

China joins the Capitalist Club in her embrace of Globalisation and Multilateralism

(Adapted for the 48 Group Club from my recently published articles available from my website www.andrewleunginternationalconsultants.com)

The world sat up as China Development Bank (CDB) bought a multi-billion Euro stake in Barclays, along with Singapore government's Temasek. This could see the CDB's stake rising from at least 3.1% to 8% to become by far the biggest shareholder in this major British bank. Learning from her previous US adventures, the Barclays deal, before being signed, was well ventilated with the highest level of the British government, including the Prime Minister. The deal was meant to strengthen Barclays' bid for the Dutch bank ABN-Amro.

From China's earlier foiled bid for UNOCAL in the US, to her recent smoother takeover of MG Rover, and her new stake in Blackstone, China's capital seems to be coming thick and fast. The Barclays bid is certainly not the first, and is unlikely to be the last. We are seeing a move from 'Made in China', to 'Made by China', and now, as Dr Gerald Lyons, Chief Economist of Standard Chartered Bank likes to call, to 'Owned by China'.

As Temasek has already become the largest shareholder of Standard Chartered Bank, it is evident that Asian capitalists are emerging on the global scene. But unlike Temasek, China's capitalists with global ambitions are facing an uphill learning curve to become more internationally savvy. Working side by side with some of the world's top players in joint ventures or equities is a good way to pick up the management and investment skills.

What is more, the relative limited private investment outlets in China has led to over-concentration of investment (read speculation) in China's nascent stock markets, leading to roller-coaster rounds of 'musical chairs'

This underlines a major threat to China's stability -- her under-developed financial services, including a banking sector still dominated by state-controlled banks. The skills necessary for their developments are also best learnt by welcoming some of the world's leading banks on board through equity stakes in some of China's largest banks, as what has already happened in recent months.

Additionally, China's embarrassment of riches in her Foreign Currency Reserve is both a huge challenge and an opportunity. It now amounts to USD 1.33 trillion, growing by the day at over 20% per annum. This not only serves to underpin China's financial security but also leads to mounting international pressure on appreciating the RMB too much and too fast for China to handle. Besides, a great deal of this accumulation is invested in US Treasuries, earning very low return while creating a vicious circle of global financial imbalance. Although much of this mountain of gold is required to improve the dire health, education and welfare services for China's poorer masses, not all can and should be invested internally, if only to avoid the risk of inflation. So there is every incentive for China's state capital to go global.

As we have seen in recent months, outward investment in energy, resources, and corporations beneficial to China's industrial and financial development is gathering speed. I have also called for some of this sovereign fund, now managed by China's Temasek-styled new agency, to be invested (along with the petrodollars) in global responses to Climate Change.

Morgan Stanley has estimated that such sovereign funds assets worldwide could swell to USD 12 trillion by 2015. It is not inconceivable that a substantial part of this tidal wave of global capital will come from China.

Yet, China's capitalist foray into overseas markets sometimes raises eye-brows. CNOOC's earlier attempt to buy UNOCAL was scuttled by China bashers on Capitol Hill. Even her recent equity stake in Blackstone and in Barclays prompted questions in certain quarters whether the West was wise to sell companies to 'dictatorial regimes'. This is part of a growing fear of how the global order may change with a Rising China.

Let me first stress that I do not represent or speak for China or the Chinese government. But I do see different shades of so-called 'democracies' around the world. I also see that each country's development is different with its own geographical, demographic, environmental, historical, cultural, economic, political and other challenges. In an age of profound globalization and paradigm shift, it may be instructive to take account of the following angles:

(a) As the world has become so interconnected and interdependent - with value creation migrating across borders so readily - and as global economics have changed so dramatically, we need to re-think the global trading system in the highly integrated globalization of the 21st Century (highlighted, for example, by the Doha Round) and to address its 'Disconnects'. This would include the structure and functions of the World Trade Organization, the United Nations, the World Bank and the International Monetary Fund. (*The World is Flat, Thomas Friedman, 2005; Making Globalization Work, Joseph Stiglitz, 2006*)

(b) We are also witnessing a global industrial revolution the likes of which the world has never seen. Almost all at once, over 40% of humankind in China, India, SE Asia, Central Asia, Latin America, Africa, Russia and Eastern Europe are industrializing and urbanizing to varying degrees. Concurrently the world is becoming much more populated. How best should the global competition for resources including energy, minerals and water be coordinated and managed, both between emerging and developed economies and between all countries individually?

