

Nov 04, 2016 by **Peter Herford**

Follow the Money: Is Taiwan Already the New Hong Kong? ^[1]

SHANTOU, GUANGDONG PROVINCE, CHINA

In China there's been a year's worth of growth in the few months since my last dispatch.

You name it, and it has grown in China. Some examples: the Chinese trade surplus, the Chinese trade surplus with the U.S., and the Chinese trade balance with the rest of Asia, which has gone from deficit to surplus.

The numbers are staggering. Just a few months ago I wrote, "China herself is a debtor in much of the rest of the world. Particularly in Asia." True then. Wrong now. About the only deficit remaining for the Chinese is with their Middle Eastern oil suppliers, and that is not enough to push China into a net debt column. It's now surplus all the way.

There has also been a shift in editorial interest in the U.S. The New York Times and the Washington Post now have stories from China on the average of every second or third day. I haven't been able to keep up with USA Today and the Los Angeles Times to know whether they have increased their reporting from China, but the trends are clear.

The traditional broadcast networks still treat China as if it were not there. Condoleezza Rice recently had her first visit to Beijing and barely a trickle made it onto American broadcast TV. The cable networks, particularly their Asian services covered the story more fully.

One consequence of relatively thin coverage of China: My Western friends who make their first visits to the Peoples Republic are slack jawed after 24 hours. Their reactions are always the same "I had no idea." "This is not the China I expected to see."

"This certainly doesn't look very Communist," was one recent reaction from a visiting television executive who came to teach media management in Nanjing.

As we rode in from the airport I pointed out the symbol I thought China might consider adding to its bright red flag: the construction crane. Chinese construction cranes in all cities are like forests in the Pacific Northwest or northern Minnesota.

Like most airports in China, Nanjing's International Airport is located far from the city, a legacy of its original military origins, but now transformed into a gleaming new arched passenger terminal with fingers reaching out in all directions, designed for traffic yet to come.

It's a 40-minute ride into town, and we counted 134 construction cranes visible from the expressway. Multiply that by the other four approaches to the city and it's a reasonable guess

that Nanjing likely has more than 500 construction cranes at work.

Apartment complexes in China do not go up one at a time. They go up in clusters. A cluster is often 20 and 30 buildings, each with from 15 to 40 floors. Apartment prices are around US\$120 per square foot in China's medium-size cities. (In China, a medium size city is one with a population of only five to seven million people.) Shanghai has plenty of apartments that cost US \$1 million. Yes there is a real estate speculators bubble which regularly generates local stories that say the bubble will soon burst. But the prices keep going up.

The municipal government in Shanghai recently tried to cool the speculative real estate market. A turnover tax was imposed on apartments that were flipped in less than twelve months. That's hardly a page out of the textbook of Communist economics, but it's a clear indication that China itself is now one nation/two systems - a political one-party structure and a free wheeling capitalist economy, but with socialist overtones. Don't look it up in your Econ 101 Samuelson textbook; you won't find this model or anything even close to it. On the other hand, if you are inclined to write a new Econ 101 textbook, this might be a good place to begin. P.S. "Flip tax" or no flip tax, the Shanghai bubble has continued to grow and apartment turnover has not seemed to diminish.

One reason: Mortgage rates are low, and banks have a lot of cash to turn over. But those very same banks are also swimming in under- or non-performing loans, and that's another of those cheerful contradictions in the Chinese economy.

A lot of real estate investment is coming from, of all places, Taiwan. Back to Taiwan and the Chinese economy shortly, but first an update on politics:

Taiwan has been the most difficult story of the last few months for the Chinese, especially after a piece of mainland legislation that backfired. The Communist Party Congress tried to encourage Taiwan to dampen talk of independence by authorizing the use of force if the island declared independence. This was taken as a call to arms by many western capitals. Beijing was stunned. The leadership apparently thought this was simply a wake-up call to warn Taiwan's tough-talking President Chen Shui-bian to cool it. Western reaction showed there is definitely a cultural divide when it comes to interpreting the Chinese leadership.

Beijing said the legislation was designed to encourage the Taiwanese to put aside dreams of independence and move toward the concept of one China/two systems. That is what Hong Kong and Macao are all about, and Beijing says: Why not Taiwan?

80% of the Taiwanese economy is already tied to the mainland. Economically there is now a de facto one China, two systems in place. But politically the rhetoric of President Chen Shui-bian is all about independence, and it drives Beijing to distraction. Both President Hu Jintao and Prime Minister Wen Jiabao do not mince words. Independent Taiwan is a non-starter. "Reunification" with what Beijing sees as China's off-shore province, is what the future is all about.

It is hard to imagine what Taiwan would gain from "independence." The Vatican is one of the few states that maintains diplomatic relations with Taiwan on an ambassadorial level. Not much commerce there. It will be interesting to see if a new Pope modifies that position. Not likely.

Conversely, what would Taiwan lose by moving toward one China/two systems? Acknowledging a de facto situation might give the island what little bargaining leverage it can muster against the mainland colossus.

The U.S. and Japan have an interest in the status quo. Those two countries' recent joint statement mildly criticizing what they interpreted as Beijing's heavy handedness toward Taiwan was a signal. But a signal of what? Neither the US nor Japan are in a position to fight China if Taiwan were to play a military card or provoke the mainland into action. Meanwhile, tensions between Japan and China are rising by the day. The US has a treaty obligation to "defend" Taiwan. How serious is that obligation when the US is stretched as militarily thin as it is?

Back to following the money: While politicians rattle hyperbole at one another, Taiwanese investment in manufacturing and real estate on the mainland are helping to fuel the dizzying growth the Chinese economy. So when you read or hear about a military solution to China's Taiwan policy, reach for more than a few grains of salt, and perhaps a bit of hope as well.
