

Not just for China but...

By Hatakeyama Noboru

China is the country that has the biggest trade surplus with the United States. For a 24-year period ending in 1999, Japan was the nation that had the biggest trade surplus with the United States. However, China deprived Japan of this "honorable" position in 2000 and has kept it until now. Last year, China's trade surplus with the United States was more than \$100 billion. China is also the country that has the biggest trade surplus with Japan. In light of this situation, there are some opinions both in Japan and the United States to the effect that the Chinese economy is or will become a threat to the Japanese or American economy. However, there are some benefits to be gained if the Chinese economy prospers. Thanks to the inexpensive products imported from China, the cost of living and production in Japan has declined. Had it not been for the cheap goods exported to the United States from China, the U.S. economy could not have enjoyed a high growth rate without inflation during the 1990s. In addition, China provides our industries with a vast market potential – as long as the Chinese economy keeps growing at high speed. It is clear, however, that it cannot do so forever. The Japanese economy continued to expand more than 9% annually in real terms for more than a decade after World War II. But the oil crisis in 1973 broke the spine of Japan's high economic growth. Asian Newly Industrializing Economies (NIEs) and the Association of South-East Asian Nations (ASEAN) economies were expected to continue to grow miraculously, but the Asian financial crisis dashed such expectations. The Chinese economy will not be an exception. In addition, China faces many difficult economic, social and political problems. Let me explain them in alphabetical order.

A is the Appreciation of the Chinese currency, the yuan (*renminbi*). The pressure for China to float the renminbi has been increasingly strengthened as was demonstrated by the statements of former Finance Minister Shiokawa Masajuro of Japan and Treasury

Secretary John W. Snow of the United States. B stands for Bad loans. It is said that 25% of the outstanding loans supplied by four major Chinese banks are bad loans. C is the Corruption of some officials and party executives. There are two D's, Deflation and Democratization. The Chinese retail price index started declining in the fourth quarter of 1997 compared to that of the same quarter of the previous year and has continued to drop until now with the exception of the second quarter of 2001. This suggests that China might have entered a period of deflation. Of course China has to democratize the communist party structure at least to an extent that is commensurate with the progress of market mechanisms. E stands for Environmental protection, including securing water supplies and reducing desertification. There are two F's, Fiscal deficit and Friction of trade with other countries.

Although China's fiscal deficit is only 3% of its GDP according to its official statistics, the figure does not include the amount of the repayment of government bonds and the payment of interest on them. If these payments are included as is the case with other countries, the ratio of China's fiscal deficit to GDP would be more than 5%. Regarding trade friction, when China was admitted to the World Trade Organization (WTO), conditions were attached by the other member countries. One of those conditions is the "Transitional Product-Specific Safeguard Mechanism" (TPSSM) against China. According to the WTO rules, safeguards in general should be applied on a most favored nation (MFN) basis. So you cannot single out a particular country even if the exports of the products concerned are increasing drastically from that particular country. However, the TPSSM allows importing countries to single out China when certain conditions are met. The WTO prohibits export restraints as a substitute for import restrictions to be adopted as a safeguard. But the TPSSM allows export restraints for China as well. Now every contracting party of the WTO apart from China has

the right to apply the TPSSM against China until 2013. Already several U.S. industries have filed cases, asking the U.S. government to enforce the TPSSM. Also, it remains to be seen if China can comply with the requirement imposed upon it by the WTO. If not, severe trade friction will occur between China and other countries. G is the Gap between rich and poor, and between citizens and farmers. Confrontations between them are intensifying as the market economy penetrates deep into Chinese society. H is the Household Registration Act (HRA) which should be relaxed or abolished soon. The HRA is a law which in principle prohibits the movement of people from rural areas to urban areas or vice versa unless they have jobs and houses to go to. Because of this law, in general factory managers in coastal areas such as Shenzhen do not allow workers from rural areas to work for more than three years. These workers have to quit three years after starting their jobs and return to their homes in rural areas. Factory managers then hire new workers who have come from rural areas at the same wages they were paying to the former workers. This is how the Chinese have managed to keep wages so low. However, because of the low productivity of agriculture due to the excessive farming population as a result of the HRA, and because of the increased desire for more freedom on the part of the Chinese people, the HRA has begun to be relaxed in some cities. In such cities, I found that wages have actually increased! Let's stop raising Chinese problems at this point.

If the Chinese economy were like the North Korean economy, it would be a disaster not only for China but also for the entire world, including the United States, Japan and other Asian countries. Therefore, I strongly hope that China's new leaders, such as President Hu Jintao and Premier Wen Jiabao, can manage the Chinese economy so that it will have a relatively high growth rate for as long as possible, overcoming the many difficult problems mentioned above.