

# SHORELINE FINANCIAL ADVISORS



**2<sup>nd</sup> Quarter 2021**

## **100 Years Strong?**

This month China celebrated the 100<sup>th</sup> anniversary of the establishment of the Chinese Communist Party. It was interesting, many commentators noted, in its focus on the future and China's unstoppable rise, and its tone of confrontation after many decades of appeasement to the West. Why is this important? China, with its use of economic muscle and increasingly aggressive stance, may be the most vital factor for markets in the short to medium term.

How did we get here? When Mao died and China instituted market reforms under Deng, the US began a policy of economic engagement in an attempt to contain China's rise. Over the following three decades, China's embrace of market principals over central control, limited freedom over repression, led China's rise to the second largest economy and an increased focus on higher value goods.

While appearing to be an economic miracle, China used the promise of access to its enormous market to press foreign companies into joint venture deals where the Chinese partner acquired a generation of intellectual property and technological knowledge in a short period, legally and illegally. Why did we allow this? Essentially, China played countries and companies off of each other. If one company did not want the deal, the next happily took it.

## **Xi's Pivot and Twain**

What is next? Xi, since coming to power in 2012, has rapidly consolidated power, eliminated rivals through a campaign against 'corruption', crushed any thought of free speech and reversed China's three-decade policy of an increasingly market based economy. By eliminating term limits, he has made himself Paramount Leader for life. Recently, he has attacked, regulated or restrained the very companies that are most innovative and globally competitive. History does not repeat, but it does rhyme and Xi's view of himself, China and economics closely matches that of another Chinese leader: Mao.

What was Mao's record? Mao oversaw a centrally controlled economy that utterly failed over three disastrous decades. While most think China will overtake the US as the largest economy somewhere between 2030 and 2040, a small minority of economists are theorizing that, with the increased authoritarianism, remnants of its one child policy and significantly increased debt, China may begin to stall.

## **Don't Count on Musk**

What are we doing? Over the last ten years, US policy towards China has changed dramatically from engagement after Mao's death to confrontation with Xi's rise to authoritarian rule. The ongoing standoff with China will be in the form of policy from Washington. Do not count on American corporate titans to pull up stakes and leave China as their patriotic duty. Remember, corporations are profit seeking enterprises that scour the globe looking for opportunities to grow

cash flow. China, with its 1.4 billion people and 300 million plus middle class, represents a huge market. It is the largest market for cars as well as cellphones. It consumes the most copper and iron ore. It now has its eyes set on technological dominance.

### **Key Takeaways**

Recent events have highlighted China as a vital link in our supply chain, as a key source of rare earth elements and as a strategic adversary. This has necessitated a pivot in US policy. Is this all bad? Shifting supply chains and declarations of new strategic industries may have positive effects on our labor force as “onshoring” or “reshoring” take place. This new cold war and race for tech dominance against China may reduce partisanship as we see a common enemy, increase investment in basic research, infrastructure, and education to stay ahead and seek alliances in pursuit of fairness in economic competition. We remain cautiously optimistic on markets.

### **We Are Here**

We have begun scheduling meetings in person for those that have been fully vaccinated. Be assured, everyone in our office has also been vaccinated. In addition, we do still offer virtual meetings through our video conferencing software that allows us to share screens.

Further, if your financial circumstances have changed, please call the office to set up an appointment to review your plan. We thank you very much for the trust you have placed in our firm.

Best regards,

Shoreline Financial Advisors, LLC



***Independent financial planning and investment management***

www.sfadvisors.com | P: 203.458.6800 | F: 203.458.7965  
Shoreline Financial Advisors, LLC | 246 Goose Lane, Suite 201 | Guilford, CT 06437