

## Commentary

### The globalization of China: Invest now or wait?

The political and economic rise of China seems to be the most talked about and important political trend of this new millennium. China's economic numbers tell the story. If China can maintain its annual growth rate of 10 percent a year, it will become the world's leading economic power in 20 years.

This surge in growth would be unprecedented in historical terms. Behind the mask of this possible economic success, the real interest and concern to the world should be how China would use this economic and political power to influence and shape the world.

Economically, China's emergence on the world stage should be a positive as long as its growth remains deflationary. The globalization of labor markets should make goods cheaper for consumers worldwide, and the benefits of cheaper goods should outweigh the costs of displaced workers and factories. This is the free trade theory in a nutshell.

The "fly in the ointment" to this theory is inflation. The free trade argument is very dependent on a non volatile world. If China's economy grows internally and it keeps consuming vast amounts of resources and energy, then its growth may become less beneficial to the West.

Money saved by buying cheap Chinese goods at Wal-Mart would then be spent buying high-priced gasoline at Wal-Mart. China's dependence on oil and its internal inflation rate could be more of a danger to the world in the short or intermediate term and overtake its advantage of producing cheaper goods.

On the other hand, make no mistake, there is no good scenario for the world if China fails. The ramifications to the world and especially East Asia and all emerging markets would be devastating. The loss of cheap goods from China and the political

turmoil within China would prove problematic to the West and specifically to the United States.

A sustained loss of Chinese oil demand would put all of the oil-producing nations in economic stress. So anyone who wishes ill will on Chinese economic growth would be wise to rethink his position.

So if China is the model of future globalization, do you invest in it today?

It is very important to know that there are two Chinas when it comes to investing in the country. As it has been throughout history, China is still controlled by insiders for the benefit of insiders. It is still that way when it comes to investing in China. The insiders know when to sell and when to buy.

The stocks and businesses that have very carefully been made available to the public are those that have already been sold by the insiders. They are the businesses that are the "has beens" within China's economy. The true growth, cutting edge and highly profitable companies within China are still controlled by the "card carrying members" of the Chinese Communist Party.

Today and for the foreseeable future these companies will remain private and not for sale. They will not be offered to the public as a stock. Therefore, the Chinese stock market does not represent the true "China" economy.

When buying Chinese stocks today, you are actually buying the over-hyped, high-profile and money-losing companies that have been allowed to float by the insiders within the Chinese state. Because of this, the performance of the Chinese stock market should not be used as an indicator of the health of the true "Chinese" insider-owned economy.

The China of 2015 will look nothing like it does today. The great Chinese companies of that year will be very different from the ones that investors expect today. Many of today's great American companies, such as Google, weren't even around in 2000; that could be the case in the China of 2015. As the Chinese stock market expands in the next five years, more of these great companies will be floated and available to the public.

So do you jump in to China today? Even if the 20-year growth story turns out to be true, it is my view that there is no pressing need to invest in China today. China is a long-term story and I would assume you could still capture most of the upside gains of the

future without taking the risk of entering near the top of a bubble today.

Just remember the Internet stocks in early 2000. The Internet was a tremendous long-term growth story as it still is today. But by waiting a little and holding off that nasty human emotion of uncontrolled urgency, you would have avoided buying the new highs of a multi-year bubble. The legitimate, profitable Internet winners became much clearer after a year of rapid stock price declines and bankruptcies.

The same story can be said for China. Wait a while and see what happens, especially after the Olympics have ended. The Chinese picture, both economically and politically, may become much clearer in 2009.

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