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## ECONOMIC COMMENTARY

- By Francois Stofberg

### America's Retreat and the Chinese Leap

China is making a couple of big moves as the US continues to pull back from the international scene. It appears the dragon pounces after each trade barrier, distasteful tweet, or talk of raising a wall. Although both these major global powers are following very unorthodox strategies, it seems China is coming out ahead (for now).

On the one end, President Trump challenges the status quo of why we accept the way politics and markets work, specifically because of the impact these status quo agreements have had on average Americans. Since his inauguration, he has been shaking the status quo-tree relentlessly, which we believe is a noble pursuit that will help rid America of many inefficient policies and bureaucrats. Although he has made more mistakes in a shorter time than most American Presidents made during their entire time in office, he's a kind of rough diamond that might just be starting to shape into a precious stone. We still believe he is exactly what the US needs to make their country great again.

President Trump's strategies seem to attempt consolidating power to America by severing both internal and external long-standing (status quo) agreements, and then using America's size to force more favourable agreements. External force is most prominently shown by his recent attacks on NAFTA (North American Free Trade Agreement), a trade agreement between the US, Canada and Mexico, as well as his intended tariff on steel and aluminium. Although a very rough approach to addressing long-standing unfavourable agreements, they might yet be cut into policies that can lead to a better America. At least we have seen the president start to find a better way of dealing with the status quo, like his use of subtle force to substantially reduce corporate taxes. This long-standing, internal agreement was something that many have wanted to change but no one could.

Sensitive politicians, however, don't like an abrupt show of force. Politicians like being lulled into submission. They like feeling they've won, even if it later turns out that they've done nothing but lose. This disarming-lull caused politicians to not mind the intellectual property and jobs that were stolen from the companies they represented. Until, of course, the robbery really becomes an issue many years later, at which point it's too late to do anything about it. That is until internal strife between the rich and poor cause Brexit, or even lead to someone like Trump becoming president. China has been masterfully implementing this lulling strategy for the past three decades and now, as the rest of the world must face challenging internal issues, China pushes relentlessly ever forward.

China's strategy is also to consolidate power. But, China consolidates power towards its central government, towards one vision (the latest being China 2025), and recently towards one man – President Xi Jinping. We don't agree with this approach of consolidating more power to a central figure; South Africans are very aware that absolute power corrupts absolutely. However, China's long-term approach to economics, which is driven by a central government, continues to bear good fruit.

Stealing intellectual property and manufacturing jobs has helped the Chinese economy to grow at a much more rapid pace, enabling them to alleviate poverty and supply jobs to tens of millions of rural inhabitants. Also, by consolidating power to the central government, they can crack down on anyone or any idea that runs counter to their development-goals and force resources in a certain direction. This strategy runs ideologically counter to America's free market approach and is but one way in which the Chinese are starting to win influence over other emerging economies. Whilst status quo agreements have left many behind in the developed economies, China's approach appears to deliver greater benefits to their inhabitants.

Now, Trump is fighting for low-skilled factory workers (the jobs which were stolen two to three decades ago by the Chinese), but the Chinese dragon is stalking a new victim: high-end manufacturing and technology jobs. Not much stands in the way of the state-backed dragon, especially with its leading opposition, the US, removing itself from its external status quo agreements.