

# GPS – Geo-political Standpoint

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Market In-Brief: An independent overview & analysis  
of the international geo-political scene

By

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We spent last week in Asia meeting political, economic and military contacts.

**The bottom-line:**

**We see a growing North-South Asia split regarding US and Chinese influence. Japan reinforced treaty commitments with the US last week and we see continued US dominance in Japanese-Korean military spend. In contrast, South East Asia continues to slowly move closer to China, led by trade and finance flows, and China's successful divide-and-conquer approach to South China Sea issues. In West Asia, China marked another milestone with Turkey's preliminary decision to buy a Chinese top-end missile defence system. We continue to see Asian defence, aviation and security markets having long-term growth, especially in a global context. Alongside this, we see dislocation to global pricing as Chinese company offerings broaden.**

## Not a good week for America

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We may well look back on the past week as a pivotal time in the global shift away from US hegemony, especially in Asia. Turkey's choice of a top-end missile defence system from China, in preference to US options, marks a tectonic shift that received little press, but we see as potentially seminal on many fronts. [So too Obama's no-show at APEC, hot on the heels of his Palestine/Iran focus speech, and Chairman Xi's highly successful pre-APEC tour of the region last week.](#)

The fact that America's 'Asia pivot' played second fiddle to the ever-impressive US Congressional toy-throwing, sends a message to Asia that perhaps China, with its steady hand on the economic switch, is a better steward of global institutions and currency in times to come, rather than the increasingly parochial group in Washington DC, who would appear to gladly hold the global economy to ransom over a purely US domestic issue.

### Key points:

1) [China the global consumption powerhouse](#)

Whilst there remains clear economic uncertainty in parts of Asia, especially in India and Indonesia (especially infrastructure bottlenecks to the pace of economic growth), it is a source of underlying confidence that China's economy is showing robust consumer growth. For sure, we will see further hiccups in China as fixed asset investment loses impact, and environmental concerns cause younger achievers to move out of China. **However, more than half the incremental growth in global aggregate consumption over the next decade will be in China. Something to ponder...**

2) APEC in China's hand?

President Obama's no-show couldn't have been worse timed. With his recent Mid-East speech fresh in regional leaders' minds, and Chairman Xi handing out plaudits and investment to Indonesia and Malaysia in particular, the clear mood in SE Asia was one of deep disappointment with the US, and even some sense of inevitability that the region will fall ever deeper into China's orbit.

Whilst Myanmar and Thailand are maintaining balance between interests (along with Malaysia and Indonesia), Vietnam and the Philippines are being held out to dry.

3) Japan makes its position clear:

The meeting last week of US and Japanese Defence and Foreign Secretary's was a big statement of intent on both sides, and a riposte to China's public position that the US should leave Japan to fend for itself versus China on contentious issues. Another area of US progress has been the TPP trade process, where Abe appears ready to take on the Japanese agricultural lobby to get a deal done.

4) China/Japan rhetoric:

It was interesting to see leading Editorials in Beijing and Tokyo, both aiming at environmental issues. A leading Chinese paper published a scathing article about Japanese leaks of Fukushima contaminants into the Pacific, suggesting Japan should spend money on stopping the leaks rather than on militarization.

In return, Japanese scientists blamed rising mercury levels at Mount Fuji on Chinese industrial pollution. **We do not expect a near-term 'event', despite all the rhetoric. Both nations desperately need economic growth to remain on track**, and it was encouraging to us that Abe has played down the issue in recent interviews.

Looking at the overall maritime position for China, we see it ultimately taking control of the South China Sea, one way or another, and testing US-Japan resolve at some point.

5) Turkey opts for Chinese missile defence system:

The announcement by Turkey that it intends to buy the Chinese HQ9 missile defence system was a major event, in our view. As a NATO member, interoperability would be a huge issue. Of interest is that the Chinese supplier is on the US list of banned suppliers, thus Turkey is kicking sand in the face of US as well as NATO allies.

Chinese offers of in-country production and substantial technology transfer are huge carrots. **As we have posited for some time, we see China dislocating the global defence export market just as it has telecom equipment and other 'infrastructure' areas.** And, as with telecom equipment, the genesis of the HQ9 is 'reverse engineering' of Russian/US missile defence technology - **those who have been wondering when all that cyber theft would amount to something just got another big datapoint...**

Even if the Turkish announcement is a negotiating position to get a better final offer from Lockheed/Raytheon, we see Chinese defence systems going head-to-head with Western and Russian peers around the planet on a more regular basis from here.

There is plenty of evidence from other industries that shows **when Chinese companies turn up in a profit pool, profit margins for EVERYONE ELSE go down.**

Sincerely,  
John Longhurst  
Executive Chairman

## Biography – John Longhurst

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John spent 28 years as an investment analyst and fund manager, with a focus on global interactive media, industrial, and defence/aerospace industries, as well as broader cyber and geopolitical areas. Starting with James Capel in 1986, John attained No. 1 rankings in competitive polls from 1988 until 1996, when he joined Capital Group Companies of Los Angeles, one of the world's leading fund management companies, managing more than \$1tn of client assets.

After becoming a senior Shareholder there, he moved to PIMCO in 2011, as Head of Emerging Markets equity research. PIMCO is one the world's top-5 global fund managers by assets, managing more than \$2tn of client assets.

John was recently voted by Defence News as one of the 100 most influential people in the US Defence Establishment and has been actively involved in start-up companies over the past decade.