



THE CHINA FILES



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BREAKINGVIEWS

PREFACE

How fast will China grow in the next decade? Can it keep up the astonishing 10 percent annual growth rate it has witnessed in the past three decades? And if not, what strain will this put on the country's political system?

These are some of the biggest questions facing not just China but the whole world. The latest Reuters Breakingviews e-book - *The China files* - attempts to answer them.

- *Can China keep it up?* argues that the old economic model is running out of steam.
- *Brave new economic model* assesses the new model based on consumption, services and high-tech industry. To get there, Beijing is going to have to ride roughshod over vested interests and that will be tricky.
- *Crony capitalism* argues that the combination of vested interests and the suppression of free speech is a potentially explosive mixture with echoes of Mubarak's Egypt. It won't be easy either to maintain the current political model or to reform it.
- *All smiles, no substance* explores the latest powwow between Beijing and Washington and argues that it's those outside the dialogue who are feeling the pain.
- *One nation, many bubbles* says that China doesn't have one real estate bubble, but many. Prices in big cities are sky high, while ghost towns sit empty. Falling prices will threaten growth and social stability – but fall they must.
- *Feisty females* is a personal “postscript” outside the normal Breakingviews style. China's one-child policy has left it with too few women – but those there are could be a powerful engine for change.

Hugo Dixon

Editor, Reuters Breakingviews

May 2011

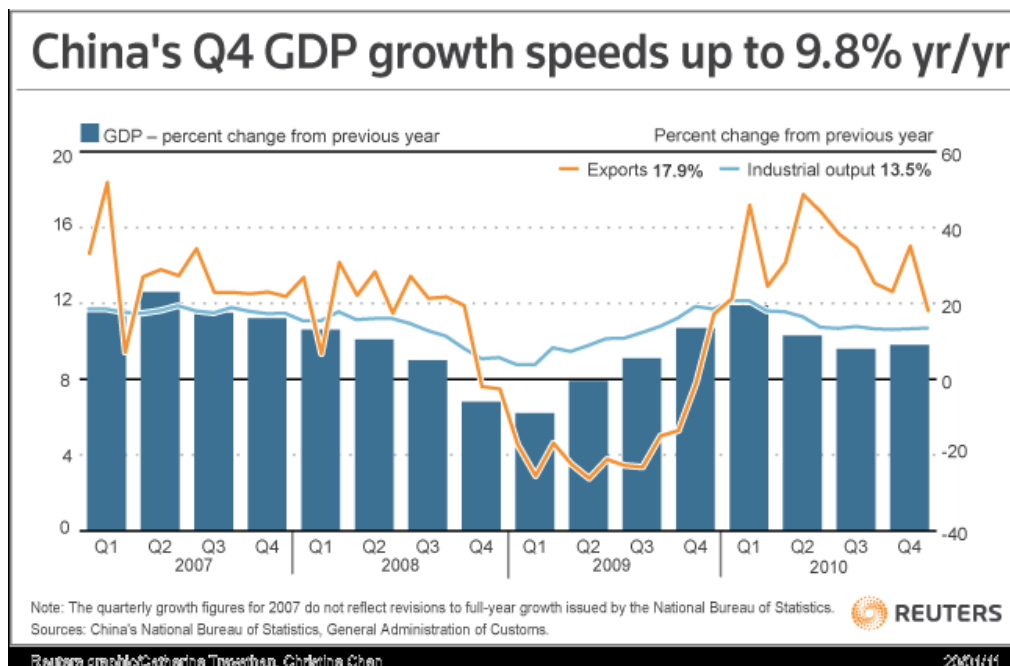
CAN CHINA KEEP IT UP?

BY HUGO DIXON

How fast can China grow over the next decade? Nowhere near the breakneck speed it has enjoyed over the past three decades. Multiple economic, environmental and political challenges will slow it down.

The capitalist revolution launched by Deng Xiaoping after Mao Zedong's death still has a long way to go. But it is now in its early middle ages rather than its infancy. The government recognises that the old model driven by exports and investment is running out of steam; indeed, its recently unveiled 12th five-year plan tries to grapple with that challenge.

But it won't be easy for the next generation of leaders, who are due to take over next year, to devise a new model that can move nearly as fast as the old one. Growth since 1980 has averaged 10 percent a year, according to official statistics. Such rapid growth over such a long period is virtually unique.



In the early stages of economic development, a country can grow very fast with the right policies. It is in catch-up mode. The quality and quantity of labour expand rapidly as the benefits of education kick in and the labour force grows. The quality and quantity of capital also take off if cutting edge technologies from

abroad are adopted and money is poured into equipment, factories and infrastructure. And efficiency improves, especially if markets are freed up to competition.

