

As a writer living in China, Mr. Gu Zexu has to try to express his opinion on his blog in a round about way to avoid being arrested for any possible reason the communist regime may create. The following letter was written in 2008.

Topic: From China's property bubble to China's dictatorship rule

Dear Mr. XXX: (a Chinese financial analyst in America)

Thank you for your letter.

The Chinese economy, which forms part of the world big picture, is facing the challenge of the problematic real estate issue in Shanghai in addition to other troubles. But to really appreciate this issue, our understanding needs to go beyond that: it is important to know that the economic operations are but one of human social activities and relations between the two do not stay the same, rather they vary according to different types of social systems.

In this modern world, China has proved a deviation, on which topic I covered other related issues during my interview with *Radio Free Asia* last Friday. When I was asked why banks in China can stay impervious to breakdowns despite repeated warnings of looming financial crisis as predicted by western specialists. I replied that, for a considerable period, Chinese banks will be able to avoid financial collapses, though they will always be running along the brink of a breakdown. Basically, this is due to the politically entrenched position of the state-owned banks.

Ordinary Chinese people know only too well that the Chinese governments will not let banks down, even in the event of a panic spree of cash withdrawal from a local bank. In that case, the government will flex its muscle by swiftly transferring large amount of cash through administrative means to the bank in question while galvanizing propaganda into full swing to stabilize situation and restore confidence. They would also mobilize a mighty army of cadres to talk people into obedience. Should the spate of withdrawal sweep the whole nation, the government still has the last resort, that is, to close down the banks temporarily to win time for actions, including propaganda work, man-to-man persuasion, police crackdown or persecuting a few venal officials.

The governments have no scruples in utilizing any means to achieve "social stability". As long as the economy works, revenue will look after itself and bank deficits will be covered up. Should the red in budget exceed limits of capacity, the government could call on the nation to tighten its belt for a number of years. It can also look to increase fees and charges, penalties or tax; it might loosen its grip on land planning and dirty industry development or turn a blind eye on chain debts and wage default by the state-owned enterprises. All this seems incredible from the

prospect of American economics or incomprehensible to a financial professional with 22 years' study in economics.

You believe that Shanghai should be duly classified as a world-class metropolitan city from the developmental point of view, therefore housing prices ought to align with those in New York or Los Angeles. Following this logic, there ought to be much room for housing price upside expansion in Shanghai. Well, if you precondition that scenario on the time frame of 50 years or a century, I would not object to your view at least. However, if you are trying to justify the extremely high house price in Shanghai, or to argue against the view about real estate foam in Shanghai, I would venture to disagree with you.

Too many people in the West imagine China's economic statistics are derived from healthy and steady economic operations, as are being practiced in their own countries, even though it is obvious the existence of exaggeration in the Chinese official figures, as western economic circle is well aware of. Of course, they would be astounded to see the net Chinese economic growth rate, even after skimming off the foam. You must be forthcoming to share their sensation with your American experience gained through 14 years' of study in economics there. Moreover, it is difficult for you as a Chinese national not to turn that amazement quickly into excitement.

Indeed, inference on this could be drawn from your argument on aligning Shanghai with New York and Los Angeles. Indeed it surprises me to hear such a view from you. Given your background of eight-years study in economics in Fudan University in Shanghai and your knowledge of China's irresponsible slogan calling habit, you should never care more of its spin. How you come to give credit to China's propaganda slogan – the equal footing of Shanghai with other metropolises in the west - as a presumption for a train of serious reasoning is beyond me.

To ordinary people in China, the concept of property is closely associated with those of the most basics in life. The time honored and stiff household registration system in Shanghai reinforces the practice of population immobilization, which makes a human shelter more indispensable. Therefore the rationality behind property pricing must be the so-called "bucket principle", that is, properties need to be affordable to low-income earners. This is the primary criterion with which I judge whether there are bubbles or not in property pricing.

After staying in the campus of Fudan University for eight years, you must be knowledgeable enough about the Fudan geographical location which could not be counted as the CBD area. I wonder if you know how much the price of the residential quarters around Fudan has risen so far. That is around 5000 yuan sqm. Further northwards from Fudan University lies the lonely street of San men road. How much are properties there worth? Around 4000 yuan sqm. The

advertised property price only refers to the starting price or the lowest, usually that of units at the least desirable level and with the most disliked direction in a building, surely inclusive of other fees and charges such as taxes. Real estate agencies loathe naming high-end property price for advertising purposes.

You know these things for sure. Do you know how much low income workers earn in Shanghai? For the skilled processing workers inside glossy buildings in Jinqiao Export Processing Zone in the Pudong New District, Shanghai, 1000 yuan a month is average, or as low as 800 yuan. As for the strata in the society taking in a monthly wage of 600 yuan, I would not like to comment. Putting yourself in the shoes of those workers who, after saving for ten years, without any spending even on food and drink, still find the smallest unit unaffordable, and who account for at least 50% of the local population – or at least 70% if that count includes the peasants who have long inhabited the area, will you still hold to your assertion that the surging property price is normal and reasonable? Do New Yorkers or Los Angeles residents share the same dilemma as Shanghainese?

Note the Chinese culture tends to disfavor a mobile population, which is further reinforced by an inflexible system. The modern Chinese concept of “mobile population” emphasizes the aspect of “moving” while retaining the connotation of “immovable” homes. The Shanghai local residents stick so much to the habit that they prefer to reside where they used to be while earning their bread.

