# Rodney’s Take

August 14, 2023

## There’s 3.3 Trillion Reasons To Expect a Chinese Rebound

On July 19, I warned people to beware a wounded China. The country has terrible demographics, falling consumer prices, declining trade numbers, and lower prices paid at the gate (at factories). Youth unemployment now stands at about 21%. Given that more than 17% of the world’s population lives there, it’s hard to imagine another country or two pulling China out of the economic ditch. The Chinese must get out of this morass on their own, and that’s the problem.

Given its dismal demographics, China’s long-term prospects are grim. The one-child policy, which reduced the population by an estimated 400 million, helped China grow by focusing resources on manufacturing, just as Japan did after World War II. But if you don’t have a rising, young generation with enough people to become the next workers, consumers, and taxpayers, then you’re left with a large, older generation that will rely on social assistance. The math doesn’t work.

But China isn’t there yet. Yes, the Chinese just dipped into deflation and yes, consumers have pulled back, but there are several trillion reasons to bet that the Middle Kingdom will rise again. The country is sitting on the largest stockpile of foreign exchange reserves in the world, valued at $3.3 trillion dollars.

Foreign exchange reserves are holdings in the currency of other nations, plus gold and IMF special drawing rights (SPRs). The U.S. might have a bit of other currencies in a drawer at the Fed (actually, it’s $242 billion), but we don’t need them, because we're the reserve currency of the world. China doesn't just have a lot of foreign reserves, it holds almost three times the amount as number two on the list, Japan ($1.2 trillion). If China's foreign reserve currency holdings were a country, it would be the seventh largest nation on the planet in terms of annual GDP.

In short, China ain't broke. The Chinese can buy their way out of their current pickle; they just have to pick a path.

When I wrote about this in July, I pointed out that they could build more coal-fired electrical plants. That would work, but it takes a while. Remember the e-yuan (e-CNY)? That's China's central bank digital debit card. The nation could send 1,000 yuan (roughly $125) to a *billion people* in the blink of an eye, pay for it out of their foreign exchange reserves so as not to hurt its currency, and still have $3.175 trillion left over. Best of all, the government could require that people spend it on goods and services within 60 days or the value would be drained from the card.

Now, money is fungible (any instance of it can be substituted for other instances). Someone could get cute and use their e-yuan card to buy goods and services they would've purchased anyway and save their other cash. But I'm not sure I'd take a chance on the government finding out that I tried to cheat it.

Chinese officials might try to bail out property developer Country Garden, which missed payments on dollar-denominated bonds at the first of the month. I don't know how much Country Garden is worth or how much debt it has outstanding, but I'm guessing the People's Bank of China (PBoC) could buy the company and wipe out its debts to give its property market a shot in the arm. Or, the regulators could lift some of the recent restrictions on property purchases. It won't solve the long-term problems, but it will rejuvenate the economy in the short term.

China has spent the last three decades building a huge war chest from the wealth we sent them in exchange for widgets. The current leader, Xi, just rearranged the country's politics to make himself leader for life.  For the next several years, expect him to do whatever it takes to make sure that China prevails, even if it costs him a bit of cash to get it done.

Rodney

*Got a question or comment? You can contact us at* info@hsdent.com.