

On China's economic situation

“It’s not a bubble bursting, it’s just a company going bust”

On the Chinese economy, the interests of Western investors
and the relationship between the individual and society

Interview by Simon Zeise* (*jungewelt.de*) with Frank Sieren**

Edit. We are happy to make available to our readers this informative interview of 16 October 2021, which Simon Zeise of the German daily newspaper "junge Welt" conducted with Frank Sieren.

Simon Zeise: You once said that the rise of China will end the rule of the white man. When will the People’s Republic have replaced the USA as the world’s number one power?

Frank Sieren: It is of course difficult to pinpoint the event to a day or a year. If you measure China’s economic power in terms of purchasing power parity, then China has long been the largest economy. In terms of per capita income, however, the People’s Republic still lags behind Romania. Militarily, China is also still far behind. The largest aircraft carriers weigh 50,000 tonnes. US aircraft carriers are 100,000-tonnes. In some areas of innovation, the People’s Republic is already ahead, for example in autonomous driving, while in others the United States is still in the lead, for example in computer chips.

China, a world power

One thing is clear: we have to reckon with China as a world power. Beijing will gain immense influence. The quote you mentioned at the beginning means that several centuries of domination by the Western white minority over the majority of the world is now coming to an end. This is an epochal change that will dramatically alter the world order. And we underestimate the speed at



Girls in the metro in Shanghai.

(keystone/Süddeutsche Zeitung Photo/Jose Giribas)

which it is happening: 100 years ago, a quarter of the world belonged to the colonial British Empire. Then the USA replaced the British as the world power. A big surprise back then.

Thirty years ago, the USA seemed to be the sole world power forever. There was even talk about the end of history. Now China is in the process of overtaking the USA. And the latest move is the most profound because it is no longer just within the Western Hemisphere. Climate change, digitalisation and the shift of global power towards China are the three issues we will have to deal with in the coming decades. Whereby the People’s Republic will again play a central role in climate change and digitalisation – regardless of whether we like the system there or not.

The main lines of conflict

The rise of China goes hand in hand with the decline of the United States. Where do the main lines of conflict currently run?

Under US President *Donald Trump*, the lines of conflict have become more visible than ever. The power struggle is now no longer so much about military supremacy, but about supremacy in the technology sector. Here, the Chinese are more advanced than the US in some crucial areas. Trump’s strategy was to isolate China. For example, in the expansion of the 5G mobile phone

* Simon Zeise is deputy editor-in-chief of the daily newspaper "junge Welt" published in Berlin.

** Frank Sieren is a journalist, book author and documentary filmmaker. He lives in Beijing since 1994 and reports from there for various German media. His most recent publication is: "Shenzhen – Zukunft Made in China". Penguin Publishing House, Munich 2021, 416 pages.

standard. However, this has only succeeded here and there. In Europe, the French and Germans have not followed suit. Another area is microchips. China is certainly capable of producing microchips that are on an international level in terms of performance. But they are still built with European machines that run mainly on US software. This gave Trump the leverage to also ban South Korean or Taiwanese companies from selling to China.

Of course, the People's Republic then bought the market dry before the ban. Most countries followed suit with hoarding purchases. Now chips are in short supply. And numerous production lines in the car industry are at a standstill because even simple chips for window regulators are missing – in the USA, too, by the way. Washington has not really gained anything with this strategy. The chip manufacturers are losing around twelve billion US dollars a year. And Beijing will now be all the quicker to ensure that it becomes independent of the United States. So in the long run, the US business is gone.

And in the meantime, the times are also gone when it was possible for Washington to smooth out such mistakes through military strength. From its point of view, the US no longer feels like fighting for freedom with weapons at the end of the world. Trump had already said that he wants to bring his soldiers home. And *Joseph Biden* has been even more explicit: he has made it clear that the era of the US trying to play politics via invasions and regime change is now over. At the same time, of course, the USA wants to remain the sole world power: that is why they are shifting the power struggles towards the economy and the technology.

