



Letter n°67

What to think of China after the 20th Congress? (1)

"He moved through the jungle of life with the confidence of an elephant which advances in a straight line, rooting up trees and trampling down lairs, without even noticing scratches of thorns and moans from the crushed."

Lampedusa in *The Leopard* about the prince's son.

This is the image China is giving to the world today. A 20th Congress that confirms the primacy of politics.

The Western world cannot remain indifferent to this ideological stiffening, this confirmation of the central role of the party and this reaffirmation of the primacy of public enterprises, because while the GDP of the USSR had never exceeded 40% of that of the United States, China's GDP today represents 70%

In this Letter 67, we will analyse the political, geopolitical, military, environmental and demographic angles.

1. The political angle :

Deng Xiaoping had limited the number of terms of office to two. Xi put an end to it, was granted a 3rd term, strengthened his grip on the Central Committee by renewing two-thirds of the members, which was unprecedented, by removing members likely to represent divergent factions like Li Keqiang and Chunhua, close to Hu Jintao, by surrounding himself with loyalists, including the new number 2 Li Qiang, party secretary of Shanghai and responsible for the lockdown, by not appointing a successor and not putting in any young person under 60 years old. In addition, he formed a 24-member Politburo composed of close associates, dismissing the followers of his predecessor who were considered too liberal.

At the time of its centenary, the Communist Party had 95 million members, had forgotten the crimes perpetrated by Mao, had forgotten the overtures initiated by Deng and reaffirmed the primacy of Marxism.

Behind this demanded loyalty, one can perceive a feeling of insecurity on the part of the Chinese authorities.

One of the stated priorities is the fight against corruption and inequality. As surprising as it may seem, China is one of the most unequal countries and Forbes was able to estimate the fortune of the 400 richest Chinese at \$2.1 trillion.

According to China Daily, in the fight against corruption or fight between factions in the last eight years, 72 billionaires have died prematurely including 15 killed, 17 suicides, 7 deaths by accidents, 14 executed, 19 who died of illness. Clearly, many examples of disgrace.

This fight against corruption or this desire to reduce inequalities in order to work towards "common prosperity" are laudable objectives, but care must be taken to preserve the incentive to innovate.

Other emphases include national security and technological autonomy, while growth, increasing GDP per capita, and the fight against greenhouse gas emissions seem to be less of a priority.

There is no question of replaying the episode of 1433, there is no question, as then, at the death of Admiral Zheng He, of closing the country, of stopping, as at the time, the Chinese expeditions to the coasts of Africa. China, then the leading international power with nearly 20% of the world's wealth, had begun a long period of decline to represent only 3% of global wealth under Mao.

This is not the case because China is reaffirming its desire to participate in trade, its desire to shape the multilateral system to its advantage, its determination to reject Western universalism. We have not reached this point because China, in order to sustain its growth, to preserve its chances of becoming the world's leading power, cannot do without the world, but the signs of withdrawal are multiplying, ideological stiffening is significant, the drift towards totalitarianism is obvious, and the cult of personality is undeniable.

2. The geopolitical angle:

Until 2015, China refrained from intervening in the internal affairs of the states but, presumably to protect its oil interests, it then sent troops to South Sudan.

At the same time, over the years, China has built up a network of supporters, and it benefits from this. A recent example is the refusal to condemn China at the Human Rights Council for its treatment of the Uighurs, even though the Bachelet report was unequivocal. The refusal was supported by, among others, Qatar, Nepal, Bolivia and 8 African countries.

China relies on organizations independent of the UN such as the Asian Development Bank and the Shanghai Cooperation Organization to strengthen its grip on nearby countries such as Laos or Cambodia.

With India, at the crossroads of three nuclear powers (China's ally Pakistan), the border dispute in the disputed territory of Kashmir, since the 1950s, is not about to be resolved. China has the advantage of strength. Financially, its foreign exchange reserves are greater than India's GDP and economically China's GDP is five times greater than India's. Commercially, however, the two countries are managing to expand their trade and China is India's largest partner.

In Taiwan, only 6% of the population are in favor of unification with China, but Xi, at the 20th Congress, reaffirmed his desire to take back the island. Taiwan would be used as an aircraft carrier for China to project itself into the China Sea because the Taiwan Strait is the main shipping route for the world's largest cargo ships and because Taiwan would provide a technological platform for China.

In Hong Kong, Chinese grip is firm, the independence of the judiciary has been abolished and, after individuals, the pressure is spreading to Western companies. For example, HSBC bank, with more than 20,000 local employees and which in some years achieves more than half of its results there, has had to pledge allegiance and could end up being divided in two to satisfy its Chinese shareholders.

3. The military angle:

China has the 2nd largest budget in the world, \$250 billion, a third of the US budget, but aims for supremacy.

It is said to have two million soldiers, making it the largest army in the world. It has just developed a hypersonic missile and is rapidly strengthening its air force.