This is basically what has happened in China since Deng launched his revolution. The country has witnessed a rapid urbanisation which flooded factories with cheap labour: the urban share of the total population has grown from 20 percent to 50 percent between 1980 and 2010. People have worked incredibly hard to escape the poverty of their forebears.

Investment has been especially high: reaching a mind-boggling 48 percent of GDP in 2009. And exports have been driven ever upwards by an artificially low exchange rate, combined with closer integration in the world economy since China joined the World Trade Organisation in 2001.

Economic headwinds

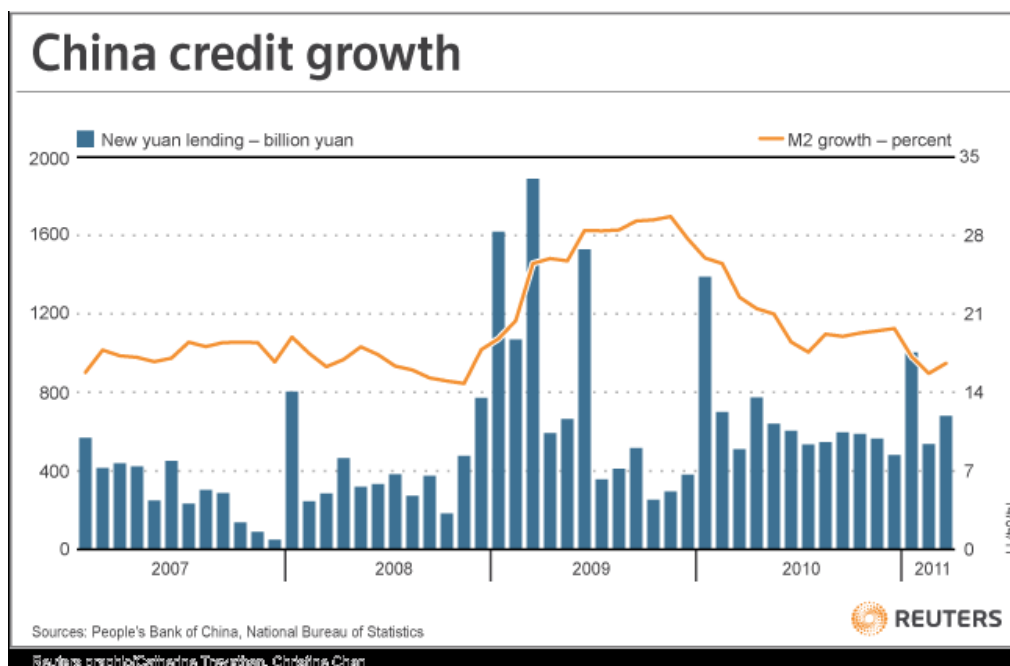
These trends can't continue at the same pace. The country's exports are now so big that it can't keep expanding its share of world trade so fast. What's more, its indebted customers in the West have a limited ability to keep buying.

The West is also turning up the pressure on Beijing to allow the yuan to appreciate, as politicians worry that an undervalued exchange rate is putting their own workers out of jobs. The topic will be on the agenda again when senior Chinese and American officials meet for the latest in their series of strategic and economic dialogues in Washington on May 9-10.

Exports peaked at 35 percent of GDP in 2007, just before the global financial crisis. After that, China's rapid growth was fuelled instead by a stimulus programme of heavy infrastructure spending and massive expansion of credit. But, as more and more roads, high-speed railways, factories, office blocks and homes are built, the returns on investment are falling. The net return on total assets in the entire economy is estimated at only 1.2 percent in 2009, according to Lombard Street Research.

The financial consequences of this investment splurge haven't become fully apparent. The over-investment in property has been disguised by the credit expansion, which fuelled what looks like a speculative bubble. Meanwhile, the low returns in infrastructure are often hidden in the off-balance sheet vehicles of China's local governments.

