

## China's policies may crack in downturn

GREGG ERICKSON  
COMMENT

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I've visited the fabulous boom economy of China, and I return to Alaska with a deep sense of foreboding.

Thirty years ago China was an economic basket case. Convulsed by the Great Leap Forward and the Cultural Revolution, tens of millions of Chinese died, many from famine. The intellectual and professional classes were dispersed to work on farms. This deeply disrupted the system of higher education, and for a decade or more choked off the supply of technical personnel essential to development.

In 1975 Zhou Enlai outlined the path China would eventually follow in embracing the incentive structures of capitalism while retaining the iron fist of one-party control. About the time the first oil flowed through the trans-Alaska pipeline, China embarked under Den Xiaoping on becoming a modern industrial nation.

Western economists were skeptical.

"Those foreigners who have made a practice of viewing the (Beijing) markets at new year's say the quality, variety and amount of food have all declined compared with 1976 and 1975," said the Washington Post in a 1977 story, predicting further privation and consequent political unrest as China spiraled into chaos.

This month I walked those same markets, overlooked by 60-foot-high neon and plasma advertising displays. Gently insert Times Square next to Beijing's Wangfujing Avenue and you'd see New York's most spectacular venue melt away in the glare. The flashing pulse of commerce on Wangfujing is visible and palpable evidence of economic vitality.

China is now capitalism's poster child. Freed from some of the most stifling influences of central government planning, the energetic and entrepreneurial Chinese forestalled political chaos with an economic miracle. Last year China ousted Great Britain as the world's fourth largest economy, and it is almost certain to move into the No. 3 spot this year, ahead of Germany.

The Chinese I saw were worried about pollution, traffic, rising food prices and whether their latest handbag or cell phone was still in style -- but for the most part they appeared happy.

Despite government efforts to restrain the boom by tightening credit, economic growth in China continues to break records.

Economic history teaches that capitalist economies go up and down: the bigger the boom, the bigger the recession to follow.

At some point China must experience a real recession. Incomes will fall and discontent will grow.

The problem here is that China is not a democracy. In the spring of 1989 -- as Alaskans were busy

cleaning up the Exxon Valdez oil spill -- the Peoples Liberation Army attacked Beijing students demonstrating for democracy. According to the Chinese Red Cross, 2,000 to 3,000 protesters were killed. Afterwards the government cracked down on all forms of dissent, and suppressed coverage of dissent in the press.

If there is a democracy movement today, it is not visible. What was visible as I walked across Tiananmen Square on Oct. 5 were hundreds of police and soldiers.

"What would happen now if I opened my umbrella and unfurled a "Gong hits for Jesus" banner," I asked my under-30 Chinese companion.

"You would be on your belly in 15 seconds," he replied, matter-of-fact.

Before the crackdown many Chinese hoped the political liberalization of the 1980s would continue to parallel economic reforms, leading China to real democracy. That hasn't happened, and since 1989 discussions of political liberalization in China have been taboo.

When producers of an American public television program showed four Beijing University students the iconic photo of a Tiananmen protester confronting a tank, none of them knew what was going on. "A parade, perhaps?" suggested one.

China now owns a seat on the global roller coaster of capitalism.

When an economic downturn comes to China, as it eventually must, can Chinese political institutions keep the country under control?

What if, for example, Chinese families lose their savings in the crash of their largely unregulated stock market? Would a politically convulsed China be able to sustain the avalanche of consumer goods that has kept U.S. inflation under control? Would the flow of Chinese savings into dollar-denominated securities be maintained, allowing Americans to continue financing their household and government deficits?

After visiting China, I see these issues very much in doubt.

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