

China Scrambles to Stave Off Economic Meltdown

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China's wish for a world financial order less dominated by the United States and its dollar is giving way to a more urgent recession at home.

The specter of a prolonged global recession has dampened China's wish for a world financial order less dominated by the United States and its dollar, giving way to more urgent dealings with recession worries at home.

As every day brings news of more factory closures and social unrest all over the country, Beijing has swung into a crisis management mode, mandating a sober media tone and attempting to shore up public confidence.

Over the last few weeks the lead pages of major Chinese news outlets have been headed by titles like "coping with crisis" and "withstanding the financial tsunami." Where once editorials and commentaries were ubiquitously calling for an end to American-style capitalism and the global sway of the dollar, these days the emphasis is on salvaging China's own boat.

"It is not dissimilar to when you mobilise to go to war," Liu Jin, an expert on capital markets at the Cheung Kong Graduate School of Business in Beijing, said. "We are in a crisis and the mood in the media is set to help the public cope with the crisis."

To boost the slowing economy, China unveiled a stimulus package of 585 billion US dollars earlier this month. The money will be pumped into constructing railways, housing, airports, highways and other projects aimed at expanding domestic demand.

"It must be now obvious to many that the impact of the financial crisis to China is not only about us buying U.S. treasury bonds that could shrink in value," says Wang Luolin, researcher with the Chinese Academy of Social Sciences. "The end of the U.S. development model driven by consumption means the end of China's development model based on exports."

As of this week China has overtaken Japan as the largest holder of U.S. treasury securities, with 585 billion dollars compared with Japan's 573.2 billion, for the first time.

A commentary in the 'Investor Journal' deplored Chinese critics of the dollar's "hegemony" in the financial world as "blind."

"It is unfortunate that such criticisms have been widely heard not only among the public but also among economists and policy makers," the piece said. "China with its vast manufacturing hubs and huge exports has been one of the biggest beneficiaries of the US

dollar-centred international trade system.”

China’s manufacturing sector, which produced 14 percent of the shoes, clothes and toys imported into the U.S. in 2007, has sharply slowed down over the past few months due to drop in consumer spending. Hundreds of small businesses in the manufacturing towns along the country’s east and southern coast have been forced to close or suspend production.

China is most concerned about the growing labour unrest, human resources minister Yin Weimin said Thursday. A series of strikes and protests about job losses have been staged in coastal provinces. Official urban unemployment was still about four percent, but could rise to 4.5 percent by the end of the year, he said at a press conference.

“The global economic crisis is picking up speed and spreading from developed to developing countries and the effects are becoming more and more pronounced here,” he said, adding there will be more layoffs and more unrest until the country’s economic stimulus package kicks in next year.

Financially though, China, which exercises capital controls and manages its currency exchange rate, has managed to escape the worst of the current crisis.

Sitting on the fence as the financial meltdown deepens has led some officials and experts to call for Beijing to use the opportunity to wield its power in the financial world and raise the profile of the Chinese currency. Some have said the U.S. should give up its control over the International Monetary Fund (IMF) in return for China’s helping out in the crisis.

This week a senior policy maker voiced this publicly, declaring Beijing would only swap cash aid for more power in the global financial body. The issue has been widely debated since British Prime Minister Gordon Brown said China, which sits on two trillion dollars of exchange reserves, should contribute more cash to the IMF to help fund ailing economies.

“Nobody is going to play with you if you want China to spend money amid the deepening financial crisis while still giving us little voting power,” Jin Liqun, chairman of the supervisory board of the country’s sovereign wealth fund, said in Shanghai.

In another development Wu Xiaoling, a former deputy governor of the central bank, told a seminar in Beijing this week that the Chinese yuan was ready to become an international currency to replace the dollar.

Her words were largely interpreted as a signal that the central government might be preparing to move forward on loosening control over the currency to make a place for the yuan in the central banks’ foreign exchange reserves. At the moment, the yuan is only partly convertible for the purposes of trade and investment.

But China’s readiness to inject substantial change into the global monetary system has been questioned by several leading economists, with Justin Lin, who now serves as the World Bank’s chief economist, being among them.

Speaking at an economic forum in Beijing last month, Lin said China’s financial markets are not mature enough to play a bigger role globally and the yuan has to be fully convertible before it could develop as a major currency for international trade settlements.

People’s Bank of China governor Zhou Xiaochuan said in October last year that there was no

set timetable for the full convertibility of the yuan.

Wang Jian, general secretary of China's Macroeconomics Society, has dismissed all the talk about establishing a new global monetary order as a "daydream."

"European powers see this crisis as an opportunity too — they want to use it to promote the euro as an alternative to the US dollar," Wang told the 'China Business Journal.' "But there is no way the U.S. is going to relinquish the power of the dollar as an international reserve currency to anybody," Wang told the Journal.

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