

Geopolitics: From Globalization to Rivalry and Fracturing

The 4 pillars of the US-led World Order created after World War II

1. Western Economic Dominance	➡	Economic Power shifts to Asia
2. US unipolar world	➡	US-China Bi-polar world
3. Globalization and Open Markets	➡	National Security and Industrial Policy
4. US support multilateral system	➡	Multilateral system in limbo

US has collective defense agreements with 56 countries — in Europe, Asia and the Americas. It also provides crucial military aid to other countries, e.g., Israel and Ukraine, that are not formal treaty allies.

China has a mutual defense treaty with one country — North Korea. But it has territorial disputes with many of its neighbors, which tends to push them in the direction of US.

China is now the world's largest creditor and largest trading power.

- 128 countries now trade more with China than with the US.
- Past 10yrs, China spent >\$1trn in >140 countries on infrastructure investment -- high-speed rail in Indonesia, ports and bridges in Africa or an intercontinental highway crossing central Asia.

“China has the capability to directly compete with US and US allies and to alter the rules-based global order”

**ANNUAL THREAT ASSESSMENT
OF THE U.S. INTELLIGENCE COMMUNITY**



OFFICE OF THE DIRECTOR OF NATIONAL INTELLIGENCE

February 5, 2024

Geopolitics: Positive-sum becomes Zero-sum

*“US faces an increasingly fragile global order strained by accelerating **strategic competition** among major powers ... and **multiple regional conflicts** with far-reaching implications.... **China... Russia Iran, and ... non-state actors** are challenging longstanding rules of the international system as well as US primacy within it.”*

*“China has the capability to directly compete with US and US allies and to alter the rules-based global order in ways that support Beijing’s power and form of governance over that of US. China’s serious demographic and economic challenges may make it an even **more aggressive and unpredictable** global actor. Russia’s ongoing aggression in Ukraine underscores that it remains a **threat** to the rules-based international order”*

US Navy Seal unit that killed Osama bin Laden trains for China invasion of Taiwan 12 Sep 2024

Elite commando team makes plans to help island nation in event Beijing launches war

Seal Team 6, the US Navy commando unit that killed Osama bin Laden in 2011, has been training for missions to **help Taiwan if it is invaded by China**. The elite special forces team has been planning and training for a Taiwan conflict for more than a year.

The secret training underlines the increased US focus on deterring China from attacking Taiwan, while stepping up preparations for such an event. Preparations have grown since Phil Davidson, the then US Indo-Pacific commander, warned in 2021 that China could attack Taiwan within 6 years.

CIA director Bill Burns told the Financial Times that **20% of his budget was devoted to China, a 200% rise over 3 years**

Top Chinese general to visit US as militaries step up engagement FINANCIAL TIMES

12 Sep 2024

Move marks latest effort to defuse tensions over Taiwan and South China Sea

General Wu Yanan, PLA Southern Theater commander, will attend a defense conference hosted by Admiral Samuel Paparo, head of US Indo-Pacific Command in Hawaii, next week as the **two militaries step up engagement** amid regional concerns about tensions over Taiwan and the South China Sea.

China **shut down communication channels between the US and China** militaries in protest after Nancy Pelosi was the first Speaker of the US House of Representatives Speaker to visit Taiwan in 25 years on 2 Aug 2022.

Pres Biden and Xi Jinping agreed in in Nov 2022 that the militaries needed to reopen communication lines as part of an effort to stabilize US-China relations.

The changed Economic Landscape has transformed Geopolitics

GDP in selected countries (in current \$ and as % of global GDP)

