Off Campus: Why China’s economic challenges matter to the United States

The U.S. will have to move in the opposite direction of the Chinese to take advantage of China’s increasing consumption.

Portland - The World Bank projects that China will soon overtake the United States as the world’s largest economy, a remarkable achievement considering just 40 years ago the Great Wall of China served as a symbol for an impoverished country cut off from the rest of the world. Despite this extraordinary accomplishment, China faces daunting social and economic challenges.

In a keynote address at the Confucius Institute Conference in Beijing last December, the Chinese Nobel laureate, Mo Yan, described the tension between China’s success and its challenges by contrasting the views of his 90-year-old father with those of his 30-year-old nieces and nephews.

Having lived through civil and foreign wars, pervasive poverty and cultural upheaval, Mo’s father appreciates living in a peaceful and relatively prosperous country. Today, China is unquestionably the best it has ever been during his long lifetime.

Its prosperity can be attributed to an economic policy that took advantage of the country’s abundant cheap labor to become the workshop of the world, exporting goods to the far corners of the globe and investing the proceeds in foreign debt and building the country’s infrastructure.

Mo Yan’s nephews and nieces, on the other hand, are far more critical, pointing to corruption and the lack of opportunity for young people. They see a society marked by rising income inequality, ecological degradation, expensive housing, inadequate health insurance and meager social security for the elderly.

Mo Yan acknowledged the legitimacy of both views. His father’s perspective sees the progress achieved over nearly a century, while the younger generation suffers from the consequences of a society that has moved rapidly into modernity.

Mo Yan labeled the long view of his father “the vertical perspective” – seeing the country through the lens of its history.

He called the critical view of the younger generation “the horizontal perspective” – comparing the country to its contemporaries. Each view captures a fundamental truth about the country.

China’s progress can be traced to the reform agenda promulgated by Chinese leader Deng Xiaoping in opening the country to international trade. Over a 30-year period from 1980 to 2010, China’s gross national product increased an eye-popping average of 10 percent each year.
China produced, and the United States, Europe and other parts of the developed world consumed – a mutual relationship that served the interests of all parties.

In 2007, even before the Great Recession made it clear that consumption in the West stood on a shaky foundation, then-Premier Wen Jiabao questioned China’s strategy by calling its economy unstable, unbalanced, uncoordinated and unsustainable.

Wen backed up these assertions by pointing to excessive liquidity; cities growing at the expense of farms; rapid development of the country’s east coast, leaving behind the rest of the nation; an overdependence on manufacturing for export; an underdeveloped service sector; lagging domestic consumption; environmental pollution, and widening disparities in wealth.

Economist and longtime China observer Stephen Roach, in his recent book, “Unbalanced: The Codependency of America and China,” draws out the implications of Wen Jiabao’s insights for both China and the United States. Roach explains that the world’s two largest economies are mutually dependent and not sustainable.

China must pivot toward cleaner manufacturing, a more vibrant service sector and increased domestic consumption. It will have to devote more resources toward boosting personal income, health care and social security.

Personal income in China now averages just $6,639 per year—insufficient to create a nation of consumers. China will have to divert some of its wealth currently allocated to purchasing our debt to achieve these objectives.

As China rebalances, the United States will have to rebalance as well. The United States will have to move in the opposite direction of the Chinese rebalancing by reducing our excessive consumption, increasing our savings and exporting goods and services to take advantage of increases in China’s consumption.

While exports comprise 27 percent of the Chinese economy, they make up less than 14 percent of ours. And while the service sector dominates our economy, accounting for 63 percent of our gross domestic product, it accounts for only 43 percent in China. Each economy will have to move incrementally closer to the other’s profile.

Mo Yan’s nieces and nephews have much in common with their counterparts in the United States. The economies of both societies are not providing enough good jobs for young people. As China takes a step toward increasing its service sector and its domestic consumption, the United States must recognize this shift in our interdependency. We ought to work with China to make this transition mutually beneficial.

— Special to the Press Herald

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