

# China Watch

A China Business Report prepared by David Mahon  
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S u m m e r 2 0 2 1

*If a great kingdom humbles itself before a small kingdom,  
It shall make that small kingdom its prize.  
And if a small kingdom humbles itself before a great kingdom,  
It shall win over that great kingdom.*

Lao Zi, 5th century BCE

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## The art of avoiding war

Few governments undertake foreign relations from long-term strategies. They tend to react according to their immediate interests, and couch their reactions in diplomatic language that suggests strategy but often lacks substance. The United States is trying to corral its allies and dependents into a bloc to contain China, while making references to upholding international law and human rights. These same laws and rights it ignores in the name of national security, such as with its ill-fated forays into the Middle East and handling of detainees suspected of terrorism nearer to home.

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The US Government appears motivated by a fear of China's rise, which it mistakenly sees as responsible for the receding tide of its global power. China also provides the US population with an external enemy to hold responsible for internal American problems. In this, President Biden differs only in tone from his predecessor, while nurturing the seeds of a future conflict that the previous administration planted. In the recent G7 meeting in England, Biden tacitly made US support for NATO conditional upon a European alliance with the US against China. European countries will join in the containment rhetoric to a degree, but a real alliance is unlikely, for working with China offers Europe long-term economic benefits the US cannot match.

The Chinese Government also lacks a coherent foreign relations strategy, but has two general aims: to be recognised as a pivotal power in the world (a revived Middle Kingdom), and to exert influence within the region and on its trade routes commensurate with its economic and geographical scale. The former is problematical, for by harking back to the pre-Opium War dynastic past, it risks making China's aims seem imperial, when the core motive is to recover lost prestige. The latter is more practical and should not be interpreted simply as expansionist, for China perceives that its large landmass and population require a commensurately large zone of maritime influence. Although China seems to lack discernible external strategies, it has demonstrated a capacity for comprehensive domestic strategies spanning decades, such as reforms in banking, the creation of a largely free-enterprise-driven market system, the expansion of common wealth, and the beginnings of environmental renewal.

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China's mistake in the last five years has been to confuse forcefulness of tone for demonstrations of internal strength. Some government spokespeople sound as if they are reacting from anger over historical injury and current insecurity rather than

representing a powerful, stable, largely modern country with a vision for the future.

### Winning the world back

China is not a monolith, although its government may seem that way to external observers, and its citizens hold varying views of the country and national identity. Chinese people invariably praise their government's handling of COVID and ongoing economic reform, but many criticise the degree to which their government has alienated so many of its trading partners with its aggressive rhetoric. President Xi's speech in June to the Politburo Study Session called on officials to adopt a softer tone in foreign affairs. Perhaps this denotes an awareness of general discomfort in the administration and the wider population of China's increasing alienation. The proof would be in a quieting of the wolves in China's foreign service.

The Western world is turning against China at an alarming rate, and no matter how justified China's conviction may be that it is being unfairly punished for its economic success and growing national confidence, Beijing is far from powerless to reverse this trend. Recent polls in the

United States, Australia, and other Western countries show that more people have a largely a negative view of China than a positive view. While there is no current national data on the Chinese people's views of other countries, anecdotally it appears that they have a growing sense of regret and resentment that attitudes towards their country have changed, more so than direct rejection of the cultures that judge them.

The Chinese media is tightly controlled and much of its content is propaganda, but this is obvious to much of the population, and those who wish can access alternative perspectives elsewhere. In the West, many believe what they read about China in the media is the whole truth, when it too is often propaganda or at least provided without context. But few in the West would accept this due to a generally unquestioning belief that they enjoy a 'free press'. Washington is set on turning the world against China by any means. The alienation of China will only make the world more insecure.

