

Despite Current Economic Pressure at Home, China Will be Big Winner Coming out of Downturn, Author Says

Cash is King Right Now, and China Has Lots of It; Even More Important Source of Growth for Multi-Nationals Now

SCDigest Editorial Staff

There are powerful economic pressures in China right now, as elsewhere, perhaps even more so in a sense as the country's hyper-growth has chilled almost overnight. While the government recently said Q3 economic growth in China was 10%, down just slightly from the low double digit levels of the past few years, many suspect that number is false, given global economic realities, clear evidence of a dramatic drop in exports, and reports that factories by the thousands are shutting their doors.

Nonetheless, over the mid-term, China will come out of this crisis a real winner, predicts Zachary Karabell, president of River Twice Research. His book on China and the United States will be published early next year.

Writing in the Wall Street Journal, Karabell says that there is much more cash sitting around the global economy than most realize. It is parked in private equity funds, so-called national "sovereign wealth funds" of individual nations, and other sources, waiting on the sidelines for things to settle and the opportunity to pounce on undervalued assets.

And the king of the cash hill is China, with some \$2 trillion in cash reserves, a number which dwarfs even the oil-driven stockpiles of cash in Russia, Saudi Arabia and others countries in the Middle East.

"China remains in a league of its own," when it comes to cash, Karabell says. China is cash-rich and almost debt-free, not only at the government level but also as individuals. Because there is no mature bond market and the currency remains unconvertible, individuals in China have a savings rate ap-

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proaching 50%. They have on a relative basis money to spend.

Karabell believes the massive stimulus plan recently announced by the Chinese government, with the cash on hand to back it, will help keep China's economic growth going even as most of the world slows and with it China's exports for now. That also means China even more than before will be viewed as the best source for growth by multi-national corporations, who were already looking at China and developing economies as the best growth sources when things were merely low growth in developed markets.

Needing to prop up those exports as best it can, China is also likely to use its cash to continue to buy US treasuries. This will allow the US government to keep spending, with China in effect the bank of last resort for borrowing the money thought needed to stimulate the US economy and bail out banks and automakers.

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The net result of all this: China moves ever closer to a co-leadership position with the US in terms of the global economy.

"In the new system the United States will still be the largest economy but no longer the sole determinant of global economic health," says Karabell. "Government must jump-start the system when it stalls, but after that, cash and China will drive the recovery."

