China and The Financial Crisis

By Andrew Hughes
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With the waves of destruction brought about by the Global Financial Meltdown there comes a defining moment of obligatory reflection. If such disaster has been visited upon the Globe, what lessons can be learned to dismantle the mechanism that brought it about in the first place?

The remedies proposed by Governments the world over are not working as every real economic indicator confirms. The eternal corrupting influence of Money on Government policies and planning have all but guaranteed that whatever methods are employed to redeem the economy from the whale's mouth, they will be like drops of rain meeting a river. The one overwhelming factor that does not seem to be factored in to the equation is that to get oneself out of a financial mess one needs financial resources. Not the borrowed kind but the saved kind. This is where China holds an Ace.

The U.S. has a real financial shortfall of $53 Trillion which it can never pay back.

The U.K. is on the way to destroying its currency and increase its debt as is France.

China, on the other hand, is in a very unique position in that it has $1.9 Trillion in foreign currency reserves. This puts it in a very unique position with regards to the rest of the world. While the latter was absorbed in consuming everything that China produced, the Chinese were amassing an enormous cushion of real cash that they can now use to divert the focus away from an export driven economy to one that begins to focus on domestic demand. The economic fundamentals for a recovery in China are more evident than in the rest of the world because there has not been the same credit driven overconsumption that was the driving force for GDP in so many other countries. Even on an individual basis "Household savings climbed 382.7 billion Yuan from the previous month (October 2008).

The Central Economic Work Conference's $585 Billion stimulus plan addresses several areas that are essential to increasing domestic consumer demand and purchasing power.

Housing projects for urban dwelling low-income families, subsidies for low-income rural families, funds for Medical care and education. China is also supporting the Steel, Automotive and telecommunications industries through lowering taxes and encouraging innovation through research and development subsidies. Imports of iron ore are increasing and the steel produced is being stored for future use. The latter point is notable as it presents China with an advantage in manufacturing baseline costs as the fall in shipping and commodity prices has meant that it has built its stockpile at bargain basement prices.

This is real investment with real available money. China saved up for the rainy day and, now it has arrived, can put their resources to work for them. It will take time for China to turn around its gigantic economy but at least they don't have to worry about paying off an unpayable debt to the rest of the world. While every other country is desperately trying to formulate a rescue plan fueled with an increase in the national debt, China does not have this worry and this will form its primary advantage.

The investment in the population's purchasing power and employment prospects through improving the country's infrastructure and providing tax breaks and subsidies will pay off much better than throwing money at financial institutions. The Chinese already knew this and how little use it would be in turning around a bad situation. The world's Policemen might be Occidental but the world's teacher, as it has for millennia, still resides in the Orient.

Articles by: Andrew Hughes