A burst property and infrastructure bubble would rock the economy, not least

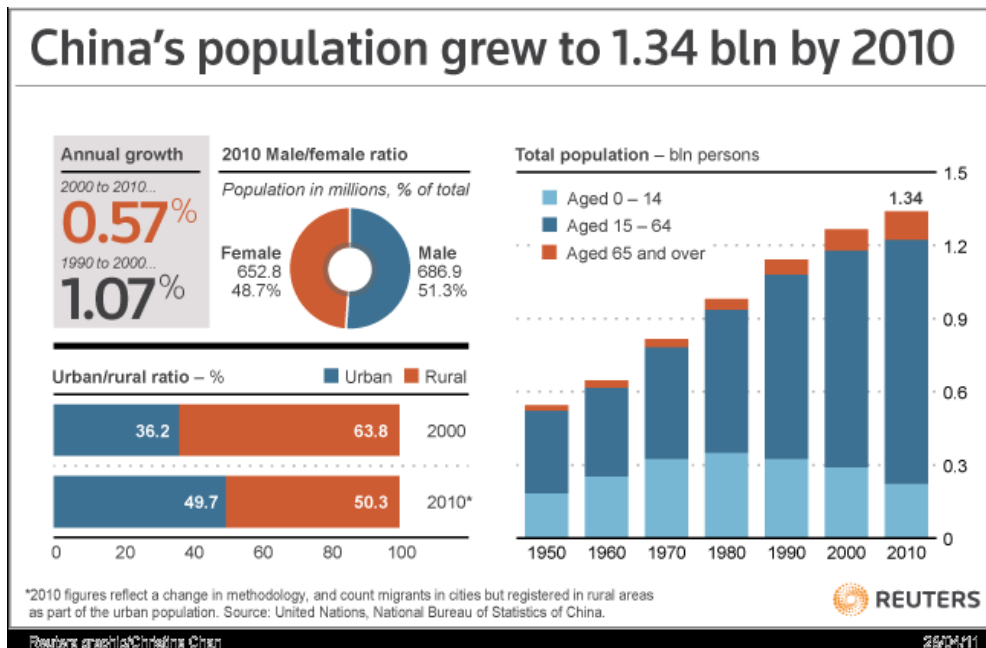


because construction has been such an important engine for growth. True, it's unlikely to lead to a financial crisis because bad debts can be dealt with by the central government bailing out either the local governments or the banks. But Beijing won't be able to keep repeating the same trick; otherwise its own currently strong fiscal position will be under threat.

Malthus with a twist

If China only had to contend with slowing export and investment growth, it might be able to engineer a gradual slowdown in its economy - averaging perhaps 7 percent over the next decade. That's actually the government's new target, although it consistently sets hurdles it expects to be able to jump easily. But demographic and environmental challenges mean that even hitting 7 percent could be tough.

A rapidly ageing population is one - the result of rising life expectancy and the country's one-child policy, launched to prevent overpopulation in 1978. The proportion of people aged 14 or younger was 16.6 percent in 2010, down 6.3 percentage points since 2000, according to the latest census. The number aged 60 or older, meanwhile, rose 2.9 points to 13.3 percent. As a result, the labour force has basically stopped growing. That will slow down growth not just because human capital isn't expanding but because upward pressure on wages is eating away at competitiveness.



Another constraint is the environment. China is so big that its economic success is applying a brake to further progress. Not only has this helped push up the price of commodities, which are hugely important for China's manufacturing-orientated economic model; the country will have to reduce the carbon-intensity of its GDP to help stop the planet overheating. As Chinese consumers become more concerned about being healthy as well as wealthy, action will also have to be taken to tackle water shortages, air pollution, traffic congestion and other effects of uncontrolled industrialisation and urbanisation.

All this is bound to slow China down. And that's even before taking into account two big challenges China can no longer ignore: the need to switch gears to a new, consumption-led economic model, and the quest for social stability in a country with high inequality and few political rights.

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BRAVE NEW ECONOMIC MODEL

BY HUGO DIXON

The Chinese government knows it's time for a change. The old economic model - based on cheap exports and eye-popping investment - can't be sustained.

Fortunately, politicians aren't sitting on their hands. The latest five-year plan, covering 2011-2015, aims to boost internal consumer demand as the main engine of growth. It envisages a bigger share in the economy for services, which

are currently only 43 percent of GDP - barely half America's level. The plan calls for more high-tech industry and for greener, less carbon-intensive growth. There's also to be a big push into social housing, so the poor can afford somewhere to live.

All this is good on paper - and all these things are already happening to some extent. But to achieve this fully, Beijing is going to have to ride roughshod over vested interests and loosen its grip on the economy, society and politics. That's not going to be easy.

Take the drive into high-technology. Beijing's approach to date has been to make it hard for foreign companies to sell products such as cars into China unless they set up joint ventures with local partners. The idea is that this helps technology transfer. Until now, foreign companies have been so intoxicated by the opportunity to sell to a market of 1.3 billion people that they have largely gone along with the Faustian pact. But they are becoming more wary: witness this year's American Chamber of Commerce survey on the business climate in China.