(c) Likewise, as the threats of Climate Change have become markedly evident, how best should global resources be used in tune with Nature without sacrificing the aspirations of individual countries and peoples at varying stages of development and subject to different political, economic, social, geographical and geopolitical challenges? (*The Revenge of Gaia, James Lovelock, 2006; The Weather Makers, Tim Flannery, 2005; Half Gone, Jeremy Leggett, 2005; When the Rivers Run Dry, Fred Pearce, 2006*)

- (d) Should world development be approached in diametric terms as between the so-called Washington Consensus and the Beijing Consensus, between Bipolarism and Multilateralism, between the End of History and the Clash of Civilizations? How best should the demons of history and prejudices be addressed to move from confrontation to cooperation, from discord to tolerance, from imposition to diversity, from empire to respect for individual sovereignty, and from instability to lasting peace? (*The Beijing Consensus*, Joshua Cooper Ramo, 2004; *Colossus*, Niall Ferguson, 2005)
- (e) How best should we promote much greater understanding and friendly interaction between religions, faiths, cultures, countries and regimes?
- (f) How best should we enhance global cooperation in the development of institutions, policies, technologies, and businesses to address specific global threats including pandemics, climate chaos, and terrorism?
- (g) Should we create a better global financial architecture to address increasing global financial imbalances and much more magnified credit risks in order to maintain long term financial stability?
- (h) How best should we promote more corporate governance, social responsibility, ethics, compassion and charity in society and business across the globe?
- (i) How best should countries be empowered to realize their individual and sustainable development goals?
- (j) How should a better global geopolitical, economic, social, and cultural community be achieved?

There is now an awakening in the US that neoconservative unilateralism is no panacea in an interdependent world driven more by asymmetric forces and surging nationalism worldwide, where 'soft power' or 'smart power' are beginning to carry more sway (*After the Neocons*, Francis Fukuyama, 2006).

While US exceptionalism still remains strong, there is now a greater willingness to talk to 'the enemy' as in the case of North Korea and Iran. While the full impact of a US military surge in Iraq remains to be seen, it begs the question whether it is a question of isolated insurgents or a matter of winning hearts and minds of a multitude of stakeholders.

The fear of China's Rise extends to expressions of concern about her increased military expenditure. This begs the question, for example, whether Britain, spending substantially more on defence both in absolute and GDP percentage terms than France and Germany, would thereby become more aggressive. Or whether this is a natural development of a large growing country in a complex world.

It is perceptible that global geodynamics are moving East. A 2005 proprietary study by Credit Suisse First Boston is telling. Taking into account gradual RMB appreciation, the USD size of China's consumer economy is likely to grow to 90% of the US' by 2014 with an annual growth twice that of the US. The consumer pendulum

has begun to swing towards China. (*The Rise of the Chinese Consumer - Theory and Evidence, Jonathan Garner, 2005*)

A recent graph by Goldman Sachs is even more revealing, although linear projections are not to be taken at their face value. This predicts China's economy not only to catch up with the US by 2027/8 but to exceed it by 75% by 2050, at the same point as India's economy matches the US. (*The Economist, 30 June, 2007*)

The whole world is now embracing this Eastern re-emergence in a turbo-charged globalization of the 21st century. At the centre of it all is the US economy, which is increasingly linked to China's. Not only is this evident from the myriad US trade and investment activities including sourcing, out-sourcing, off-shoring, and retail sales in China, but a worrying symbiosis has developed. China's surplus capital is financing US borrowed profligacy through heavy investment in US Treasuries, giving the US economy an easy ride and sustaining a risky, if not vicious, circle crying out for adjustment. (*Debtor Nation, the Rising Risks of the American Dream on a Borrowed Dollar, Jonathan Shaw, Managing Editor, Harvard Magazine, July-August 2007*)

The EU has not been slow in this eastward move. She has recently displaced the US as China's largest trading partner. Neither has Japan, which is seeing China exceeding the US as her largest trading partner, as a vast proportion of her manufacturing has been off-shored to China, which in turn imports Japan's higher-end components.

Similarly, the ASEAN countries are forging much smoother and closer economic ties with China, which has become the main contributor to their economic growth and generally positive trade balance. India, too, in spite of a degree of competition, is also forging closer trade, technology and youth links with China. With intra-regional trade, including Japan, rising by the day, we are seeing the gradual emergence of an Asian Economic Community and the promise of a future Asian Dollar.

As the world's leading manufacturing countries are now in Asia, energy and minerals are also drawing countries such as Australia, the Middle East, Central Asia, Africa and Latin America much closer to the East, particularly China.

China, however, needs the West and the rest of the world perhaps even more than they need China. She is now the 4th largest economy in the world, but with a population of a fifth of humankind, she still ranks below 100th in terms of per capita GDP, amongst some of the poorest countries in Africa. Moreover she has only 7% of the world's arable land and only a third to a quarter of the world's per capita water resources, much of which have become polluted. She needs to produce 24 million jobs each year just to stay even. She has to maintain a relatively rapid growth rate, achieve higher value-added in her productivity, and develop a sound economic foundation before her aging population profile begins to bite in 30 to 40 years time. She has to grapple with rising inequality and corruption and build better governance and rule of law. She has to do all these, yet maintaining the sustainability of her environment as more and more of the West's energy-intensive manufacturing is being off-shored to China. That's why China does not want, and cannot afford to be aggressive. She needs peace and Harmony, both at home and internationally, to continue to build a better society for her people, and for the Party to stay in power. So China welcomes international help and cooperation, especially in technology,

innovation, resources, and in clean and efficient energies. She is honing her skills in playing a better game in engaging the rest of the world, including the West, as a leading Responsible Stakeholder. In short, while nurturing better relations and cooperation across the globe, she shuns the old concept of 'blocs' and whole-heartedly embraces multilateralism.

Indeed, as Capitalism and Socialism are converging across the world, we need a paradigm shift in our thinking how to engage with other countries, and how to promote peace, stability and development in a world now virtually without borders.

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