

Weekly Commentary 4 – 4th Commentary for 2024

China at Davos – Making friends out of foes...the phenomenon of de-risking

The Davos meeting is usually a gathering of well-heeled people from governments and the private sector. Generally, they are friendly to each other. This year, the people whom the WEF does not like were not invited. Folks such as Vladimir Putin.

The exception in 2024 was the Prime Minister of China. Not that he is an enemy of the august gathering, but many in the west would think of him at this time to be more a friend of Putin. Li Qiang was there, and he tried to make friends. As many friends as possible. He brought a large delegation of ministers and other officials and plugged for international investment in his country.

However, what made the headlines in the financial press initially, was that markets were disappointed with weak data coming out of China. This is in direct contradiction with Li Qiang's announcement that China's gross domestic product grew 5.2% last year. 5.2% is better than most people expected since the official target was just 5%. The figure represents an improvement from 3% in 2022, when the country was restrained by strict zero-COVID policies. Lifting those restrictions helped spark a rebound in consumption as China's consumers returned to malls, restaurants and hotels. But the country's ongoing property crisis -- and a decline in exports, the first in seven years -- hampered growth. The fourth quarter GDP number could have been 6.5% but it was not to be.

Li Qiang sneak peek at the 2023 figure during his speech at the World Economic Forum's annual meeting in Davos, was in the context that China had met its target without "massive stimulus." The final qualifying phrase was important. It stands in contrast to the way things are done in the G7 countries. In particular, citizens of the collective west are so spoiled that if the GDP numbers are not strong, they will clamour for their governments to provide stimulus to the economy. And these governments, wanting to stay in power, will comply.

Not China. Throughout the whole of 2023, when the growth numbers were not as strong as expected after the Covid lockdowns were lifted, the CCP was lobbied to do more to stimulate the economy. I saw all the exhortations every week on Bloomberg... "we need more stimuli!" Stimuli meant either spending more than you earn in Keynesian style deficit financing, or printing more money than you should, like Milton Friedman had recommended. Beijing stuck to its guns and did nothing.

One recalls that in 2008-9 during the GFC, China was asked by the US to stimulate the Chinese economy because the world needed a boost since the US was crashing. Beijing did

that, but regretted doing it. They pumped in 4 trillion RMB in infrastructure projects at that time, but because they were planning in five-year cycles, they were not ready to use that money. All that surplus money then went into the property market and produced a 15 year bull market that in 2021 led to the government fighting the problem of excessive property speculation. So I guess this time, they said, Not Again... And they therefore, they did nothing substantial during most of 2023.

Western financiers reacted by selling Chinese stocks and continued selling through the whole of last week. They said Chinese growth at 5.2 percent was not good enough...

The western critics went on to say that they had questions over the official 5.2% figure, with these questions stemming largely from whether the consumption boom post pandemic was enough to offset the drags on China's exporting economy.

It is true that stronger than expected growth numbers help create a sense of economic momentum, which encourages private investment and household consumption, one analyst said, but "the business community and investors in China are not convinced China has turned the corner."

Rhodium Group, a research firm with a focus on China, was particularly dubious of the official growth number, calling it "irreconcilable with evidence of general malaise and reactive policymaking that has piled up all year long." Rhodium estimated the actual growth figure as closer to 1.5%.

That is ridiculous.

It is just that the Chinese government was not willing to risk what America did during the pandemic, which was to imagine that a 1930's depression was coming and they stimulated the economy (mostly through monetary policy and dropping money out of helicopters) until they got massive inflation. Looking at how the Americans did things, the CCP decided to ignore the stock market fluctuations (particularly those in HK influenced by western finance) and focused on doing things their own way. Good for them.

Doubts about the reliability of China's official economic data are not new. Capital Economics' China Activity Proxy gauge -- which attempts to track the economy by other components, including freight and passenger traffic, car sales and service sector electricity

usage -- suggests actual growth has undershot Beijing's announcements since the start of 2022. But not all observers share Rhodium's low assessment.