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In the early 1950s, in some of the darkest years of the Cold War, even Washington and Moscow managed to collaborate on global health challenges, eradicating polio and smallpox. Without US-China collaboration in fighting COVID, it will remain a pandemic

much longer than it needs to be, wreaking havoc on the global economy and deepening the suffering of those in the world's poorer, more populous countries. That America has chosen to continue to use COVID as a tool of political leverage against China will haunt them in the years to come.

Unlike in personal confrontations where who blinks first loses, the first to make a gesture of reconciliation in a standoff between nations can demonstrate greater confidence and often benefit. No matter how large the Chinese navy, or how audacious its space programme may become, China needs to work with individual states in the West and around the world to address contentious issues, whether these are imbalances within the Chinese economy, unfair barriers levelled at foreign investors, IP violations, or human rights. Just as Mao unified his country one guerrilla engagement at a time, China needs to secure the trust and respect of large and smaller nations one by one.

A few carefully timed larger initiatives, such as Xi Jinping sitting down with President Modi to address the tensions on the Chinese-Indian

border, would offer China and its counterparts opportunities to demonstrate their power and maturity. These sorts of pairings would show that the US and Europe are participants but no longer the arbiters of global relationships. Sadly, such rapprochements are unlikely.

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The world faces an increasing dynamic whereby powers are inextricably bound economically, while becoming more polarised politically. While full war is not imminent, conflicts become more likely the longer sides hold their stances in seeing the

other side as the enemy. In the case of China, with a strong economy and relatively high social morale, the sooner Beijing can pursue rapprochement with important counterparts the better, before it is distracted by multiple pressing domestic and foreign policy challenges at once.

## Two risks

Compared to many major economies China has recovered remarkably quickly and competently from the pandemic's ravages, but it is wrong to see China enjoying an eternal economic summer as some observers rhapsodise. China's is still an 'emerging' economy, one that is resolving the economic contradictions from its communist past and creating systems and institutions that did not previously exist. Any programme of significant economic reform carries risk.

An example is when regulators intervened on the eve of Ant Group's listing, partly out of political concerns over the comments of founder Jack Ma, but also because Ant's parent Alibaba had become a monopoly and established a financial services platform rivalling many of the state-owned banks. It is a weakness of the regulatory system that antitrust laws are too slow to be applied, forcing the government to clumsily intervene at a late stage. China has for too long been enamoured of its companies of scale that empower the state commercially and bring 'face' to China in the global economy, while the vital SME sector and ordinary consumers pay an inordinately high price. The grassroots economy is indeed strong and many economic reforms have been effective, but the playing field could be fairer to smaller firms, which would benefit citizens.

Another risk is that President Xi has not signalled a succession plan, and in the case of his early death or infirmity, a factional struggle in the

narrow corridors of the Party could cause instability, or at least uncertainty which would harm the economy and business confidence. President Xi's strength and single-mindedness have served China well in certain respects over the last ten years, ensuring a steady, resilient economy and a wealthier and more stable society than at any time in China's modern history. Regardless of its political dimensions, Xi's anticorruption campaign has boosted public confidence in the Party. A less able leader than Xi, or one who does not enjoy broad support, may undermine economic discipline and reform, and weaken public confidence. A true succession plan would need to include the restoration of greater collective decision making and checks and balances that existed before Xi ascended to power. The increasingly complex internal and external challenges China will face will require deeply considered, multifaceted responses.

It is hard to conceive of the complexity of governing as large a population as China's, spread over such a wide area. To remain strong and stable, China needs robust national institutions governing the conduct of financial, public health and safety, and security functions at provincial and lower levels. When the centre falters the centrifugal momentum of the Chinese economy shakes and weakens those institutions, leading to challenges lower down, be they local government debts mounting to unsustainable levels, public health or food-safety problems developing, or corruption increasing, all diminishing public confidence.

None of these challenges are unsurmountable or even new, and President Xi is unlikely to leave the issue of succession unresolved indefinitely. If it is true that President Xi is not seeking a life tenure, he will need to demonstrate this by suggesting a succession plan in the next three years, or risk undermining confidence in what his administration has built. ☹