OP-ED COLUMNIST

China to the Rescue? Not!

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I had no idea that many of those oil paintings that hang in hotel rooms and starter homes across America are actually produced by just one Chinese village, Dafen, north of Hong Kong. And I had no idea that Dafen's artist colony — the world's leading center for mass-produced artwork and knockoffs of masterpieces — had been devastated by the bursting of the U.S. housing bubble. I should have, though.

"American property owners and hotels were usually the biggest consumers of Dafen's works," Zhou Xiaohong, deputy head of the Art Industry Association of Dafen, told Hong Kong's Sunday Morning Post. "The more houses built in the United States, the more walls that needed our paintings. Now our business has frozen following the crash of the Western property market."

Dafen is just one of a million Chinese and American enterprises that constitute the most important economic engine in the world today — what historian Niall Ferguson calls "Chimerica," the de facto partnership between Chinese savers and producers and U.S. spenders and borrowers. That 30-year-old partnership is about to undergo a radical restructuring as a result of the current economic crisis, and the global economy will be highly impacted by the outcome.

After all, it was China's willingness to hold the dollars and Treasury bills it had earned from exporting to America that helped keep U.S. interest rates low, giving Americans the money they needed to keep buying shoes, flat-screen TVs and paintings from China, as well as homes in America. Americans then borrowed against those homes to consume even more — one reason we enjoyed rising wealth without rising incomes.

This division of labor not only nourished our respective economies, but also shaped our politics. It enabled China's ruling Communist Party to say to its people: "We will guarantee you ever-higher standards of living and in return you will stay out of politics and let us rule." So China's leaders could enjoy double-digit growth without political reform. And it enabled successive U.S. administrations, particularly the current one, to tell Americans: "You can have guns and butter — subprime mortgages with nothing down and nothing to pay for two years, ever-higher consumption and two wars, without tax increases!"

It all worked — until it didn't.

With unemployment now soaring across the U.S., said Stephen Roach, the chairman of Morgan Stanley Asia, Americans — "the most over-extended consumer in world history" — can no longer buy so many Chinese exports. We need to save more, invest more, consume less and throw out most of our credit cards to bail ourselves out of this crisis.

But as that happens, we need China to take our discarded credit cards and distribute them to its own people so they can buy more of what China produces and more imports from the rest of the world. That's the only way Beijing can sustain the minimum 8 percent growth it needs to maintain the political bargain between China's leaders and led — not to mention pick up some of the slack in the global economy from America's slowdown.

However, if I've learned one thing here, it's just how hard doing that will be. China's whole system and culture nourish saving, not spending, and changing that will require a huge "cultural and structural" shift, said Fred Hu, chairman for Greater China for Goldman Sachs.

In China, for instance, to buy a home you have to put at least 20 percent down, and the average is 40 percent. If you try to walk away from the mortgage, the bank will come after your personal assets. Moreover, China can't just shift production from the U.S. market to its own consumers. Not many Chinese villagers want to buy $400 tennis shoes or Christmas tree ornaments.

Also, China has no real Social Security, health insurance or unemployment insurance. Without that social safety net, it's hard to see how Chinese don't end up saving most of their stimulus. "You open up the newspaper every day and you hear about this factory shutting down or that supplier going belly up," said Willie Fung, whose company, Top Form International, is the world's leading bra maker. "You can never be too careful in this financial climate."

As such, "the world should not have a false hope that China can cushion the global downturn," by stimulating its domestic demand in a big way, said Frank Gong, head of China research for JPMorgan Chase. "The best thing China can do is keep its own economy stable."

It's good advice. China is not going to rescue us or the world economy. We're going to have to get out of this crisis the old-fashioned way: by digging inside ourselves and getting back to basics — improving U.S. productivity, saving more, studying harder and inventing more stuff to export. The days of phony prosperity — I borrow cheap money from China to build a house and then borrow on that house to buy cheap paintings from China to decorate my walls and everybody is a winner — are over.

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