The market power of the big high-tech companies

Let's stay in the technology sector and take a look at the Chinese economy. The Chinese government's decision to cut the profits and market power of the big high-tech companies Alibaba, Tencent and Co. has caused quite a stir. What is the strategy behind this?

It's a multi-track strategy. You have to know that these big players could only emerge because the Chinese government closed the borders to foreign online companies. They didn't let Facebook, Amazon and Twitter in, but built up their own companies. They were very successful with that. From Beijing's point of view, even too suc-

cessful: these companies are now so powerful that they are forming monopolies. They simply buy new companies off the market immediately and then decide at their leisure whether to let them die or live – but only on their terms.

In addition, the corporations are developing business models that, for example, as in the case of Alibaba's subsidiary *Ant Financial*, can unhinge China's financial system. Because the government has no desire for a situation like the one in 2008 after the crash of the financial markets in the USA, it is now intervening. In addition, business models based on the exploitation of their employees, such as food delivery services, are being cut. Minimum wages are now being paid here. That is long overdue. So overall, Beijing wants clear rules of the game to ensure that the diversity of companies grows, keeping each other in check. None of the companies should be in a position to plunge the whole country or even the world into a crisis. The procedure also serves to keep the party in power, and is sometimes rough because it changes the rules during the game. In substance, however, it makes sense.

Investing in China?

Investors from the West want to invest their money in China. How do they like the new measures?

There are two reactions in the West. One side is indignant, saying that the Chinese state is breaking up its successful private companies. Back to Mao, back to the planned economy, so to speak. On the other side, the Washington Post, for example, commented that Beijing is actually doing what the USA cannot, namely introducing sensible rules for these large companies. The discussion is moving between these two poles. In the meantime, one can already see that it is not about breaking up the Chinese high-tech companies. The restrictions are such that the companies can live with them very well. On the stock exchanges, a recovery has already begun after the price slumps.

The US multi-billionaire George Soros warns against investing in China. Among other things, he justifies it with the impending bankruptcy of the "Evergrande" housing group. What is going on in the Chinese real estate market? Is there a bubble bursting?

No, there is no bubble bursting, only a company going bankrupt. That is a huge difference. It

doesn't look like there's a bubble bursting there either. Soros sees the world too much through outdated ideological glasses: communist planned economy versus free market economy. But the world is not black and white. It is mostly grey. What, then, would be a bubble in real estate?

First, flats would be built that nobody needs. That is not the case. The middle class is only 25 percent of the population. In the US, it's 50 percent. In Germany, 70 percent. There is still a lot of room for improvement. Secondly, people would lose confidence in housing as a retirement provision and start selling for a penny. That is not the case either. Or thirdly, the owners are over-indebted and can no longer service their loans en masse. That is not the case either. You need at least 30 percent equity capital, in some cities even 70 percent. And each family is only allowed to own two flats.

But there are definitely big problems: flats are far too expensive. In Shenzhen in southern China, we are talking about 46 annual salaries. And people's wealth is too property-heavy: 70 percent, compared to only 30 percent in the US. But both problems can be solved. On the one hand, through social housing construction and, on the other, by opening up other forms of investment.

That is why the big players in the US financial industry, such as *Blackstone* or *Goldman Sachs*, are now allowed to invest and even set up majority shareholdings in joint ventures for asset management. Equity assets play a big role there. And the financial corporations, contrary to what Soros suggests, are keen to invest in China.

Limiting poverty and wealth

A few weeks ago, the Chinese government decided on a major redistribution programme. What instruments does the government use to try to fight poverty in the country and limit wealth?

Basically, they are the classic methods. The tax screw is being turned. The real estate market is being restricted: in future, a household will only be allowed to buy two flats. A lot of money is being redistributed from the rich coastal provinces to the poor regions. Thus, in the last eight years, a hundred million people have been lifted out of poverty with a clear trend: on the one hand, there are fewer and fewer poor people in China, while on the other hand, the gap between rich and poor



*Fuxing High Speed Trains HGV Tianjin Station, China.
(keystone/imageBroker/Markus Mainka)*

is widening. However, the *Gini coefficient*, which measures this ratio, is even larger in the USA.