A group of 16 economists from within and outside of China surveyed by Chinese financial news provider Caixin estimated an average of 5.3% growth for China's 2023 GDP, in line with Beijing's number. The International Monetary Fund projected China to grow at 5.6% in its most recent world economic outlook on 8 November.

"I tend to think it's relatively accurate," said Nicholas Lardy, a senior fellow with the Washington-based Peterson Institute for International Economics. "There's a wealth of data released [this week], and in my view, it all hangs together," he said, arguing that a substantial leap in disposable household income helps explain the spike in consumption.

That could be a positive sign for 2024, as China's economy is expected to slow without the rebound seen in 2023 from removing COVID restrictions. The IMF had originally forecast the economy to grow at 4.2%. Even for the IMF, the actual growth was better than expected.

"We think the economy [in 2024] will look better than last year, but nothing like the pre-COVID growth rates (6-7%) that an improvement on China's official figures would imply," the firm said, with the caveat that greater than expected government stimulus could bring an unforeseen boost. In my humble opinion, the Chinese government will not use monetary or fiscal deficit financing to boost the economy – they will ignore all those ‘friendly’ advice from the west.

One popular method grouping electricity usage, rail cargo and bank loans came to be known as the "Li Keqiang index," named for the metric preferred by the late premier as a gauge of the country's growth.

But changes to the Chinese economy, including a shift toward the services sector, have made traditional real-world indicators less reliable.

"It's very difficult to really get a sense of the entire economy independently. It's too large," a CSIS analyst said, adding that "you just need to use a lot of different sources of data, look at high-frequency data and draw your own conclusions."

As far as I am concerned, concern over which number is accurate is less important than the fact that the change is positive and by a large amount. From 3% in 2022, it is now 5.2%. That's significant progress recovering from the pandemic. And this is without the massive stimulus we have seen in all western economies that ultimately led to the worst inflation in 40 years. So what's the fuss? I would just attribute it to envy among the countries with economies that are depressed and entering recession.

That's mostly the EU countries. Germany is one quarter away from recession, when it clocked -0.3 percent GDP growth last quarter (takes two quarters of negative growth for any country to be defined as being in recession); the UK is stagnant at zero growth, France is in similar dire straits, and the big brother, Uncle Sam, is just about 2%. With China growing at 5.2 percent, it is doing better than all the western countries, added together.

Then there is Russia, growing at above 3.5% which is also doing better than the G7. Russia is the Slavic country which all the western countries love to hate.

So there are these two economic outliers – China and Russia – which the collective west think represent their enemy, or at least, non-friend.

Li Qiang was at the WEF meeting at Davos to tell people that China is back. And open for business. He also said that it is Beijing's intention to grow the Chinese middle class from the current 400 million to double that number over the next few years. Should we doubt that they can do it? Don't bet against China. If so, that will represent the largest growth of purchasing power on the planet in the late 2020's.

Therefore, China represents both risk and opportunity to the collective west. As far as the western countries are concerned, they only see the need to “de-risk” from China. Of course this is a new word in the new geopolitical lexicon – invented by the Americans – who seem to think that China poses grave risks for their country right now.

The US and Europe want to de-risk, or reduce its exposure to, but not decouple from, China

What does that mean?

Here is a good research report by Nathan Picarsic and Emily de la Bruyere, who wrote it for the Hinrich Foundation on an answer.

May 31st 2023

At their summit in Hiroshima on May 20th, the leaders of the G7 group of rich democracies talked about “de-risking” their economic ties with China, but not decoupling from it. The same phrase appeared in an important speech by Ursula von der Leyen, president of the European Commission, in March. What does “de-risking” mean?

In principle, the idea is easy to illustrate. Consider Europe prior to the invasion of Ukraine. Many countries, notably Germany, piped much of their imported gas from Russia, creating a worrying economic vulnerability. They could have stopped, despite the costs. That would have counted as decoupling. Alternatively, Europe might have prepared a more robust back-up plan, investing more heavily in terminals and storage tanks that would allow it to import gas from elsewhere in a pinch. That is economic de-risking. It is an attempt to reduce economic vulnerability with the least possible damage to trade and investment.

