

An Opportunity That's Too Large to Ignore

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New data show that over the past three years, China doubled the amount of oil it imports from Saudi Arabia, to exceed 1 million barrels per day in 2009. Meanwhile, the U.S. dropped below the same threshold for the first time since 1988. That is but one of several 2009 milestones marking the eastward rebalancing in the world economy:

- The Chinese car market grew by 46%, to become the largest car market in the world, ahead of the United States. That's mixed news for struggling U.S. automakers such as **Ford** (NYSE: [F](#)), which sell cars in China.
- **China was the largest source of foreign public stock offerings on U.S. exchanges last year, with 11 of 14 listings. Over the past five years, Chinese company initial public offerings raised \$210 billion worldwide; American companies raised just \$184 billion.**
- China passed Germany to become the world's largest exporter.
- Japan just barely clung on to its status as the world's second-largest economy in 2009, ahead of China. That status is unlikely to last another year. Adjusting for purchasing-power parity, China passed Japan some years ago.

"The Decade the World Tilted East"

In light of those facts, it's easy to see why Harvard financial historian Niall Ferguson recently penned an article in the *Financial Times* titled "The Decade the World Tilted East." China's economic achievements over the past two decades have been nothing short of remarkable. The rebalancing that is occurring looks unlikely to reverse; a relative decline of U.S. economic standing appears inevitable. However, it is by no means assured that China will leap past the U.S. in absolute terms on a precise schedule that simply extrapolates recent growth rates.

China is an investors' conundrum that combines extraordinary potential with significant risks, including ethnic tensions, corruption, and enormous disparities in wealth and income. Most participants are seduced by the self-explanatory growth story and focus only on promise without any regard for pitfalls. That's certainly what the following valuations suggest to me:

Stock	P/E Multiple*	Comment
Baidu.com (Nasdaq: BIDU)	54.6	Google competitor

Ctrip.com (Nasdaq: CTRP)	39.3	On line travel
Mindray Medical (NYSE: MR)	30.7	Durable medical equipment
Sina (NYSE: SINA)	26.1	Oil
Suntech Power (NYSE: STP)	22.2	Solar cells, located in Wu'xi

*Based on next 12 months' estimated earnings per share. Source: Capital IQ, a division of Standard & Poor's.