

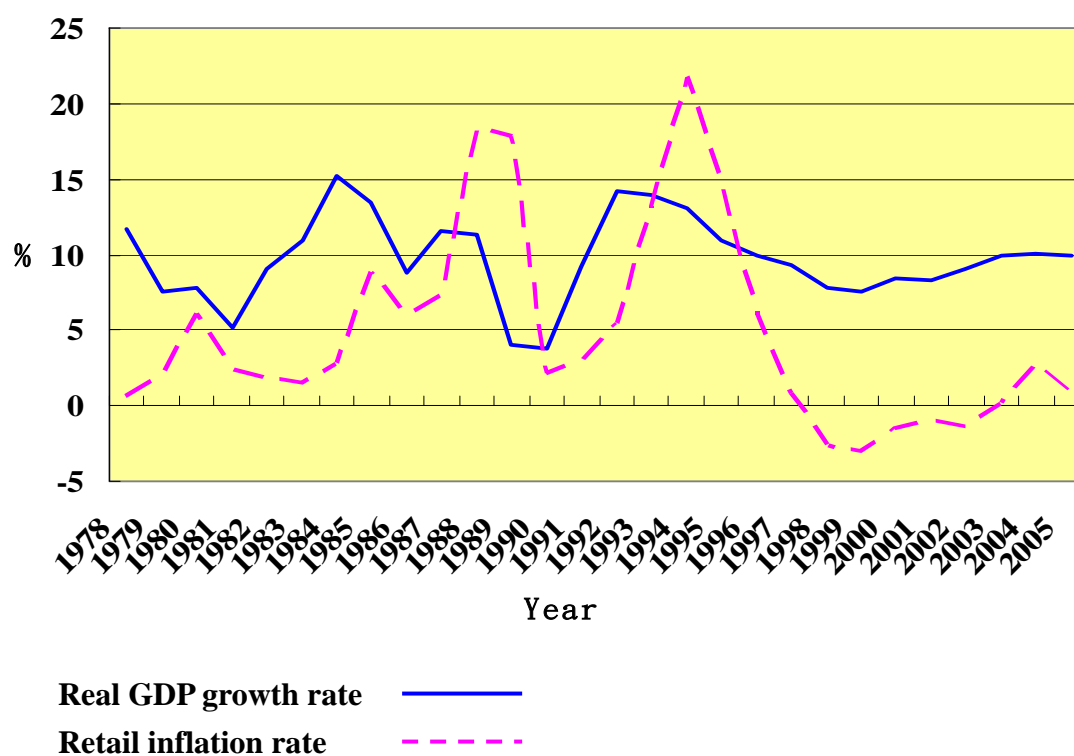
God may be Chinese

[Tsang Shu-ki](#) (23/9/06)

Returning from my extended summer vacation, I have had to settle into my role as a teacher again, no matter how reluctantly, by revising my lecture notes and updating the tables and charts. With the resounding accomplishment of the listing of major Mainland banks and financial concerns in Hong Kong in the past months, I've found it necessary to get rid of some of my comments "bad-mouthing" the motherland. Just a few years ago, the conventional wisdom was that the Chinese banking system edged near bankruptcy. Being used to China-bashing from the west and as an informed compatriot, I never subscribed to that view. Nevertheless, I will be dishonest if I do not now confess some surprise, and a sense of relief, that China has been so successful in internationalising the problems of its domestic financial fragility.

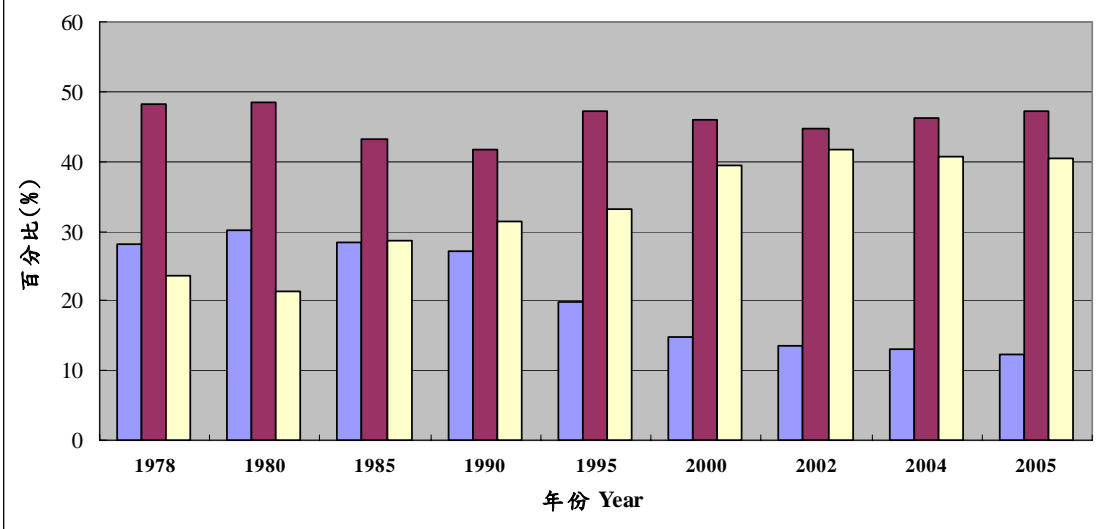
China is not free of very complicated and difficult problems---nothing would be further from that. But the luck it has had is almost incredible. God may be Chinese, as the following charts could serve as important pieces of evidence in any celestial board of enquiry up there.

