

Economist warns of China's growing influence

THOMAS S. BROWN - BUSINESS WRITER

14 April 2005

Section B

Daytona Beach News Journal

Copyright 2005 Daytona Beach News-Journal All Rights Reserved.

ORMOND BEACH — Americans need to start paying closer attention to explosive growth in China, a Bush administration economic adviser told area investors Wednesday.

John Rutledge, a Connecticut economist who advocates tax cuts to stimulate investment, spoke at a forum sponsored by financial planner Bill Grigat. More than 100 people gathered to hear Rutledge touch on topics ranging from Iraq to Social Security to the real estate boom. But, repeatedly, the economist returned to the Far East.

"Economically speaking, the big earthquake in the world is the re-awakening of China," said Rutledge, noting his children have begun studying Mandarin.

By 2020, he said, China's oil consumption is expected to double to 10 billion barrels a day — half the current U.S. consumption rate. Thirst for oil could lead to more friction between China and its neighbors, Korea and Japan, with recent tension between Japan and China a sign of things to come, he cautioned.

"Big nations make big armies," he said. "There are going to be heads bumping in that part of the world."

Oil also is driving American foreign policy, Rutledge added.

"You'll never hear this from the government, but the reason there's an American army in Iraq, folks, is oil," he said. "It's not to get the oil but to make sure the oil business there keeps operating. Some army is going to do it — if we didn't do it, there would be a Chinese army there."

Rutledge said he hopes an international peacekeeping force will eventually replace at least some of the U.S. troops in Iraq.

He suggested the administration try to get European and Japanese soldiers to replace the National Guardsmen and reservists serving overseas.

Despite rising oil prices and budget deficits, Rutledge is bullish about investment prospects, saying he expects stocks to produce annual returns in the 10 percent range and bonds 4 percent.

Asked about the real estate boom, Rutledge said he expects property prices to stabilize this year, rather than continue rising 10 to 15 percent. Nationally, he said, housing prices peaked last June.

Rutledge doesn't foresee a price collapse, but recommended caution about real estate investment trusts. "They're still buying the overpriced office buildings," he said.