

China, or the arrogance of the powerful?

Growth threatened by outflows of resources and market closures

At the World Economic Forum, held as a virtual event in Davos from the 25th to the 29th of January, **China looked like the major country that had best managed the challenges of the health and economic crisis in 2020.** President Xi Jinping capitalised on this to deliver a very stirring speech to those of his counterparts tempted by a certain form of protectionism: "To build small circles or start a new Cold War, to reject, threaten or intimidate others will only push the world into division and even confrontation, which will lead us to a dead-end... It serves no one's interest to use the pandemic as an excuse to reverse globalisation."

China has published triumphant growth statistics for the fourth quarter of 2020. Over the full year in 2020, its GDP totalled \$15,230 billion, equal to 72% of US GDP. This compares to 12% in 2000 and 41% in 2010.

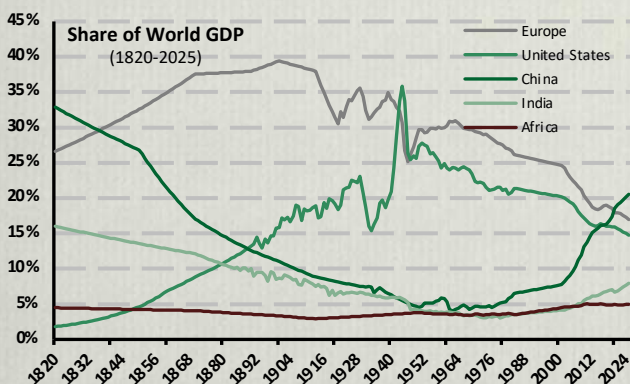
China was the only "big" country to achieve growth over the full year. Its profile, and in particular the acceleration seen at the end of the year, more or less guarantees that it will enjoy a dazzling 2021, with growth in economic activity likely to outstrip the IMF forecast of 8.2%.

In light of this, a number of specialists, such as the Centre for Economics and Business Research (CEBR), predict that **China could become the world's leading economic power in 2028.**

This would mean the United States losing its global hegemony, which could deprive it from pursuing the economic policy put in place since 2008. It is the status of the dollar that allows the United States to continue printing money, as is still the case in 2021. According to Daniele DiMartino Booth, former advisor to Richard Fisher and the FOMC, "the balance between the two countries relates a lot to the fact that they need one another: China to cover its significant food deficit and the United States to cover a structural shortage of technology products... When we see how China got its hands on a very poorly protected technological ecosystem, we can't but worry about what it could do in finance, which is scarcely protected any more."

Back in 2017, i.e. four years after Xi Jinping came into power (2013), the IMF was already ranking China as the world's biggest economy based on GDP expressed in purchasing power parity terms.

The two countries had been neck and neck since 2014. Whether by chance or as a consequence, it was during this period that a radical change was seen in the attitude of Chinese executives, both on a domestic level with the country's drastic retaking control, and with regard to the rest



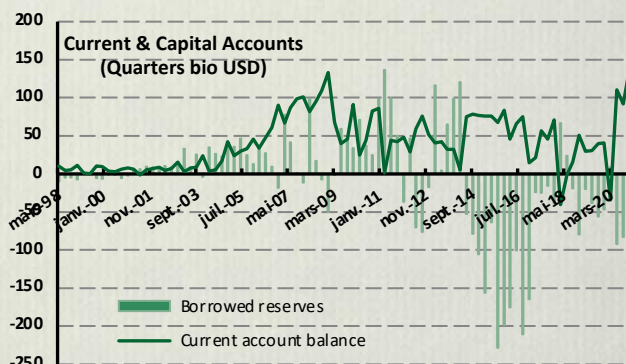
Source: Angus Maddison - OECD - IMF - Agata Capital

of the world, with the official tone shifting from discrete conciliation to a more dogmatic and hegemonic stance.

It is only a matter of time before China's GDP exceeds that of the United States, as a nation's true wealth is its population (based on this criterion, India should overtake China in two years). **The challenge is identifying how this transition will be achieved,** which could be shorter or longer. China has always been the world's most populated country but its GDP has been below that of Europe since 1838, and below that of the United States since 1891. What will the situation look like in the future?

China's population is no longer growing and is even ageing rapidly. In terms of the age pyramid, the proportion of the population in working age (15-65) as a percentage of the total population peaked in 2010 at 74.5%. In 2020, it dropped below 70%. **China has therefore already passed its maximum productivity and growth rates will level out very quickly.**

Furthermore, by launching its "take control" policy and changing the constitution to become president for life, **Mr. Xi has created a deep distrust from the private sector, which was the main driving force behind the "Chinese miracle".** Until the government regained control of the situation, we had seen massive capital flight – hidden in the form of exports – which totalled \$1,500 billion from September 2014 to December 2016.



Source: SAFE - Agata Capital

Similarly, a number of businessmen have temporarily or permanently disappeared, such as Lam Kok, Wang Jian (both of whom died in France) and Jack Ma. Hong Kong's driving forces are having to make emergency applications for British National (Overseas) passports, with the risk that this high value financial and human capital might no longer be available to the domestic economy. One last example of the problem is **that the country's economic data seem less and less transparent:** changes in announced economic data no longer correspond to published figures, when these figures do not just disappear, such as industrial production.

Without going so far as to conclude that China will never be able to "catch up" with the United States during our lifetime, **Mr. Xi will have to spend more and more time solving problems such as reduced efficiency and productivity, capital flight, closure of foreign markets and loss of access to innovation.** All these factors will only curb China's growth.

Olivier Dyer



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