

# CHINA TRADER

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**2007: A PERFECT STORM?:** A report, 'Global Risks 2007' is to be part of the agenda for the World Economic Forum next week.

Meeting annually at this time of the year in Davos, Switzerland (where the snow no longer falls), are the world's economic, political, business, 'celebs', (Angelina Jolie and Bono this time) and often scientific/philosophical elites.

'Global Risks 2007' is an unusually pressing challenge for them, and makes an interesting comparison with an Australian bank's appraisal of the NZ situation. SEE BELOW

'Expert opinion suggests that levels of risk are rising in almost all of the 23 risks on which the Global Risk Network has been focussed over the last year, but mechanisms in place to manage and mitigate risk at the level of businesses, government and global governance are inadequate.'

- major ECONOMIC risks
  - oil prices
  - US dollar value

- CHINA's 'hard landing' rising
- governments' budget crises
- asset prices
- major ENVIRONMENTAL risks
  - climate change
  - fresh water supplies
  - storms and flooding rising
- major GEOPOLITICAL risks
  - international terrorism
  - weapons of mass destruction
  - war
  - failed states rising
  - mid-east instability
  - retreat of globalization

'The way in which climate change is dealt with at the global level will be a leading indicator of the world's capacity to manage ...'

'... Should any of the main geopolitical risks outlined here worsen considerably, the environment for business and society could be changed beyond recognition.'

Business as usual?

The Network RECOMMENDS forthwith:

- i) appointment by each nation of a 'country risk officer' to manage risks across bureaucratic lines
- ii) formation of an international 'coalition of the willing' to get cracking without waiting on the perverse. (The Guardian)
- [iii) appointment by every business of a risk manager likewise]

**GLOBAL ECONOMIC GROWTH TO CONTINUE:** The UN Social and Economic Unit reckons global economic growth this year will be +3.2%, a half percent down on last year. Slippage in the US housing market's considered the principal cause, and it's a cause which means that for the first time in over a decade, the US locomotive is not going to be able to suck any of us along in its slipstream.

Worse, the Unit doesn't see anybody else to take up its load. (<http://www.bbcnews.com>)

**CHANGING THE GUARD?:** The WTO's Annual Report notes that in the last two years the title of global trade growth champions has passed from the Rich Three (EU, US, Japan) to the Developing Economies' Superstars. It reports that Brazil, CHINA, India, Malaysia, Mexico, Thailand - and Africa are all recording double-digit export growth.

And at the negotiating table, they've stood up to the Rich over IP (TRIPS) rules and the Doha agenda (WTO). They've successfully created the lobbies to withstand the bullying of the Rich (G20; G33; G90).

And the Rich have for the first time been forced to take notice.

Significantly, Developing countries are now laying two-thirds of the complaints to the WTO's Disputes Settlement Body - in 1999 it was only 12%.

[And DG Pascal Lamy wearily notes yet again that even though it accounts for less than 10% of global trade, agriculture is what's gumming up the works.

'A world impatient for solutions to endemic and chronic poverty neither understands nor accepts that a few thousand tonnes of beef, a few thousand tonnes of chicken, and a few billion dollars in domestic subsidies should stand in the way of a trade agreement.']( <http://www.wto.org/document>)

**CORPORATE RISK MAP 2007:** 96 of the 198 countries surveyed by consultancy Control Risks (naturally, specialists in corporate risk management) represent 'medium and extreme risk for business operations' it concludes. (E.g. Somalia, Iraq, Sri Lanka, Burundi). In some places the level of risk makes business 'completely untenable' according to the consultancy's Research Director, Jennifer Harbison.

**INSIGNIFICANT RISKS:** Andorra, Norway, Singapore, NZ.

**MEDIUM RISKS:** CHINA, Russia (Both offer 'great' exposure to: corruption, IMPORT/EXPORT restrictions, and weak political institutions (e.g. Police, Judiciary and Customs).

Terrorism's now considered to be just another problem.

Not so the skyrocketing rates of global crime in IP (intellectual property, forgery and counterfeiting). (<http://www.bbcnews.com>)

**MORE RISKS?:** Paris-based NGO (non-governmental organization) Rapporteurs Sans Frontieres also publishes an annual index, this time the Press-Freedom Survey.

In general, it concludes that in the Developed countries, the news media are in retreat, despite the

liberating effects of cheap computers and the Internet.

