

# China holds aces as US loses face

- Daniel Flitton
- October 2, 2008

• AMID chaos on Wall Street, the question looms — who wins? Increasingly, eyes are flickering towards China.

"They were subject to some lecturing from the West about issues they had with their own investment banks and securities companies (in recent years), and now the shoe really is on the other foot," said Andrew Godwin, a Melbourne University Asian finance law specialist.

Compared with the anarchy in the deregulated and debt-ridden US financial system, China's more tightly controlled market and high rate of savings are looking good.

"I think China will have a bit more leverage because the model in the US hasn't worked," Mr Godwin said. "That might give China a bit more confidence in going down its own track and not being so influenced by the views of the West."

Not that Beijing is immune from the turmoil. China has an enormous stake in the US economy and is estimated to hold about \$US1 trillion (\$A1.25 trillion) in Treasury bills. It also sends vast amounts of goods to America.

"It means the Chinese are looking at some potentially large financial losses," said Mark Thirlwell, director of the Lowy Institute's international economy program. He sees the US Government's bail-out package in many ways as a strategy to calm restless investors abroad.

"When you had the bail-out for Fannie Mae and Freddie Mac, one of the beneficiaries of that bail-out was the Chinese," he said.

China is deeply entwined in the current crisis, which was built on cheap debt and an expectation housing prices would always rise. And much of the money flooded in from China.

That raises a big question about how America pulls itself out of this mess, according to Geoffrey Garrett of the US Studies Centre in Sydney.

"As American public debt increases, will the Chinese central bank and the Chinese Government be willing to buy dollars and keep interest rates low?" he said. "Or will they charge a big interest rate premium now and push up rates in the US?"

The answer is not yet clear. But Professor Garrett sees a more difficult political question in the short term. "If you were a savvy Chinese investor at the moment, you wouldn't want to buy Treasury bills, you'd want to buy distressed assets," he said.

"The willingness of Americans to be bailed out by China is the big question. It becomes very politically sensitive when it is buying an American firm, when China is buying up the United States at rock-bottom prices."

Mr Thirlwell said the Wall Street collapse had been a substantial blow to US prestige.

"One of the soft-power attributes the US has been resting on is the dynamism of the US economy, the successful and aggressive nature of Wall Street," he said. "And that reputation is now in tatters."

It all points to what might be an uncomfortable shift in the centre of global power, with China calling the shots.

How the world turns.