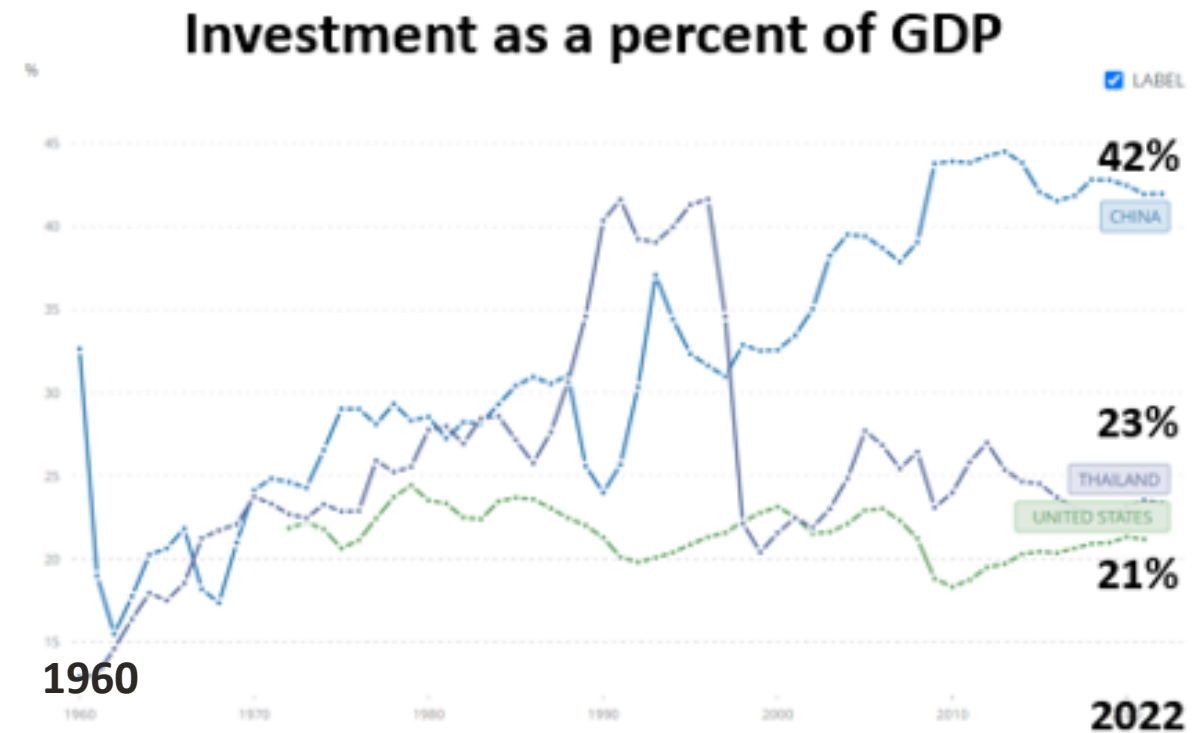
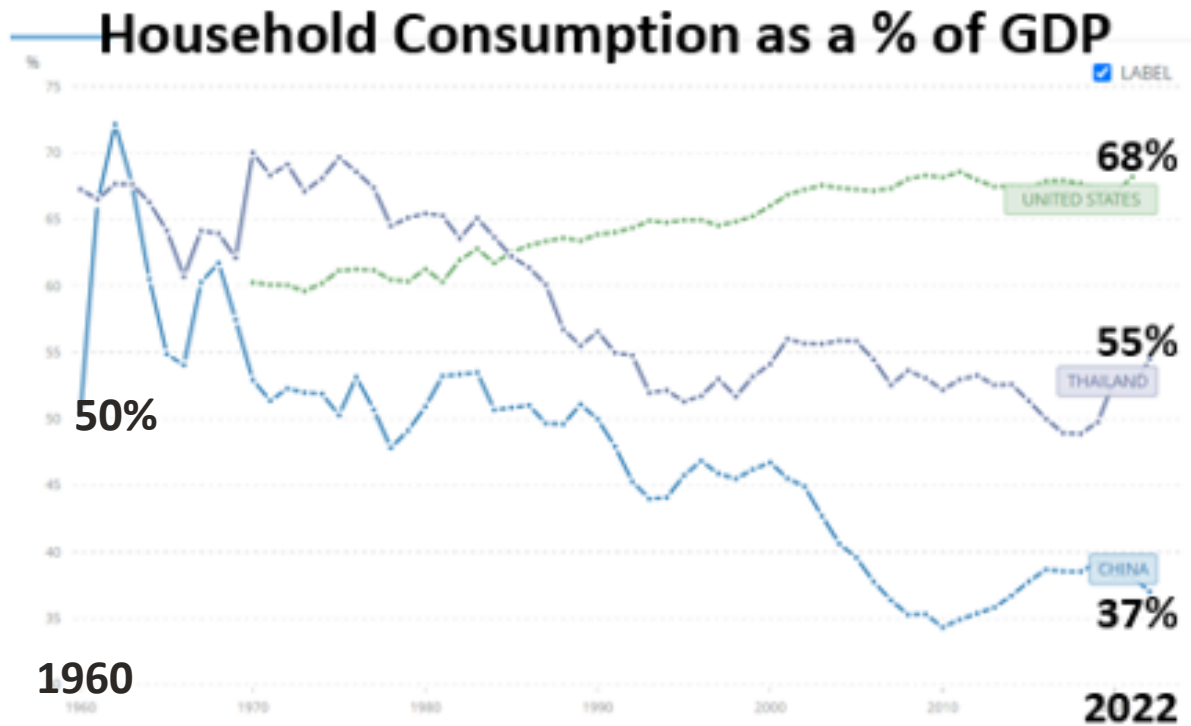
	1990		2000		2010		2023	
	\$trn	% of World	\$trn	% of World	\$trn	% of World	\$trn	% of World
World	22.8	100%	33.8	100%	66.5	100%	105.4	100%
USA	6.0	26.3%	10.3	30.5%	15.1	22.7%	27.4	26.0%
G5	13.4	58.8%	20.4	60.4%	29.7	44.7%	42.4	40.2%
China	0.4	1.8%	1.2	3.6%	6.1	9.2%	17.8	16.9%
India	0.3	1.3%	0.5	1.5%	1.7	2.6%	3.6	3.4%
S. Korea	0.3	1.3%	0.6	1.8%	1.1	1.7%	1.7	1.6%
Japan	3.2	14.0%	5.0	14.8%	5.8	8.7%	4.2	4.0%
C, I, K, J	4.2	18.4%	7.3	21.7%	14.7	22.2%	27.3	25.9%