China's real GDP growth and retail inflation

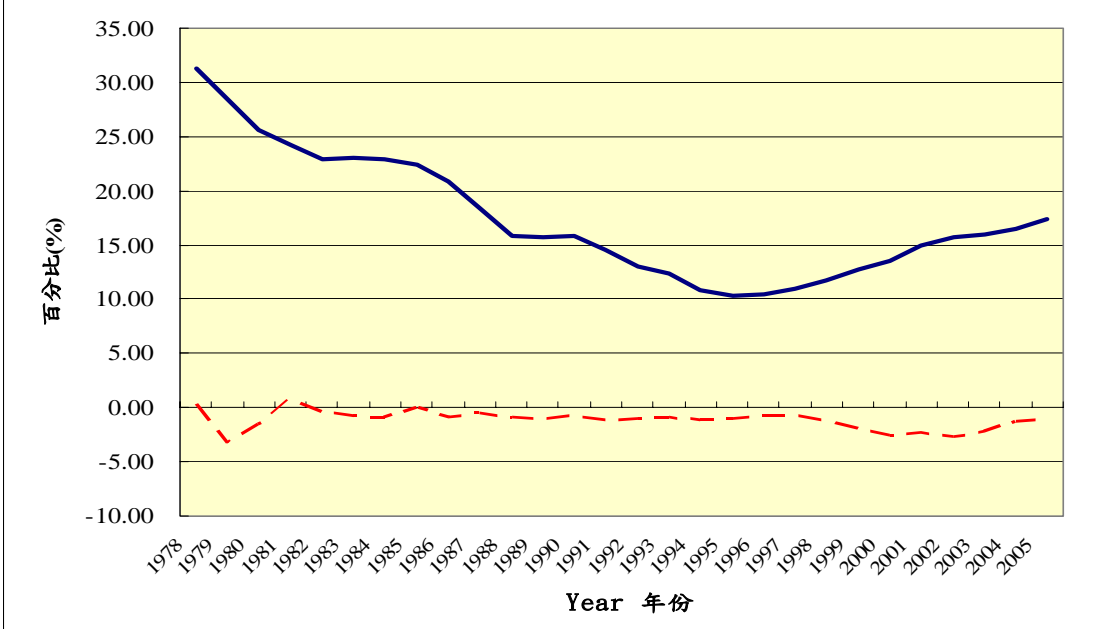


中國GDP的行業比例 Industrial Structure in China

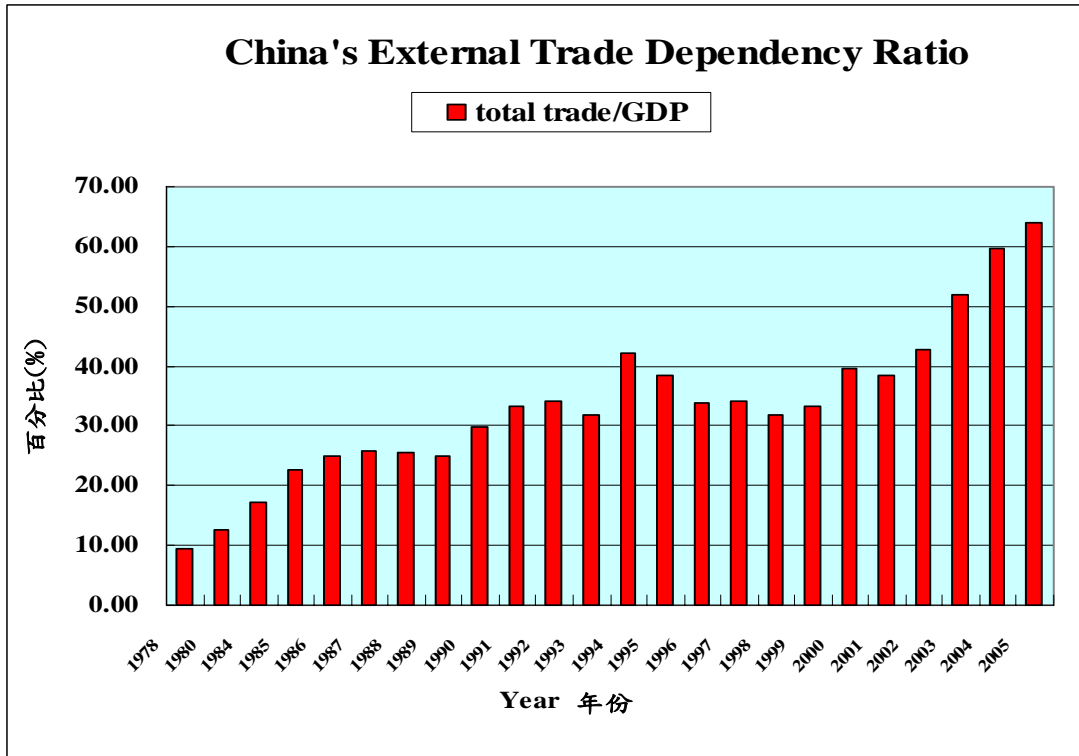
■ 第一產業 Primary
■ 第二產業 Secondary
■ 第三產業 Tertiary



