

Admission essay on chinese economy

Countries, United States



China has proved to be a production hub for many multinationals like General Motors, IBM, Apple and many more. Low manufacturing costs and economies of scale have made it the most suitable production base. Its private consumption figure is 8% in the world but it contributes far more to the goods and services production. Recently people have started doubting the viability of setting up a production headquarter in China and believe that the golden days are over. None of the known economists have openly raised their doubts about the so called “ Chinese Boom” coming to an end. The Great Depression that the US economy faced due to reckless construction and real estate speculation has vital lessons for the Chinese economy. No doubt that urbanization in China has improved the standards of living of the Chinese farmers. They have moved from villages to newly –built cities to work in the manufacturing sector. The commendable growth of the Chinese economy has made it the most desired investment destination and an emerging superpower leaving UK, Germany and Japan behind.

In the year 2008 the Global financial crisis had repercussions for the Chinese economy too. The plunging exports were followed by massive investments by the Chinese government in the public infrastructure projects. The newly created money leads to inflation and investment in wasteful projects. The problem of bad debts estimated at \$540 billion, is looming large over the manufacturing giant. Shadow banking has further added to the debt crisis. Increasing debt and fresh created money are perfect conditions for starting an inflationary trend. The housing cost has increased tremendously followed by more speculation in the real estate sector. The vicious circle of speculation, purchase and further speculation is engulfing the Chinese

economy. Another interesting after effect of inflation in the Chinese economy is the increase in purchase of luxury goods by the Chinese. The increasing sales of brands like BMW, Ferrari and Audi prove it. But corruption within the economy and emerging low wage competitor countries like Indonesia, Philippines and India, can put the Chinese economy in trouble. The latest figure for China's total debt is more than 215 % of the GDP, a reasonable cause for worry. The borrowing has increased to save the current borrowers from bankruptcy.

Having worked in the risk management sector for many years and in different countries, I can analyze the situation in a global context. The debt boom of the Chinese economy will affect the entire world and can result in another Great Depression. Currently I am working with Oracle in US as a consulting manager in the risk and Analytics Applications. I have worked in Tokyo, Melbourne, Johannesburg and London with global Tier 1 Banks. The debt crisis will definitely have an impact on the banks worldwide. Over investment in the real estate sector and infrastructure has lead to many ghost cities in China like Kangbashi; construction has come to a halt as investors have pulled out. China primarily exports computers, electrical and data processing equipment to America. China is also the biggest banker to America; it holds \$ 1. 25 trillion of US treasuries. It helps the Chinese to peg its currency lower than dollar, which makes its export prices competitive. In case of a debt crisis the US economy will be threatened by recessionary crisis as its biggest banker will back out.

The US economy is facing a problem of trade deficit of \$318. 7(2013) billion. The US exports to China have risen but are lesser in comparison to the

imports from it. My company Oracle will be effected if the Chinese economy suffers depression as import items like software and raw materials for assembly will get costlier; increasing the trade deficit. Even if the US economy produces the software required the cost will be much higher in comparison to the Chinese goods as the wage rates in America are high. If China stops buying US treasuries, the interest rates in US would rise, throwing the economy and the rest of the world into recession. My job includes Basel 111 implementation, lays down the minimum liquidity coverage ratios to be maintained by banks, it helps to fight against recession and bankruptcy. But when recession becomes a worldwide phenomenon nothing can stop it.

If the debt boom in China bursts the US economy will have to cut down on work force as one of its big importer, China will back out. The IT companies will be the worst effected including Oracle. The entire world looks up to America for economic indicators. The NASDAQ predicts how the world will fare. Any downturn in US proves a setback for many countries. The difference in today's scenario is that performance of Chinese economy will affect the US and then the world. The Chinese government is trying its best to avoid a recessionary situation by announcing that the economy is backed by enough government bonds and treasuries. Besides the officials have stated the the debt boom in China is different from the other debt crisis as it is not followed by fiscal deficit or other imbalances.

The entire world is hoping that the Chinese government lives up to its stand and saves the world from a Greater Economic Depression.

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