



Yellow Peril: Why China is not a threat

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Some things have a distressing ability to return time after time. Things like taxes, paperwork, that annoying guy at all the happy hours, pop music, Republicans, Democrats, Mondays, campaign seasons, slow Metro trains, heartburn, children, and a most odious thing called Yellow Peril.

What is Yellow Peril? It is irrational fear of Asia in general, and China more specifically. Fear that China will take over the world, fear it will take all our jobs, fear that it will surpass the United States. Lately, as Ted Galen Carpenter wrote last week, [there has been more China-bashing in the news and in the presidential campaigns](#), as people are afraid:

A new year brings new opportunities for harsh rhetoric toward China. On issues ranging from Beijing's valuation of its currency to China's military modernization program, to the PRC's expansive territorial claims in the South China Sea, critics in the United States are voicing shrill complaints. Many of those critics warn that Washington must "stand up" to Beijing.

Some of this is the typical posturing that seems to occur in every U.S. presidential election cycle. There are many political points to be scored by bashing China, and fewer to be scored by advocating a friendly, "soft" policy. Staunch conservatives still often regard China as an evil totalitarian power, despite the numerous capitalist economic reforms that have taken place since the late 1970s. Human rights activists across the political spectrum loathe Beijing's policies toward Tibet and toward political dissidents generally. And labor unions resent China's low-wage competition in a growing number of industries. The combination of those factors has long made China a convenient whipping boy in election campaigns.

This always happens, but Carpenter adds that with economic woes, these fears may be more concrete and stay even after the election. *The Economist* [figures that China will overtake the United States by 2018](#), though I have seen some reports that [say we will be overtaken by 2016](#), just in time for another presidential election. These are all distressing things to hear.

They are also pretty much baloney.

This one will take awhile to explain, but essentially, the Chinese economy is nowhere near as strong or robust as everyone thinks it is, and I will do my best to explain why with many examples and citations.

The first place we need to start with is probably the most stark and visible, [the phenomenon known as China's "ghost towns"](#):

China's "ghost cities" show that the country's economic boom could be more fragile than it appears.

Kangbashi is a showcase city, laid out spaciouly on the grasslands of northern China.

It was dreamt up by the local secretary of the Communist Party as a monument to the country's new-found prosperity.

The place is dominated by impressive public buildings - a marble-clad library, a state-of-the-art theatre and a giant convention centre.

In the centre of town a 70m-high statue of two fighting horses looms over Genghis Khan Square.

The only thing missing is the people.

Kangbashi was built to house one million residents, but so far only 20,000 have moved in.

You know what this is called, right? A bubble, that's about to pop. Otherwise known as the 2007 housing crisis in the United States. On a *much* bigger scale.

That alone should end the discussion right there. When you have the government of a country building a series of entire *cities* out in the middle of nowhere and *nobody* is living in them, there's a massive bubble going on, and when it blows, the results will be spectacular (and disastrous.) China is going to go through what we did in 2007, only this time it will be *over 9000*.

Mish Shedlock has pointed out [that property prices in China have decreased 40%](#), so the property bubble has already started popping. He has also pointed out that [their current growth is unsustainable, that they're already experiencing a slowdown, and they're heading for a hard landing](#). Then, of course, there's his correspondance with a person in China who reported that

businesspeople were committing suicide in droves because they couldn't pay back their loans. That is most definitely *not* the sign of a healthy economy that will overtake the United States.

In other words, those ridiculous growth numbers for the Chinese economy are not going to last forever.

Part of that is because the Chinese people are so damned poor. No, seriously, **the vast majority are extremely poor**, cannot consume a significant amount of goods and services, and cannot really contribute to the economy (since that requires people both selling *and* buying), as Lyric Hughes Hale points out:

An amazing number of Americans who were polled recently incorrectly believe that China's economy is already bigger than the US. The view from inside China is somewhat different. As any thoughtful person there will attest, China faces a slew of obstacles at this stage of its development. China might be a rich state, but its people remain poor. China may become the world's largest economy in 2016 according to optimistic estimates by the IMF, but that simply means that total output will be larger than in the US. A country with 1.3 billion people should have an economy larger than one with .3 billion in absolute numbers: China's population is more than four times larger. If both economies were exactly the same size, China's GDP per capita would be just 25% compared to the US.

What this means is that in spite of the overall size of its economy, the standard of living in China is correspondingly lower. Just one example to put this into perspective: only 20% of Chinese people have flush toilets. The inescapable fact is that a world in which Chinese consume at the same rate as Americans is a world that cannot exist, based upon available resources of food, water, energy, and other commodities and products such as cars. It would require by some estimates four planet Earths. There is a natural limit to Chinese consumption simply because there are so many Chinese people. This might be unfair, but it means that the great majority of Chinese will not be able to enjoy the kind of life we live here in the US absent exponential and unforeseen technological progress.

Toilets. These people don't even have flush *toilets*. And somehow we're expecting their economy to overpower ours? (BTW, you should really read the rest of that article. It is simply amazing how weak China really is.)

Another major problem is Chinese demographics. You may recall the “One-Child Policy,” meant to keep population growth down. Well, it worked, sort of—it kept female population growth down, because parents killed most of their daughters in order to have a son, which was perceived as better because you can pass on the family line. Well, [that has sorely backfired](#):

The result of such draconian family planning has resulted in demographic impacts beyond population-size control. China now has 32 million more males than females under the age of 20. (To put it into perspective, 32 million is roughly the population of Uganda.)

The gender imbalance is now manifested most clearly among those of marrying age, and the scarcity of women will have a more profound impact on population growth than any government fine. There is even an increasingly high risk group of single Chinese men referred to as “bare branches” because they will never father children and establish family trees of their own.