I would let the article explain this convoluted concept...my comments are in red.

HINRICH FOUNDATION REPORT – THE PRICE OF DEPENDENCY: THE RHETORIC AND REALITY OF DE-RISKING US-CHINA TIES

*BY: Nathan Picarsic and Emily de la Bruyere
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INTRODUCTION

US-China geopolitical tension is at an all-time high. This superpower competition is mostly playing out in industrial and technological fields with real consequences for an international business community accustomed to a borderless world. Accordingly, the private sector is in the early stages of coming to terms with the new zeitgeist and its corresponding vocabulary: “de-globalization,” “decoupling,” “de-risking,” and all their variations along with the implications of these variations. At least at the rhetorical level, it is goodbye to the old paradigm.

But is it?

Evaluating the current state and trajectory of “de-risking” in global markets requires an understanding of China’s aim for asymmetric interdependence. Despite increased geopolitical tensions, large swaths of Western markets remain in thrall to the Chinese state-centric market.

China’s industrial policy during the past few decades has been premised on the objective of asymmetric interdependence. Beijing’s economic planners want the world to depend on China more than China depends on the world. In Chinese policy and public discourse, this intent has in recent years been repackaged into the strategic policies of “dual circulation” or the “dual cycle” development model.² This asymmetric dependence has strategic value to Beijing: China increasingly weaponizes trade, seeking to use the nation’s formidable and rising economic heft to impose its political will on international diplomacy.

ASYMMETRIC INTERDEPENDENCE

The underlying logic, strategic ambition, and positioning of such strategy are not new nor even novel for many nations in their economic development policies. But the bid for asymmetric interdependence runs longer and deeper in Chinese state development strategy, and it comes freighted with two key considerations: the formidable reach of China's one-party autocracy and the allure to foreign markets of its massive single market. What today is framed as "dual circulation"—China's systemic favoring of domestic over international markets for the ultimate purpose of projecting state power at the global level—was well established and codified decades ago in China's economic development concept of "Two Markets, Two Resources."

Barring recent months of weakening trade, China's current account surplus continues to soar, reflecting its export-led dominance as the world's largest and most diversified manufacturing economy. Its capital account deficit has stayed relatively steady in the years since it stanching a massive outflow that began around 2014. These features reflect China's continued emphasis on export-led growth and flow of outbound capital. Aside from a slew of infrastructure and supply chain investments abroad, China's tech champions, despite being increasingly the targets for US de-risking regulations, continue to be courted at Wall Street and Silicon Valley. All these are outcomes, at least in part, of Beijing's longstanding "Two Markets, Two Resources" strategy, its foundation of asymmetric interdependence.

"De-risking" today may be political rhetoric that is racing ahead of reality in global markets. Such divergence could prolong economic instability, exposing markets to sudden shifts in regulatory pressures, and perpetuating a misreading of economic incentives in the private sector of the changing geopolitical landscape.

Understanding the governance of the de-risking narratives is critical for understanding what effects such policy might have, what challenges the private sector faces, and where underappreciated opportunities might exist.

CHINA'S "TWO MARKETS, TWO RESOURCES" STRATEGY

The Chinese Communist Party's (CCP's) approach to international trade and capital markets mirrors that of Beijing's broader industrial and economic development policy. The CCP seeks to retain state control of domestic markets while integrating them into the global system and acquire asymmetric leverage over and asymmetric access to global markets while doing so.

The CCP's approach to science and technology development offers a useful illustration of this approach. China's centralized industrial policy orients around twin goals. First, through a "draw in" prong, Beijing works to attract foreign resources to fuel its domestic markets. Second, the "go out" prong of China's industrial policy propels players that have reached an "international advanced level" to accelerate the process of resource accumulation and to develop positions of international influence by investing in the global system.

This “drawing in” and “going out” approach serves an overall strategic vision encapsulated by “Two Markets, Two Resources.” First mentioned in Chinese policy documents in the early 1980s, the “Two Markets, Two Resources” framework spells out the differentiation in the state’s treatment of domestic and international markets and resources at every level. The domestic is to be relatively protected even as China seeks to integrate into and benefit from the international. The strategy is made easier by an open global system of economic and financial exchange.

