

ISSN 07277458
70727 745003

10 HOT SMALL STOCKS

October 16-22, 2003
\$4.95 (GSTinc) \$NZ7.50 (GSTinc)

BRW.

LIQUOR

**Tough tactics
by big retailers**

MARKETING

**Innovation yields
top products**

SMALL ENTERPRISE

**How to beat
the high dollar**



Unstoppable

Women heading for the top in business

PROFILE

HU JINTAO President of China

Who's Hu

China's President has shown he has the intelligence and power to run the world's most exciting economy. **By David James**

On October 24, Prime Minister John Howard will host a visit from Hu Jintao, President of China, whose geo-political and economic influence on Asia will define much of the region's fate in the 21st century. The day before, Howard will welcome United States President George Bush. Bush's visit is clearly paramount in Canberra's political thinking but Hu's, in the longer term, will be more significant. At best, Bush will be in power for little more than five years. Hu, who is also general secretary of the Communist Party of China (CPC), is likely to be in a position of leadership for many years, perhaps even decades.

Hu was born in Anhui province in 1942. He is the youngest Chinese leader since Mao Zedong, who, at the age of 56, seized power in 1949 after a bloody civil war. But there the similarity ends. Mao was a Marxist and brilliant military strategist who successfully took revolution from the factory to the countryside. By contrast, Hu's background is technical: in 1965 he graduated with a degree in engineering from Tsinghua University, a year after joining the CPC.

During the 1970s and 1980s Hu's political career progressed, first in the field of engineering and then more obvious political appointments, such as secretary of the Guizhou Provincial Party Committee (1985–88) and secretary of the Party Committee of Tibet (1988–92), a politically sensitive posting where he proved his hard-line credentials by declaring martial law in the face of separatist protests. At the same time, he was one of the economic reformers backing the former paramount leader Deng Xiaoping's successful attempt to open up the sclerotic state-planned economy, and was duly rewarded when Deng appointed him to the Politburo Standing Committee in 1992. He became a vice-president in 1998.

The fact that Hu has chosen Australia as his second country to visit says much about the fructifying relationship between the two countries. Australia is the number one recipient of direct foreign investment from China, a reflection of the country's need to ensure reliable supplies of raw materials, particularly in energy. It also signifies a comparatively high level of trust between the two countries — a trust that began with the friendly relationship between then-Prime Minister Bob Hawke and Premier Zhu Rongji and which is continuing with Howard's active policy towards China.

"I think it is a very significant visit," says Kevin Rudd, Labor's federal spokesman for foreign affairs.

Douglas Anderson is chief executive of the China consultancy Lee-Anderson and honorary vice-chairman of the China Association for the Decorative Building Materials Industry, an honorary Chinese role rarely accorded to a foreigner. He says: "It recognises the value that Australia has to the Pacific Rim, particularly to China. I think Australia

has never taken political positions against China in the more serious issues, such as human rights. Australians understand the enormity of the situation when [Hu] is trying to manage the world's biggest population."

The economic relationship with China has the potential to transform Australia's trade and investment position. As China industrialises, the demand for mineral and energy is growing exponentially. Robin Chambers is a senior partner of the law firm Chambers & Company and a China veteran who represents Chinese interests in negotiations with Australian companies. He says Hu's visit carries great ceremonial significance. "It is a great compliment to Howard and Australia, because [Hu] is only just in office and getting through his first year. My Chinese colleagues say this is very significant."

Hu replaced President Jiang Zemin in March — he assumed the powerful general secretary role last year — putatively as part of the transition to the "fourth generation" of Chinese leaders who are younger, more technocratically skilled and less ideological. Initially, the change seemed to be more one of form than substance.

Crucially, Jiang retained control of the military through his chairmanship of the Central Military Commission (a post Deng held after relinquishing other formal positions of power), and Hu appeared to be outnumbered by Jiang supporters. But as a political performer he appears to have something in common with Bush and Howard, the two leaders he will be visiting first. Many, knowing little about him, underestimate him.

Surprise seems to be the common theme among commentators observing Hu's performance so far. It should not be. Hu appears to understand acutely the importance of demonstrating humility and strength when leading a population of 1.3 billion. China is not a democracy, but political mistakes can still be costly — even fatal. The challenge is to find the right balance of force and seduction, and Hu has conspicuously chosen to emphasise humility over expressions of strength. He has abolished elaborate ceremonies to send leaders off on foreign visits. Earlier this year, he cancelled the summer seaside retreat for party leaders.

Look a little closer, however, and the will to control is evident. The CPC is in no hurry to cede power, and has closed down 160 non-government organisations. The window of media freedom that opened briefly during the SARS crisis has ended. Hu's accession to one of the world's most powerful political positions has not been without ambiguity. Reporting lines within the CPC's Central Committee suggest that Hu was being "allowed to find his feet": have strict limits placed on his hegemony. Jiang, as chairman of the Central Military Commission, has direct reports from the Politburo, the central point of power, whereas Hu has direct reports only from Wu Bangguo, chairman of the National People's Congress Standing Committee

and Wen Jibao, premier of the State Council. Zeng Qinghong, Jiang's closest associate, heads the Politburo secretariat, which handles the paper flow to all the top leaders.