That might fly in the United States, where you have Facebook and Twitter and World of Warcraft, but aside from the last one, you don’t have that in China. They already have SOPA working around the clock 24/7, censoring the Internet there. There are numerous consequences to having so many single men chasing so many women. One that occurs to me is that there is probably going to be a fair amount of women-related violence (kidnapping, rapes, etc.) over such distress, as well as more general social unrest. Other consequences, as [Impact Lab notes](#), will be a [shrinking of the workforce](#):

The first generation born under the one-child policy is now approaching middle age, providing a clearer sense of the rule’s impact. The results are “alarming,” said Wang Feng, a demographer and director of the the Brookings-Tsinghua Center for Public Policy in Beijing, after the release of the country’s latest census.

The new data showed that overall population growth slowed more than expected during the past decade, to 0.57 percent annually. Wang said the fertility rate is now fewer than 1.5 births per woman, among the lowest in the world and well below the replacement rate of 2.1 births per woman. This will push forward the point when China’s population peaks at around 1.45 billion, he said, currently forecast for 2029. After that, the population will decline.

China currently has around 1.3 billion people. The number under age 14 fell by more than a third in the past decade, while the number over 60 grew by more than 20 percent.

That sort of demographic momentum — with far more people preparing to leave the workforce than are entering it — is extremely difficult for a nation to reverse.

The number of people of working age is still expected to grow, slowly, for perhaps five more years before reaching its peak, and a recent study by the U.S. Chamber of Commerce in China noted that there are still around 25 million “surplus” workers in rural areas available to move into factory jobs.

This has numerous consequences in and of itself. First, with less workers, they’ll be able to charge more for their services, raising labor costs...and making China less attractive to manufacturers to produce their goods. That will lead to a collapse in the Chinese economy.

But another reason is that it will destroy the country’s savings. [As the young decline, they must support an increasingly grey population.](#) In the United States, we have Social Security—which, believe me, has its own problems—but that will at least attempt to blunt the impact on the nation’s savings. China doesn’t have any sort of old age pension/retirement program, so that means the young will have to take care of the old with their money, directly out of their pockets, further robbing them of purchasing power and making the Chinese economy weaker.

If you still think China will overtake us, and base your belief on the fact that everything in the store says “Made in China,” let me put that fear to rest: you’re only seeing 1% of the pie. [The Federal Reserve has a report out that makes a startling claim](#) (to those not fully educated about economics):

Goods and services from China accounted for only 2.7% of U.S. personal consumption expenditures in 2010, of which less than half reflected the actual costs of Chinese imports. The rest went to U.S. businesses and workers transporting, selling, and marketing goods carrying the “Made in China” label. Although the fraction is higher when the imported content of goods made in the United States is considered, Chinese imports still make up only a small share of total U.S. consumer spending.

It may seem crazy that the vast majority of our money is not going to China, but as Morgan Housel at the *Motley Fool* explains, [it really makes a lot of sense](#):

*A common rebuttal I got was, “How can it only be 2.7% when almost everything in **Wal-Mart**(NYSE: **WMT**) is made in China?” Because Wal-Mart’s \$260 billion in U.S. revenue isn’t exactly reflective of America’s \$14.5 trillion economy. Wal-Mart might sell a broad range of knickknacks, many of which are made in China, but the vast majority of what Americans spend their money on is not knickknacks.*

*The Bureau of Labor Statistics closely tracks how an average American spends their money in an **annual report** called the Consumer Expenditure Survey. In 2010, the average American spent 34% of their income on housing, 13% on food, 11% on insurance and pensions, 7% on health care, and 2% on education. Those categories alone make up nearly 70% of total spending, and are comprised almost entirely of American-made goods and services (only 7% of food is imported, according to the USDA).*

Even when looking at physical goods alone, Chinese imports still account for just a small fraction of U.S. spending. Just 6.4% of nondurable goods — things like food, clothing and toys — purchased in the U.S. are made in China; 76.2% are made in America. For durable goods — things like cars and furniture — 12% are made in China; 66.6% are made in America.

So they’re not even taking over our economy today. Our fear is misplaced.

If there is one place we should be worried about China, it is in the emerging area of cyberwarfare. **China has already amassed a “Red Hacker Army”** to do its dirty work within the burgeoning Matrix. There were numerous cyberattacks over the last few years that originated in China, and **who could forget Operation Aurora?** In conventional means, China cannot really face the United States. We have way more allies, especially in East Asia (lots of the countries there know of China’s long history bossing everyone around, and would really like to not return to those golden days of yore), more troops, more aircraft carriers, more nukes, and better equipment in general. Believe me, I don’t want a Sino-American War, for it would be horrifically bloody, pointless, and when we did win, it would likely be a Pyrrhic victory of some sort, but we would best them. In cyberwarfare? Not so much, and there are a lot of dangers from that. Hackers could shut down power grids, leading to massive blackouts, disrupt communications networks, transportation lines, and potentially destroy our financial system. There are *serious* security risks there, and that’s one place where I think the United States should bolster its defense posture. Of course, we can do that without sacrificing civil liberties and we can do that by cutting spending, which only makes it more appealing.

In short, China has a massive property bubble that is beginning to burst, there's a slowdown coming for them, they are incredibly poor, they have huge demographic problems that are going to contract their economy, and they're not even taking most of our money. So there: unless they decide to launch an all-out cyberwar against us, we have nothing to fear from China. Full stop.

There are many, many other reasons that China is not a threat to us, but hopefully, this will assuage enough of your fears that you'll be able to put the Yellow Peril to rest. It certainly deserves it.