



Will Li Ka Shing Sell his family assets to China?

By CK Wong 2005.08.26

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Introduction

Who is Li Ka Shing and why are we interested in him? Li is the first generation of the billionaire's empire; he built it from scratch. He is the chairman of major real-estate developer Cheung Kong and conglomerate Hutchison Whampoa in Hong Kong. Cheung Kong still a Hong Kong based enterprise but HW has extended its business worldwide. The most notorious recent transaction is the purchasing of 10% of Bank of China in conjunction with Royal Bank of Scotland. Li Family is a majority shareholder of CIBC and Husky. There are a lot of rumors saying that China will buy Husky or even CIBC. The rumor remains rumor. But why not?

Why does China buy foreign assets?

China's economic growth creates tremendous pressure in multiple areas:

- The growth demands a lot of resources to manufacture or infrastructure building to satisfy the higher living standard demand.
- With millions of university graduates, skill workers at high tech is flooding the country and crying desperately to find jobs to better use of the skills. High tech jobs are highly demanded.
- After more than 20 years of open door policy and high saving rate, the national saving is at alarming level. These money seeks high quality business investment opportunity not just in China but overseas.
- Natural resources are abundant in China but not necessarily cheap. Non-renewable resource should be preserved for future. Oil and base metal should be imported as much as the country to bear.

In this article we focus on the natural resources.

To buy or not to buy

This question should be looked at from the angle of supply management theory. In a consuming system, the supply of material for such system has to meet the rate of consumption at an affordable price not just for now but for future. The future could have higher or lower rate of consumption. If the market supply is relatively reduced then the price will increase. There is also a possibility of reduction of supply relative to the consuming rate. To guarantee the future supply is steady and at a affordable price, the

management of source is called supply security. Among the price and availability, availability is usually a more important factor than price.

After I have mumble through all these, I am bringing in another major piece of factor on supply security; consumer and supplier relationship. The relationship could be established by many methods such as contract, trust, political, financial or family.

Li Ka Shing is a patriot. He has donated more than U\$1B to China to build more school, set up funds, social investment and many other activities. In the past twenty years, he has demonstrated the loyalty and dependability China looking for. His personal in grain relationship with the senior political bureau has been believed to be the bridge to resolve many dead lock between British Colony and China. Extending the circle to Canada, it is logical to assume that Husky would be a secured oil supplier to China when she is needed. As the result, China could provide more energy and effort to secure other source of oil producer.

However, rest for sure, Husky will be one of the most active companies in China's future oil roadmap with privilege. For example, while Shell China has to invest 50% to form a partner ship with China to drill oil, Husky receives a contract to drill oil. And CIBC will play a similar vital role to assist China in the financial area.

To look further

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