It is, of course, open to China to invent its own technology - and certainly large sums are being earmarked for research and development, which is to rise from 1.8 percent of GDP to 2.2 percent of GDP over the course of the five-year plan. But it's unclear whether the socio-economic system is well structured to encourage invention.

Schools, for example, are often criticised for getting children to mug up facts rather than think for themselves. And even if Chinese companies have technology, they may themselves face barriers to exporting their products. For example, Huawei, the networking giant, has been singly unsuccessful in signing up a big U.S. telecoms operator as a client because of concerns in America that having a Chinese supplier could somehow compromise the security of a vital piece of infrastructure.

Meanwhile, intellectual property rights are poorly protected. That makes it logical for a budding entrepreneur to copy somebody else's invention rather than invest in research himself - and find that somebody else copies him. This applies not just to manufacturing but to a whole range of services industries especially media and software. Jokers say the acronym "G2C" means "copy to China".

Equally, further deregulation will be required if the push into services is really going to gather pace. That will mean liberalising areas dominated by state-owned enterprises, notably media and financial services areas. That could make the authoritarian government feel uncomfortable.

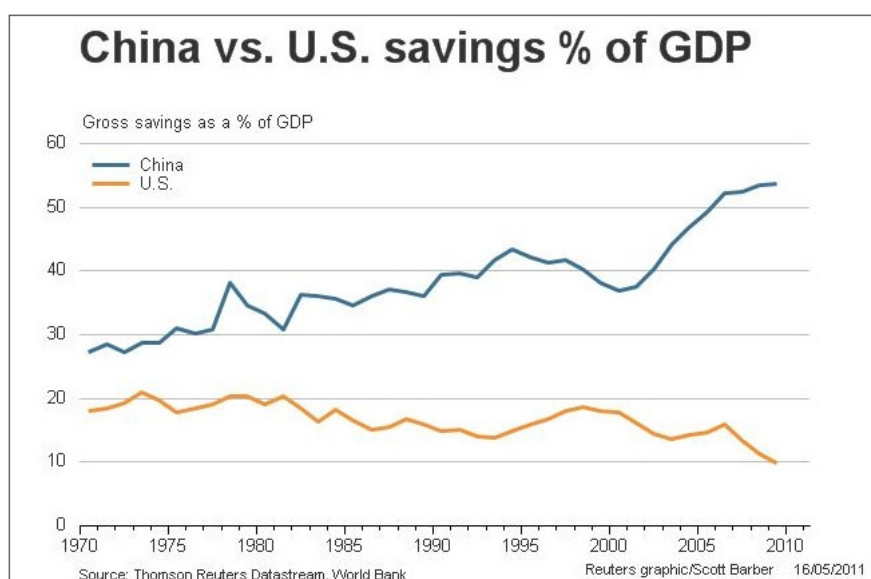
Beijing's ambition to turn Shanghai into an international financial centre is a case in point. That looks an impossible dream unless foreign banks are permitted to have a bigger slice of the market (they currently only have 1.8 percent of total assets), capital controls are removed, the exchange rate is freed up and a proper rule of law instituted (the judges are now subservient to the ruling Communist Party rather than independent.) Each of these measures will be hard to push through.

Consumption conundrum

China has an abnormally high savings rate - 54 percent of GDP in 2009 compared with 10 percent for the United States. This is partly the result of the carnage in World War Two at the hands of Japan, the long civil war between the Communists and the Nationalists, the horrific famine in the late 1950s and the Cultural Revolution in 1966-1976.

These memories are fading. But the ageing population has new concerns about how to pay for its health care and pensions - especially as the state does very little on this front. The one-child policy exacerbates this because the Chinese people cannot look forward to a large brood of kids taking care of them in their old age. With all their eggs in one basket, it makes sense to save a lot.

To get its new economic model working, Beijing will have to cut saving and boost consumption. That, in turn, means increasing the amount of money in people's pockets and encouraging them to part with it. There are four main ways to do this - but each is problematic.



First, push up wages. This would give people more money to spend. The snag is that wage inflation is already chipping away at China's competitiveness - and Beijing is scared about what will happen if the economy can't create the millions of jobs that are needed each year to absorb new migrants from the villages to the cities.

Second, allow the exchange rate to appreciate. That would keep down inflation, likely to be above 5 percent when official figures are released on May 11, and boost consumers' purchasing power. But again, it would undermine competitiveness.