Beijing’s decision in the late 1970s to re-engage with global markets, after decades of keeping itself largely closed as it struggled with near-colonization and political upheaval, was not entirely an embrace of neoliberalism.

As political unrest and a macroeconomic slowdown threatened to dim the allure of Chinese markets in the early 1990s, former President Jiang Zemin reframed “Two Markets, Two Resources” by encouraging Chinese industries and enterprises to “go out” into global markets to secure access to capital and technology.

In doing so, Jiang dusted off the principle that treated domestic and international markets as two different troves of resources for the Chinese state-controlled economy. The theory suggests that different approaches are necessary to these different markets based on China’s relative global standing—a simple and seemingly obvious orientation, but one that does subtly contrast with neoliberal orthodoxy.

Jiang’s codification of the term, continued and amplified in successive administrations and planning cycles, was as much about pragmatic globalization as it was embodying protectionist measures against foreign businesses and a highly selective and self-advantageous version of openness to investment. This long-running orientation helps explain the logic and intent that has shaped President Xi Jinping’s framing of the “dual cycle.” The “dual” refers to the same distinction between the domestic and international. China’s domestic system, or cycle, is to become the driving force for both the country’s development and the global economy. At the same time, Beijing will continue to leverage access to international markets and resources and use the strength of its domestic cycle to attract global resources and influence global markets.

In industrial and technological fora, this strategic approach now drives China-based joint ventures, research and development partnerships, and production through which China draws expertise and technology into a government-controlled sandbox. State-backed Chinese champions establish monopolies at key nodes of global industry chains, build R&D hubs and infrastructure systems abroad, and seek to influence and dominate international technical standards and market norms.

In trade and capital markets, the same logic applies. Chinese companies and industries extend Beijing’s global influence, benefiting from foreign exchange and capital flowing into China on a wave of bullish sentiment over the country’s enormous market potential and a sophisticated set of Chinese regulations, incentives, or sometimes, state pressure. The CCP maintains control over that influx.

Internationally, the same centralized guidance and support that enable Chinese champions of its state-designed Belt and Road Initiative to invest in key strategic markets or resources globally also help these champions secure financing in key capital markets. The strategic value of the Chinese domestic market provides a compelling inducement for the world's largest underwriters to collaborate with Beijing's state-backed enterprises looking to access Western capital markets. Today, China's energy and technology giants count as some of the most highly valued stocks on global exchanges.

These Chinese companies and others are helping to shape the global architecture of trade and investment. For example, tech giant Alibaba Group Holding is developing the Electronic World Trade Platform (eWTP), a project the company's co-founder Jack Ma once touted as "non-state enterprise," but is now virtually indistinguishable from the state's Digital Silk Road initiative, a key part of its strategy to build and dominate global infrastructure.⁷ Such companies enable Beijing to gain leverage over the global financial system. Asset owners and managers including US retirement savings are among those that invest in markets that ultimately come under—and not by many layers—the final jurisdiction of the Chinese Communist Party. And the weight of Chinese companies' presence on international exchanges increasingly matters to the global financial system even if American and European peers account for a larger aggregate presence in global capital markets.

This orientation ultimately seeks to make it impossible for the international business community to decouple from China due to dependence, supply chains, and China's control of foundational infrastructures.

RISK APPETITE STILL TRUMPS DE-RISKING.

Were China a free-market economy, this would not be remarkable: Most of the world has exposure to Western financial markets and the fate of US companies shapes global financial interests just as much as China's champions one day might. However, China is not a free-market economy. The CCP controls its domestic capital markets and the actions of its companies engaging with international capital markets to a degree that makes the state the ultimate decision-maker of its markets. Beijing can ban Didi's app from domestic app stores immediately after the company's public offering or pull subsidies from any company dependent on them.

