

as seen in

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## made in china

with John Mlikota

The world financial markets are in turmoil, and understandably. The global economy's recovery seems to be faltering while nagging concerns about developed countries' debt mountains will drag down recovery. The debt crisis in Eurozone is very real, though I argue much of this is political as well as economic.

Government budgets are tightened in developed countries as public sector jobs and wages are cut, and taxes are raised to reduce deficits, which will slow these economies. Although it is the impaired banks that are reluctant to lend, it is depriving businesses and households access to credit that I see as the main culprit to a speedier recovery.

The outlook for major developed economies is challenging, while the centre of economic activity shifts to China. With a population of 1.3 billion, China is expected to overtake the US as the world's largest economy in 10 years. Seventy-two per cent of the total population is aged between 16 and 64 and more than 40 per cent are urban

residents, which is predicted to increase to more than 60 per cent by 2030. The nation has never enjoyed such a large percentage of able workers, and their movement from the countryside has turned China into the world's factory floor.

The lifestyle changes and buying power of the middle-income Chinese, 150 million people, cannot be underestimated. They will encourage explosive demand across vast markets. Middleclass families tend to own an apartment and a car, and are familiar with foreign brands.

China today has the same number of cars per capita as the US did in 1915, but it's racing ahead. It has surpassed Japan as the second largest car market. China is constructing the equivalent of two power plants each week. It is not without risks; its energy hungry economy is placing pressure on the environment and separating the classes.

China's industrial revolution is following a different path to the US. Factory towns are popping up

everywhere. There is no shortage of labour, therefore there is no need for innovation, and most plants simply try to shave down the cost of making low margin products. Competition is ruthless.

Studies show how much trade would be forthcoming from emerging countries such as China and India. They believe it would be 40 per cent more than for mature markets over the next five years.

The Chinese government has massive surpluses that could afford the biggest stimulus package, for most of the developed world. China has unleashed its remarkable population. The challenge is to develop a population that can do more than make cheap goods for less. ■

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