



>: Will China Eat us All?

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The idea that China harbors secret imperialistic ambitions is a difficult one to reconcile with the facts of history. After all, if you look back over the last 100 years, can you tell me how many countries China has invaded and occupied? To my knowledge, only one comes to mind, Tibet.

How many countries have England, France and America invaded and occupied over the last 100 years? How about over the last 30 years? The notion of a nascent Chinese war machine preparing to eat us all while we sleep just does not hold water.

For a country that our political leaders so vociferously oppose, China certainly does a staggering amount of business with us. For a bunch of so-called "commies", they sure like the sight and sound of our money. I don't expect that to change any time soon.

Border skirmishes and political saber rattling may all occur, but outright naked aggression appears to be quite unlikely. China is *CONSUMED* by domestic issues and will be for many decades to come. The political will and bandwidth for external aggressive policies does not exist. Any such thoughts are overshadowed by the pressing demands of China's domestic population.

There is no Chinese closet monster.

To become a professional investor, we must train ourselves to create our own, independent opinions based on actual observations of contextual facts. In our investment lives we cannot afford to be an ideologue; it just doesn't pay well!

I'm not suggesting that you subjugate your own moral values to make a buck; far from it. What I am proposing is that you do not allow your own beliefs to color your analysis of China. Being able to see all sides of a deal is the hallmark of a great investor and business person.

One does not abandon or somehow lose one's own views or moral beliefs by having the mental flexibility to analyze a situation outside of one's own belief system.

I am not an advocate for the Chinese; I am an advocate for rational analysis that is free of ideology.

Many of China's domestic policies are truly abhorrent, period.

Are they any less abhorrent than the crimes committed against humanity by the British during their colonial period? Are they any less abhorrent than the crimes committed by America during its slavery period or apartheid which persisted in this country well into the 1960's?

They are all of the same ilk, and just like Britain did and just like America did, I believe that China will eventually evolve past some of its more brutal policies. If history has shown us anything, it's that China is just not a formidable military foe.

China was defeated twice by the British in the mid 1800's during the so-called "opium wars" (this was a fascinating period in British history where Britain became the world's largest opium dealer,) the Japanese regularly romped through the Chinese countryside, and Beijing itself was under foreign control in 1901. In fact, all through the 1800's, China was beaten, abused and conned into one-sided trade treaties by both the West and the East. These national humiliations left upon the collective Chinese identity deep scars that have led to the country that we see today.

The worst civil war in Chinese history, a conflict that is estimated to have consumed well over 20 million lives, was sparked by a Chinese man named Hung Hsiu-ch'üan. Hung was a Christian convert and believed that he was the son of God. So, in that light, can we not understand China's fear of Falun Gong and Christian missionaries?

The boy that gets bitten by a dog as a child grows into the man with a primal fear of all animals. It is not a rational fear, but then again, how many of us can claim that the fears that haunt our own personal thoughts are rational?

How does all of this historical perspective help us as investors?

As investors, we need to be asking ourselves, is this boom real? Can it last? Will China be politically stable?

My analysis of China and its growth and national psyche clearly point out to me that this boom is very real and will be with us for a long time. The Chinese are finally getting a taste of the good life, and once you've eaten from the tree of knowledge, you can't go back. My biggest fear for China is not external aggression but rather internal aggression. China has a long history of uprisings and rebellions. My fear is that if the government does not begin to broaden the ranks of the middle class, we could see serious dissent begin to fester among China's poverty-stricken agrarian workers.

Any such dissent would be put down mercilessly by Chinese authorities and could have a chilling effect on global markets and foreign investment in China. If we see such an event take place, it is my opinion that it will be a transitory event only and would represent a significant buying opportunity for long-term "iron gutted" investors.

Whether we like it or not, our country is deeply involved with the Chinese. They have trusted us enough to buy our IOU's (China is one of the largest holders of US debt securities,) and we've sure as heck trusted them enough to sell it to 'em.

So, in closing, let me break this down: they give us real stuff (TV's, Computers, Printers etc?) and we give them bits of paper where we promise to pay them some time in the future for all the stuff they gave us! So far, they are holding close to one trillion dollars of our IOU's.

Who do you think has more to fear here, us or them?

Teeka Tiwari

Teeka Tiwari
Chief Investment Officer

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