With an accretion of exposure, global asset allocators and international capital markets will find themselves dependent not only on Chinese companies but ultimately on the Chinese Communist Party which makes decisions founded on the perpetuation of its monopoly on political power. True to ambitions of asymmetric integration, the reverse is not true: No other player can marshal the same influence over Chinese companies in capital markets. In other words, Beijing can bend private-sector entities quickly and completely to its will, but there is very little viable mechanism for the reverse.

Such leverage has only grown in the post-Covid global power reshuffle. During the pandemic, the CCP ratcheted up its "Two Markets, Two Resources" approach to global capital markets. Early in the spread of Covid, as instability skyrocketed and markets plunged, Beijing sensed an opportunity to enhance China's global standing as

a financial center, in terms of access to international capital and influence over the international financial architecture. An analysis published by the State Council Development Research Center predicted how China was positioned to take advantage of this opportunity and to beat back the forces of decoupling:

“With the globalization of the epidemic and the general frustration of the global economy, Western countries’ reliance on China’s economy and markets will deepen. The United States’ use of the epidemic to accelerate its “decoupling” from China is likely to be counterproductive ... Judging from the institutional advantages, effectiveness and actual contribution of China’s anti-epidemic mobilization, China’s national governance may undergo improvement, while China’s ability to participate in global governance will be structurally improved. The interdependence of the [Chinese] economy with the global economy will rebound and expand. The “zero-sum game” of the United States under the Cold War mentality cannot be truly understood and responded by its allies, nor can it achieve subversive damage to China’s economic and political systems.”

Official policy in Beijing followed suit. The Chinese government modified the Qualified Foreign Institutional Investor (QFII) and Renminbi Qualified Foreign Institutional Investor (RQFII) rules to be more inviting than ever. As Chinese regulations relaxed, Western firms rushed in and expanded their engagement with the Chinese system. Reports in 2021 said that Goldman Sachs and other foreign financiers had been hiring at an unprecedented pace to staff its expanding investment and asset management operations in China. Relaxation of foreign ownership thresholds in certain financial sector businesses also served to draw closer a range of foreign capital market players during the past few years (see Risk appetite still trumps de-risking China’s strategy is to make it impossible for the international business community to decouple from China due to dependence, supply chains, and China’s control of foundational infrastructures. (See Figure 1) With these moves, Beijing is increasing its influence over international finance and, by extension, the global markets that they fund.

China’s approach to global and domestic capital markets will influence the future of its national competitiveness, geopolitics, the US-China strategic balance, and with it, the direction of global trade and investment. Chinese strategic thinkers are clear about this and have been for some time. A commentary published in 2021 by the official news agency Xinhua, which often acts as a government mouthpiece, summarized the role of capital markets as the “century-old journey” along which China is moving from a “big” country to a “strong” one:

“The history of economic development proves that the capital market is an important force behind the economic rise of a big country, and an economically powerful country must be a financially powerful country with a powerful capital market. Experts in the industry generally believe that finance is the core of the modern economy, an important means of modern state governance, and an important means of international competition. The capital market is the most important part of the modern financial system, and it plays

an important role in cultivating the new economy, managing, and dispersing risks in the real economy, and effectively allocating resources.”

The ambition for the domestic capital market in China comports with “Two Markets, Two Resources.” Global integration is key to a Chinese system that has been playing catch-up to the financial hubs of the West. Access to diverse, mature pools of global capital helps reduce the cost of capital for Chinese firms. Chinese industrial policy for capital markets seeks risk reduction from a global system that is eager to benefit from Beijing’s growth narrative.

At the same time, China’s capital market reforms are careful to protect against free-market competition in critical sectors at home. Preservation of the domestic market for domestic champions remains an explicit priority 20 years after China’s accession to the World Trade Organization. This point registers with Western observers and investors, including some key contrarian asset managers, one of which noted in a report: “China is on pace to build at least as many critical companies as the US during this century. Their single-party system requires careful tracking, but the upside is that Alibaba and Tencent will never have to compete against Western companies for Chinese wallets.”

These competitive objectives frame a delicate balancing act for the CCP. It would be a mistake to read Chinese governmental actions against the likes of Didi as a resolute bid to decouple from Western capital markets. Beijing ordered ride hailing giant Didi Global to delist from the New York Stock Exchange in November 2021, citing concerns over leakage of sensitive data.