During past 33 years:

- US economy still dominates at about $\frac{1}{4}$ of world GDP
- China: from 6.7% of US GDP in 1990 to 65% of US GDP in 2023
- G5 importance is on the decline
- Asia is rising – but Asia is divided

- Russia's GDP peaked at \$2.3trn in 2013. In 2023 it is \$2.0trn
- 1999: Italy GDP = \$1.3trn; China = \$1.1trn. 2023: Italy GDP = \$2.3trn; China = \$17.8trn

**China has always been an investment-driven economy –
Persistent excess production capacity vs domestic demand**

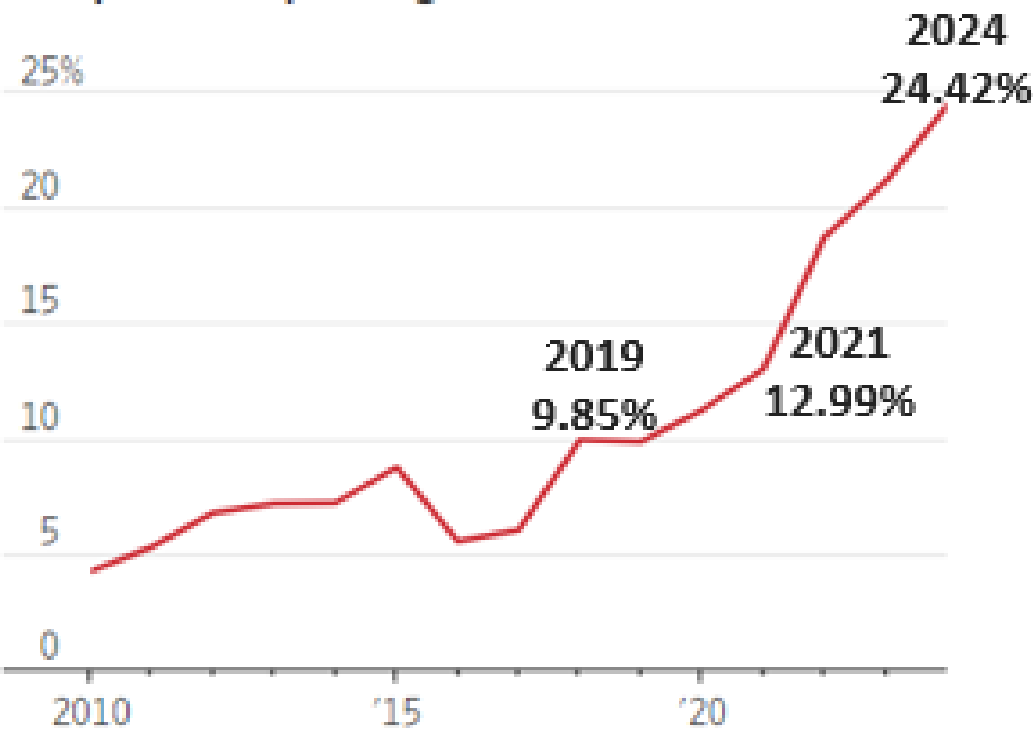


Feared in the West, China's Manufacturers Struggle at Home (WSJ 21 Jul 2024)