Third, give the people a better deal on tax and social security, so that they wouldn't need to save so much themselves. As part of the latest five-year plan, the government does intend to improve pensions and health care. And, in the short run, it is rich enough to afford to. The country has foreign reserves equivalent to 50 percent of GDP, more than offsetting public sector debt which is 17 percent of GDP. But the fiscal position is not as strong as it looks. Local governments have incurred huge off-balance sheet liabilities to finance their investment splurge. And the problem with making generous promises to an ageing population is that the cost mounts year by year.

Finally, give the people a better deal on their savings. At present, deposit rates are set artificially low so that cheap funds can be funnelled via state-owned banks to state-owned enterprises. Banks, meanwhile, are guaranteed a fat fixed margin on lending. Even after the latest hike, the maximum banks are allowed to pay is 3.25 percent for one-year deposits - meaning savers get a negative inflation-adjusted interest rate of around 2 percent.

Effectively, this system acts as another tax on the people. Freeing up interest rates would be good for the masses and encourage consumption, but it would hit two powerful vested interests: the state-owned enterprises which would have to pay more for their capital; and the banks which would see their margins squeezed.

It's doubtful the leadership has the stomach to do all of this whole-heartedly. As a result, consumption and services won't grow fast enough to take up the running from exports and investment. That leads to an even trickier question for China's policymakers: how to keep stability in a political system where insiders gobble up economic goodies and free speech is suppressed.

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CRONY CAPITALISM

BY HUGO DIXON

China's economy is riddled with vested interests, while free speech is suppressed. This potentially explosive mixture sounds similar to Hosni Mubarak's Egypt, though Beijing has been much more successful at promoting economic growth than Cairo in recent decades. No wonder the regime is cracking down on dissent - including arresting Ai Weiwei, the internationally renowned artist. But it won't be easy to maintain the current political model - or to reform it. And failure to do either could knock the economy off its extraordinary trajectory.

The country is officially run by the Chinese Communist Party. But, apart from the suppression of individual rights, it is hard to see much about it that is communist. Inequality is high and rising. The Gini Coefficient, a standard measure of income inequality in a society, is over 0.4 and, by some measures, is close to 0.5 - high figures normally associated with sub-Saharan African countries.

If this inequality were merely a reflection of the market - the fact that some Chinese are more talented and hard-working than others - it could be motivational. But a lot is also a result of economic goodies being grabbed by insiders, sometimes via corruption and in other cases by excluding outsiders from opportunities. One lesson from the Arab Spring is that populations can grow restless when they think rulers and their cronies are enriching themselves unfairly.

In China, the "class" system operates on several levels. At the top of the socio-economic scale are the "princelings", children of important party officials, who have become multimillionaires by trading on their contacts. Then there are bureaucrats, who enjoy attractive lifestyles funded by the people's taxes and sometimes bribes. Transparency International puts China joint 78th out of 178 countries in its 2010 ranking of perceived corruption. State-owned enterprises, meanwhile, benefit from monopolies or oligopolies and pay minimal dividends. The fruits of their economic activity are therefore largely enjoyed by those who run them.

There is also the "hukou" system which prevents rural migrants from participating fully in China's economic miracle. The country has at least 150 million people who come from the villages but work in the cities. The snag is that they don't have the right to be resident, so often live in dormitories, and their children don't get the same access to schooling as local residents, so usually stay in the villages with their grandparents. The cities want these workers but don't want to

be swamped by the need to house them and pay for the education and health care of their families. The result is a potentially unstable two-class society.

Finally, even among the urban population, soaring house prices cause a chasm. The bubble is great for the rich who have bought multiple houses - so long as it doesn't pop. But it's tough on those who can't afford to get onto the property ladder.



Carrots and sticks

The regime is alive to the problem. Up to now, its approach has been a classic mixture of carrot and stick. The carrot has been growth. Even if the benefits of growth haven't been equally distributed, hundreds of millions of people have still been taken out of poverty. Meanwhile, the stick has been to crack down on anybody who is perceived to be stepping out of line - whether the series of arrests in the past two months or employing an army of censors to police the internet or the killing of protesters in Beijing's Tiananmen Square 1989.

The problem is that both the carrot and the stick are becoming harder to wield. Economic growth is going to slow down in the coming decade. It then won't be as easy to buy off potential dissent. Meanwhile, mobile communications and the Internet are mutating in ways that Beijing will find increasingly difficult to control. True, the authorities have banned Facebook and Twitter, while Google decamped to Hong Kong when it finally had enough of the censorship. But the Chinese people are still finding ways round what has been dubbed the Great

Firewall.

