

# The great mall of China

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WHEN an economy with 1.3 billion people doubles in size every 10 years, it is likely sooner or later to have an impact on the rest of us. Last week, British homeowners and motorists began to feel what making room for China will mean, following rises in both mortgage rates and petrol prices.

Within a decade it promises to be the world's second economy after the United States, pulling more than 300 million Chinese out of abject poverty. It is an achievement that no other country has ever matched - and a profound challenge for the rest of the world.

Its exports, for example, have doubled in less than five years. The 'miracle' Japanese economy of the 1970s managed the same feat in seven years; Germany took ten years in the 1960s; it took Britain 12 years after 1838 culminating in the Great Exhibition in Crystal Palace - the proudest moment in our industrial history - to do the same.

That is happening in China now. The Pearl River Delta just beyond Hong Kong can justly claim the mantle of being the new workshop of the world - a stunning maze of industrial plants that combines cheap labour, high skills and frontier technology in an unbeatable combination. But Shanghai and Beijing are no slouches either. This is the country, for example, where Volkswagen now sells more cars than it does in Germany.

China's boom literally needs fuelling, and this year it has become the world's second largest importer of oil after the US. Nor does its appetite stop there. It buys massive amounts of copper, cement and iron.

If you want to understand why commodity prices have jumped 60 per cent over the

come back to earth with a thump would move decisively in favour of the pessimists. House prices have doubled in five years and it is only cheap money and low mortgage service costs that justify the massive departure from their long term relationship with average earnings. A return to the old relationship implies a fall in house prices of around a quarter, a risk which, while obvious, has until now seemed small while money remains cheap. Suddenly events in the Middle East combined with the China boom raise the probability that the British housing market could become very sticky indeed.

And China's growth, and its appetite for oil, are not going to disappear. For as Joshua Ramo, former foreign editor of Time and author of an intriguing pamphlet, 'The Beijing Consensus', published by the Foreign Policy Centre next week, argues, too many interpreters of China try to understand it in western terms. China is not an economic bubble like the dot.com boom or parts of the British housing market that is about to be pricked, so relieving the pressure on world oil prices. Its economic growth will doubtless quicken and slow in pace - and after the hectic growth of the past few years some easing may be inevitable - but the direction is clear. This is a continent that is being opened up and developed rather as the US was in the 19th century; its momentum is just as inexorable - but its development, while breathtakingly friendly to capitalism, is very distinctive and Chinese.

It is a new economic model combining capitalist dynamism but guided by a state constant.

China is a continent on the move with a distinct ap-

past two years, and why the oil price is now hovering at just over \$40 a barrel, think China. The good news is that higher commodity prices mean the world economy is strengthening, propelled by recovery in the US and the continuing growth in China; the bad news is that the impact on inflation is unavoidable, explicitly cited by the Bank of England for its decision to hike interest rates by a quarter of 1 per cent last week. The high price for a litre of unleaded petrol - now around 80p - with more increases certain, is part of the same picture.

Oil has doubled in price since December 2001. It may in real terms still be well below its all-time high, reached in 1979, but oil price hikes of this type have in the past always been associated with economic slowdowns and rising prices.

Warwick University's Professor Andrew Oswald has established that there is a close relationship between swings in the oil price, growth and unemployment; put simply, a low oil price stimulates and a high oil price depresses, working alternatively as a kind of generalised tax cut or tax increase because oil expenditure is unavoidable. He tells me that he believes we are already in the danger zone; and if the price stays above \$40 a slowdown in growth and pick up in unemployment, most acute in the US but impacting across the west, is inevitable.

In other words last week the world economy crossed an important line: the good side of a rising oil price - that it spells economic growth - began to be offset by the ominous height it was reaching.

It may of course fall back, but its hard to imagine it will fall very far; China's demand will see to that.

On the other hand, what is spooking the oil world is obvious. If a panicked US withdraws from a disintegrating Iraq over the next six months with mounting attacks by suicide bombers on oil installations in Kuwait and Saudi Arabia, then oil supply, rather than rising to check higher oil prices, could actually fall.

Then the oil price could go higher still - and interest rates in Britain, expected in any case to rise still further, would clearly top 5 per cent. In which case the debate about whether the British housing market is going to slow down gently or

proach to capitalism. Its achievement is already remarkable, and its impact on a hitherto sluggish world economy entirely welcome.

ly aware of the need to raise living standards and the quality of life for literally hundreds of millions of people - or it will suffer a crisis of legitimacy. Wen Jia-bao, the Chinese prime minister who visits London on Monday, does not talk about economic growth but about co-ordinated economic development. The scale of the infrastructure investment - whether oil pipelines, dock installations, motorways and airports - makes your head spin, but it is all part of an overall purpose; to drive Chinese economic development.

If fundamentalism of the left has been discarded, so, Ramo argues, has fundamentalism of the right - the so-called Washington consensus. The developing world is now looking to China as an exemplar of a new 'Beijing consensus', deploying capitalism not as an end in its own right - but as a means to an end.

It is because privatisation works that you do it; it is because financial deregulation does not that you have to proceed with caution. Above all invest in education. China, in short, is a world event - a continent on the move with a distinct approach to capitalism. Its achievement is already remarkable, and its impact on a hitherto sluggish world economy entirely welcome. But the Chinese did not reckon on Messrs Bush and Blair and what now looks like the worst post-Second World War foreign policy error.

Torture and abuse of Iraqi prisoners captured the headlines last week, but another and associated drama was playing itself out in the world's oil markets.

Iraq has to be internationalised and normalised fast - and oil prices must be managed downwards. The stakes get higher by the week. China could step in; but will it? —Dawn/Observer Service