Losing Streak

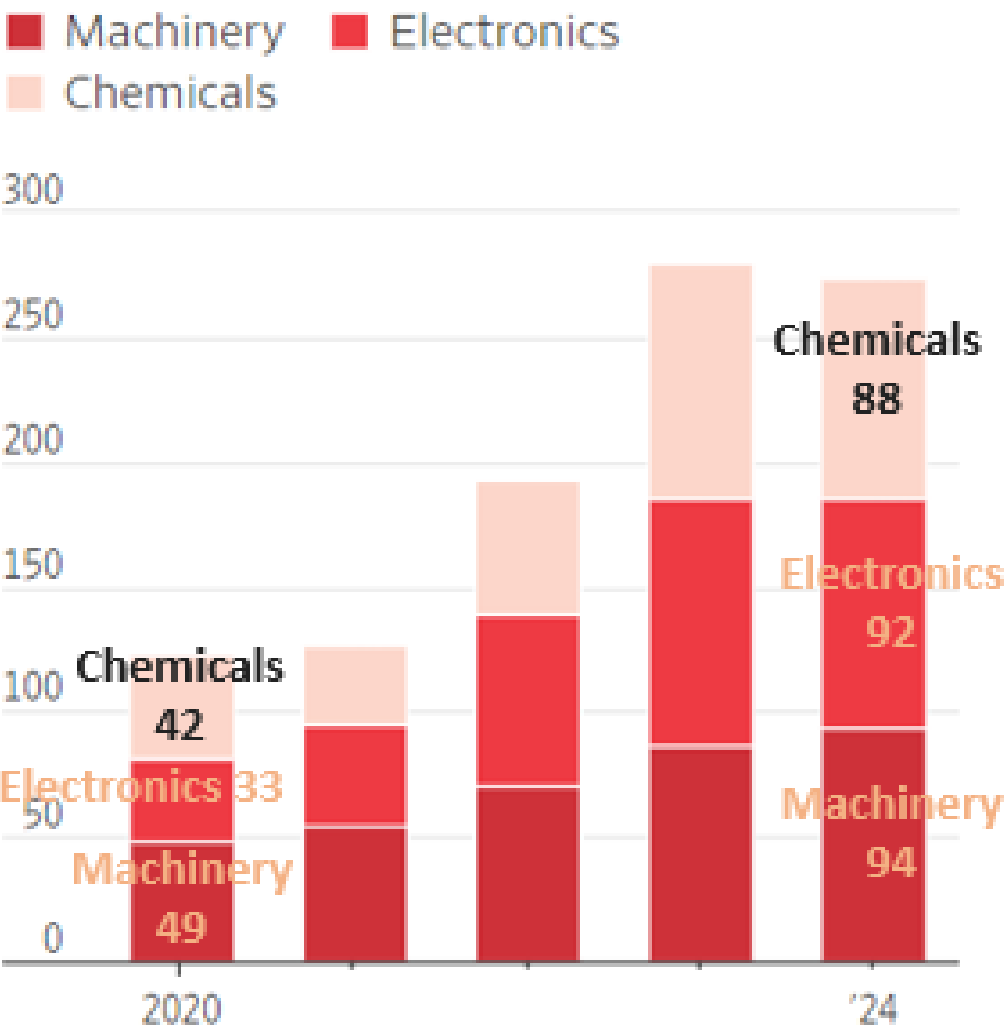
Excess capacity in China means companies are finding it harder to make money.