What's more, there's a connection between political rights and economic advancement. This was not apparent in the past three decades, when the Chinese model was based on low-value manufacturing. Millions of people could be stuck in factories and told to get on with the job. But it will become apparent as Beijing tries to switch to a new model based on services and high-value manufacturing. If this transition is to be successful, people will have to think for themselves more. They will also have to harness the full power of modern communications. It will then be virtually impossible to keep a lid on free speech. On the other hand, if Beijing decides to batten down the hatches, there will be fewer economic goodies to share out - and protests could bubble up in other ways.

There is an alternative: dismantle both the crony capitalism and the Communist Party's monopoly on power. If this could be accomplished in an evolutionary way - admittedly, a big "if" - China could make a peaceful transition to something more like a Western democracy.

The country has seen big shifts of direction in the past - the Maoist takeover in 1949, the disastrous famine-inducing Great Leap Forward in the late 1950s, the equally crippling Cultural Revolution from 1966 until Mao Zedong's death in 1976, and the extraordinary successful capitalist revolution initiated by Deng Xiaoping after that.

But, as the economic boom has gathered pace, insiders have an increasingly strong interest in maintaining the status quo. It is doubtful that China's current generation of leaders has the power to take on vested interests. The present duo - Hu Jintao, the president, and Wen Jiabao, the prime minister - are seen as consensus politicians. The front-runners to succeed them next year - Xi Jinping and Li Keqiang respectively - haven't shown their hands, but as existing members of the political elite, are likely to be consensus politicians too.

This may have been suitable when the task was to keep the old export and investment model on the road. But it doesn't look so appropriate given the need to yank the economy in a different direction, while also addressing mounting socio-political problems.

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ALL SMILES, NO SUBSTANCE

BY JOHN FOLEY

Not so long ago China and the United States were at loggerheads. Now they seem too close for comfort. Their regular strategic and economic dialogue concluded its 2011 session in Washington DC with a selection of minor pledges, some promises to do things already promised, and a failure to address one issue on which both are guilty as sin: currency misalignment.

Seen through a microscope, the dialogue admittedly had successes. China will officially scrap the need to "Buy Chinese" for local government procurement, something President Hu agreed in principle in January. That should prise open a market worth well over \$100 billion a year, according to official Chinese data - if local governments follow the rules.

Financial openness, too, scored a victory. China will selectively allow foreign banks to see mutual funds. That's good for banks, which can tap into a market growing at 24 percent a year, by consultant Z-Ben's reckoning. It's also good for China, which needs savings products for its ageing population. But it's a small giveaway, since foreign banks in China remain relatively tiny.

Of the bigger strategic issues, some were intractable anyway. Beijing's support for state-owned enterprises, via too-cheap bank loans, won't disappear just because America wants it. Nor will Washington stop calling for China to be kinder on human rights.

But on currencies, the dialogue has disappointed. The U.S. side praised China for letting the yuan appreciate 10 percent against the dollar in the past year after accounting for differential inflation. Yet since the last strategic dialogue, it has strengthened just 1 percent in real terms against its trading partners' currencies overall. That imbalance fuels China's export-driven economy, which registered an \$11.4 billion trade surplus in April.

Why did the yuan drop off the agenda? Look to the dollar. It too has fallen compared with its trade partners - 10 percent since the last two-way powwow. Loose monetary policy is a big factor, which leaves the U.S. contingent no room to complain. While the strategic dialogue ended with all smiles for the two countries invited, everyone who trades with China or America has reason to grimace.

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ONE NATION, MANY BUBBLES

BY JOHN FOLEY

China's property bubble is so big you can practically see it from space. House prices have been driven skyward by cheap money, aspiring middle classes and rising numbers of city dwellers. Taxi drivers, politicians and hedge fund managers talk of little else. The government tolerated a boom for too long, but prices need to return to earth.

Why do people say China has a housing bubble?

The speed of price rises has been dizzying. In ten of the country's biggest cities, the price of new mass-market houses rose more than 10 percent in the last year. And from 2004 to 2009, prices in 35 cities doubled. As with any bubble, there is no definitive proof. The National Bureau of Statistics has abandoned its headline price indicator, saying it masked huge variations. The International Monetary Fund has decided that, on a country-wide basis, Chinese property is not yet a bubble. But in some urban centres, it's a different story.

Consider affordability. In most markets, a comfortable ratio of house prices to average annual household income is around four times. In a metropolis like Beijing, Shanghai or Shenzhen, the current level is more like 12. Even with

wages rising rapidly, that's excessive.

The financial conditions for a speculative bubble are also present. Broad money supply has increased 39 percent in the past two years. Real interest rates are negative. A hoarding mentality, the result of decades of grievous shortages, looks conducive to investment manias. Investors have only three places to put their funds: in the bank, in stocks, or in real estate.