You have lived in Beijing since 1994. How do you perceive the newly wealthy? Are they ostentatious or is it frowned upon to openly flaunt your first million?

The modesty of the Protestant ethic is rare in China for the time being, even if it could also be derived from Buddhist tradition. Rather, US-American conditions prevail. One shows what one has achieved quite bluntly and is rewarded for it with respect rather than envy. For our Western European taste, this is sometimes a bit much, especially what the German taste is concerned.

However, my impression is that Germany is rather an exception in this matter worldwide and that what comes from the USA is the rule. In such a fast-growing country as China, all the more so. However, Beijing has to be careful not to tip the social mood with all this pride in luxury. The poorer sections of the rural population need to share more in the prosperity. While the first phase of economic growth was all about a few getting rich first, today it is all about better balancing this new wealth.

The number of migrant workers is declining

For decades, the worst off have been the millions of migrant workers. What is the situation with them?

This year, the problem is no longer so virulent. For the first time, the number of migrant workers has declined. This is due to two major trends: First, the central government has moved parts of the production from the coast to the hinterland. This has been done by very simple methods. In southern China, for example, the minimum wage was increased so much every year – in some

cases by up to 15 percent – that it was no longer worth it for the entrepreneurs. As a result, it is no longer migrant workers who travel to the factories, but now the factories move to the workers.

Secondly, the service industry is playing an increasingly important role in the domestic economy. People who used to work on assembly lines are finding less monotonous jobs. They deliver parcels or even do online trading themselves. Because the whole country is networked online, it is easy. It must also be said that migrant worker is a misleading term because in the West it is too strongly associated with day labourers. They haven't existed for a very long time.

Workers are scarce in China, which means that factories have to make a lot of effort to find workers and now even pay bonuses if they stay longer than three months. I would say that the term assembly line workers, which we know in Germany, actually describes the phenomenon more accurately. The workers are definitely in the situation that they can choose where they want to work and that they are well accommodated. This does not solve all the problems on the assembly line, and it is still hard, monotonous work. But the working conditions are getting better and better.

Corona situation

How did you experience the Corona pandemic at home in Beijing? Is the virus defeated?

Yes. It was a big surprise how quickly it was achieved in China. I had already experienced the SARS pandemic. I thought the coronavirus would disappear just as quickly. But when the virus went around the world, I naturally thought to myself: well, it won't be that easy. But the government quickly got the pandemic under control with tough measures. There are always smaller outbreaks, but then we're talking about 60 new cases a day – with 1.4 billion people. The affected areas are sealed off immediately. And the available data is used to quickly trace the routes of infected people. Then you get a call from the authorities. According to the motto: you were in such and such a restaurant the day before yes-



*Worker at small parts manufacturing factory in China.
(keystone/Image Source/Mick Ryan)*

terday at 9 pm. Three tables away there was someone who tested positive, please go into quarantine and get tested.

These measures, which are controversial in Germany because they temporarily undermine data protection, have meant that China has been able to contain the coronavirus very quickly. The front-runner was Shenzhen in southern China, where at the beginning of March 2020 the whole matter was over with 500 cases and three deaths per 20 million people. From this you can see, and this is true across political systems not only in China but also in Japan and South Korea, that there is a different relationship between the individual and the community.

In these societies, the individual is more willing to withdraw in favour of the community in order to gain more freedom. Whereas in Western societies it is more the case that the individual says: why me? What do I have to do with the others? Then protective measures often fall by the wayside. The countries in Asia have largely left the crisis behind, while the Western countries still have a long way to go. This, too, tells us a lot about how the gravity of global power is tilting ever more strongly towards China and Asia.

Source: <https://www.jungewelt.de/artikel/412589.%C3%B6konomie-der-volksrepublik-es-platzt-keine-blase-da-geht-nur-ein-unternehmen-pleite.html>, 16 October 2021

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