

What about China and Southeast Asia?

Hard landing, soft landing, civil unrest, dominant economic superpower – the forecasts flow freely regarding China. The fact that good data is hard to come by does not seem to inhibit many outside observers. Looking at China through the lens of economic structure, Chinese history and culture are concepts which a number of observers often overlook. The general conclusion is that Chinese GDP growth rates are about to undergo a gradual but, nevertheless, perceptible decline. However, a hard landing crash is unlikely, assuming that Europe does not totally disintegrate and the US does not roll over into a full scale recession.

The Minsky/Kindleberger “bubble model” is not generally applicable to China

Outside observers visit China and see empty cities and excesses in capital, infrastructure and real estate investments. They think they see Western style, market bubbles. The Minsky/Kindleberger model with its “Financial Instability Hypothesis” describes an environment where private investors become over-enthused about a particular asset and become overleveraged. The ensuing bubble followed by collapse brings about distress and panic for indebted investors and the financial system which has extended them credit. This model describes what happened in the US and other Western countries very well. But it does not describe what is happening in China where the public, rather than the private sector, is doing the borrowing. You do not hear stories of private mortgagors overborrowing to buy houses as it happened in the US. It is a foregone conclusion in

China that the government will eventually pick up the tab for bad loans made to local public sector entities and bail out the banks, if necessary. The Chinese economy is State (or more precisely Communist Party) directed, not market driven. Minsky/Kindleberger-style bubbles and collapses are characteristics of Western market economies where overleveraged private investors are not playing a major role in the process. As long as the State has the financial resources to cover these losses, a bubble-type collapse can be avoided. At this point in time, the Chinese State has those resources.

The Chinese economy is over-allocating capital to invest in real estate, capital goods and infrastructure. But the result will not be the burst of a bubble, but rather a longer-term continuous decline in the marginal productivity of capital

As a result, the torrid GDP growth exhibited by China will gradually slow down. Countries cannot waste capital on the scale that China apparently has. The cost of empty buildings and overinvestment will not, in general, be borne by private investors, but by the State. But all those empty buildings and overinvestment will produce low or negative returns. State-owned companies that specialize in these industries, as well as private companies which depend on them, would seem to be poor long-term investment candidates. Ditto for the State-owned banks which play a primary role in this capital misallocation process.



China has benefited from a massive shift of labour from the countryside to the city

These people moved from low-to-zero productivity activities to higher ones. But this is a one-time event. If it has not come to an end yet, it will soon. China is rapidly becoming an urban country.

China, as a latecomer, has benefited from being able to import Western technology

Examples abound in this area. Internet search, telecommunications, airlines, medicine - the list goes on. Many have argued that “stealing” Western technology has been a core part of the Chinese development strategy. These charges have a great deal of truth. But some scholars, in China’s defence, have argued that the US did exactly the same thing by “stealing” British technology in the 19th century. Japan, after WW II, did the same thing with US and European technology.

China’s one-child policy and current trends will produce an unfavourable demographic situation in the long run.

The Chinese worker/retired beneficiary ratio is projected to de-

Dynasty/Period	Dates	Number of Years
Qin Dynasty	221 BCE-206 BCE	15
Han Dynasty	206 BCE-220	427
Six Dynasty	220-589 Period (Disorder)	369
Sui Dynasty	581-618	38
Tang Dynasty	618-906	288
Five Dynasty	907-960 Period (Disorder)	53
Sung Dynasty	960-1279	319
Yuan Dynasty	1279-1368	89
Ming Dynasty	1368-1644	276
Qing Dynasty	1644-1911	267
Republic	1911-1949 Period (Disorder)	38

cline steadily from here on. Actually, attributing this entirely to the government-directed one-child policy may not be entirely correct. All the Asian Confucian societies - Hong Kong, Singapore, Japan, Korea and Taiwan – now exhibit birth rates at close to half the replacement rate of 2.1 children per woman. All face an unfavourable demographic future. Several of these countries – notably, Singapore – have tried to encourage its citizens to have more children, but it did not work out.

The idea that China is about to disintegrate or be afflicted by serious public disorders is at variance with Chinese history.

Yes, there are thousands of local protests each year. China has its share of dissidents. But if we take a look at Chinese history,



it has a twenty-five-hundred-year pattern of Disorder, Ascending Dynasty (Increasing Order), Dynastic Peak, Declining Dynasty (Increasing Disorder), Disorder. China is in the Ascending Dynasty phase at the moment. Some might argue that the current Communist regime is not a dynasty in its pure feudal sense. However, the differences between the current Communist “dynasty” and prior dynasties are basically superficial. For example, the country remains centrally controlled, thought is tightly managed, and the thousand-year-old Imperial Examinations have simply been replaced by the

GaoKao college entrance exams. Succession is no longer hereditary – Hu Jintao’s son is not becoming the new emperor. But even in the case of succession, the leaders are chosen from a selected group where having the right parents counts. For those unfamiliar with this, here is a simplified version of Chinese dynastic history. The Qin and Sui Dynasties were short-lived, but were immediately replaced by another Chinese dynasty. The relatively shorter-lived Yuan Dynasty was imposed in China by a foreign conqueror who did not fully “sinicize” and was ultimately kicked out and replaced by the Chinese Ming Dynasty.

Note the long life of most of the dynasties. Four of them lasted longer than

the entire life-span of the American Republic, which began operations under its Constitution in 1789. The current Communist Dynasty is a relative youngster, having been in power for only 63 years. Certainly, China’s political system will change and evolve, but anyone predicting its early demise or disintegration is going against the record of Chinese history. China is in the Ascending period of a dynasty in which order increases.