What's missing is leverage. As buyers have to put down at least 40 percent of the purchase price in most cases, a bursting bubble would look different from the recent U.S. housing crash. Still, the fact that prices have reached such levels in the absence of easy mortgage credit shows how much expectations of capital gain have risen.

So who owns all those empty buildings?

That's the wrinkle: China has a supply bubble too. Rising prices have attracted new investment, but buyers and sellers can't agree, so apartments sit empty. Ordos, a city in Inner Mongolia, shows up on Google Earth as a pristine ghost town. And a widely circulated rumour in 2010 suggested that 65 million Chinese homes had used no electricity in the previous six months.

The government has helped create this excess. Provinces depend on revenue from selling land for development. Officials at every level have tacitly welcomed building activity, since it pushes up the GDP, on which their success tends to be measured. Even wealthy cities like Tianjin and Dalian boast visibly empty stretches of prime real estate.

Sellers also have no reason to cut a deal in a hurry. Rental yields, as low as 1-2 percent, are less than the cost of depreciation, so there is little pressure to rent out properties. And since many speculative owners have little or no leverage, they often do not face cash flow pressure.

The authorities see the problem. China's banks are being told to clamp down on property-related loans, which made up a quarter of last year's total, and keep 20 percent of their deposits on reserve to curb frivolous lending. That doesn't help Ordos much, but it should ensure ghost towns don't become a bigger feature of China's landscape.

What can China's leaders do about it?

So far, politicians have tried to buy time by stopping the market in its tracks. Shanghai and Beijing now limit purchases by non-residents, and third homes are

taboo. That has slowed the pace of transactions, which fell 70 percent from January to February, according to real estate website SouFun.

Speculators, though, are merely waiting for the market to thaw. An annual property tax, which makes it more costly to leave properties empty, has been introduced in Chongqing and Shanghai but is too small to have an effect.

Why not really grab the bull by the horns? The reason may be that if prices fell, construction of new projects would plunge, and GDP with it. Housing construction makes up around a sixth of China's economy. Put another way, if building activity were to drop by a third in one year, GDP growth would halve. That would cost thousands of jobs, and put social stability - China's bugbear - at risk.

Meanwhile, authorities are trying to increase the supply of affordable housing. That won't bring down prices at the top end. But it does have the benefit of pacifying the unhoused poor, and may provide a boost to construction even if house prices fall.

What would really make a difference is a sharp increase in interest rates. Even with little mortgage lending, a big hike - say two percentage points - would make owners lower their expectations of future value. The problem is that it could also cause a broader economic slump. For now, the housing bubble is holding monetary policy hostage.

Who gets hurt if the bubble bursts?

The victims can be divided into three camps. First, the banks. Since most mortgages are worth less than 50 percent of the value of the property, big

lenders have plenty of security in the event of widespread default. Agricultural Bank of China, one of the big four lenders, claims a 50 percent price drop would increase its bad loans by just 0.5 percent, though that might be an overly rosy assessment.

Smaller lenders may be more exposed and might have to be swallowed by larger ones. But China's banking industry has healthy capital ratios, and bad debts are currently just 1 percent of the total loan book. Even if soured loans do go through the roof, China could afford to recapitalize its banks by drawing on savings elsewhere in the public sector, or tapping its \$2 trillion of foreign reserves, as it has before.

The second set of victims would be property developers. Again, the biggest may

be shielded, and some have eschewed debt financing. Others, though, are already raising funds at high rates, notably through bond issues in Hong Kong. Inventories are bloated, especially in second-tier cities like Wuhan and Taiyuan. Officially, a quarter of loans made in 2010 were to the property sector, but the real number is no doubt higher.

The final group would be home buyers. The number of people affected by a property slump may be larger than it looks, since families often club together to buy, or borrow informally from other sources. One apartment may tie up three generations' savings.

Faced with that outcome, Beijing may feel that the best thing to do is nothing. But that would be folly. The lesson from other property crashes is that if regulators and policymakers don't prick bubbles, an external crisis or sudden reversal of sentiment eventually causes a much more savage sell-off. Governments that attempt to cure investment manias are damned if they do, but much more damned if they don't.

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POST SCRIPT: FEISTY FEMALES

BY HUGO DIXON

My first visit to China was in 1979. I was a schoolboy. It must have been one of the earliest Western school trips to the mainland. Mao Zedong had died three years before, Deng Xiaoping had launched the country on three decades of supercharged growth and the one-child policy had just been initiated. I hadn't been back until this March.

