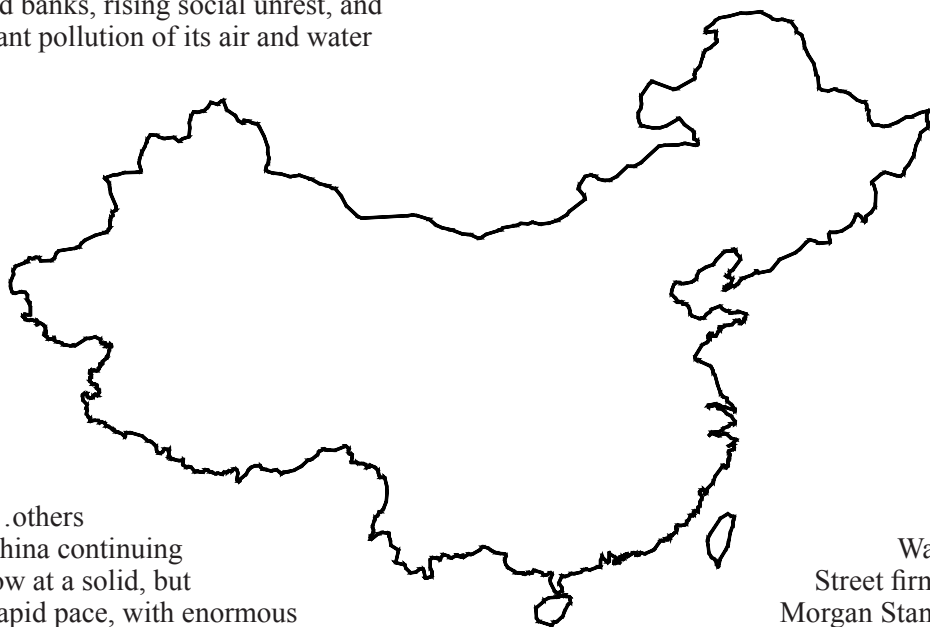
## Chinese Growth

A common wisdom among China-watchers is that the quality of economic data is at times suspect, with a widely held perception that economic growth statistics are routinely overstated by the government. Nevertheless, most forecasters would agree that economic growth in this nation of more than 1.3 billion people remains strong.

Economic growth in recent years averaged near ten percent annually in real

terms (after inflation). Such growth fell painfully during 2008's second half as the breadth, depth, and length of the global recession wreaked havoc on Chinese exports to the world.

Most forecasters now suggest that China has seen solid economic growth return, with the Chinese government's \$586 billion stimulus program helping to stabilize employment and boost spending on the nation's infrastructure. Most forecasts of Chinese growth during 2009 and 2010 have centered near a 7.0% to 8.5% real growth pace each year.



Wall Street firm Morgan Stanley recently boosted its forecast of Chinese growth for this year and next to 9.0% and 10.0%, while Wall Street's most highly regarded name, Goldman Sachs, recently boosted its growth forecast for 2009 from 8.5% to 9.4% (*The Associated Press*). Chinese exports, factory output and consumer spending all rose during July, helping cement the growth view.

By most estimates, China has replaced Germany as the world's third largest economy, now trailing only the U.S. (by a wide margin) and Japan. China, along with enormous (there I go again) economic heavyweight India, have perhaps been the two nations with the most resilience versus

the most painful global recession since World War II.

## Chinese Exports and \$ "Recycling"

Much of China's economic success in recent years has been by targeting exports to the world, particularly to the U.S., Europe, and throughout Asia. One result has been a massive accumulation of dollars tied to an enormous (enough already!) trade surplus with the U.S.

The typical response of the Chinese in recent years was to take these excess funds, totaling hundreds of billions of dollars, and "recycle" them into U.S. Treasury bills, notes, and bonds. Such investments remain—believe it or not—the most secure and the most marketable in the world.

More recently, the Chinese have publicly complained about the U.S. dollar's role as the primary global reserve currency, suggesting it was time to develop an alternative to the dollar. The Chinese have also moved to invest surplus trade funds into natural resource ownership or partnerships around the globe, with particular focus on oil and other energy resources.

## Chinese Pollution

While China's economic growth during the past generation has been spectacular, with hundreds of millions of Chinese citizens seeing their standards of living rise, all is not well. China is now the world's largest producer of household garbage. The nation is now embarked on an enormous (whoops!) program to build garbage incinerators, as traditional garbage landfills are rapidly running out of space (*The New York Times*).

It would obviously be desirable for new garbage incinerators to be highly efficient in regard to limiting pollution. Such is not the case, as it is roughly 90% less costly to build the old-style polluting version. The result is massive air pollution, with many Chinese citizens paying the price with declining health tied to excessive (note I didn't use enormous!) emissions of dioxin and mercury.

It would be one thing if such serious pollution was confined to China. However, pollution from garbage incinerators, combined with pollution from coal-fired

electric generation facilities (now being added at a rate of three monthly across China), also now contributes to air and water pollution across the U.S.

The University of Washington now estimates that a sixth of the mercury falling on North American lakes comes from Asia (*The New York Times*). Other studies suggest an even higher percentage of air pollution across California and the Northwest comes from China.

More recently, China has moved aggressively to help contain pollution from coal-fired facilities. It sees a cleaner future, and plenty of business, from high quality emission control systems.

## Always On the Move

Picture a land where an estimated 150 million people (equivalent to nearly half the U.S. population) are always on the move...in search of a job. Such is China. Various estimates suggest that between 600,000 and 1,000,000 people leave China's farms monthly...venturing to the cities in search of a factory or construction job, and a desired higher standard of living.

Global recession, and the enormous (somebody stop me) plunge in Chinese exports to the world, led an estimated 20,000,000 people, or more, to lose those jobs by last January (*The Wall Street Journal*). While Chinese stimulus spending, aggressive bank lending, and renewed growth in parts of the world have led to millions of rehired workers, the overall employment situation remains perhaps the Chinese leadership's most serious challenge.

## One Child Flexibility

Even China's "one child" policy is under review. Officials in China's largest city, Shanghai, are urging select parents to have a second child, particular those parents who were themselves only children (*BBC News*). These officials fear the day when China, like other low birth nations such as Japan and Russia, faces a future with only limited numbers of workers to support its enormous elderly population.



## "TEA"ser

I'm very proud of my gold pocket watch. My grandfather, on his deathbed, sold me this watch.

—Woody Allen



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