



## Hu's World Tour

By CK Wong 2006.04.22

<http://www.ck-wong.ca/China/hus%20world%20tour%2020060422.pdf>

### Introduction

A US visit was planned earlier but delayed until April. After the American, Hu visited the Arabs and signed the energy deal. Next leg will be Nigeria and Kenya. No Canada and Europe, South America and Russia. Why?

### Agenda

On the surface, Hu's visit to America is part of the diplomatic protocol after G. Bush Jr. visited China last November. Under the skin, Chinese President Hu Jintao's world tour is aimed a two objectives.

The first is to improve the trade/business that includes import, export and investment. The second objective is to strengthen the relationship with free trade agreement. The first objective is maintenance of existing relationship. The announcement of visit and outcome are meant to tell the world how China feels about the company and country. As always, the diplomatic protocol determines the order of visit: the most beneficial first and the less important later. There is no symbolism. All foreign affair department of the world follows such protocol. Should there be serious government level discussion it would be held right after the arrival. The discussion could be replaced by addressing a hosting government's council or parliament.

### America

The America is the largest trading partner of China and the second largest energy supplier of the world. Hu visited Canada earlier and the Canadian government has an ever increasing friendly relationship with China on the trading and resources. No need to visit Canada the second time in such a short time.

Middle and South America is basically in the China free trade circle. The energy is bias to China and mineral is controlled mostly under Canadian or local government. A visit is not warrant this time. In near future, there should be a dedicated visit.

The American sectors interested are financial, aerospace and software business opportunities since energy firm could not be bought. The series of American investment banker put there money in China is now the time return the favour. However, just like Unocal, this is not the right time yet. Don't misunderstand the visit to Microsoft is to resolve or pacify Microsoft's intellectual property right against China. China acts like another other countries; it is Microsoft's problem. In fact, there are so many cracked software sold on Internet, Microsoft does not pursuit to close it down has demonstrated it is not a China only issue. The Redmond visit should be the stepping stone to add another Microsoft R&D centre in China. Wait half year and so, there may be announcement.

China has already got Airbus and Bombardier to assemble airplane in China. Boeing is resisting. Pressure is mounting from both China (want) and American Congress (resist). At the end, the Congress has to give in to balance the trade. It is obvious that China cannot balance the trade by buying nothing or just cheap merchandize from American. Once Boeing opens its assembly plant in China, China will be the delivery hub for all business jetliner in Asia.

## **Arab**

This is a big slam on the face of the American. While the Arab tells American they cannot increase output, they sign another trade to supply China oil and set up petrochemical facility in China. To rub salt into the wound, Hu addressed the Sura Council which has the honor of French President Jacques Chirac to be the first foreign state head addressed the advisory body. Chirac deserves this honor because Arabs are one of the biggest weapon customers of the French.

As announced, China and Arab is working on a free trade agreement. When the size of the pot is fixed, free trade with other countries means less for the existing country.

## **Africa**

Thanks to Nigeria it bolts the oil price on the rocket. With more and more anti-American patriotism, American oil companies are losing their hold in Africa. This does not happen to the French, India, Japan and China. May be this is to do with American's anti-Islamic attitude. There could be some surprise there but should not be much. At Africa, China can do free trade with them and treat them like an equal partner which is important for an emerging country.

## **Why not Europe and Russia?**

A simple explanation is the trip could be too long. This is just diplomatic explanation. Europe has been much open to import from China and willing to sell China weapons. The relationship is pretty stable. Russia is the major weapon and energy exporter to China. The on-going dialogues which include military exercise (one last fall) will be suffice. This is another way to tell American that China has broken the greenback curtain. It is now American to figure out how to please China.

The free trade relationship with Europe and Russia is on a progression. There is no doubt that Europe and Russia are much prefer to trade with a hard currency than the free falling US \$.

## **What next?**

It should be time that we see the American to open up assets for Chinese (as a matter of fact Indian too) to balance the trade. It will not be just the energy sector. The 20% of

stakes in Chinese banking system has a lot of convincing power to influence to the Congress and Senate to do something sensible.

One of the surprises to the economists would be China use the U\$700B reserve to get into the American financial sector. This is the only way to avoid Chinese to dump the US\$.

## **Reference**

[1] Energy, trade deals inked as Hu visits Saudi, AFP/chinadaily.com.cn 2006.04.23  
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