Yet if the shadow of Jiang looms large — itself no unusual thing — the situation subtly changed during the SARS epidemic earlier this year. Alan Carroll, chairman of the Pacific Rim Forum, says Hu used the crisis to begin to exert his authority. “No one expected that Hu would come into his own so quickly, but SARS changed all that.”

When it became clear that the party's normal practice of covering up any crisis was, in the case of SARS, severely harming the economy, Hu moved to sack the Health Minister, Zhang Wenkang, and Beijing's Mayor, Meng Xuenong. This was only possible if a majority of the Politburo agreed. The fact that they did so suggests that many Jiang loyalists within the party's core are willing to abstain or change loyalties — underscoring why Hu's visit is crucial to Australia.

From Beijing's perspective, why is Australia considered important? The most immediate reason is an interest in ensuring reliable supply of energy and raw materials. It is also an example of China's approach to foreign relations. China is set to become the most powerful country in Asia by the middle of the century, but the country will probably operate without allies, in the manner of Western countries. It is more likely to pursue bilateral and multilateral relations that are based on economic and cultural ties.

Superpower tensions will not disappear. There will be many “red lines” that should not be crossed. Taiwan will remain a point of ideological difference between America and China. But one of the implications of the increased fear of terrorism after the World Trade Centre and Bali attacks is that the focus has moved towards failed states and away from the potential for conflict between powerful nations. That China has allowed large US troop deployments in Central Asia — a development that is bound to trigger long-standing fears of being “encircled” — is an example of the easing of tensions. China's comparatively active role in the North Korea crisis is another.

The prospect that world security in the 21st century would mainly be defined by US-China relations has been smudged, not least because the US military technology revealed in Afghanistan and Iraq have indicated to the Chinese that their military capability is still some way behind.

Rudd says Beijing no longer sees Australia as independent from the US, as he believes the country was during the 1980s. “We are now seen as running a derivative foreign policy. Formerly, during the Taiwan Straits and South China Sea incidents, it was always useful



LOW-KEY LEADER

Hu Jintao was elected President of the People's Republic of China on March 15, 2003. He is head of the world's most populous nation: 1.3 billion people. He is a staunch communist, and early in his tenure called on the Communist Party to review Mao Zedong's remarks on the founding of the new China, particularly the emphasis on modesty and prudence, and the need to guard against conceit and impetuosity. This stress has characterised his early, low-key leadership. Hu has done much travelling, visiting five European nations in 2001, and the United States in 2002. An engineer by training, he is likely to be meticulous and steady.

for Australia to have an independent line to Beijing to argue a consensus position.” Rudd says the challenge for Australia is to encourage China to enter into regional strategic engagement in East Asia.

It is easy to be dazzled by the scale of China's industrial rise, which began when Deng began his famous “opening up” policy in 1978. The subsequent period of economic growth has been among the most remarkable in world history — Hu's challenge will be to maintain it. Between 1977 and 2002, Chinese merchandise trade increased seven times faster than total world trade. Tariffs have fallen from an average of 55% in 1982 to about 12% in 2004. Cumulative foreign direct investment was negligible until 1992 but has since risen to more than \$400 billion a year, the world's largest inflow. Protectionism is now near impossible for the country, except in select industries such as media, telecommunications, finance and banking. The finance sector is likely to generate commercial possibilities as the country tries to improve the efficiency of its savings. The Chinese one-child policy will result, by 2020, in the same ageing problems that afflict the developed world, creating a huge need for efficient use of savings: particularly more effective stock and bond markets.

As world GDP growth languishes at 1.5%, China's annual industrial output is more than 16%. Export growth is up almost a third over the past year. The country's banking system may be groaning under bad debts equivalent to 40% of GDP, and many rural regions, particularly in the north-west, still languishing in poverty, but China is the one bright spot in a spluttering world economy.

There is intense pressure on China to revalue the yuan, to remove what is being depicted as an unfair trading advantage that is contributing to global economic imbalances. It is largely an inaccurate picture. China is not following the Asian mercantile strategy — begun by Japan and followed by South Korea, Singapore and others in the region — of trading its way to success. It cannot: China will, like the US, be a “continental economy” that depends far more on domestic demand than the traded sector. The main value of trade is to help modernise the internal economy.

China has been “born global” in the sense that much of the “trade” is outsourcing from Western multinational companies, not exports from indigenous Chinese companies. One reason that China has taken over from Japan as the main destination for commodities is that many Japanese companies are relocating their heavy industry on the Chinese mainland. According to the investment bank Morgan Stanley, between 1994 and mid-2003, 65% of the cumulative increase in total Chinese exports came from the Chinese subsidiaries of global multinational companies. China has been locked into the supply chains of global production, the reason why the country is now the largest recipient of foreign direct investment.

It is through this global corporate prism that Hu's evolution as a political leader can best be seen. He is more chief executive than liberal democratic politician. The analogy should not be stretched too far — this chief executive has extremely docile “shareholders” and is in control of the board indefinitely — but it does provide a starting point to interpret China's transition to capitalism without democracy. Just as Singapore has been able to emerge as a fully developed economy with a centrally controlled political system, so China will attempt to make the transition from communist central planning to a capitalist, market-based system without the spectre of the ballot box. ●