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STEPHEN S. ROACH

Investment test for US revival

The American consumer is but a shadow of its former almighty self. Personal consumption in the United States expanded at only a 1.5 percent year-on-year in real (inflation-adjusted) terms in the second quarter of 2012 — and that was no aberration. Unfortunately, it continues a pattern of weakness that has been evident since early 2008.

Over the last 18 quarters, annualized growth in real consumer demand has averaged a mere 0.7 percent, compared to a 3.6 percent growth trend in the decade before the global financial crisis. Never before has the American consumer been this weak for this long.

The cause is no secret. Consumers made huge bets on two bubbles — housing and credit. Reckless monetary and regulatory policies turned the humble abode into an ATM, allowing families to extract dollars from bubbles and live beyond their means.

Both bubbles have long since burst, and US households are now dealing with post-bubble financial devastation — namely, underwater assets, record high debt and profound shortages of savings. At the same time, sharply elevated unemployment and sub-par

income growth have combined to tighten the noose on over-extended consumers.

As a result, American households have hunkered down as never before. Consumers are diverting what little income they earn away from spending toward paying down debt and rebuilding savings. That is both logical and rational — and thus not something that the US Federal Reserve can offset with unconventional monetary easing.

American consumers' unprecedented retrenchment has turned the US economy's growth calculus inside out. Consumption typically accounts for 70 percent of GDP (71 percent in the second quarter, to be precise). But the 70 percent is barely growing, and is unlikely to expand strongly at any point in the foreseeable future. That puts an enormous burden on the other 30 percent of the US economy to generate any sort of recovery.

In fact, the other 30 percent has not done a bad job, especially considering the severe headwinds coming from consumers' 70 percent. The 30 percent mainly consists of four components — capital spending by companies, net exports (exports less

imports), residential construction and government purchases. (Technically, the pace of inventory investment should be included, but this is a cyclical buffer between production and sales rather than a source of final demand.)

Given the 0.7 percent trend in real consumption growth over the past four and half years, the US economy's anemic 2.2 percent annualized recovery in the aftermath of the "great recession" is almost miraculous — thanks mainly to the other 30 percent, especially to strong exports and a rebound in business capital spending.

In contrast, the government sector has been moving in the opposite direction, as state and local governments retrench and federal purchases top out after post-crisis deficit explosions. The housing sector has been recovering over the past five quarters, but from such a severely depressed level that its growth has had little impact on the overall economy.

Given the strong likelihood that consumers will remain weak for years to come, the US' growth agenda needs to focus on getting more out of the other 30 percent. Of the four growth com-

ponents in the category, two have the greatest potential to make a difference — capital spending and exports.

Prospects for these two sources of growth will not only influence the vigor, or lack thereof, of any recovery; they could well be decisive in bringing about an important shift in the US growth model. The 70-30 split underscores the challenge: the US must face up to a fundamental rebalancing — weaning itself from excessive reliance on internal demand and drawing greater support from external demand.

Capital spending and exports, which together account for about 24 percent of GDP, hold the key to this shift. At just more than 10 percent of GDP, the share of capital spending is well below the peak of nearly 13 percent in 2000. But capital spending must exceed that peak if US businesses are to be equipped with state-of-the-art capacity, technology and private infrastructure that will enable them to recapture market shares at home and abroad. Only then can export growth, impressive since mid-2009, increase further. And only then can the US stem the rising tide of import penetration by foreign producers.

The other 30 percent is also emblematic of a deeper strategic issue that the US faces — a profound competitive challenge. A shift to external demand is not there for the asking. It must be earned by hard work, sheer determination, and a long overdue competitive revival.

On that front, too, the US has been falling behind. According to the World Economic Forum's Global Competitiveness Index, the US slipped from fourth place in 2010-11 to fifth place in 2011-2012, continuing a general downward trend evident since 2005.

The erosion is traceable to several factors, including deficiencies in primary and secondary education as well as poor macroeconomic management. But the US also has disturbingly low rankings in its infrastructure quality (No 24), technology availability and absorption (No 18), and the sophistication and breadth of its supply-chain production processes (No 14).

Improvement on all counts is vital for the US' competitive revival. But meeting the challenge will require vigorous growth from America's other 30 percent — especially private capital spending. With the American consumer likely to remain on ice, the same 30 percent must also continue to shoulder the burden of a sluggish economic recovery.

None of this can occur in a vacuum. The investment required for competitive revival and sustained recovery cannot be funded without a long-overdue improvement in US saving. In an era of outsize government deficits and sub-par household savings, that may be the US' toughest challenge of all.

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HUANG XIANGYANG

Will we lament how green were our valleys

My mood turned sour as I trudged along the rugged mountain path in Yunnan province last week. I even started to regret my decision to travel there for a holiday.

The journey was hard — an 18-kilometer trek through dense forest to a secluded Tibetan village, Yubeng, at the foot of the snow-capped Meili Mountain. My heart was pounding wildly, my feet were leaden and I was gasping for air on the high altitude.

But what upset me was not physical strain — I had actually asked for it to test my strength and will to the limit — nor the muddy and swampy road after days of heavy rain, not even the putrid smell from years of accumulated excrement of horses and donkeys that carry provisions for villagers living in the depths of forests on the mountain.

It was garbage at each step that turned me off.

As I lumbered on I saw a hiking trail littered with plastic and glass bottles, beer and soft drink cans, polystyrene and paper instant noodle containers. The shrubs that lined the road were strewn with plastic bags and tattered ponchos, in addition to snack packets made of materials ranging from plastic and tinplate to polyolefin. Dustbins of bamboo baskets at a regular distance were either full or broken as a result of neglect, adding to the mess of wastes.

