Economic Outlook: David Smith: Roaring China shows how to help the poor

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For Brown himself, however, this visit to Beijing, Shanghai and Shenzhen should be a voyage of discovery. China is contributing hugely to the global economy. Last year's growth rate of 9.5%, in the face of measures by the authorities to cool the economy down, surprised many. But it was consistent with the performance of the past 25 years.

Over a quarter of a century China's average growth rate has been 9.4%. In the early years, this was largely a curiosity. More recently it has become a necessity. Without China's contribution — about a third of global growth over the 2001-3 period — the world economy would have been much weaker.

What is the impact of China? We know of the country's huge appetite for natural resources. It accounts for up to a quarter of worldwide demand for copper, aluminium, tin and zinc. Steel producers, accustomed to weak demand in the West, have been enjoying a bonanza thanks to Chinese demand. A third of the increase in oil demand last year came from China, helping to drive up oil prices.

What is less commented on is the effect of this demand on the global distribution of income. Gerard Lyons, chief economist of Standard Chartered, described China in recent evidence to the Commons Treasury committee as a "Robin Hood economy", boosting commodity-producing economies, not least those in Africa. Trade between China and Africa is growing rapidly, to

the point where it is much more important to the continent's prosperity than Brown's poverty-relief efforts.

Britain's trade, in contrast, does not benefit that much from China's boom. Exports there last year were just under £2.4 billion, 1.2% of the UK total. Imports were more than £10 billion, giving an £8 billion deficit, a record.

Africa and the other commodity-producing countries are not the only places benefiting from China's boom. A large part of Japan's recent economic success is attributable to its role in supplying the Chinese leviathan with capital and other equipment. Asia's emergence from the economic and financial crisis of the late 1990s has much to do with trade with China. China has a large and rising trade surplus with America but a deficit with the rest of Asia.

This has become the key battleground in one of the debates on China — the question of whether the currency, the renminbi or yuan, should be revalued. The Chinese authorities, as has become clear, won't be pushed by external pressure (most notably from John Snow, the US treasury secretary) to shift the currency peg from the present 8.28 to the dollar, despite a rising trade imbalance with America.

Informal talks in London two weekends ago between the G7 and the Chinese finance minister and central-bank governor got

nowhere on this issue. The message from Beijing is that China does not want outside advice on its currency, or on much else. It will decide.

There is, indeed, an assertiveness about China's approach that was not there even a year or so ago. Then, China seemed pleased to be recognised as a player at all, and grateful to be welcomed into the World Trade Organisation. Now it is finding its voice, and making it clear it will not be pushed around. That is also true on the commercial front, with Lenovo's announcement late last year of its purchase of IBM's personal-computer division.

The sensible response by the world's older advanced economies, said Lyons, is for them to embrace China in their gatherings. That should mean places for China and India — the other emerging giant — on an expanded G7/G8 (the first applies to finance ministers, the second to leaders) in the near future. That is not yet on the horizon.

What about the currency question? Stephen King, chief economist at HSBC, backs the Chinese authorities in their claim that pressure for an early rise in the renminbi's value is misplaced. A rise would not, he says, make much difference to an ingrained American trade deficit that hit a record $617 billion (£332 billion), 5.3% of gross domestic product, last year — $162 billion of it with China. Such is China's labour-cost advantage, with manufacturing wages of $800 a year against $29,000 in America, that any plausible currency rise would be a drop in the ocean.

King also points out that because China's trade surplus with America is starting to be mirrored by a deficit with Asia, it is not clear in overall terms that the renminbi is overvalued. Not only that but a stable currency has served China well. Changing it could expose the country's immature financial system to strains it might not be able to cope with. Mexico in 1994 and Thailand in 1997 are examples of the problems that can arise.

These are good arguments. But the present situation is also causing serious strains. China's efforts to maintain the peg have required a currency intervention that makes Britain's Black Wednesday efforts look like a tea party. The country's reserves rose by $100 billion in the final quarter of last year alone, topping $600 billion.

Such intervention feeds directly into the growth of domestic liquidity. The Chinese authorities have thus been trying to slow the economy with one hand, while acting to boost it with the other. The result is that the overheating risk in China is growing, with inflation rising and property prices booming.

That is why analysts like Lyons think China will see it in its own interest to begin letting the renminbi rise over the next 12 months — in its own time, of course.

PS: What can we learn from failure? Quite a lot, according to an interesting new book. Paul Ormerod, the economist, has written

Why Most Things Fail: Evolution, Extinction and Economics (Faber & Faber).

The opening sentence is: "Failure is all around us. Failure is pervasive. Failure is everywhere, across time, across place and across different aspects of life. 99.99% of all biological species that have ever existed are now extinct. More than 10% of all the companies in America disappear each year."

It sounds pretty gloomy, and you certainly would not get a business bestseller called "How to Fail at Business Without Really Trying". But Ormerod, who is highly influenced by the writings of the great Austrian economist Friedrich Hayek, sees the economy as constantly evolving and adapting to change. The fittest don't survive without many falling by the wayside. It is what Joseph Schumpeter, another noted economist, called the process of creative destruction.

Adaptation does not necessarily mean firms go out of business. Ormerod cites Coca-Cola's disastrous launch of its New Coke 20 years ago. Customers hated it, the company got the worst publicity in its history, and embarrassingly withdrew the drink a few months later.

It adapted, albeit it with its tail between its legs. That is how markets work. Contrast that with a centrally planned system in which the state monopoly drinks producer changed its recipe.

Customers would have no alternative but to buy the new product, however much they thought it inferior. The failure would go unchallenged.

In market economies, firms and individuals learn from failure. In planned systems failure is endemic. China, to go back to the main piece, is halfway between the two.

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