Smart Purchase

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http://www.istop.com/~ck_wong/China/Smart%20Purchase.pdf

Introduction

When China imports steel, steel price jumps. When China imports oil, oil forecast points to the sky. China becomes the commodity market's wind roster on the roof. Commodity traders definitely love the scenario. China could feel that she is used, abused. The media are also over sensationalizing the situation of commodity shortage. This intensifies the situation which is not good for China and the commodity trading partners.

State Planning

While China wants to move beyond the total state planning economics but the economy is not matured enough to handle the foreign exchange, trade balance, housing, and …. The only thing that is on the right track is the saving racking in RMB or gold is under the influence of the state. The wall of money built led to the over U$700B treasury that allows her to perform supply security.

Is State Planning Bad?

State planning is not necessary to be a bad thing. Oil reserve is the policy that every country practice to ensure the emergency demands could be met. Over active state plan is not good. On the other end of spectrum, no state planning does not mean good. The state has the knowledge and the influence to ensure the requirements of all levels of government or industry sectors are met in a balanced way. Indirect planning includes the promotion of new industry sectors or development of certain sectors to meet the future needs rather than just what is the highly profitable. Education needs a state planning in collaboration with the industry to insure the growth of planned sector could happen.

China has over 50 years of state planned economy experience. It is my personal relieve and joy to see that the economic has been privatizing to the hands outside the central government. Western critics may still point to the concentration of wealth in the hands of a few big corporate. It is because they do not have the visibility of those small entrepreneurs rising from the bottom. China central government has been encouraging small entrepreneurs even before the open door policy. Let me give one example. The China Oil and Food Import and Export exports sugar, oil and many foods. They are exported under a managed brand name but actually purchased from communes which produce it. The food is purchased if it meets the standard.

Steel and Oil

While the manufacturers, traders, and hedgies may manipulate the market subtly, China did not response quietly. On a Dow Jones report [1], Feb 24, 2005, China warns large miners BHP Billiton Ltd. (BHP.AU) and Rio Tinto Ltd. (RIO.AU) against increasing prices too much for iron ore and other mineral commodities.

At the first half of the year, steel price was sky high. In August, China started to air the possibility of floating RMB both ways. In [2], from hindsight, it indicated RMB will be revalued up and the result will mean local steel become cheaper than imported steel. While metallurgy coke still high but imported steel lowered has indicated the local steel industry is still hot. The state controls the steel import through foreign exchange rate.

Today another strong message is out. Zhang Guobao, deputy director the State Development and Reform Commission, said China will not use imported oil to fill its strategic reserve at a press conference in Beijing [3]. The reserve's current target is 30 day. Zhang continues that China will control her oil import to ensure that China energy industry relies on the 180 million tons production target for the next 20 years. China's current production volume is 175 million tons. In first 8 months, China's oil import is 83 millions tons, up only 3.9% from 2004 while 2004's oil import grew 34%. The control seems in place. However, the question would be: how to bring the total demand from 292 million tons consumption down to 180 million tons when the economic growth is at 9.5%, would be a big question. I would not call Zhang bluffing. He does not have to do that. But the strong message on oil dieting is loud and clear.

Win-Win Solution

Rather than worry about China cutting her oil demand, I read between the lines. The hidden message could be that China will accept domestic oil growth to meet the demand but not purchasing high price imported oil. Foreign oil companies may invest in China, usually 50-50 joint venture, to participate the growth like all business in China.

Resources

[1] Chinese Official Warns BHP, Rio Tinto On Huge Price Hikes, Dow Jones, Feb 24, 2005.
[2] Strong RMB benefit steel industry, China Daily, Aug 2, 2005 http://www2.chinadaily.com.cn/english/doc/2005-08/02/content_465424.htm
[3] Oil price too high for strategic oil reserve, China Daily, Sep 13, 2005, http://www.chinadaily.com.cn/english/doc/2005-09/13/content_477472.htm