# China's traders cash in on royal wedding

AFP, *Yiwu, China*

Chinese jewellery factory owner Zhou Mingwang sums up the global appeal of this month's British royal wedding with one line: "It's a love story."

But, he adds with a sly smile, the much-ballyhooed April 29 union of Prince William and girlfriend Kate Middleton is also a great business opportunity for Zhou and his fellow entrepreneurs in this eastern China factory town.

Zhou, 32, has sold more than 100,000 replicas of the blue 18-carat sapphire and diamond engagement ring that once belonged to Princess Diana and which William offered to Kate when he proposed.

The wedding may not be a closely watched event in China, which is largely free of the hype generated elsewhere by the British royal family, but its potential has not escaped the country's nimble and web-savvy entrepreneurs.

Others in Yiwu -- home of the world's largest wholesale market for consumer goods, many of which are exported -- also are cashing in on the royal union by churning out mugs, flags, and other Wills and Kate bric-a-brac.

Last-minute orders continue to flow in. Zhou just shipped 100 rings to an Australian customer, while a French fashion magazine bought 35,000 for a newsstand give-away promotion.

"Ten years ago, China was not experiencing globalisation like now," Zhou said. "The Internet was not as popular as it is now. But as it becomes more popular, we can know what happens in foreign countries right away."

Ever watchful for a business opportunity, Chinese manufacturers have shown particular skill in capitalising on global events.

During last year's soccer World Cup in South Africa, Chinese factories churned out hundreds of thousands of the vuvuzela horns whose bee-swarm buzz provided the soundtrack for the globally televised competition.

Chinese state media reports said up to 90 percent of South Africa's vuvuzelas were made in China.

A day after the royal engagement was announced on November 16, Zhou posted a photo of the ring on Alibaba.com, which links Chinese suppliers with customers around the world. Inquiries from buyers in England came in almost immediately.

Zhou sells the rings for about 22 yuan each ($3.40) mostly to Europe, Canada and the United States, though they are not a major part of his annual sales of around $1 million, earned mostly from black onyx rings and necklaces.

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Another Yiwu entrepreneur, Fu Xuxian, assembled an entire royal souvenir line including rings, mugs, key chains and even blue dresses like the one Middleton wore during the engagement announcement.

Fu said he aimed to sell 50,000 of his rings but had already moved twice that.

"It looks like we underestimated the demand," he said outside the small flat from which he runs his online trading company, Unnar Jewelry.

The dresses sold less well, perhaps due to their $120 price tag, he said, while plush toys resembling the BBC children's show characters Teletubbies -- and which had Wills and Kate's faces -- also flopped.

The success of Zhou's ring business further stirred his personal interest in the wedding and a desire to see it up close. But after mulling a trip to Britain, he decided a visa would be too difficult to obtain.

Instead, he will bring a video projector to his workshop and watch the broadcast with his 40 factory employees.

"We will prepare some Chinese food and have a party," he said.

AFP

**A Chinese woman holds a replica of the blue 18-carat sapphire and diamond engagement ring that once belonged to Princess Diana and which Prince William offered to his girlfriend Kate Middleton when he proposed.**

# US vs China: whose century is it?

*Continued from yesterday*

DEREK SCISSORS

The policy of boosting growth simply through the pure quantity of money spent cannot extend through the current decade as it did through the last decade -- China must change course or face sharply smaller GDP gains.

In terms of natural resources, the PRC's environmental difficulties are widely known, as is its stark dependence on commodities imports. China is the world's second-largest oil importer, the biggest coal importer, the biggest soybean importer, and accounts for two-thirds of global iron ore trade by itself. The same kind of results hold for many metals, and corn could be next.

Food grain dependence stems from land depletion. More than one-fourth of China's land can be classified as desert, and nearly half suffers from sand erosion. Related, and perhaps even worse, China is exceptionally poorly endowed with water, needed for farming and industrial activity. Greater agricultural productivity drove Chinese growth and helped balance income in the 1980s, but natural resources have long since become a major obstacle to growth rather than a spur.

The Communist Party has deftly used a generation's worth of fast expansion in the workforce to help create rapid GDP growth. The period of demographic expansion will end over the coming decade, though, and be followed by an exceptionally sharp period of contraction, due in part to China's one-child policy. Beginning in about the middle of the decade, the ensuing two generations will be as much as one-fifth smaller than the one before.

