

## **The Chinese American Bond**

To truly understand the changes that are taking place in the current economy, it is important to understand the balance that exists between the top economic super powers, the United States and China. In the recent past the United States and China have created somewhat of a partnership that is referred to as “Chimerica,” by Harvard historian Niall Ferguson. In fact, Ferguson says that the economies of China and the United States should be considered one economy because they are so intertwined and dependent on one another. Ferguson stated, “Chimerica...occupies 13 percent of the world’s land, is home to one-fourth of the people on Earth, and accounts for one-third of the global gross domestic product.” With the recent boost in the Chinese economy, some people believe that this marriage known as “Chimerica” will break up and China will be the next global superpower, but first let’s examine the facts.

According to the Chinese government, their Gross Domestic Product has been increasing at a rate of 10 percent per year, and 8 percent per year even during the depths of the recession. According to forecasts the Chinese economy is supposed to see growth of about 9.5 percent this year in comparison to the United States which is only supposed to see growth of about 3 percent according to CNNMoney.com. Although these numbers look promising for the Chinese, many people are left wondering whether or not these figures are correct. There is so little transparency in regards to the figures that the Chinese government discloses.

China also has several other problems that are holding it back from becoming the Muhammad Ali of the economic world. One of the biggest problems that China has is that it relies so much on exports to the United States for much of its economic growth. In fact, a detailed report that was issued by the Chinese government in February 2009 showed that the growth in GDP that China had seen was almost completely offset by the reduction in export revenue. According to Stratfor.com, about 90 percent of the growth that China had witnessed was created by forced lending and investments in China’s own infrastructure and public services. Forced lending like this is great for short term growth, but it’s also a definite sign that the growth China has seen is not going to be able to be sustained into the future.

This also brings us to the next important point that China relies too heavily on the United States and vice versa for economic growth. The United States and China have entered into an economic bond in which the Chinese citizens save and purchase U.S. bonds, and the people of the United States spend their money on a number of different products including Chinese imports. Just to show how deep this marriage really goes, at one point the Chinese government stepped in to prevent its currency, the yuan, from appreciating against the dollar. Then the Chinese used their excess currency to buy U.S. Treasury bonds and bonds that were issued by Fannie Mae and Freddie Mac, in order to keep United States interest rates low. This in turn, caused Americans to spend even more money, including products that were imported from China, and it just added to the bubble that was getting ready to pop.

When the U.S. markets finally crashed exports from China to the United States were cut back by 20 percent and China was holding on to U.S. financial instruments that many people thought were going to lose much of their value. Two other events also took place that created some hostility between the U.S. and China. The first was President Obama's visit with the Dalai Lama, which definitely caught the eye of the Chinese government. Also, the United States began to sell weapons to Taiwan, which created a very heated response from Beijing. Will all of the events that have taken place, and China's current expected growth, cause China to divorce the United States and begin its own road to becoming the top super power of the world?

Although many people feel as though China has reached a point where it has become a super power, it will not dominate the world in the 21<sup>st</sup> century the way the United States did in the 20<sup>th</sup> century. The facts, that show China's dominance as an economic super power in the world today, simply are not there. Although, they have seen huge growth in recent years, even despite the depression, the sustainability just does not exist for this type of growth. China is also dealing with several other issues including growing disputes with its biggest trading partners and internal issues amongst its own people. China just does not have the stability that is required of an up and coming super power. They have potential for the future, if they can sort out all of the internal problems, but for now China and the United States will continue to stay married because these two nations rely on each other to steer the economy of the world.