China, as currently structured, is not suited to the needs of a knowledge economy.

Restraints on the flow of information is a major characteristic of the current regime (Facebook and Twitter are not authorized in China). A knowledge society requires complete freedom of information and political freedom in general. One can argue



that, at lower levels of income and development, democracy is often an obstacle. India and its problems can be cited as an example. But at higher levels of income and development, where knowledge plays an important role, the opposite is true. Moreover, Confucian culture, with its emphasis on obedience, is not necessarily compatible with a knowledge society. One may ask how Steve Jobs – college dropout, drug user and one time hippie – would have fared growing up in China, Singapore or Japan. Of course, he would have been squashed. And not necessarily by any laws but rather by the culture itself. Apple would still be a fruit, not a company. One might ask why Sony could not maintain a culture of innovation. Is it a basic reverence for authority and stability built into Japan's cultural DNA?

The work ethic and the obsession with material improvement of the Chinese people are big investment pluses for China.

Of course, the current economic system in China is a major improvement over the Mao era. But it is still a highly defective protectionist State-dominated system that misallocates resources. The work ethic, relatively high level of education and obsession with material improvement of the Chinese people have helped make China a success in spite of the current economic structure.

The Southeast Asia alternative

Even a slowing China will be an economic powerhouse in Asia, as countries in Southeast Asia are primary beneficiaries of China's ascent. These are the ASEAN countries: Singapore, Thailand, Philippines, Malaysia, Brunei, Indonesia, Vietnam, Cambodia, Laos and Myanmar. A broader definition would include Hong Kong, Macau and Taiwan. These countries (and territories) are growth centres in their own right.

But they are major beneficiaries of burgeoning Chinese and Indian tourism, trade and investment. These countries, particularly Singapore, Malaysia, Hong Kong and even the Philippines, do not have China's corporate governance issues. Gambling comes to mind as an area where China will be powerful. Casinos do not exist in China, a puritanical holdover from the Mao early Communist days.

The soaring towers of integrated resorts and casinos have now become Macau and Singapore's iconic buildings. Banking is another area. Southeast Asian banks will participate in the region's growth, but overall they are not overt instruments of government policy as in China. The banks and the governments have learned important lessons in the Asian crisis of 1998. Singapore is the region's emerging "Switzerland" and wealth management centres. Hong Kong is, in 2012, the world preferred listing for IPOs from China and globally.

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'Castelmaure', le vin des Vignerons

L'été arrive, glisse ses premières ondes vaporeuses, croise un printemps finissant, entrechat de la saisonnalité.

Dernières hésitations, manches courtes, manches longues, le cycle immuable des choses, grand oeuvre du temps.

La simplicité s'impose, se teinte de légèreté, de fraîcheur, de transparence aussi. Sentez-vous la température monter?

Fini les cocottes, la daube et le sanglier rôti.

Sortez barbecue et meubles de jardin, appelez les copains et que résonnent jusque chez vos voisins le tintement des verres et l'éclat de vos rires.

Bon, ce n'est pas tout, mais que boit-on? Je l'ai déjà dit, de la simplicité, de la légèreté, de la fraîcheur. Comment? Des petits vins? Vous voulez me faire bondir, ou quoi?

Il y a les vins de qualité et les autres. Basta. Un nom? Sans problème. 'Castelmaure'. A force de pratique, ce nom agit comme un réflexe pavlovien.

Des cinglés du vin, du travail bien fait, de ceux qui vous font boire du terroir, même à 4,95 euros la bouteille. Ces cinglés, je les appelle des Vignerons. Avec un 'V' majuscule.

Les traits burinés et les mains calleuses, ils accouchent un 'Blanc Paysan', tonique et minéral. De même pour le 'Rosé Agricole' que l'on boit et re-boit sur ses notes de fruits des bois, à l'ombre des platanes. A boire sans modération, de jour comme de nuit.

Et puis... le meilleur pour la fin? J'en suis dingue, accro, c'est ma dope, ma folie, un flacon que je cueille comme un fruit gorgé de sève, de soleil. 'La Buvette'. Un chant? Un hymne! A la vie. Au plus frais vous le boirez, plus explosif le fruit sera. Ça coule, ça désaltère. Un regret? Oui, un seul! Que 'La Buvette' n'existe pas en format de 3L.

Mais il y a aussi le 'Castelmaure rouge', qui gagne en croquant, en intensité. Les fabuleuses cuvées de l' 'Esprit du Vent', chacune dévoilant un pan des paysages des Corbières, hymne éphémère à la beauté de cette région, une occasion annuelle et estivale de célébrer, en série limitée, la montagne magique.

Je ne peux terminer cet éloge du boire simple et bon sans parler d'une cu-

vée qui brille au firmament des plus belles expressions languedociennes, la cuvée no.3. En association avec Michel Tardieu, cette cuvée, qui n'a rien d'estival, quoique, est peut-être au jour d'aujourd'hui ce qui se fait de mieux en la matière. L'intensité du flacon, son tellurisme palpable, son énergie particulière, sa race et sa personnalité, en feront plus un compagnon de vos soirées automnales ou hivernales. Puissiez-vous vous en procurer maintenant, en simple bouteille ou en magnums, à déguster maintenant ou dans 15 ans. Ce serait une hérésie que de passer à côté de l'exceptionnel.

Et voilà, chers amis. Bon, l'apéro c'est à quelle heure?..

Laurent Van Damme



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