By 2035, close to 20 percent of the population will be age 65 or older. The analogous figure for Japan in 2008 was just over 20 percent age 65 or older. Starting in approximately 2015 and over the course of two decades, the pure quantity of labour will shift from contributing nearly 2 percentage points to GDP growth to subtracting around 1 percentage point.

Limits on investment, depleted physical resources, and a coming plunge in the amount of available labour leave more efficiency in use of labour and capital as the drivers of future growth. Government bureaucrats may guess correctly, but inevitably make serious mistakes.

Only competitive markets promote enduring efficiency gains. In the early 1990s, Japan faced a similar situation -- resource weakness, declining return to capital, and a shrinking labour force. Tokyo repeatedly chose fiscal stimulus over reform. The outcome has been unpleasant.

After more than two decades of steady market reform, China intensified its state-directed stimulus in 2002 and again in 2008. The workforce has not yet begun to shrink and a mixed economy can sustain low-return investment for much longer than a market economy. Within a decade, however, the Communist Party must grit its teeth and return to a market path or suffer Japan's fate. If political will is lacking, China's growth story will vanish as Japan's did, and the many projections of Chinese predominance will prove as illusory as they were for Japan 20 years ago.

The obvious questions are if and when the PRC will restart reform. Here, China-watching is still guesswork. It is certain that the longer Beijing waits, the more painful a return to the market will be. The economy is now distorted by investment similar to how the U.S. economy is distorted by deficit spending. As with American budget warnings since 2007, China's State Council first cited investment dependence as a problem in 2004, and it has become far worse since.

Sharp policy changes are more feasible in the PRC than in most countries due to centralized decision making. Still, an abrupt end to state subsidization of investment would cause several years of slow growth or even contraction, whether or not the party acknowledged it. A gradual change of direction is much more likely, but would extend the period of economic inefficiency and environmental destruction. Such an extension could cost China dearly as the labour situation deteriorates by the end of this decade.

Comparing the US and China, the next World Bank inflation adjustment will drop China further behind (and bring the PPP comparison closer to the simple GDP comparison). America's growth rate is obviously another major variable. Nonetheless, its raw population means that the PRC will likely pass the US at some point after a resumption of market reform.

For example, if the 2012 Communist Party Congress were to nullify actions by the 2002 Party Congress and restore Deng Xiaoping's economic model, this would enable roughly two more decades of rapid growth, perhaps in the 7 percent to 8 percent range, then gently decreasing to the 5 percent to 6 percent range over time. China would then surpass the US in PPP-adjusted size before 2025 and pass the US in simple GDP three or four years after that. Delaying reform or other missteps will postpone the dates. Finally, the somewhat bizarre example of Japan appears to indicate that China could also decline to reform, suffer long-term stagnation, and never pass the US at all.

Raw size of the economy, though, is far from the whole story. At the time of GDP convergence, the average American's income will still be more than four times greater than that of the average Chinese. Despite polls describing China as the economic leader, no one in the US would trade the number-one ranking in GDP for a 75 percent cut in salary. If it quickly returns to the reform path, the PRC will be bigger than the US in less than a generation, but America will remain much richer, indefinitely.

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What about other measurements? Economic leadership cannot be separated from technology. There are many technology indicators, and they change over time. At the moment, personal computers to some extent represent both productivity of citizens through technology and the setting for fresh innovation. The results mimic GDP: Annual Chinese sales will shortly pass American sales, but on a per capita basis, the US is far ahead. This suggests that the PRC as a nation will be increasingly capable while individual Americans will remain more productive.

Productivity is reflected by employment, where the numbers may surprise those who see the PRC as the global leader. It is generally accepted that Chinese policy is driven first by the need to create jobs, but the magnitude of that challenge is not widely understood. When unemployment is measured by those who want jobs and do not have them, China's unemployment is double that of the US even in a very weak American year. This is a staggering burden for China.

The writer is a research fellow in Asia Economic Policy in the Asian Studies Centre at The Heritage Foundation. The views expressed in this column are the author's own and do not represent those of Reuters.

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**US Secretary of State Hillary Clinton (R) holds a photo given to her as a gift by Chinese State Councillor Liu Yandong (L) as they make remarks at the closing session of the US-China Consultation on People-to-People Exchange at the US Department of State on April 12 in Washington, DC.**