



Global
Business Leadership

SHAKING THE GLOBE NEWSLETTER

Courageous
Decision-making in
a Changing World



The Paradox of China

Volume 3, issue 6

The more I learn about China, the more I see it as a paradox in that it is both a country that is changing faster than most but still very traditional. The paradox is seen in economic terms as well, as **China's GDP per capita is \$6600**, ranking it as a comparatively poor country; however, it is the **world's second-largest market for luxury goods**. This newsletter will briefly address the geography and some economics aspects of China that lead me to the conclusion that the more we understand the economic dynamics of a country, the better we can compete and also collaborate with that country.

Geography drives opportunities and disasters

A friend of mine sent me some startling information about the land mass and population density of China compared to that of the United States. China and the U.S. have roughly the same land area of 9.6 million square kilometers (sq km). The U.S. has 31.6 people per sq km as compared to China's 138.6 people per sq km. Next time you complain about your neighbors, just imagine having 4 times as many of them next door. Sixty Chinese cities have populations of 1 million people or more and 5 of these cities have populations **greater than 10 million**. About 29% of the population is now urban and continues to grow. Besides creating many problems, like homelessness and a rise of infectious diseases, this urbanization is altering the social systems of the family and communities. Many people come to cities to find jobs and fail. Although the **official urban unemployment rate** is 4.3%, the **CIA fact book estimates** the true figure is 9%, which accounts for the migrants that the official numbers ignore.

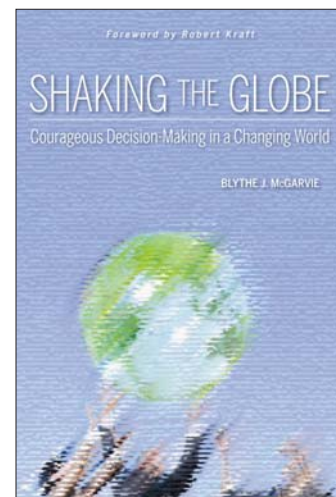
Yet, the problems in China are not limited to the cities. Although agriculture represents 11% of the economy, agricultural sophistication is lacking, as over-farming and timber-stripping continue to change the landscape. Moreover, when Typhoon Chanthu hit the important economic southern Guangdong province in July, the damage was far worse because of the condition of the landscape. This was the second typhoon this year. In addition, with the worst decade for floods for China in recent history, more than 300,000 people have been forced from their homes.

Economic Growth

Conversely, the Chinese are optimistic and continue to spend, with the highest spending increases coming in entertainment and education. According to research in early 2009 by **Bloomberg Businessweek**, "Nearly 80% of respondents had full confidence [that] the government would implement policies needed to right the economy within the next three years." This optimism is buoyed by the spending attitudes of the young. There is a feeling among young people that, regardless of their employment status, they need to be entertained. "E-commerce and online gaming will be important for China's economy



What will Phil do next?
Phil Mickelson with McGarvie.



Blythe McGarvie's **Shaking the Globe**, with a foreword by Robert Kraft, was published by John Wiley & Sons in February 2009.



© 2010 Blythe McGarvie
1-757-345-3595
bmccgarvie@LIFgroup.com

during the global slowdown. These sectors are to younger Chinese consumers what nickel theaters were to scores of Americans who went looking for cheap forms of entertainment during the Great Depression.” Still, China is really a tale of two cities with a group of people working and fueling the GDP growth of 9.1% in 2009 and another group struggling.

*Take away the paradox from the thinker
and you have a professor.*

— Soren Kierkegaard

We are at an inflection point for China. To think of the monetary milestones to monitor, **Reuters summarized five symbols** or omens to watch.

1. **Population of China** is aging at its fastest rate ever; one-fifth will be over 65 years old by 2050. The working age population will shrink, creating the worry that China might become old before it gets rich. Savings may be drained as the elderly tap into their nest eggs.
2. Henan Province is China’s largest and just passed 100 million in headcount in July 2010. This province has a **GDP per capita of \$3100**, nearly half the level of the country . As a result of the **hungry mouths to feed**, the government will continue to invest in projects in countries such as Argentina that is its biggest supplier of soybean oil. Chinese government and business continues to buy companies that will support its food, manufacturing and natural resources needs.
3. **Exports** returned to “pre-crisis” levels. The U.S. trade gap has widened to its monthly highest since 2008, with a 12 % rise in Chinese imports. This balance creates trade tensions and unfortunate cries for protectionism.
4. China now **consumes more energy** than the U.S. (the equivalent of 2.3 billion tons of oil). Yet, China consumes one-fourth of the energy than the U.S. on a per capita basis! If the new middle class of China start consuming at the U.S. rate, the political and economic ramifications will be immense.
5. **Capital investments** are migrating. China hosted the world’s three largest Initial Public Offerings (IPOs) by value this year. The Agricultural Bank of China sold a 15% stake to create a \$22 billion IPO. The financial services sector and appetite for new stocks is shifting to the East.

Information has significance only to those capable of ana-

lyzing its meaning. The direction of the Chinese economy will be shaped by its geography, but will be determined by its people and its leaders. Educating ourselves about the trends, hopefully will allow thoughtful analysts and business people to respond accordingly. I will write more about this in future newsletters. • • •



Statistics matter in business and baseball.
McGarvie with Cubs pitcher Randy Wells.

Global Perspective: Items of Note



[Visit Blythe on Facebook...](#)

Blythe McGarvie featured in **Directorship 100** as being among “**the most renowned boardroom influencers.**”

Blythe McGarvie featured in “**Is Now the Right Time to Go Back to School?,**” an article in **The Glass Hammer.**

LIF Affiliate **Laura Martin** publishes “**Is the Web Dead?**” on her **Capital Knowledge** website.

Visit the **LIF Group** website at www.lifgroup.com.

The *Shaking the Globe* Newsletter is written for decision-makers who recognize the critical importance of the interconnected world for financial stability and growth. Blythe speaks internationally about how to strengthen the global community.

(URLs: www.BlytheMcGarvie.com and www.LIFgroup.com)