It also has the largest fleet numerically but only three conventionally powered aircraft carriers compared to twelve nuclear-powered aircraft carriers in the United States and it has only one military base abroad, Djibouti, compared to nearly 1,000 for the United States.

China will therefore still have to wait to take the lead from the United States.

4. The environmental angle:

China has a water problem and an air quality problem.

Let's remember that although China is three times larger than India, and has 6000 kilometers from east to west and 5000 kilometers from north to south, more than 2/3 of these territories are very dry or even desert.

In recent years, there has been an increase in aridity, particularly in the Gobi Desert in the north and also in Inner Mongolia, Xinjiang and Qinghai. Mao had greatly developed agriculture there and depleted water reserves.

Since the 1980s, the government has been trying to build a 4500 kilometers "Great Green Wall" along the Gobi Desert, but this is not enough.

Recently, the 50% reduction in the flow of the Yangtze River, the 3rd largest in the world, has penalized electricity production and therefore economic activity.

The second problem after water is air quality. China persists in setting a target of peak emissions before 2030, but while it is certainly the leading investor in the energy transition, it is the cause of more than a quarter of the world's emissions. While it has made, and will continue to make, a remarkable breakthrough in nuclear power, with 54 reactors against 56 for France, it has, since the beginning of the year, increased its coal production by nearly 15% and its coal-fired electricity generation capacity.

Also, its GDP is equivalent to that of the EU, but its CO2 emissions are three times greater.

5. The demographic angle:

The demographic outlook is one of China's structural problems. The government is aware of this and in recent years has been trying to encourage women to have a second child. It is in vain because the birth rate, far from growing, is constantly falling. In 2020, the birth rate, according to the Ministry of Public Security in charge of civil registration, did not exceed 10 million, the lowest figure since 1949, compared to 14.6 million in 2019!

The number of marriages is declining rapidly, 13.5 million in 2013 to 7.6 million in 2021, which does not bode well for the birth rate.

Thus, by 2050, the population is expected to decline from 1.4 billion to 1.25 billion and, even still, by 2100, the population may not exceed 730 million, half the current level.

In fact, according to Yi Fuxian, a Chinese professor, the population has already fallen to 1.28 billion and would already be lower than that of India's, 1.36 billion.

By 2050, the over-sixties are expected to represent more than a third of the population and their expense will penalize the competitiveness of the country.

Conclusion: "If slightly inferior in numbers, we can avoid the enemy" Sun Tzu.

5 points stand out.

- **From a geopolitical point of view**, China, faithful to the thinking of Sun Tzu, will refrain from attacking Taiwan because it does not have military parity, remains too dependent on the world and already bears too strong constraints.
- **From a political point of view, stability seems to take precedence over economic growth**: the priority is the reaffirmation of the primacy of the state over the market, the primacy of ideology over the economy by means of reinforced centralization, increased control of the population, the search for self-sufficiency, particularly technological.
- **From the point of view of the growth model, the welfare state should hardly be developed**: it is not certain that health spending, 5.4% of GDP against 12.5% on average in the OECD, will increase much, and hundreds of millions have nothing for retirement. Consumption is being curbed and, as a percentage of GDP, 40% will remain lower than in other major countries.
- **From an environmental point of view, food dependence will persist**: due to global warming and soil depletion, there has been an increase in cereal imports in 2021 to 65 million tons compared to 17 million tons in 2019 and this is not likely to stop.
- **From a demographic point of view, the decline will be difficult to stop**: the government would like to see 20 million births each year, the current figure is half of that.

Geneva, 14 November 2022

Bruno Desgardins

Bruno Desgardins
CIO
Switzerland



SingAlliance Pte Ltd

20 McCallum Street
#18-01 Tokio Marine Centre
Singapore 069046
T: +65 6303 5050
E: info@singalliance.com

SingAlliance (Switzerland) SA

16bis rue de Lausanne
1201 Geneve
Switzerland
T: +41 22 518 85 85
E: info.switzerland@singalliance.com

SingAlliance (Hong Kong) Ltd

Unit 908C, 9/F Dah Sing Financial Centre
248 Queen's Road East
Wanchai, Hong Kong
T: +852 9685 9300
E: info.hongkong@singalliance.com

SingAlliance Pte Ltd

(DIFC Representative Office)

The Gate, Level 13 East, Office 10, DIFC
PO Box 121208 Dubai, UAE
T: +971 (0) 4 401 9158
E: info.dubai@singalliance.com



This document does not constitute an offer or a solicitation to purchase or subscribe financial instruments. Information contained in this document has been obtained from carefully selected public sources. Although every care has been taken to ensure that this information is accurate at the time of publication, no representation is made as to its accuracy, completeness, or truthfulness. Any opinion contained herein is subject to change at any time without notice. Past performance is not indicative of future results.