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# GREENWOOD REPORT

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## CHINA, IN THE MIDDLE

China! A ten day visit to Beijing during the last two weeks of September offered a limited, but expanded perspective on the Chinese economic environment as it relates to investment. Although Reed (my husband) and I studied before we went, our first time visit was like drinking from a fire hose. We talked to ordinary people, to economists associated with Tsinghua University and the St. Louis Federal Reserve Bank, to educators and professionals associated with the US Embassy, the Arkansas Economic Development Commission's Beijing office, the Chinese Ministry of Education, and Renda Fuzhong (RDFZ), the High School Affiliated to Renmin University of China. Of course visits to the historical cultural sites gives "old" a whole new meaning. Three observations stand out: Economics, Education and Demographics.

First, **Economics**: The world's second largest economy (China's \$7+ trillion GDP) is projected to overtake the world's largest economy (USA's \$15+ trillion GDP) over the next seven to ten years. A difference in GDP growth rates as well as 1.3 billion population (four times that of the USA) is certain to guarantee this event. However, China will not simultaneously achieve the economic power of the US. Because China is an export-driven economy, it does not have the benefits of shifting to a domestic consumption-driven economy when exports contract. The current slowdown illustrates their dependency on the consumption demand from the US, Europe and Japan.

Correspondingly, those countries who export *to* China, especially commodity based economies in Australia, Africa and the Middle East also feel the slowdown and decline in demand *from* China. *China is in the middle* and somewhat helpless – they cannot control the demand from their export-based partners, nor can they sustain supply purchases extended by their import-based partners. The sheer size of China's export/import markets, as it affects global supply/demand, commands our attention and highlights the importance of global supply chain management.

Economists indicated that China is over-invested at home and would like to diversify its investment portfolio, presumably to provide more balance and control. Seeing increased direct foreign investment from China into Arkansas and around the world squares with this desire. "Transition" was another area of discussion. *When China is able to transition from a predominately export-driven to an equally consumption-driven economy, it will have the ability to balance its growth.* Moreover, as the urbanization of its population progresses, internal consumption will grow. At present, the domestic population does not have sufficient income to expand consumption without increasing inflation.

Second, **Education**: China is evaluating the direction of its education system. Long characterized as imitators, but not innovators, China is looking at its education system for answers. Rote, repetitive learning has produced a population of capable employees that perform tasks very well and keeps everyone working at the same level. Consistent with communism's goal of equality, it fails to encourage independence, leadership and creative thinking – very good followers, but few leaders.

Classes in English, using text books in English with English speaking faculty are becoming more common in Chinese universities. Tsinghua University has enough English class offerings to enable an American student to have a semester or year abroad in China. Although it would take a fairly independent student to thrive in an environment of intimidating language and culture, it surely could become as common as Chinese students traveling abroad to study in the US.

Recently the Chinese Ministry of Education commissioned five innovative high schools, each associated with one of their top four universities – Tsinghua, Peking, Renmin and Peking Normal. These schools are tasked with developing new methods, emphasizing analytical and interactive skills for students. We visited Renda Fuzhong (RDFZ), the High School Affiliated to Renmin University. It has 5,000 students studying in four tracks: regular Chinese, Gifted and Talented, Advanced Placement and International Baccalaureate. Considered the #1 High School in China, student classes, books and instruction are all in English except the regular Chinese track. It was impressive. *When China is successful in redirecting the focus of its education system from imitate to innovate, the competitive position of future generations will be formidable.*

Third, **Demographics**: The people we saw in China were well-fed, well-clothed, appeared healthy and seemed to have an adequate standard of living, potable water notwithstanding. At the same time, a wide income gap is apparent – illustrated by luxury cars and bicycle carts sharing the city streets and highways. Smog and air pollution in Beijing, a city of 22 million, was extremely high; traffic was challenging like all big cities. Car owners are not allowed to drive one day each week with rotation based on their license number. Unlike US cities, we saw only two people begging or sleeping on the streets. But, there was no shortage of cell phones – rather interesting to see people texting in Chinese.

Retirement is mandatory in China -- women must retire at age 55 and men at age 60. They may apply for permission to work longer, but presumably this frees up jobs for younger workers. Also, grandmothers frequently care for the single grandchild, supporting the young two-career family. The “one child policy” and the retirement policy has implications for economic growth and social welfare in China. “Will they get old before they get rich?” As the population ages, the number of workers per retiree will shrink – generating the same concerns that developed economies face. An interesting comment on the one child policy, it only applies to the Han Chinese and has been modified so that if both parents are only children, a couple can have two children. The policy is different for the more than 50 ethnic Chinese minorities – they can have as many children as they want. This too would be consistent with the communist policy of eliminating discrimination and promoting equality – simply increase the population of minorities.

The Forbidden City, the Great Wall, a Chinese Opera, the National Art Museum, and a musical performance at the National Performing Arts Center, “The Egg”, were memorable cultural sites we visited. We were pleased to present letters of greeting from Dean Eli Jones and Dean Tom Smith together with leather-bound copies of the book *Etched in Stone* about the University of Arkansas, courtesy of Chancellor Gearhart. Additionally, we presented copies of *Celebrating the American Spirit* from Crystal Bridges Museum of American Art to Ambassador Locke, Mdm. Liu (principal of RDFZ) and others. Crystal Bridges was kind enough to provide, on short notice, Mandarin translation copies of the Museum’s brochure for our Chinese contacts. We learned a lot and enjoyed being ambassadors for Arkansas.

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