

A short note written for the 48 Group Club dated 22 August, 2005

China in Asia

There is no doubt that China's economic influence is everywhere, even if certain people choose to ignore or remain unaware of it.

A long established fund manager recently said to me that he doesn't need to deal with China at all as he specialises in US stocks, and 'that is big enough'. That statement only shows that he doesn't quite know his stuff.

China is affecting world interest rates and therefore property prices, shipping rates, oil and commodity prices, supply chains and the fortunes of many companies in the West either directly or indirectly.

All these are bound to impinge upon my friend's US portfolio.

But to continue to grow, China needs to import a great deal of oil. Apart from costs, no number of nuclear plants can solve the problem. That pitches China against other major oil importers especially the US and Japan.

Oil tends to be concentrated in a handful of countries. US influence dominates most of them except those it wants a 'regime change' e.g. Iran and Sudan, where China's oil interests remain.

There are also winners and losers with China's economic rise. Jobs are lost not only in various sectors in the West (not just textiles), but also in some labour intensive LDCs.

Moreover, the extreme right is rearing its head whether in Japan or the US. This fans paranoia about China's threat and feeds China containment strategies. The US shutting the door to CNOOC recently is only a small example.

With its many internal challenges China cannot rise but peacefully. However, that is not sufficient to convince the nationalists and the neo-conservatives.

So the China play translates into different regional or pragmatic geopolitical alliances. US is cuddling Japan and trying to do so with India, who is playing both sides. Similarly Australia.

To counteract an encircling US influence, China has to develop regional alliances in Central Asia (also a helpful source of oil, as in Kazakhstan). Similarly in South America and Africa. ASEAN are dependent on China to sustain their exports, especially raw materials.

To maintain balance against US dominance, both Russia and China are edging closer together.

Taiwan is a special issue for China and is being used as a useful ploy by those who seek to restrain China's growth. Although inextricably integrated economically with the Mainland, there is no sign of any immediate Taiwanese urge for political unification.

Still, this is proving to be China's Century. The whole country is pulsating with energy, momentum, unity and optimism.

China is celebrating the international reach of Zheng He who waved the Ming flag in the seven seas. The significance is not merely historical.

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