Rather, the government’s takedown of China’s corporate titans, also including halting the initial public offering of Jack Ma’s Ant Financial in November 2020 days after Ma publicly criticized the government’s financial regulatory system, underscores both Beijing’s recognition of the value of “important data” and especially the imperative of asserting that there is no bargaining relationship between the Chinese state and firms, despite the guise of the official “state-led, enterprise-driven” economic model. All the while, the “draw in” inducement of access to capital markets in China stands to deliver the strongest tool for coercive leverage over foreign markets. China’s power in capital markets is a function of foreign players serving domestic strategic priorities and Beijing’s power projection.

Figure 1 – Foreign financial entities in China, ownership change



Elon Musk visited China in May 2023. During his trip, he described the US-China relationship as one of “conjoined twins.” Of course, Musk’s Tesla, a US industrial

champion, depends on China. It explains Musk's opposition to decoupling and de-risking from China.

The nuance of that dependence remains underappreciated: China's "Two Markets, Two Resources" logic has developed a pincer grip on global manufacturers like Tesla, and thereby global trade. Global manufacturers like Tesla depend on Beijing from both directions of the supply-demand balance. China is the source of cost reductions in production and supply chains. At the same time, the domestic Chinese market is its holy grail for marginal growth in revenue. Musk confirmed as much on his recent visit espousing his hope that Tesla "continues to expand its business in China." Tesla is not alone in falling in thrall to this strategy.

Capital markets, and thereby global investment patterns, are equally captive. Jamie Dimon, Chairman and CEO of JPMorgan Chase, visited China around the same time as Musk. His tone echoed that of Musk and starkly dismissed any likelihood of decreased participation of global capital markets in China's growth. He characterized US-China tensions as "solvable" while defining the role that JPMorgan Chase plays as improving US-China relations. Dimon underscored the support in global finance for Chinese companies that wish to enter US markets. Based on these remarks, it may come as little surprise that JPMorgan is a key fintech partner of Bytedance, the Chinese tech parent company of online video platform TikTok, which has swiftly gained popularity in the US. Furthermore, American lawmakers weigh restrictions against its stateside operations, TikTok has become a canary in the de-risking coalmine.

Beijing rolled out the red carpet for Musk and Dimon when they visited China in May. According to the Financial Times, **Musk had more top-level Chinese meetings in two days than most Biden administration officials have had in months.**

Musk's and Dimon's views are not anomalous in global markets. They're also not unfounded. They reflect an empirical reality: Despite geopolitical tension, capital markets have found no replacement for China's extant position of asymmetric dominance.

Take for example the public listing of Hesai Group, a Chinese manufacturer of lidar, a device similar to radar but using infrared laser light instead of radio waves, that serves the growing market of autonomous vehicles. Hesai's initial public offering in New York in February 2023 went off without a hitch. Its IPO has been covered positively in both Chinese and English financial press as a harbinger of positive developments to follow for continued Chinese listings in the United States, which have chilled since the debacle surrounding the delisting of Didi in 2022.

Under the auspices of a review by the Cyberspace Administration of China and consistent with a broader tightening of central government influence over the Chinese tech sector, Didi was forced to stop accepting new users and cooperate with authorities over concerns about national security risks and data access. This year's Hesai offering, however, underscores the attractive role that US capital markets still provide for China as long as Beijing can set the terms.

The positive sentiment from the market toward Hesai's offering runs in a split screen with the policy progress on "de-risking." The US House of Representatives Select Committee on the Strategic Competition Between the United States and the Chinese Communist Party opened its public hearing the same month as Hesai's IPO, even as Goldman Sachs and Morgan Stanley were hard at work underwriting the vehicle for US capital markets to remain wedded to Beijing's tech champions.