Ratios of Fiscal revenue and balance to GDP in China 中國的財政收入與平衡對GDP的比率



Fiscal revenue/GDP —————
Fiscal deficit/GDP - - - - -



These charts would be the envy of most developing countries, even if one discounts a number of the well known accounting anomalies.

China has also been able to present to the world that it is adopting increasing flexibility in the exchange rate formation system of the Renminbi, with all the media obsession about the Chinese currency strengthening against the U.S. dollar and approaching 7.80, which is “psychologically important” (albeit I think only to Hong Kong). I have been tracking the so called “basket reference” by several rough

weighted averages, and the emerging picture is instructive and revealing.

My admittedly simplistic baskets consist of only three currencies, namely the U.S. Dollar (USD), the Euro (EUR) and the Japanese Yen (JPY in hundreds), with different weights:

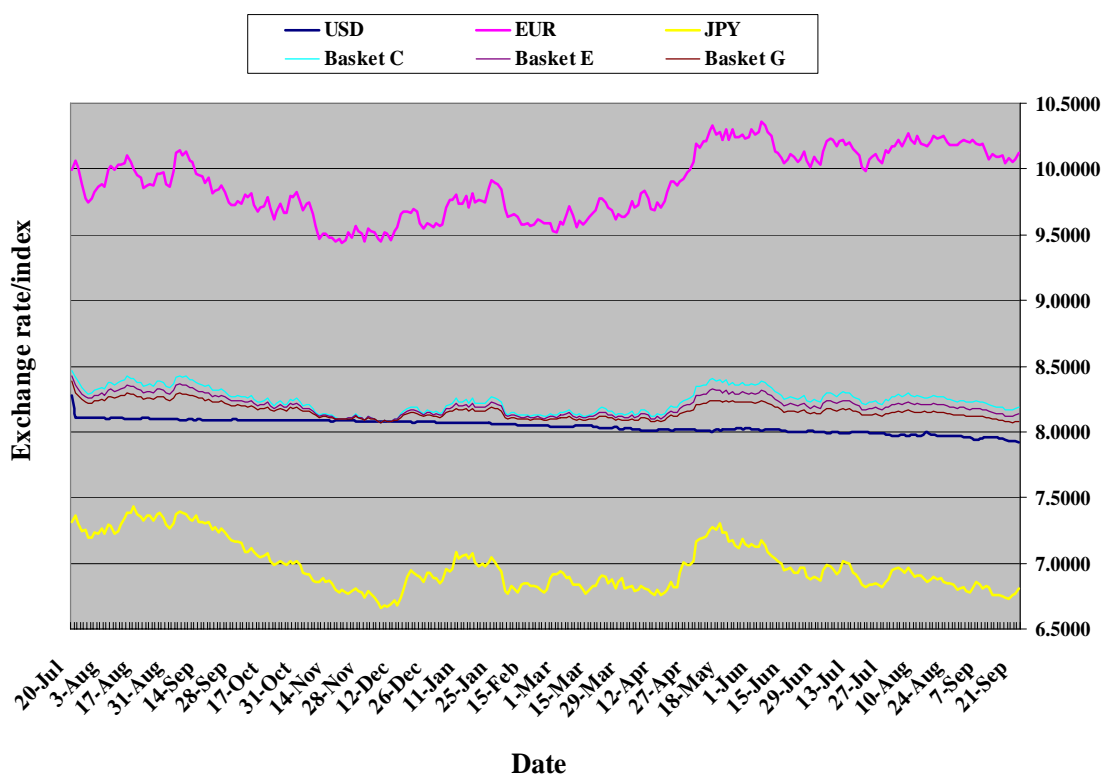
Basket C: 50.00%, 25.00%, 25.00%

Basket E: 60.00%, 20.00%, 20.00%

Basket G: 70.00%, 15.00%, 15.00%

Up to 22 September 2006, the strongest indexes for Basket C and E appeared on 5 December 2005. Compared with 20 July 2005, when the reform was launched, the respective degrees of strengthening were 4.92% and 4.42%, while the index for Basket G, in which the USD takes a overwhelming 70% weight, was at the highest with a rise of 3.93% on 20 September 2006 (only a shade above the 3.92% of 5 December 2005, though). In other words, the Renminbi has been on an unmistakably rising trend against only the USD, not the Euro or the Japanese Yen.

Rough Tracking of the "Basket"



Source: Chinamoney.com.cn

Is God on the side of China? Or is there a problem in the rest of the world?