Share of domestically listed Chinese companies reporting losses

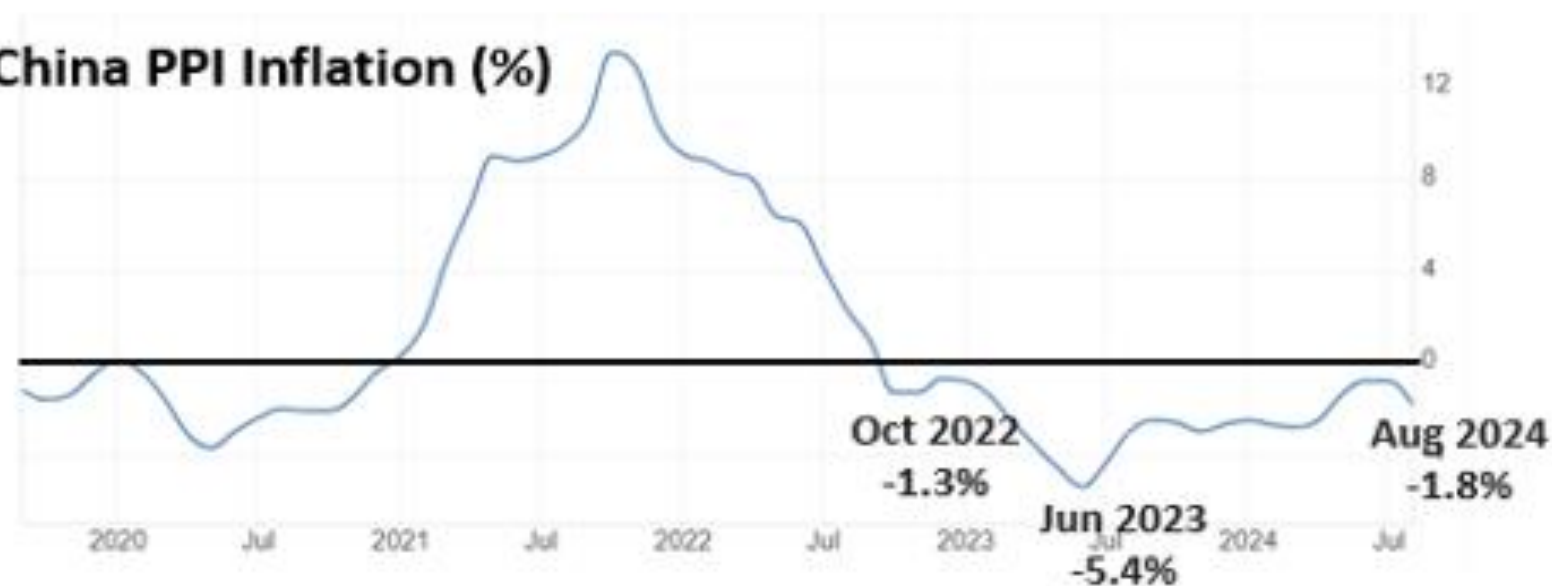


Note: 2024 data are based on first-quarter results.
Source: company statements, via Wind

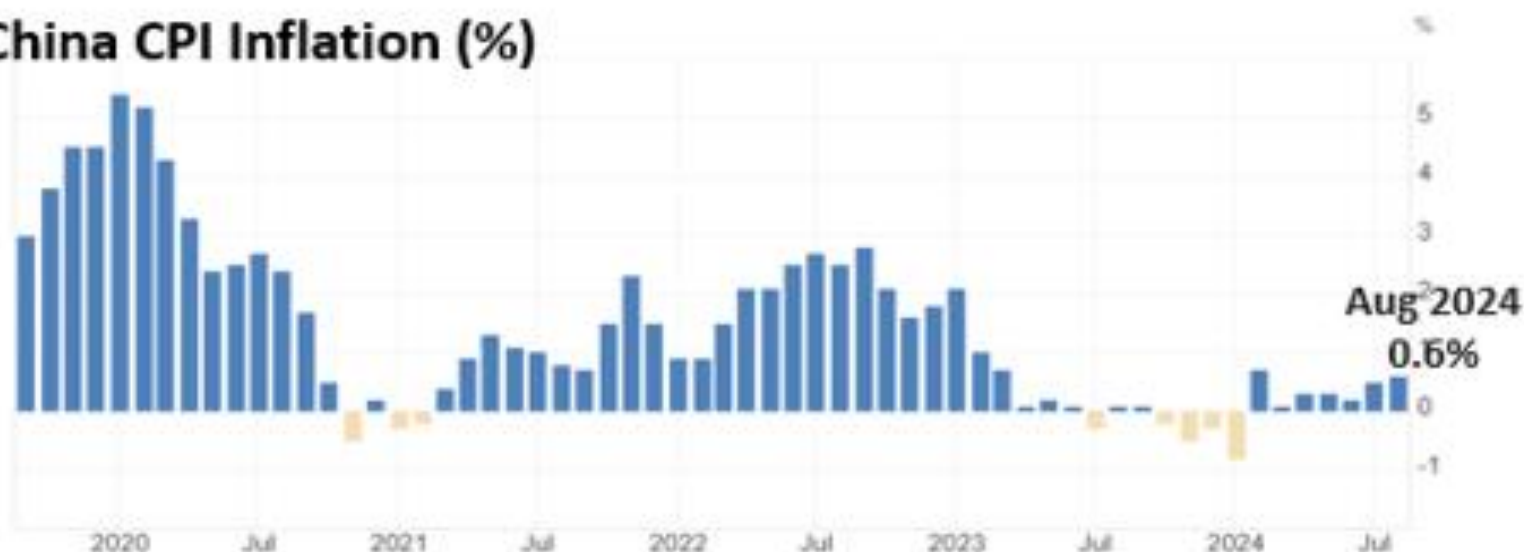
Number of loss-making Chinese companies by sector



