

The superpower and the superpower-to-be
[Tsang Shu-ki](#) (18/1/2004)

From ram to monkey

The superpower and its potential competitor, I mean---and most would agree---the US and China, seem to be both having troubles of an unprecedented kind. 2004 is likely to be a year of volatility. What else should one expect? After all, we are leaving the Year of the Ram for the Year of the Monkey. And it doesn't have to be a Monkey King!

Uncle Sam's dilemma

The US is being sucked into a self-aggravating process of anti-terrorism. Paul O'Neill's latest revelation of George W. Bush's intention to invade Iraq months before September 11 should have been unsurprising, if not coming from the mouth of a former cabinet member in an election year for an incumbent president. But even *New York Times*, hardly a friend of the neo-cons, admitted the other day that this piece of "news" would probably not matter much to Bush's electoral prospects; so wouldn't the diminishing chance of finding weapons of mass destruction in Iraq. The populace in the US simply needs psychological compensation after the trauma. As sociological cynics like to have it: people deserve the political leaders they elect or tolerate. For Tony Blair and the Labour Party, it might be another story. If *Wall Street Journal* is mainstream, *BBC* is almost Trotskyite.

On the other hand, the US economy is in the after effects of the biggest speculative bubble of modern times, instigated, if not caused (and this is controversial), by the most expansionary monetary policy engineered by a central bank. Now facing record current account and fiscal deficits, on the back of mounting debt and rock bottom saving rate, the US administration intends to turn the tide through an orderly decline of the US dollar, while paying lip service to a "strong dollar policy".

No wonder the gold bulls and the greenback sceptics are so excited, and regard this as their once-in-a-lifetime chance. Other researchers are lamenting, though, as to how such a state of affairs could come about.

Well, I just have one wish relating to this saga. I hope that George W. Bush will get re-elected and Alan Greenspan will serve another term. Serious people should face serious consequences, and, if they could, vindicate themselves and set the historical record straight. Otherwise, posterity will be so confused. And who dares to suggest that the US President and the Fed Chairman are not serious people?

China: spoiled?

One evening last year, I had a discussion with some friends in a southern city in the Mainland. I gave my rather bleak opinion about the long-term economic future of HK. To my surprise, a sharp response was that China might be in bigger trouble. “China seems very glamorous on the surface now. But the whole system is actually permeated with a vapour-like virus of corruptness. Everyone just works on the motto: make as much money as you can, using whatever means as long as you don’t get caught, and never mind about the long-term consequences. The result is inefficient growth for growth’s sake, as real productivity and distribution worsen. In many parts of the countryside, the situation is near anomie, with some poor peasants faring worse than before the revolution.” A highly respected academic said to me. “The system is very fragile, and could collapse with little warnings.”

Later I pondered over those words for a long time. I remembered my own critical comments on China during the SARS outbreak--- particularly the possibility of the country falling “victim to its cracking pace of unregulated and environmentally unfriendly economic developments. And was then punished by Mother Nature.” ([Ahead of the Crisis?](#)) Yet the economic rebound from SARS seemed so dramatic; and China again became the darling of global capitalism.

I can’t help having the feeling that China is being “spoiled” by the world, with all these talks about the rising “superpower”. A sign that China may herself believe them is the increasing arrogance of some top and not-so-top officials (especially those dealing with HK---perhaps for “understandable” reasons). “Low-efficiency high growth” is what China has been going through, as external capital floods in from a world where a combination of anemic growth and dangerous imbalances drastically curbs investors’ choices.

Foreign direct investments, for example, increased by leaps and bounds since China joined the WTO slightly more than two years ago. The contracted amount of FDI reached US\$115 billion in 2003, surpassing the record of US\$111.4 billion registered in 1993, when the “Deng whirlwind” swept the world. And this was achieved in a year when the SARS virus stroke! The hot money that swamped Hong Kong since last September and pushed the prices of H shares to sizzling heights was another indication of euphoria.

So a bucket of cold water might indeed provide the necessary balance for the country’s health. The rather disappointing response last month to the auction of 22 pools of non-performing loans (only 3 were directly sold) by Huarong (see e.g. [“NPL Auctioned”](#), *Caijing English Newsletter*; and the report on *Asian Wall Street Journal*, 15 January 2004), one of the four state-owned asset management companies set up to deal with poor-quality bank assets, shows that there is a limit to what foreign capital is prepared to take up in China. At least, that serves as a sober reminder that the world is not exactly like an ATM.

Another mind-boggling problem is China’s employment, or unemployment, prospects. On top of entertaining new job seekers who demographically enter the scene every year, there is the serious task of relocating or effectively utilising the “surplus labour” in the economy. An ADB researcher, Tang Min, has put forth the view that about 150 million employees in rural China are “surplus” (www1.cei.gov.cn/forum50/doc/50hgjj/200303062237.htm). For the longer run, a Chinese economist, Fan Gang, predicts that in the coming 40 to 50 years, 400 million to 500 million rural labourers need to be relocated to manufacturing (www1.cei.gov.cn/forum50/doc/50hgjj/200209060353.htm). That is undoubtedly a tall order. Recent reports indicated that even with an estimated 8.5% growth in GDP in 2003, only about 9 million jobs were created.

Hence economists within the country are debating whether China’s development strategy should be “employment oriented” instead of “growth oriented”. The new leadership of Hu and Wen appears to be aware of the structural contradictions that have accumulated and are confronting the country. But could the government effectively defuse or even solve them? The consequences on social stability in the case of a failure might be daunting.

The superpower-to-be lacking power

More immediately, the emerging shortage in energy, particularly that in petroleum, is going to put a damper on China's amazing economic engine, which has been guzzling up huge amounts of materials. Power outages have been a regular headache in many parts of the country for the past few months; and Changsha, the provincial capital of Hunan, has been under a form of electricity rationing since the end of last November. Some producers in certain industries, e.g. aluminum smelting, are forced to cut output in face of rising energy costs (see <http://finance.sina.com.cn/roll/20031209/1322553891.shtml>). A friend who took a tour in Zhejiang-Anhui during Christmas recalled tedious "beseeching" by his coach driver who could only obtain 50 or 100 yuans' worth of diesel from each gas station on the way. Limited provisions have also affected Beijing according to various reports.

Analysts generally point the finger at the former State Planning Commission for failing to initiate enough power generating capacity in the late 1990s. While energy shortfalls can't be relieved overnight, the future looks more challenging. The superpower-to-be is likely to fall in similar footsteps as those of the superpower. Experts estimate that by 2020 as much as 55% (some even forecast 60%) of China's oil demands will have to be met with external supplies. The US presently imports about 58% of its oil (see "[China's Energy Woes](#)", *Caijing English Newsletter*). The geopolitical repercussions are interesting indeed.

Heart to heart

It is not easy to be farsighted and determined when the going gets so good. US decision makers who have been overseeing the biggest bubble of modern history and its aftermath must be very knowledgeable of such an irony, now that they have gone through the first phase of "irrational exuberance".

Perhaps the superpower and the superpower-to-be should have more heart-to-heart talk? That could well be mutually beneficial, if diplomatically unpalatable.