

February 12, 2007 – China’s Three Major Imbalances

China’s amazing economic growth can be summed up by one astonishing statistic. It opened a major new coal plant every two weeks on average in 2006. Enough new power capacity was generated last year to equal the entire capacity of the UK and Thailand...or twice the power of California! This is **new** power capacity.

China’s thirst for raw materials to fuel their enormous manufacturing growth has led to a boom in commodity prices over the past several years. Driving up the prices of oil, steel and cement around the globe. China’s real GDP growth has averaged 9.5% since 1980. The U.S. economy has averaged just under 3% growth over the same period. Is the country’s success on solid ground? How long can it last? These questions may be able to be answered by looking at three major imbalances in China.

The 1st imbalance is China’s age and gender demographics. They are unique when compared to other developing countries. In 1979, the One Child Policy was instituted by the Chinese government. This has created a population that is aging quickly...much like the U.S. It is difficult to say what the impact the baby boomers may have on our infrastructure in the coming years. Hopefully, the U.S. has accumulated enough wealth to fund our aging population. China most likely has not. To quote a major demographer, Phil Longman, “it appears China will grow old before it grows rich.”

In addition, the One Child Policy has created the 2nd imbalance. The H.S. Dent Foundation calls it “A 30-Million Man Problem.” Most Chinese couples prefer a male baby. The One Child policy has resulted in a surge in the abortion of females, creating the largest gender imbalance in recorded history. Nature produces slightly more women than men, and male deaths from war and shorter life expectancy tend to produce societies with more women than men. This is not the case in China. In 2005, male births outnumbered female births by a ratio of 1.18 to 1. By 2020 it is estimated, there will be 30 million more men than woman in the 20 to 45-year age group. This will have eliminated many potential mothers in a country where the population will be old and in need of a younger generation to fill the factories that fuel the manufacturing engine and consumption of goods and services in China.

The 3rd imbalance is the large percentage exports represent of China’s total economy.

Country	Exports as a % of GDP*
China	34%
Japan	12%
U.S.	7%

Can China export their way to profitability? Maybe. It also makes their economy highly susceptible to economic downturns in the rest of the world. It is said, “When the U.S. economy gets a cold, the rest of the world gets pneumonia.” By comparison, Japan was unable to do so. They had big trade surpluses in the 90’s yet the country went through a 15-year slowdown/recession that was due to a domestic downturn in consumption. Something China may experience 1st hand.

China is a country with major economic opportunity in the next several years. But no country’s advantages last forever. Other developing countries around the world are likely to find ways to compete, possibly taking away China’s manufacturing edge. Combine this with demographic issues and a heavy reliance on exports, and economic storm clouds may loom on the horizon in the Far East.

* GDP is the monetary value of all the goods and services produced within a country’s borders. It includes all of private and public consumption, government spending, investments and exports less imports.