China PPI Inflation (%)



China CPI Inflation (%)



Chinese economy [+ Add to myFT](#) **FINANCIAL TIMES**
China urged to spend up to \$1.4tn to battle deflation
10 Sep 2024

Estimates underline scale of challenge facing Beijing as it seeks to reboot economy

"...the more embedded deflation became, the more it would cost to dispel it through stimulus measures. "The longer that deflation stays, the bigger the ask in terms of reflation"

In light of a prolonged property downturn, households have cut back on spending and increased savings (2Q savings rate 31%).

Beijing has responded to weak consumer confidence by pumping loans into the industrial sector, relying on manufacturing and exports to keep the economy going while property grinds through a huge oversupply of unsold houses. But this has also increased the supply of consumer goods at a time of low demand, worsening deflation."

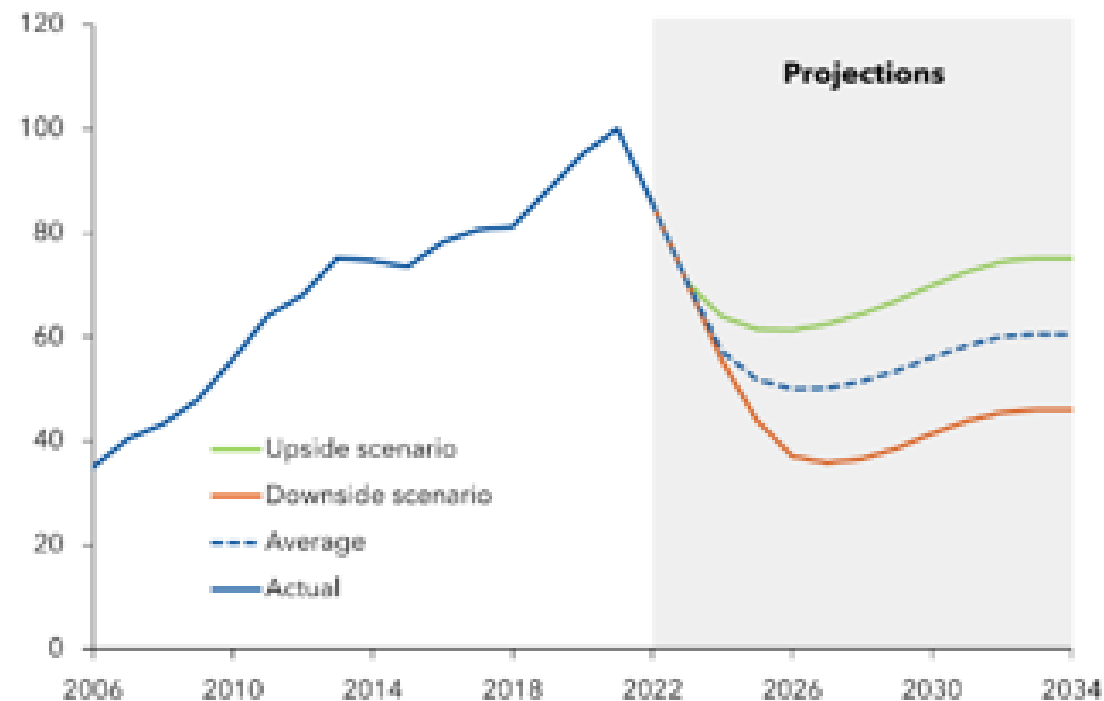
"I think right now they should focus on fighting deflationary pressure"
former PBoC Governor Yi Gang.

