

Behind the Markets: Placing ‘China risk’ into perspective

Published 18 December 2023

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December brings an annual need to review the past year and think about positioning for the next year, 2024. Liza Tobin, Senior Director for Economy of the Special Competitive Studies Project (SCSP), was a perfect guest to help in placing China risk into better perspective.

Liza served on the National Security Council staff as China Director, where she led the development of multiple US strategies and policies on trade, economics, climate and the environment, as well as on military issues. She’s also worked for more than a decade as a China specialist in the US government, including time as an economic analyst for the Central Intelligence Agency (CIA).

Presidents Biden and Xi met recently...

After more than a year of no direct contact, Presidents Biden and Xi had a widely publicised recent meeting. Liza saw this as mostly tactical, and that the long-term trajectory of the US-China relationship should not be expected to change much. The Biden Administration set the bar low and stepped over it, more or less. Liza focused a lot on ‘military-to-military’ dialogue, meaning that a policy of the US military being able to speak to the Chinese military did reopen, a policy that had been abandoned by the Chinese military in response to Speaker Pelosi’s visit to Taiwan. There’s notably more tension in the Taiwan Strait and this could help avoiding accidents. There was also discussion of fentanyl pre-cursor chemicals coming out of China, but Liza noted the history of agreements like this being put down with China only walking away when irritated by some other issue, often without warning.

Investors read too much into this meeting—foreign direct investment has been flowing out of China, and the levels of this investment going into China are at the lowest we’ve seen in decades.

What is the Special Competitive Studies Project?

It’s a group chaired by former Google CEO Eric Schmidt with the purpose of making recommendations to strengthen America’s long-term competitiveness as artificial intelligence (AI) and other emerging technologies reshape our national security, economy and society.

The problem of ‘dual use’ technology

Many technologies can be used in both innocuous, civilian ways, as well as to enhance the effectiveness of weaponry. If we think about the miniaturisation of semiconductors for example, a core use case was

missile guidance systems. This is a core piece of technology that can be used by civilians as well as the military.

The genesis behind a lot of what we see, usually in the form of different sanctions or executive orders, is that the US government believes that American technology should not be accessible to China's military in order to enhance the capabilities of one of America's biggest rivals. Examples of technologies in the scope of such rules would be AI, quantum computing and semiconductors. This has certainly garnered major attention during both the Trump and Biden administrations (Liza worked at least a bit with both), but the final rules are not yet complete.

Closer to home: TikTok (Bytedance) & Temu (Pinduoduo)

Technology with direct military applications might be one thing, but China's capabilities in software have been increasing and it's difficult to see them as far inferior to the US on this front anymore. Many Americans use TikTok, and Temu's influence on the recent earnings of Pinduoduo showcase strong increases in American consumer activities.

It's always interesting to consider that when there is an application (Facebook, Google, New York Times to name a few) that the Chinese government does not agree with, it is banned outright. It is becoming clearer and clearer that the US government does not agree with TikTok and has more than awakened to the risks, but getting the concerted action to actually ban it remains quite difficult. Liza believes that it can happen, but that US government action tends to resemble turning a very large ship—everything moves very slowly.

Looking towards 2024

If investors take away one key word for 2024, it would be: elections. There is a Taiwan election in January 2024. Tensions are high. There's a belief in China's highest levels that Taiwan should be part of China. It's impossible to say if all of this sparks a military confrontation, but in December 2023, we must at least be aware of it.

Later in 2024, we have the US election. Liza has worked during both the Trump and Biden administrations, and the policy description between the US and China is now 'strategic competition'—and this is not likely to change regardless of a Trump or Biden win, should that be the final choice. Liza noted that Biden is more of an internationalist, wanting to work with European allies on how to best approach the China rivalry, whereas Trump is more likely to 'go it alone' and use more aggressive tools like tariffs, but the concept is largely the same.

It was a great episode, and we believe anyone looking at the US-China situation and getting ready for 2024 should listen [here](#).

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