



Higher wage and lending rate

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Introduction

China announced higher lending rate by a quarter percentage on April 28 and announce raise the wage for State sector works by 16% on April 29. One hand it tries to cool down the red hot economy but the others adds more fuel to the economy. What do these two messages mean?

Who is the target of higher borrowing rate?

When you borrow \$10, an increase of the quarter percent means a quarter of a dime more to pay the interest. If you borrow a \$1B then the quarter percentage means \$2.5M. The interest rate will pose less deterrence to the consumer but it does have a sensitive effect to large leveraged real-estate projects or speculative investments.

Why increases the wage of State sector?

The increase is 16% to bring the average wage to US\$630 or ¥5,000 a year from US\$590 or ¥4,700 a year. What is the motivation?

China has corruption. This is no news. Other than greed, corruptions could stem from social imbalance especially those have authority. There is an old saying in Chinese that goes like this: bureaucrat is corruption. This is like the western saying of absolute power absolute corruption.

In the Communist world, the Party is the absolute power. Your boss is absolute power. After 20 years of open door policy, the *tradition* still takes more time to change. As the contact to the West intensify, the anticorruption movement also moving to another new height because it restoring the old value when your quality of life improves. If one argue the nature of human being is good than we have to agree corruption stems from imbalance.

What could be better than reduce imbalance for the group of people who has the power?

What about the rural and non State sector?

In Guangdong, a survey done in March has indicated that the wage has just increase by ¥60 for the last 10 years. Consider the economy growth, this would hardly cover any real inflation. The cause of this low wage is due to the government's low cost strategy. With the inflation going through the roof but the wage stay low, especially the farmers, the social imbalance will create unrest. This is a serious problem the government should work with the industry to solve. This does not just using the low wage of a large group of

people to subsidize the growing GDP, it also slows down the local economy which has to be further encourage to waning the dependency of export.

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