US has dropped to 53rd, behind Mozambique, Mali and Panama. France to 35th. Japan to 51st. But Ghana has jumped to 34th. (<http://www.economist.com>)

### QUOTE OF THE MONTH

'It's a world which is

UNequal

UNstable

UNSustainable'

- ex-President Bill Clinton

**WARNING - BIRD FLU':** Winter being the season in the north, the first case 'for several months' has just been reported in China (isolated cases of human infection have already been reported in Indonesia, Japan and Vietnam, by the WHO).

World Health Organization is maintaining a heightened (Stage 3) state of readiness REF: CHINA TRADER#48. It continues to be convinced of the real potential for a global pandemic - sweeping through humans as well as poultry.

Meantime, research by Boston University may inspire public health officials. A team has been plotting patterns of flu' infection through the US, from 1996 to 2003.

i) Most strains arrive from overseas on international flights

ii) It usually takes each new strain one month to sweep across the entire country.

But joint research with the Royal Institute of Modern Health showed a blip in the figures - 4Q, 2001. In other words, immediately following '9/11'. Then, it took 53 days (nearly double the usual rate) for cross-country infection of a new strain. Conclusion: it was because all international flights were grounded in the US, following the disaster. (<http://www.bbcnews.com>; <http://www.who.org>)

**THE PRICE OF PROGRESS (1):** A China Doctors' Assn. report, published in the English 'Lancet', notes that cases of syphilis infection have leapt 20-fold in the last decade. And so has the incidence of related STDs (sexually transmitted diseases).

This exponential growth occurs, significantly, in the prosperous 'new China' cities of the coast and southwest. (the 'Lancet')

**THE PRICE OF PROGRESS (2):** It's just been calculated that pollution's now directly responsible for taking 400,000 Chinese lives a year.

The fatality rate's worst outside the main cities i.e. where the poverty rates are higher. (<http://www.bbcnews.com>)

**HIGH COUNTRY WATER CRISIS?:** A team from China's Geological Survey has returned from the high plateau of Qinghai and Tibet with disturbing news. Its tests show that the glacier melt rates are accelerating to the point that 30% of the glaciers (on recent trends) will have disappeared within the next 43 years.

This represents a huge loss of stored water, to which must be added the effects on supplies of the rising snowline.

China's Yellow river, Yangtze and Mekong rivers all rise in this region.

And not only China's rivers - SE Asia, the Indian subcontinent and some of the rivers which feed Central, also rise in China's High Plateau.

Already, the Geological Survey estimates, 30m people are being directly affected by these changes.

This confirms observations already made by Indian survey teams. (<http://www.bbcnews.com>)

**GLOBAL WARMING - THE ROAD AHEAD:** The scientists at London's Carbon Trust have just calculated that global society would need to cut carbon emissions by 60% to achieve pre-industrial levels.

But presently, emissions are increasing by 0.5-2.0% a year, apparently - a fact which is focussing the minds of movers-and-shakers attending the World Economic Forum in Davos. SEE ABOVE (which is just having its first snow of the season).

[England's pioneer ecologist, Edward Goldsmith - well known to NZ 'greens' - has been declaring for forty years that only de-industrialization can get the Earth's biosphere back into kilter.] (<http://www.bbcnews.com>)

**A CHANGING OF THE GUARD (2)?:** The star stock market performers of have been the 'brics' - not the 'Rich 3'. SEE ABOVE.

According to Thomson Financial's 2006 Review, they were:

- 1) CHINA (a) Shenzhen - returns up 101.7%  
(b) [Shanghai - returns up 80%]
- 2) Russia - returns up 65.8%
- 3) Brazil - up 40.9%
- 4) India - up 36.6%

Yet in 2005, China had the world's worst performing exchanges.

**GLOBAL COMPETITION HEATING UP?:** In a report prepared for the UNCTAD, Cherval Hamdan confirms that multinational corporations from the G23 Developing countries particularly have entered the ring - and that global business may never be the same again. (THINK Lenovo and Haier; Infosys and Mittel; Embraer). They already have global reach, and are developing globally competitive branding and technology weaponry.

