



Insight

China's Growth Ambitions

-Manchester Capital Management Strategy Group



In October, Chinese President Xi Jinping delivered a three-hour and 23-minute speech to the 19th National Congress of the Communist Party of China. In the audience, 91-year-old former President Jiang Zemin became an internet sensation by falling asleep and checking his watch a dozen times. While the media focused on the humorous aspects of this sideshow, we would have been well-served to pay attention to the substance of the speech to understand China's ambition to become a dominant player in an increasingly global economy.

The speech was entitled "Secure a Decisive Victory in Building a Moderately Prosperous Society in All Respects and Strive for the Great Success of Socialism with Chinese Characteristics for a New Era." China plans to remain a firmly socialist country, but with all the financial benefits and security for its citizens that come with being an economic power.

National Congress meetings are held every five years. The President's speech was intended to review the accomplishments since the previous Congress meeting and outline the goals to be achieved by the next Congress. In addition to specific near-term goals, President Xi also looked out another 30 years, to the centenary of the People's Republic of China in 2049, at which time he envisions achievement of the goal to "build China into a great modern socialist country that is prosperous, strong, democratic, culturally advanced, harmonious, and beautiful by the middle of the century." While these are ambitious goals, we do not doubt China's resolve to achieve them.

Despite the above reference to democracy, China is in no way abandoning socialism. "Only with socialism can we save China; only with reform and opening can we develop China, develop socialism, and develop Marxism." The Chinese government will act to preserve the Chinese way of life. "China will never pursue development at the expense of others' interests, but nor will China ever give up its legitimate rights and interests. No one should expect us to swallow anything that undermines our interests."

China is striving to be an economic superpower. "Emerging industries like the digital economy are thriving; the construction of high-speed railways, highways, bridges, ports, airports, and other types of infrastructure has picked up pace."

They are championing international cooperation. “We have made all-around efforts in the pursuit of major country diplomacy...We have jointly pursued the Belt and Road Initiative, initiated the Asian Infrastructure Investment Bank, set up the Silk Road Fund, and hosted the First Belt and Road Forum for International Cooperation...” The Belt and Road Initiative is arguably China’s most ambitious foreign policy. Under Belt and Road, China is spending roughly \$150 billion a year on infrastructure investments in the 68 countries along the old Silk Road that have signed onto the project, linking China to Europe. The ultimate goal is to make Eurasia an economic and trading area to rival the transatlantic one between Europe and the Americas. “We hope to make new ground in opening China further through links running eastward and westward, across land and over sea.”



Figure 2: <https://commons.wikimedia.org/wiki/File:One-belt-one-road.svg#>

China’s plans to develop a modernized economy are particularly interesting. “We will work faster to build China into a manufacturer of quality and develop advanced manufacturing, promote further integration of the internet, big data, and artificial intelligence with the real economy, and foster new growth areas and drivers of growth in medium-high end consumption, innovation-driven development, the green and low-carbon economy, the sharing economy, modern supply chains, and human capital services...We will inspire and protect entrepreneurship, and encourage more entities to make innovations and start businesses. We will build an educated, skilled and innovative workforce.” Success in these areas potentially means the displacement of less competitive firms around the world.

While striving for increased global economic integration, China remains focused on preserving its culture and defending its borders. “We will pursue coordinated land and marine development, and step up efforts to build China into a strong maritime country...We will make it our mission to see that by 2035, the modernization of our national defense and our forces is basically completed; and that by the mid-21st century our people’s armed forces have been fully transformed into world-class forces.”

China stands on the cusp of greatness and their ambitions are clear. What is less clear is how the rest of the world will respond. China desires global integration yet they wish to maintain ideological control. They have denounced isolationism and are championing cooperation among nations, while simultaneously deepening divisions with other Asian countries through actions such as the building of artificial islands in the South China Sea. Technologically, they are pursuing dominance in familiar areas: big data, artificial intelligence, and next generation internet and wireless infrastructure. The U.S. has taken great pride in being at the forefront of technological change. In order to maintain that advantage, we should continue to invest in our own people and infrastructure, and maintain the freedoms and profit incentives of capitalism that foster creating thinking and innovation, while being conscious of the ambitions of others across the world.

ENDNOTES

¹ Quotations sourced from full text of Xi Jinping’s report at the 19th National Congress of the Communist Party of China on October 18, 2017. http://www.xinhuanet.com/english/special/2017-11/03/c_136725942.htm

² “One Belt One Road Initiative.” Wikipedia, The Free Encyclopedia. Wikipedia, The Free Encyclopedia, 30 Jan. 2018. Web. 2 Feb. 2018.

DISCLOSURES

This material is solely for informational purposes and shall not constitute a recommendation or offer to sell or a solicitation to buy securities. The opinions expressed herein represent the current, good faith views of the author at the time of publication and are provided for limited purposes, are not definitive investment advice, and should not be relied on as such. The information presented herein has been developed internally and/or obtained from sources believed to be reliable; however, neither the author nor Manchester Capital Management guarantee the accuracy, adequacy or completeness of such information. Predictions, opinions, and other information contained in this article are subject to change continually and without notice of any kind and may no longer be true after any date indicated.

Any forward-looking predictions or statements speak only as of the date they are made, and the author and Manchester Capital assume no duty to and do not undertake to update forward-looking predictions or statements. Forward-looking predictions or statements are subject to numerous assumptions, risks and uncertainties, which change over time. Actual results could differ materially from those anticipated in forward-looking predictions or statements. As with any investment, there is the possibility of profit as well as the risk of loss.