

Business Spectator

COMMENTARY

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Turning on a Chinese axis

Two debates are raging at the moment which will determine both the short and the long term shape of the global economy.

The IMF is the “bear” forecasting further big bank losses and warning Australia that recovery will be slow. At the Future Summit, delegates backed the IMF saying that Australian unemployment would stay high for an extended period and, according to former Goldman Sachs JBWere boss Craig Drummond, there were some \$US1,300 billion in global bank losses still to come out ([Waiting for the second wave](#), May 19).

In private discussions with other delegates at the summit, it was clear that while everyone agreed that enormous losses were coming in Europe and big losses in Asia, there was also a strong view that the United States was papering over further big rises in bank losses to avoid pressures for nationalisation.

As this issue was being discussed in the corridors of the Future Summit, Wall Street was preparing for almost a 3 per cent rise. It is clear that US stock market investors have complete faith in their stress test and do not expect big bank losses in Europe. My inclination is to go with the IMF and the Future Summit delegates, but I can't be sure because clearly Wall Street is very confident. And for Australia we have the comfort that China's demand for metals is rising, booting by the fact that they are shutting uneconomic iron ore mines. And China will be looking to invest more in Australia partly because they are very nervous that so much of their wealth of China is stored in the US dollar.

Meanwhile, a clear message from the summit was that companies that need capital should not wait around for the outcome of this debate – raise the money now.

In the longer term, the debate over the shape of the financial and other bodies that govern our world is gathering intensity. We have a situation where China as the rising world power – and effectively the banker to the world – is not a democracy as we know it. They will look at the future architecture of bodies like the UN, the IMF, the World bank and the G20 in a totally different way. In particular, they want the dominance of the US and Europe ended.

And so when the leading Chinese TV business commentator Rui Chenggang suggested a governing structure that involved most countries at the base, it had a similarity to the way China was governed with the People's Congress at the base.

President Obama has put the Middle East and Islam on the top of his foreign policy agenda and delegated China to Hillary Clinton. Given that the US will require enormous borrowing from China to fund its government ambitions, I am not sure that was a good idea. Hillary Clinton does not have the negotiating skills and charisma of Obama. The Middle East may be where the US has troops but China is its banker and China will play a huge role in setting the architecture of the globe.

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Already the Chinese see a chance of the combination of Shanghai and Hong Kong taking over from London and New York as the global financial centre. The Chinese are stimulating local demand dramatically and beginning to install a social safety net (*Waiting for the second wave*, May 19). China is going to invest in China and the US will need to adjust to the fact they will not be able to depend on China funding US spending in the longer term. It's always a good idea to have good relations with the bank manager.

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