

# China Watch

A China Business Report prepared by David Mahon  
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W i n t e r 2 0 2 0

*'When terms are made after a great quarrel, a certain ill-feeling is bound to be left behind. Therefore, having entered into an agreement, the Sage adheres to his obligations, but does not exact fulfilment from others. The man who has Virtue attends to the spirit of the compact; the man without Virtue attends only to his claims.'*

Lao Zi, 5th century BCE

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## Biden restrained

As COVID inoculations spread at end of the first quarter of 2021, China will open its borders to its northern and Southeast Asian neighbours, and possibly Australasia. Once the more severe ramifications of the pandemic abate in other key economies, the world will focus on shared aspirations, but also economic and cultural rivalries.

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We are entering a new but limited era of US-China detente that should result in a degree of market stability. The US and China may no longer be stumbling towards regional conflict, but there can be only guarded optimism that the relationship will be

repaired substantially in the next four years, after it was poisoned by distrust and chagrin for more than a decade. President Joe Biden will continue the strategic pressures on China initiated by presidents Clinton, Bush and Obama that went on to become self-damaging posturing under Trump.

If Biden focuses on strengthening the US economy, instead of trying to weaken China's as his predecessors did, everyone will benefit. It will also help if Chinese commentators spend less time identifying American democracy's failures and instead find grounds to build a new US-Chinese partnership. No such shift looks likely.

## Economic resilience but strategic weakness

Whatever the quality of Beijing's rapprochement with the US, China's largely domestically driven economy will be strong in 2021. It has already recovered from the shock of this year's COVID lockdown, despite Trump's sanctions. Even exports, on which Chinese growth no longer depends, broke all records in 2019, were sustained in 2020, and will expand further in 2021. China's GDP growth may exceed 7% in 2021, of which domestic consumption will likely account for more than 60%. The renminbi will remain stable, possibly strengthening in 2021 to RMB 6.5 to the US dollar.

An unexpected third-quarter increase in Chinese technology exports, particularly smartphones, may indicate the start of a global recovery. However, as the extent of COVID damage to Western economies may be masked by subsidy and stimulus packages until sometime next year, it is too early to be sure.

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China has also been working hard to fulfil its obligations under phase one of the trade deal it signed with the Trump administration in January. Imports of grain and soybeans rose 59% and 44% this year, and Chinese demand for imported produce, including meat, is likely to recover sharply in 2021. China wants a good relationship with US. Despite a strong domestic economy, and the resilience it confers, Beijing understands its evolution depends on greater global economic integration. To give Biden space, Beijing will need to respond to US criticisms on subjects such as economic nationalism on the Mainland and civil liberties in Hong Kong with less pique, no matter how poorly informed or motivated it may perceive such criticisms to be. After taking such a battering from the Republican Party over the past four years, China's leadership will find such restraint difficult.

The US should have modest expectations of reaching any political agreements with Beijing. President Xi Jinping will not soften China's claims in the East and South China Seas, and any public criticism by trading partners regarding its regional influence will be met with acerbic, stubborn retorts. The complex and often valid regional disagreements regarding the reefs and atolls on which Beijing's South China Sea bases have been built often obscure its one strategic principle: China must be able to defend the Straits of Malacca and the sea lanes they feed. Most of the goods and resources on which China

depends to sustain its economy pass daily through these narrow straits and north-eastwards to its ports. The US has the power to close these sea lanes and strangle China's economy at will. If the US could step back and initiate an agreement to reduce tension in the region, China may reconsider stepping forward assertively in the future.

### Trump's useful cards

To consolidate a post-COVID, US economic recovery and rebuild a measure of trust, President Biden will need to lower the tariffs Trump imposed on most of America's key trading partners. But he is unlikely to do this swiftly with China, as they afford his administration useful leverage in negotiations. Although Biden will not resort to his predecessor's warlike boasts and economic decoupling rhetoric, he will need to address the widespread public misperception that the loss of American power and prestige is substantially China's fault. He will lead a deeply divided nation, but one unified in anti-Chinese sentiment.

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Biden's administration will continue to restrict Chinese technology companies' access to the US market and those of its allies. Huawei is unlikely to see any reprieve, although bans may be lifted on social-networking platform WeChat and video-sharing app TikTok. China is now investing

heavily in technological self-sufficiency, particularly microchip mills. If the US had not decided to contain China's technological development in an attempt to slow its rise, such a move would have been unnecessary. This containment will reduce China's economic growth slightly over the next five years, but it will not inflict substantial damage. It will, however, hurt the US. The US Government has already managed to mortally wound the very companies on whose behalf it claimed to have waged the trade war. American tech giants Cisco and Broadcom have lost billions and they and their competitors will lose billions more.

Over the short term, most Western economies will welcome rapprochement and any narrowing of the focus of US-China contention, knowing that China will help pull the world out of recession in 2021. But as Trump's foreign policy chaos subsides, China's trading partners will need to remain vigilant, otherwise they could find themselves drawn into strategic partnerships with America against China that may be damaging to their commercial interests.

Struggles between large nations are often camouflaged by apparent concerns for human rights and principles of fair trade when their aims are actually to maintain and project power. It has not been lost on Beijing that President Biden has a greater chance of building economic alliances against it than Trump ever had.

Many US companies supported Washington's tough stances on China, citing the need to end favouritism toward domestic monopolies and SOEs, but as they need access to the world's largest, fastest-growing consumer market, they will in the end do deals wherever they can. If it can be unified, the US corporate sector has the power to influence Washington as it did in previous decades. Contrary to US assumptions, China is opening its markets to increased foreign competition, and under present conditions will continue to do so. Until recently, the financial sector was dominated by Chinese state-owned interests, with restrictions on foreign participation, but it is now opening rapidly, offering US financial firms many opportunities. Biden will provide a more predictable, saner environment for common commercial aspirations to be met. If he can have the courage to persuade corporate America that China is not the source of all its economic woes, much is possible.

### Détente

Tensions in the East and South China Seas are unlikely to ease, but those related to Taiwan may a little, simply because Biden will be more careful than his predecessor. Trump sought political disruption for the often-imaginary short-term trade opportunities it created, without considering the strategic consequences. Hopefully, the new administration in Washington will seek to discuss civil and human rights concerns in person as part of a general normalisation of the relationship with Beijing, rather than resort to empty public and media posturing. No nation is without present fault in the field of human rights, and no nation should use the human rights failures of its strategic and commercial competitors as tools of coercion or containment.

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A Democrat-led White House has the possibility of reversing the isolationist policies of the Republican term to reconstruct the WTO and other global entities dealing with international law, health, the environment and human rights. With greater global confidence and international forums once again resourced to mediate disputes, the

United States and China may refer more complex issues to them, so they may focus on repairing their damaged bilateral relationship. Biden probably still harbours the internationalist ideals of his early political career, forged in the age of Kennedy, that the world now sorely needs.