This report cites SE Asia, India and China as the bases of these emerging power players. (<http://www.unctad.org>)

[Your editor recalls, some years ago, hearing Fletcher executives explain that the key to overseas success was to operate in the most familiar environments, where the learning curves were easier. i.e. Australia US, England.] SEE BELOW

**THE GOLD'S AT THE BOTTOM OF THE PILE:** HBR (Harvard Business Review) editor, Tom Stewart, has been turning conventional strategies (including those of 'NZ Inc') upside down with his examination of successful global business models.

Some broad conclusions:

- Globalization's making the world's markets a level playing field. I.E. you can't make any money because within months, everything turns into a commodity. The Anglo-Saxon world's where it's smoothest - the Developing world where it's roughest. And that's where the money is.

CRITERIA for multinational rough world success:

- Heterogeneity of management, of origins, of skills
- SOURCES of new products and services

Marketing offices/R & D centres need to be close to the difficult markets, the most prickly potential customers.

- MASS MARKETS where the money's made are at the bottom of the economic and social pile E.G. Unilever in India; Grameen Bank in Bangladesh; the \$100 PC ...)
- The site of the HEAD OFFICE reveals the true ethos of the business
- SUCCESS can be measured by where the profits are being earned 50% plus OUTside head office territory.

'INNOVATION comes out of the TENSION at the coalface between the (potential) customers, and what the business can supply' I.E. the need to stretch out to achieve anything worthwhile. ('The Wealth of Knowledge' by Tom Stewart)

**CHINESE LANGUAGE STUDIES (A COMPARISON):** Tertiary level enrolments in Chinese language studies have doubled worldwide, the trend being most marked in England and most other western countries (but not in NZ, where it's heading the other way).

(Over 30m non-Chinese are estimated to be learning, worldwide)

In England there are now Chinese classes for pre-schoolers. (<http://www.bbcnews.com>)

**COMPARISON (2) GLOBAL MATHS:** Average scores (TIMSS)

TOP:	Singapore	643
WORLD AVERAGE:		513
	NZ	508

**COMPARISON (3) GLOBAL SCIENCE:** Average scores (TIMSS)

TOP:	Singapore	607
	NZ	525
WORLD AVERAGE		516

**NZ'S 4Q ACHIEVEMENTS:** Westpac reports quarterly growth at +1%, and inflation (CPI), - 0.2%. Growth's a quarter of what it was mid-year - and so is inflation.

World dairy prices were up 11%, and forestry 9.1%.

Business is again confident.

Q3 TERMS of TRADE showed export volumes up (thanks mainly to meat and forestry) 5.2%, though prices were down 0.8%.

Import volumes were up 1.6%, and prices, 1.1% (mainly thanks to oil - +2.7% and consumer goods). (<http://www.westpac.co.nz>)

National Bank reckons the business cycle's bottomed out, and notes positive indicators: business and consumer confidence up; consumer spending stable, housing acceleration; tax cuts in the offing; inflation easing?

BUT the bank's worried:

- tight finance
- Is inflation really down and out?
- High current account deficit
- Erosion of household disposable incomes
- Housing to slacken?
- Consumer debts
- Overvalued NZD
- Business' profit squeezes.

(<http://www.nationalbank.co.nz>)

**CHINA'S HEADLINES (JAN-FEB):**

- 1) Biggest underwater exploration project completed
- 2) Currency's record high
- 3) RMB/trillion petroleum substitute development
- 4) Best cities for investment
- 5) Science co-operation
- 6) Nine foreign banks get local approval
- 7) China's biggest machine tool maker
- 8) Fixed asset investment tax
- 9) Regulation of Chinese-foreign JVs
- 10) Waiting for Mr Right

(<http://www.cgfchinaheadlines.com>)

**HAPPY NEW YEAR - 2007**

**EVENTS**

- |        |  |
|--------|--|
| 2007   | Canberra, ACT, AUS   |
| 9 FEB  | 'Chinese in the Pacific - Where to now?' Workshop (the role the Chinese have played in the Pacific, and the challenges ahead (for whom?))<br><a href="http://repas.anu.edu.au/cscsd/activities">http://repas.anu.edu.au/cscsd/activities</a> |
| 15 FEB | Auck/NZ<br>NZ Opening, Confucius Institute, AU   |
| 23 FEB | Auck/NZ<br>NZ Trade Awards<br>Black Tie<br>Sky City Convention Centre<br>Registration: Auckland Chamber of Commerce/International<br>Tel: 09 302 9932  |

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