

China: covering the angles

The spectacular growth of the Chinese economy over the past 20–25 years is historically unprecedented in its scope and speed. While there is little sign of this process stalling or even slowing, David Rowe points out the need for caution

Many eras present major macro event risks. One famous example was the debate over whether there would be a renewed depression after World War II triggered by a sharp fall in military spending. Sewell Avery, chairman of Montgomery Ward, insisted a new downturn was inevitable and refused to borrow for expansion. His arch-rivals at Sears, Roebuck & Company took the opposite view, and they were soon running the dominant American retail chain.

In the early 1980s, many analysts could not conceive of a return to lower oil prices, let alone the precipitous drop that actually occurred. Failure to consider such a scenario led to the failure of some institutions and resulted in dramatic losses for others.

A more recent example was the internet euphoria of the 1990s. While huge sums were lost on ill-conceived ventures, some new and many traditional firms found commercially sound ways to enhance their offerings and strengthen their competitive positions.

The primary contemporary example of such a macro risk is the sustainability of China's rapid economic growth.

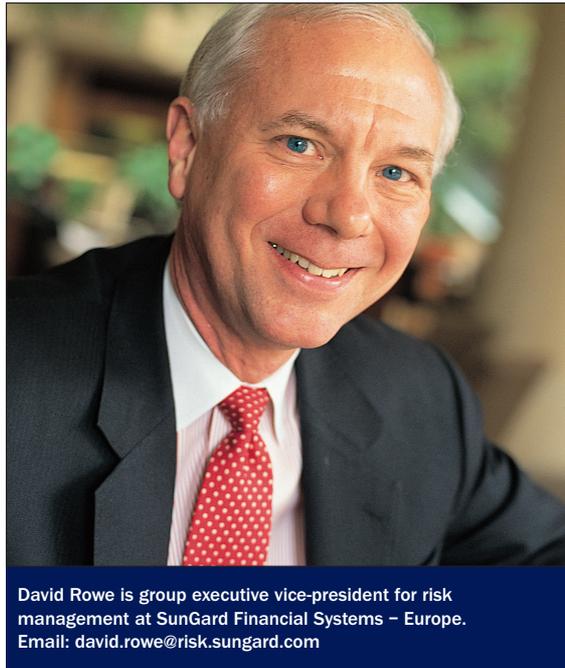
Culture and development

A brilliant Chinese friend once said to me: "You know, Mao was really very un-Chinese." When I looked somewhat perplexed, he elaborated by saying that

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Chinese people are traditionally very pragmatic. Mao, on the other hand, was a romantic revolutionary who wanted to remake society according to his own, often disastrous, prescriptions.

Deng Xiaoping was moulded in the authoritarian ways of Maoist communism



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but retained an important element of traditional Chinese pragmatism. His activist interventions were usually as counter-productive, although not as sweeping, as those of Mao, but he was less wedded to abstract theory detached from empirical evidence. When benign neglect allowed isolated experiments with private property and individual initiative to emerge, these produced dramatically positive results. While many old guard party members grumbled about betraying Mao's legacy, Deng blithely dismissed these complaints by saying: "We don't care what the cat is called as long as it catches mice." Once freed from the shackles of state interference and given some reasonable assurance of retaining the fruits of their success, the Chinese people's traditional creativity and appetite for hard work did the rest.

Potential problems

Despite the dramatic and continuing success of the Chinese economy, some potential problems are lurking in the background. Many in the Tiananmen Square generation refocused their ener-

gies on commerce after the drive for political freedom was crushed in 1989. It would be a mistake, however, to think that the thirst for broader popular participation in political decisions has disappeared. Indeed, freedom in the economic realm often inspires demands for governance that is answerable to the public. At the grassroots level, the growing economic inequality accompanying China's rapid development has bred resentment and an increasing number of violent clashes in recent years. These are aggravated by continuing restrictions on internal migration. Whether the resulting political tensions can be contained is an open question.

Corruption is another simmering issue. We see increasingly frequent reports of individuals being charged with illicit conduct in their official roles. The government continues to condemn such activity and to discourage it by high-profile prosecutions. Unfortunately, the extensive requirements for licensing and other official permission needed to conduct business present a source of constant temptation for official kickbacks. Drastically reducing such requirements, however, would weaken the authority of a government that has been notably reluctant to surrender its prerogatives.

Freedom of information is another challenge. Any visitor to China notices the lack of foreign newspapers and periodicals. Likewise, internet access is heavily censored and severely restricted. Such reluctance to allow the free exchange of information is ultimately a sign of government weakness not strength. It is also a significant burden on the kind of innovation and creativity that is so essential to a modern economy.

Can it last?

Can the Chinese economic miracle last? There is no immediate reason to believe the recent pattern will not continue for some time. Nevertheless, keeping a careful eye on political developments is advisable. Certainly, prudent stress tests should include the possibility of a major domestic upheaval that slows or even reverses China's economic momentum, with all the associated implications for global commodity and manufacturing markets. ■