The West line expands

The subtext of US President Obama's first trip to China is not to be found in any of the official briefing papers, but it very much applies far beyond just US-Chinese relations: the West is haltingly and grudgingly adapting to the rise of Asian economic powers

KLAUS F ZIMMERMANN

FOR all the talk about globalisation, we Westerners still tend to see the world economy very much from our own cultural perspective—and fail rather badly in incorporating the viewpoint from the 'other side', half a world away. As China and India join other Asian economic powerhouses, it becomes ever more important to develop a keen and open-minded sense of these different narratives.

It is particularly important for Westerners to develop a clear sense of how the Chinese look at the global economy, given the country's ever-growing economic, political and cultural weight on the world stage.

During a recent two-week trip to China, I was struck first and foremost by how calmly the Chinese are approaching the task of reducing their trade surplus. To them, this surplus is not a consequence of a 'global savings glut', as then-Fed board member Ben Bernanke conceptualised the cause of global imbalances.

Rather, the Chinese see it as a direct consequence of Americans spending too much money on relatively unproductive investments, such as large houses and SUVs. So the problem from China's perspective lies not with oversaving of the surplus countries, but with undersaving of the deficit countries, notably the US.

With specific regard to trade imbalances, Chinese strategists point to the fact that while China has been pursuing export-led growth for over a quarter century, it began running substantial trade surpluses and accumulating massive foreign exchange reserves only in 2005.

As regards the future, Chinese economists and policymakers are fully aware of the enormous potential of ever-rising levels of domestic consumption. China's pent-up demand—think seven or eight decades of not really participating in the flows of a modern economy—makes that a credible claim. Indeed, total domestic demand accounts overwhelmingly for the increases in China's GDP since 1980.

One potentially important but underdeveloped sector for future consumption growth is domestic tourism, for much the same reason. And all of this growth potential is bound to be harvested despite the traditional Chinese—and indeed Asian—penchant for high levels of personal savings, which stems directly from a weak social safety net that forces 90% of Chinese to finance healthcare and retirement out-of-pocket.

ROHNIT PHORE

As a country of gigantic proportions and with a stunningly large population, but comparatively few natural resources, China's leaders are also very aware of the benefits that their financial gains from strong exports yield in terms of securing access to raw materials around the world.

Indeed, if there is one underappreciated dimension of what is really going on in China, it is this effort to secure raw materials in a global web of ownership stakes and other forms of commercial relationships. And while there are some who assign somewhat sinister motives to Chinese moves in this domain, there is a much more innocuous, but no less plausible, interpretation.

Given China's near-absence from staking out global claims for many decades, especially when compared to Western oil & gas, mining and other resource-intensive companies, the Chinese are involved in a rather dramatic catch-up race (in which they aren't doing too poorly).

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Finally, while portraying themselves—somewhat sheepishly—as an upstart nation, the Chinese are always very focused on the long-term perspective. And, let's admit it, given the size of their population (and its still considerable lack of wealth), they are well-advised to do so, even to a larger degree than other, richer nations.

Against this backdrop, the Chinese strategy of accumulating foreign exchange reserves and deploying them in various assets around the world is a safeguarding strategy to make their country's current moment in the sun yield dividends over the long haul. The fact that China has been willing to invest in low-yielding US Treasuries for so long may reflect both a premium being put on liquidity as well as a realistic fear, or current lack of capacity, to invest wisely in other assets (if one recalls the ill-fated, or at least ill-timed, investment in Blackstone).

It is a cliché to say that China will grow old before it will get rich, but that very sobering thought weighs heavily on the minds of many planners in Beijing, Shanghai, Hong Kong and elsewhere in the country. Today, just 8.2% of the Chinese are 65 or older, whereas that figure reaches 13% in the US. By 2040, however, China's 65-plus share will exceed the US's (21.8% to 21%). No other country—not even Japan, South Korea, Taiwan or Singapore—has an ageing structure as problematic as China's.

To counteract that tough reality—a developing China that for the next 10-15 years will be in the demographic 'sweet spot', but one that in three decades will have a larger share of elderly than a mature developed economy—policymakers are scouring the earth for profitable investment opportunities, particularly in nations with younger (and hence more dynamic and growing) populations.

It is from these sources, if the investments work out as planned, that China's leaders hope to repatriate the fruits of today's export surpluses to be able to pay for a population that is actually graying fast—and, because of the effects of the one-child policy, doubly so.

Once we Westerners learn, with open eyes, to see the world from angles other than our own, then the world will indeed become a smaller place.

Alas, in today's world, we are still quite far from that level of mutual understanding. All too often, we mask our lack of knowledge (not just of understanding) by assigning all sorts of spurious motives to a nation's way of acting rationally.

The author is the director of IZA (Institute for the Study of Labor, Bonn, Germany) and president of DIW Berlin