China unwilling to provide more support to housing in part because top leaders' determined to shift China growth driver away from property to technology and manufacturing

Construction to fall further

Housing investment is likely to fall almost 45 percent on average and remain subdued thereafter.

China: Real estate investment
(index: 2021=100)



Source: CEIC and IMF staff calculations.

Note: Upside and downside scenarios are for fundamental housing demand.

Data shown is staff's estimate of price-adjusted real estate gross fixed capital formation.

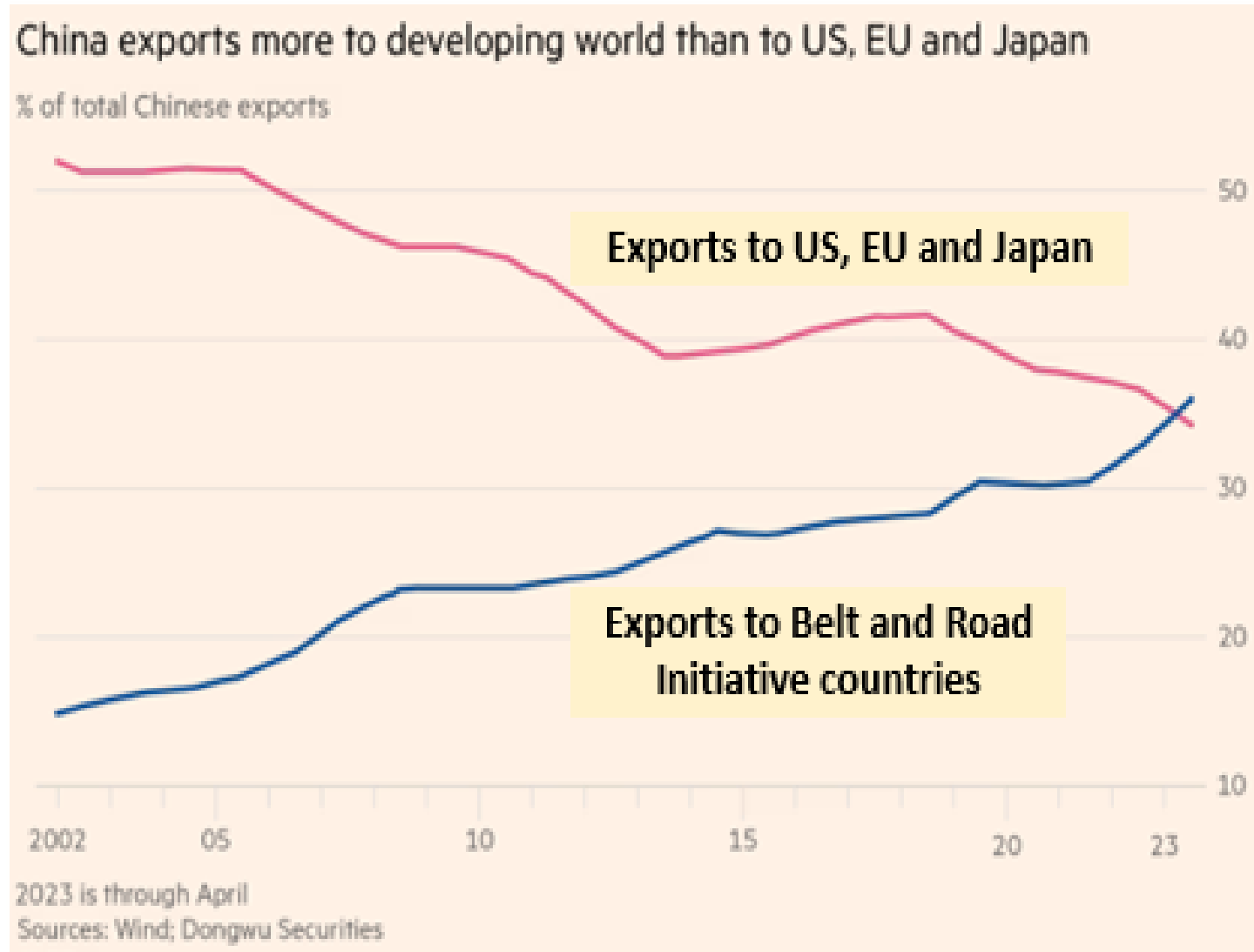
IMF

IMF 2 Feb 2024: Real estate investment to likely fall 30-60% below 2022 level, rebounding very gradually. IMF called for “one-off” fiscal money to complete and deliver pre-sold properties or compensate homebuyers. Cost \$1trn, 5.5% of GDP over 4yrs.

