

When two cruise ships cross paths in a narrow strait – living in a brave new world of geopolitics

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How China responded to the US on tariff increases was all over the news while I was settling into a hotel room in Geneva; I had a smile on my face, the kind when you think to yourself “I knew it”. This reminded me of an article I wrote back in January for the Private Client Network, which is copied below.

The article ended with ‘to be continued’ and five months later, after a brief breathing space with a seemingly imminent deal on the horizon, we are back to square one. A lot of people have an opinion on the trade war and my take on it is that it is never about who is right or wrong. It is simply two world superpowers with very different ideology, political systems and culture heritage sparring in the ring of history, which is never short of a good bout. Greek-Roman, Roman-Persian, Persian-Islam, Ottoman-Western Europe or the most recent memory of US/Western Europe-Soviet...the only thing difference this time is that US and China are not geographically next to each other and that, despite getting on each other’s nerves, the two economies are fundamentally intertwined. Neither has a decisively dominant position and hurting each other will not benefit either.

So, it is my hope and belief that the two leaderships know this and all the drama is only ‘smoke and mirrors’ to help gain a better position on the negotiation table and will not actually materialise. Both will, in the end, make compromises, otherwise we will all be in deep trouble. Let’s keep our fingers crossed and consider the implications to our own portfolios and lives in the long run, because it will have an impact - probably beyond an economic cycle.

“2018 was very eventful. Whether it be the recurring theme of Brexit, ongoing economic and political instability across the rest of Europe, Russia’s mooted intelligence infiltration, Royal family turmoil in Saudi Arabia or North Korea antagonising the press, last year provided blockbuster news flow.

“None more so than the CFO of Huawei being arrested in Canada under the implicit direction of its big brother across the border, the US To add some flavour, this happened as Donald Trump posed triumphantly for the camera while shaking hands with President Xi at the G20 Summit in Argentina. Perhaps more interestingly, Huawei is still privately owned by its head-fast, hardworking Founder and CEO, Zhengfei Ren, whose only child and beloved daughter Wanzhou Meng, is the CFO.

“I will remember this moment for a very long time, not only because shortly before the Summit I conducted an on-site manager due diligence visit on behalf of a client in South America (where I had a rather eventful journey, including being stuck in Rio for nearly 24 hours without my passport due almost entirely to the very poor service infrastructure of the airline business) but also because I was home visiting in China when the live drama of the Sino-US trade war unfolded in front of my eyes and I felt the pinch as a foreigner in my own country.



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"Not only was my Facebook account banned which has been the "norm", but also the Google search engine, Gmail account, Google Play, WhatsApp (the list can probably go on for keen social media users...) and when I saw the banner outside the grocery store around the corner saying "support domestic product, support Huawei (boycott Apple)", I know I am probably right in thinking that if I had to make a bet on which side will win in a fully-blown trade war, it will be China. I relay this message time and time again when being asked by clients, industry peers and friends.

"This sentiment is not based on how much the US is importing from China and vice-versa, nor is it due to who has greater military strength and an ideological advantage around the world. Rather, it is based on the level of control the Chinese government has on its population; financially, emotionally and practically. This is a theme that the West continues to either ignore or is simply unaware of, even with the growing interest in China.

"It is for the same reason why rising a middle class will not bring democracy that the West is accustomed to. It is for the same reason why, despite a massive shadow banking system, the economy has just powered on. It is for the same reason why, when Xi changed the Constitution back in March 2018 which practically made him the leader of the country into perpetuity, it hardly caused any stir in the media let alone any protest on the street.

"The Chinese government can simply unite its citizens and fight a trade war, and it will do so if needed. I always remember a phrase I learnt when I was a little girl, "one chop stick can be easily broken, but 10 chopsticks bundled together? Not so much." In comparison, to what extent will US citizens willingly give up their savings if Trump says the government needs it because the Chinese government is dumping its treasury holdings? Food for thought.

"Let's not debate which system is right or wrong, or which is the best or least worse. Let's just settle with the fact that the world is too complex to have one approach to solving all issues. The sooner the world can make peace with this, the quicker and more efficiently we can move on. The collapse of the Soviet Union does not by default verify the unconditional and universal superiority of the US led world order. The rise of European Imperial power during the 1500s and 1900s does not by default justify being close-minded to the obvious alternative reality.

"If you know where to look, you will notice how the world order has been gradually shifting, stealthily but decisively, in front of our eyes. Evidence is everywhere, from Chinese factories in Africa, massive Huawei logos in prime locations in the capital cities in Eastern Europe, the increasingly popular UnionPay and Alipay signs in low and high end shops, faces of Chinese delegates popping up in Tel Aviv, never mind the signature buildings being snapped up by Chinese capital in prime London locations.

"Before you know it, Jack Ma has taken title after title with the UN, the Chinese government has co-developed the Dwardar Sea Port in the Arabian Sea, and the express cargo train from Yi-Wu to London has started its service. After all, the "one Belt and one Road" policy is not an empty political slogan, rather it is a well-planned, long term strategy that will be implemented with diligence and persistence, which has been my favourite subject of dinner conversations for the past 4 years.

"History does not repeat itself exactly, but it does rhyme, and there have been many times when an uprising power inevitably steps on the toes of an established one, in today's world, it is no longer possible to freely start a physical war with another country easily, but the less obvious but an equally lethal sparring game will carry on, and the wounds will not be on the body but on the wallet.

"So where does this leave us? By us I mean me included. Firstly, for anybody who is advising client's investment affairs, you cannot afford to overlook what the Chinese government is planning and doing because it will have a massive ripple effect even if they are not immediately obvious. It is the teaching from the architect of the Open and Reform policy to "keep a low profile". And secondly, for anybody who is in the position of expanding business and acquiring clients, very likely sooner or later you will be crossing paths with the Chinese either proactively or passively.

"If there is one piece of advice I am asked to give when dealing with the Chinese it is to remember what Xi said, "collaborate, win-win", so open your eyes and mind and look for commonality rather than difference. After-all, one of the key elements of the teaching from the Chinese government is pragmatism. And finally, the arrest of Wanzhou Meng turned out to be a total embarrassment to the Canadian police and Huawei is making strong breakthroughs in the game of the future, the 5G network. So this story is to be continued..."



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