Having comparing the housing problem in Shanghai to a double whammy of cancers, I have yet to elaborate on another issue: the delusive impression of massive consumption attributed to the hefty housing price. The reality is to the contrary - serious constraint on spending. When the general population, including the middle class, can neither afford expensive properties nor have a democratic mechanism to help, all they can do is to turn to belt-tightening for savings. Since one saving in the bank is far from enough, every family member, old or young, is committed to a collective “communism” so that they might end up with a unit of their own. By doing so, they are obliged to cut spending to the minimum.

It is reality that has forced people to return to or maintain a life style belonging to the medieval agricultural era in terms of consumption. The consciousness of saving is made acuter amidst the frantic waves of commercialization in education and medical sectors. In this light, it is clear that the main contributor to Chinese economic growth is anything but consumption. It is investment on fixed assets, being largely foreign investment, as well as cheap labor.

Therefore you can discern a kind of relationship existing between real estate agencies and banks of mutual dependence for survival. People only see that banks tend to aggravate crisis by granting property loans. But what they do not realize is, surging property prices have forced

people to save money, guaranteeing high national saving rate, which provides the primary conditions for Chinese banks to rely on for survival. Given high national saving rate is maintained, banks pinpoint suitable clients to provide mortgage loan to them, for which real estate agents are the lowest risk candidates if they keep the upward price momentum. In the meantime banks have little choice but to support these agencies so that banks can continue to enjoy the high national saving rate. That is why the official document No 121, introduced this year by the Chinese Central Government aiming at restraining unbridled property development, has not only been opposed by the real estate sector, but is found inexcusable in the bank sector. Has New York or Los Angeles been bogged down in this situation?

The so-called Document No 121 can be a feigned move only to cater for the psychological needs of bureaucrats in the State Council in its macro-control exercise, if not an absurd idea worked out by a bookworm. However, if genuinely intended restriction on property foams or crackdown on property speculation is sought, there has never been lack of means. For example, I told *Radio Free Asia* that it could be as simple as the requirement of a tax return from the taxation office. The catch is in the amount of paid personal income tax and the value of the property to be purchased. So when a purchase exceeds certain thresholds in dollar terms or a second property is to be bought, the purchaser is required to produce proof of tax payments, a justification of financial resources. Buying more properties or a better property should be conditioned on paying the right amount of tax. How many people in New York or Los Angeles dare to purchase million-dollar worth assets without preparing to prove the legitimacy of their payment? But this is not the case in China where no one is committed to taking practical measures or even has the will to curb on property speculation. The so-called macro-control is not so much to get rid of foams as to reduce the too ugly, too big bubbles just to a bit smaller.

In your letter, you suggested me to broaden my vision, which is a sound idea from the prospect of thinking and studying. But what has not brought your attention to is this: while I was probing into the Shanghai real estate problems, my vision has gone far beyond that of the boundaries of general economics. As to examine this issue from the point of a New Yorker or a Los Angeles resident, which you suggested to me, firstly I am not capable of and secondly I am not willing to do that.

Western economists have made repeated errors in assessing the Chinese economy because they are unaware that China is NOT sharing the earth they are residing on; China is out on the Moon. (If they knew it, they would have naively assumed if there are oceans on earth, there must be oceans on the Moon as well). Of course that is not to say that Chinese economists are any better. Too many times they are made laughing stocks of, which I would not elaborate on for numerous reasons.

Basically I am an illiterate when it comes to the English language. Therefore my reply to your letter is only based on my guess of what you meant to say. You must pardon me if there are any words unintentionally offensive to you.

Zexu GU

Zexu GU, born in 1962, is a native of Shanghai. Keen on literature, he has long engaged in the study of philosophical theories. After he had graduated from the Shanghai Normal University in 1984, he completed his article “The Outline of Independence-ism” in the following year. It was an account of the world historical evolution, in which he argued that to discern the historical development trends in China and to determine the course of China’s socialism, one must take a comprehensive view of the world historical evolution. He proposed in the article that Authoritarianism should dominate the first stage of socialism, followed by the second stage of Independence-ism. He claimed that the movement of socialist reform should aim at firstly, the achievement of the independence of both legal person and natural person, and secondly, to build a society which is governed by law and operated on a market economy. These should be the basic characteristics of the Chinese society.

This 20 thousand word long article went into wide circulation in the society and continued into the beginning of the 90’s in university campuses. But the author later repudiated many of his previous views in the Outline, which he considered premature. He then realized that his comprehensive and independent philosophical study must be supported and enriched by his personal involvement in social activities and gaining first hand experience in life, society and other objectives, only by doing so could his perceptive feelings sublime into theoretical cognition. Inspired by this ideal, he plunged into various social practices.

The following years have seen him playing many different roles in all walks of life: a teacher, a political coach and an officer in the military; a prosecutor in anti-corruption campaigns; the owner of a small road-side peddle; the boss of a private company; a manager in government agencies in charge of planning and project managing; chairman of the board of an industrial company; a countryside grass root Communist Party secretary; the editor of a newspaper and conductor of social surveys; even an acting prosecutor and a private detective. When he completed the draft of another article at the beginning of 2002, he took a computer and shut himself up at a peasant’s home in a suburb, away from bustling business and interests. He reemerged in November the same year with his 40 thousand word long article “New Thinking”.