My local friend accompanying me told me that the garbage had been left behind by the increasing number of tourists who, drawn by the village's primitive beauty, started swarming it since the early 1990s. Local villagers, locked in mountains and short of garbage disposal means, could do nothing but see the wastes pile up year after year.

The filth reminded me of what I see daily in Beijing, where people litter and spit at random. On my way home from work after night shift, I would walk past several street barbecue stalls where groups of people, some stripped to the waist in summer, boozed and booted. Grill sticks and leftovers were strewn all around. The smell of swill permeated the air as drunkards vomited and urinated in the greenery nearby. I would hold my breath and quicken my pace as I passed by.

To flee from such nauseating environment, even for a few days, was the very reason I had taken a four-hour flight from Beijing plus a seven-hour bumpy bus ride from Kunming to visit the remote mountainous area called Shangri-la, "a fairyland, a paradise on earth."

But the endless piles of garbage and litter gave me a sense of hopelessness — there is really no escape in China nowadays as urban pollution makes inroads even into places as secluded and remote as Yubeng. I wonder if there are still places left unscathed.

This is a sad reality.

As our country's economy takes off, our space for survival decreases at an alarming rate and the environment turns toxic.

Actually, muck has already reached our doorsteps. According to a Ministry of Housing and Urban-Rural Development survey, conducted several years ago, one-third of Chinese cities are besieged with domestic and industrial wastes.

Nearly half of the 18,000-ton garbage that Beijing generates daily is left untreated because of technological restraint. That apart, it has been considered one of the worst cities to live in because of its chronic air pollution.

In the economic powerhouse of Guangdong province, waterways are little more than open sewers as three-fourths of the industrial wastewater and domestic sewage — that is, 12.5 billion tons of untreated gunk — was dumped directly into the rivers last year.

The ever-deteriorating environment in China explains why the number of cancer patients is increasing by more than 20 percent a year, and the disease has become the No 1 killer in the country.

Chinese people have always longed for and loved clean and beautiful environment. Odes to mountains and rivers are an eternal theme in Chinese classical literature.

When I was young I used to sing: "My motherland is a garden of flowers". I was wrong. The country is not a garden. Instead of flowers we see wastes.

Now we don't even have clean air to breathe and clean water to drink, though we have started enjoying some sort of material prosperity. It is heartbreaking to see a 5,000-year-old civilization degenerate into a huge refuse dump.

My trip to Yunnan was not all that bad in the end. The local people are friendly and the food fantastic. I was mesmerized by the pristine snow mountains, azure sky, white clouds and dazzling green forests.

Will such natural, rustic beauty survive for our offspring to see?

The answer, my friends, is not blowing in the wind; it depends on what we do.

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LI FENG / CHINA DAILY

CHEN WEIHUA

Gold medal for public participation

Watching Chinese weightlifter Wu Jingbiao burst into painful tears, and bow and apologize in front of cameras after having to settle for a silver medal at the London Olympic Games was nothing but heartbreaking.

The 23-year-old's tears should not have been for failing to win the gold. Instead, they should have been tears of happiness. After all, a silver medal also represents triumph, although many expected him to win the gold.

No one should blame Wu, not even the athlete himself. Athletes should be applauded and celebrated as long as they try their best, regardless of what place they finish in a contest. This Olympic spirit, however, is not well understood by most Chinese, officials and the public alike.

Many Chinese still believe that the gold medal tally at the Olympics is proof of a country's strength in sports. Many may recall the humiliation in the 1936 Berlin Games when all but one Chinese athlete was eliminated in the preliminaries. It resulted in a Singapore-

based newspaper mocking China as the "Sick Man of East Asia".

Chinese sharpshooter Xu Haifeng's gold medal in the 1984 Olympic Games in Los Angeles is widely regarded as an achievement that finally washed that disgrace off the Chinese athletes.

From then on, Chinese have proved that they can win gold medals, and lots of them, as was seen at the Beijing 2008 Olympic Games, where China bagged 51 gold, more than any other country. China has proved that again during the first six days of the 2012 London Olympics.

There is nothing more to prove for China. And there is no need for Chinese to be obsessed with gold medals any more.

Wu's apology was apparently because of the high expectation people had from him. China's central and local governments have invested huge amounts to train each Olympic athlete and coaches have tried their best to prepare them for the events. As a result, the nation is infatuated with gold medals.

Perhaps that's why silver and bronze

medalists, who too are great athletes, are often treated like losers. For example, Yi Siling was in the spotlight for winning China's first gold medal in 10-meter air rifle at the London Olympics, but bronze medalist Yu Dan was largely forgotten.

The good thing is that there seems to be a mass awakening on such blind pursuit and worship of gold medals. In news media and blogs both, people have voiced their support for Wu and condemned the over-glorification of gold medals.

We should start a debate on whether the gold medal tally really reflects the strength of a nation.

Despite China winning more gold medals than any other country in 2008, sports at the grassroots level in the country has long been ill funded and always lacked facilities.

My colleagues and I play soccer every weekend in Manhattan and Queens of New York City, and I know it is almost impossible to find such a field for free in either Shanghai or Beijing. In Beijing, you have to pay 1,500 yuan (\$240) to

rent a soccer field for two hours in a university opposite the China Daily office.

The lack of sports facilities in China has discouraged public participation in sports. It is in sharp contrast to what I have seen in cities outside China.

The Ibirapuera Park in Sao Paulo, Brazil, for example, has two great museums for Afro-Brazil and contemporary art.

Yet what impressed me most during my visit there a month ago was the influx of young people jogging, biking and skateboarding in the park. That is also a daily scene in New York Central Park and along the banks of the Hudson River.

China has invested immensely in the Olympics for the sake of national pride, but it is public participation in sports that is worth more than all the gold medals. It is also a true reflection of a nation's strength.

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