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Is there a China lesson for Live 8 and the EU Constitution?

It is highly laudable that the world's richer countries should drum up their efforts really 'Making Poverty History'. It also makes a great deal of sense that countries with oil windfalls should be more forthcoming with their generosity, as Gordon Brown has suggested. But as the caption for Simon Jenkins' article in the Sunday Times says, 'aid sounds mighty nice but it is trade that feeds Africa', considering that aid and debt relief is not exactly a new prescription for Africa.

Which begs an interesting question. Africa's population (10% of the world's) is about half of China's. But the China economic miracle has happened largely independent of international aid.

And with so many mouths to feed, China is not exactly blessed with a rich endowment of natural resources. Oil is only 2% of the world's proven reserves and water capacity is a fraction of the world's average, let alone being extremely unevenly distributed between north and south. Yet, in spite of its innate agricultural inefficiency, never before in human history has so much humanity been lifted out of poverty in so short a time.

It is unfair and unrealistic to compare Africa to China. After all, Africa is not one country. And history and geography are poles apart. But it may be too hasty to dismiss the possibility of extracting any useful lessons for Africa from the China development example.

Indeed, with limited natural resources compared with its bulging population, China has long awaken from the old-fashioned dream of self-sufficiency to realise that its future lies in opening up to the global economy, in international trade and investment.

But who can compete with China’s cheap labour and formidable manufacturing efficiency, from T-shirts to DVDs, from Christmas ornaments to aircraft spare parts? And what is China buying anyway, bearing in mind its highest savings rate of well over 40% (compared with less than 2% in the US)? Why should anyone else be prepared to work so hard for so little and save so much?

For one thing, China’s imports in 2004 actually exceeded the value of its exports. As one senior Chinese trade official recently said, China needs to sell several hundred million shirts, if not more, to buy an Airbus.

What is more, apart from energy and minerals, China has to import quality production machinery, notably from Germany, to continue to sharpen its competitive edge. It has to import advanced mass transport systems, and commercial aircraft, to keep pace with its breathtaking urbanisation. Similarly, it needs to import leading and innovative technology, as well as world-class professional services and expertise, to continue to stay ahead and deepen its economic transformation.

China needs to continue to import grain and soybeans, including from the US Mid-west and Brazil, to feed its

masses and a greater variety of foodstuffs as well as Western branded goods for its fast growing urbanites with rising expectations and changing tastes.

On the other hand, China's massive foreign currency reserve enables it to invest abroad to secure equity in energy assets as well as forming strategic alliances with the world's multinationals for its budding global players like Haier, TCL and Huawei, to hone their skills and reach in the fiercely competitive global markets.

China's USD-pegged RMB is increasingly being linked with its export competitiveness and indeed blamed for such ills as the US trade deficit and loss of jobs across the globe.

Leaving aside the wisdom of Alan Greenspan as regards the US deficits, China exports have become so competitive that no reasonable magnitude of RMB appreciation is likely to reverse the trend. All it takes is to compare the much vaulted 'China Price' with its competition. Besides, the desired effects of any RMB appreciation will be partly offset by reduced cost of the usually high import content (up to 50 to 75%) of China's exports and partly by substitution from other low-cost supplier countries.

What is more important, the RMB's relative stability is as much intertwined with the world's biggest foreign direct investment market (i.e. China) as with the world's global currency and economic systems, starting with the

US. It is bound up with the low level of US and other international interest rates and indirectly world asset and property prices as well as debt-prone consumer patterns. It is also likely to affect currency stability in Asia and other regions.

Nevertheless, there is no doubt that the looming prospects of the world's de-stablising imbalances would need to be addressed and managed. That would include more prudent government budget discipline and a more realistic balance between consumption and savings.

The RMB, too, would need to consider better ways to maintain its stability, including the possibility of pegging within a broader range to a trade-weighted basket of major currencies as a measured step towards even greater flexibility. A cautious well-managed appreciation would also accelerate further the expansion of China's internal consumer market by whetting its appetite for imported Western goods and services. This would help reduce China's risks of relying too much on exports.

In any case, in view of its global repercussions, haste and pressure are no substitute for a sound solution.

Likewise the perceived grievances of dramatic surges of certain textile imports threatening jobs and industries

will need to be resolved rationally through the WTO, including consultations. Double standards or unilateral actions flouting internationally accepted mechanisms would only do more harm than good in the long run.

But the more pressing and important strategic question for the world, especially the West, is how to remain competitive in a vastly globalised market-place it has helped to create. How to manage, both internally and internationally, the momentous market forces thus unleashed to achieve the best lasting win-win situation for all.

Such questions become more timely and pertinent as Europe ponders a new direction for the EU. Short-sighted protectionism and retreat into traditional comfort zones may not offer the right answers.

Andrew K.P. Leung

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www.andrewleunginternationalconsultants.com