

Big Wave Commentary

Teach your children to speak Chinese. The Emergence of China

There are 6.6 Billion people in the world today. China accounts for about 1.3 billion or 20% of the world population. By comparison the US has around 301 million or 4.5% and Russia has only 141 million people or only 2%. The birth rates are eye-opening as well. In the time it takes to read this column, about 60 babies will be born in the US. There will be 244 babies born in China. The economic implications are meaningful.

In China, the 25% of the population with the highest I.Q's is greater than the total population of North America. This translates that China has more honor students than we have students. China will soon become the number one English speaking country in the world. And some economists estimate that by 2050, China's gross domestic product will double the US's.

In the last 20 years, China has moved 250 million people from farms and villages into the cities. Their plan is move another 300 million in the next 20 years. When you put that many people into cities, you need to find work for them. This is why China is addicted to manufacturing. They have to find work for relocated people. Market need and profit potential do not enter into the main equation when the Chinese consider opening a manufacturing plant. They do it for the jobs, which is a very different business strategy and calculation.

While China is addicted to manufacturing, Americans are addicted to low prices. Because of this, we have developed a unique business relationship with the Chinese. If we stop buying from China, they will explode politically. If China stops selling to us, our economy will take a big hit because prices will jump.

We are subsidizing their economic development; they are subsidizing our economic growth.

Because of China's growth in manufacturing, they have a huge appetite for raw materials. China is dependant on oil, which is one of the many reasons oil is priced around the \$60 a barrel level. By 2020 China will produce more cars than the US. China realizes it needs a lot of oil and is now buying its way into the oil infrastructure around the world. Millions of barrels of oil that would have gone to the US are now headed for China. China's need to assure that it has adequate access to oil will become a major factor in world politics and economics.

The Chinese stock market's importance to the world markets today is not meaningful. China's market cap is approximately 1.4 trillion dollars. The New York exchange has global capitalization of 26 trillion and the NASDAQ is worth around 17 trillion. China has a lot of room for growth. Because of its small size, the Chinese market is both volatile and dangerous. A smarter way to play Chinese growth is to invest in the region; in the more stable countries and economies that will supply the Chinese economic machine. Over the last 5 years, the stock markets of Australia, Singapore and South Korea, have averaged over 20% returns annually. The US market, in that same period, averaged less than 10%. Performance speaks louder than words.

I leave your investing decisions to you, but heed this advice. Recently, when asked what advice he would give investors about the emergence of China, a legendary money manger didn't give any hot stock tips. He simply responded, "Teach your children to speak Chinese."

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