Back then, Mao's image was plastered everywhere and almost everyone wore Mao suits. I even bought one for myself. I also bought a Mao poster and stuck it in my bedroom at school. Nowadays, the posters have virtually vanished, along with the suits.

But that wasn't the only thing that was different in my recent visit. The main thing that struck me were China's feisty females. Could this be a by-product of the one-child policy that led to selective abortion, female infanticide and an excess of boys?

Two young women picked me up inside Beijing's Forbidden City, home of the pre-revolutionary imperial family. Both had steady boyfriends. One actually felt her bargaining position was so strong that she should upgrade her man because

he wasn't rich enough to buy a home. In China, grooms are expected to provide the home, which is quite a burden in the property-bubble infected cities.

I accepted an invitation to tea, even though I don't like the drink. And when we arrived at the tea house, I went along with the suggestion that we try a little bit of every type. The bill came to a staggering 2,160 yuan (\$333). That was eight cups of tea each for three people at a cost per cup of 49 yuan - plus an elaborate assortment of extras. I had been scammed. I negotiated the price down to 400 yuan, still way over the top for the tea but perhaps a reasonable price for the field research.

*My next encounter was with Zhang Xin, the billionaire chief executive of Soho China, a cutting edge property group. Suave, attractive, sophisticated, she's not just a member of the Beijing elite; she's part of the global elite. Zhang had a cameo appearance in the film *Wall Street: Money Never Sleeps*. Oliver Stone,*



Zhang Xin

the film's director, is a friend. Zhang also doesn't slap up non-descript office buildings. She has commissioned no fewer than three separate complexes by Zaha Hadid, the Iraqi-British superstar architect.

Back in 1979, I doubt there was anybody who straddled these worlds as

smoothly as Zhang. But go back another three or four decades and you had Soong Meiling, wife of Chiang Kai-shek, China's leader before Mao. She didn't just hold sway in China; she wowed the Americans too. She stayed in the White House with Franklin Roosevelt, was the first woman to address a joint session of Congress and had a close relationship with Wendell Willkie, the Republican whom Roosevelt defeated in 1940.

Slaughtering the dumpling

A few days later, I sat next to Karen Chen, another fascinating woman, at a dinner in Shanghai. When I travel, I often have round-table dinner parties. In some countries, it's hard to find a round table. But this isn't a problem in China. At this particular dinner, in an exquisite boutique hotel, the guests were young millionaires with a conscience, Most had charities they had established, many concerned with the environment.

We were having a lively conversation about culture, politics and economics - or, at least, that's what I thought - until my neighbour erupted.

"You think you are a hot-shot journalist," Chen said - or something like that, because this isn't a verbatim quote. "But you can't just come here on a Friday night and organise a debate in the way that you want. We want to have fun. We want to relax. You don't understand China. If you want to understand, you should listen. You shouldn't try to impose your ways on us."

My neighbour was "old money" - which, in China, means roughly two decades old, given that it has only been possible to accumulate wealth since Mao's death. She'd been educated abroad and worked in investment banking before returning to Shanghai to start taking over her parent's real-estate business. Her big idea was xiao (孝) - a word which roughly means respect for one's elders.

I was reeling. Was I a neo-imperialist, despite my best intentions? All I felt I could do was roll with the punches. "What's more, you slaughtered the dumpling." Chen pressed her advantage. We were laughing at you. You didn't notice it.



Karen Chen

This was a delicious, elegant dumpling. But you don't know how to eat it. You didn't ask us. You just poked it with your chopstick and all the juices spurted out."

It was true. I didn't know how to eat the dumpling. It was just too vast to pop in my mouth. The correct procedure is to pick it up with your chopsticks, bite the head off, suck out the juice and then gobble up the shrunken mass. But I also reflected that I was nearly twice Chen's age. I was delighted that, in giving me a dressing down, she had not shown me much xiao.

My dumpling assailant isn't the only one demolishing the stereotypical image of the demure Chinese woman. Some 69 percent of China's women aged 15-64 work, compared with an OECD

average of 60 percent and work, compared with an OECD average of 60 percent and India. That's a huge asset, although, of course, it means Beijing has one fewer lever to pull as it looks for new sources of growth. Countries like India can, if they choose, turn to a huge source of untapped labour.

But an army of educated, opinionated women could be a powerful engine of change. If the rest are anywhere near as dynamic as my three experiences suggested, China's feisty females may be one of the country's best chances of taking on its considerable vested interests.

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Front page: Petar Kujundzic

Photo 2: Shannon Stapleton

Photo 3: Aly Song

Photo 4: Christian Hartmann

Photo 5: sent by Karen Chen

Graphs by: Scott Barber and Christine Chan