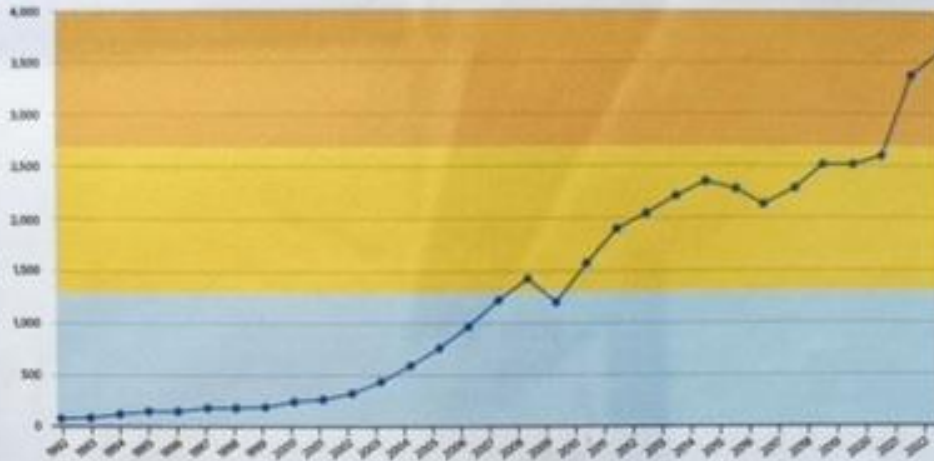
The mathematics of such investment remains compelling. The lidar market has huge growth potential. Hesai has a healthy balance sheet and strong revenue growth. By the numbers alone, this should be a strong investment case. However, it is a Chinese company in a market that is foremost on the minds of national security policy makers globally.

Emerging technology, like the lidar systems propelling advances in autonomy, are highly susceptible to the risks of policy-driven "de-risking."¹⁷ This sensitivity isn't lost on Hesai. The company's IPO prospectus references the risk posed by the Chinese government's stated goal to "counter foreign sanctions." If these potentially sensitive realms are not factored sufficiently in the financial underwriters' point of view, it would suggest that Western capital markets don't fully agree with or grasp the new geopolitical realities.

Can they be blamed? There are enormous costs to de-risking. Analysts estimate that removing or excluding Huawei equipment—caught in the US-China crossfire—from 5G telecommunication networks alone could cost tens of billions of dollars.

Trade trends, after all, support the thesis that markets trump politics.

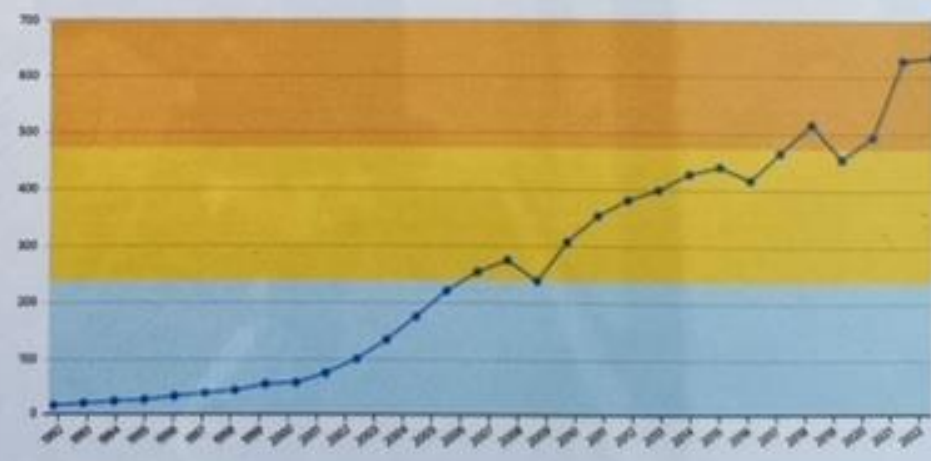
Figure 2 – China global export value, Jan 2020-Apr 2023 (US\$ billion)



Source: China General Administration of Customs

Aside from the Covid-driven dip, China is posting new heights globally in its export-driven model, even in the fraught US-China bilateral trade relationship and despite the de-risking rhetoric.

Figure 3 – China North America export value, Jan 2020-Apr 2023 (US\$ billion)



Source: China General Administration of Customs

The aggregate trend lines confirm a simple truth: **China's dominant position as the world's workshop remains compelling.** That reality, supported by key segments of

elite sentiment in the US that shape perspectives and incentives in American financial and tech hubs, is a counterpoint to the rhetoric of de-risking.

Yet China continues to lessen its dependence on the world even in trade. During the last 20 years, econometric analysis by Oxford Economics in a study commissioned by the Hinrich Foundation showed that **China became the world's most diversified economy in terms of customers and products, while the economies that fed its industry became increasingly concentrated in their export mix.** While nearly half of US exports and imports respectively come from China, Canada, and Mexico, China has been much more careful to diversify its trade clientele. Its largest export market, the US, accounts for just 16%, and Hong Kong trails second with 8%. The remainder is spread relatively evenly across nearly 100 other economies.

China has been quick to recognize and limit its own trade dependencies. In the early 2010s, when its importers began to bring in large shipments of US corn, Beijing moved to swiftly limit such imports. Citing concerns with genetic modification, China switched to a wider swath of suppliers including Latin America and Ukraine.

During the last 20 years, China became the world's most diversified economy in terms of customers and products, while the economies that fed its industry became increasingly concentrated in their export mix.

Trade and investment between the US and China appear positioned to endure. Influential stakeholders in the US business community are incentivized to ensure this. If nothing else, this reality suggests that **“de-risking” may underestimate the degree of asymmetric interdependence that China has already established.**

The push to “de-risk” risks itself being untethered from market realities and China's dynamic policy responses. It should be apparent from China's increased share of global production and sustained share of world exports that Beijing could very well surmount “de-risking.”

Clearly, markets and policies are not in lockstep.

“De-risking” was brewing before Covid. Now it's the collective direction of a growing international consensus. Several triggers could accelerate the trend. External events such as another public health catastrophe or climate crisis, an expansion of the Russia-Ukraine conflict in which China has both helped finance Moscow and sought to project itself in the role of peacemaker, or new skirmishes on the Sino-Indian border or in the Taiwan Strait, could exacerbate geopolitical tensions to a point that they outweigh the economic calculus that reinforces China's economic attractiveness.

In the United States these days, no single issue generates bipartisan alignment like a hardline against the Chinese Communist Party. De-risking is real and underway. Data released in June from the United Nations Conference on Trade and Development indicate that US import dependence on China began to decline from the first quarter this year. But key parts of global markets are still heavily invested in an approach that moves in lockstep with Chinese strategy. Their resistance to “de-risking” suggests that

China's bid for asymmetric interdependence is further along than most realize. It follows that any reality that redresses Beijing's progress would amount to a more significant rewiring of global trade and investment than most realize.

We cannot avoid the conclusion that an ideological approach to de-risking has its limitations. Just look at the ev industry...

Tesla is practically a Chinese company because it now makes more of its product out of its Shanghai gigafactory than anywhere else in the world. Premier Li Qiang, then head of the Shanghai municipal government, negotiated the deal with Musk. So both sides understand how to engage. And the top Chinese ev maker, BYD, has American capital from Berkshire Hathaway. Both companies will dominate this industry. Together they will change the world. There won't be a BYD without Warren Buffett, and there won't be a Tesla without China. What kind of de-risking is that? At the end of the day, money talks and all companies will mind their own business and ignore Biden.

As such, Li Qiang's mission to Davos was very purposeful. He welcomed foreign investors to buy into Chinese companies and said that the country welcomed them. By announcing growth at 5.2 percent, he is gesturing that China's export industry will get back on track. And that the domestic market is friendly to good foreign products. That's the dual circulation model he is enunciating. And he was trying to make friends with the world when that world wants to build industries/markets within a small yard and a high fence.

That would work if China remains a second-tier technological power. But if China continues to innovate as it has done successfully with ev's, the rest of the world will be beating down that fence to get into the Chinese market or risk not being able to sell anything to the largest middle class in the world.

Or to acquire Chinese technology, through partnerships and JVs, often viewed as Trojan horses, to sell stuff in their own backyard.

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