Chinese **rejected** Aug 2024 IMF proposal to use central govt funds to complete unfinished housing.

“It would be inappropriate for the central government to directly provide fiscal support, as it could lead to expectation of future government bail-out and therefore moral hazards”.

China Exports More to Developing World than to US, EU, and Japan



China's aims on the global stage:

- Project its power and influence
- Institutionalize its leadership over the developing world
- Keep most of the world open to Chinese trade and investment

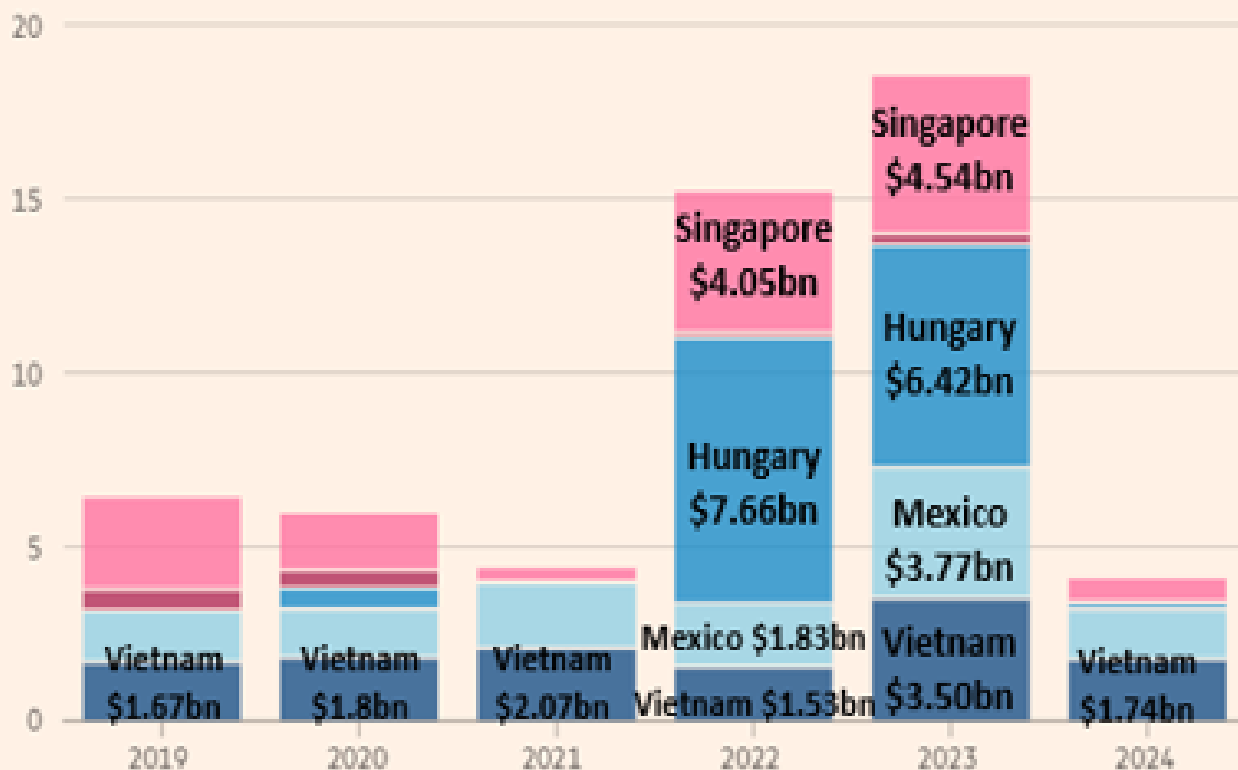
China believes that its relations with the west will remain turbulent for many years to come

In a Bi-polar world – China using ‘connector’ countries

China's Investment pours into ‘connector’ countries

Value of announced major Chinese FDI transactions (\$bn)

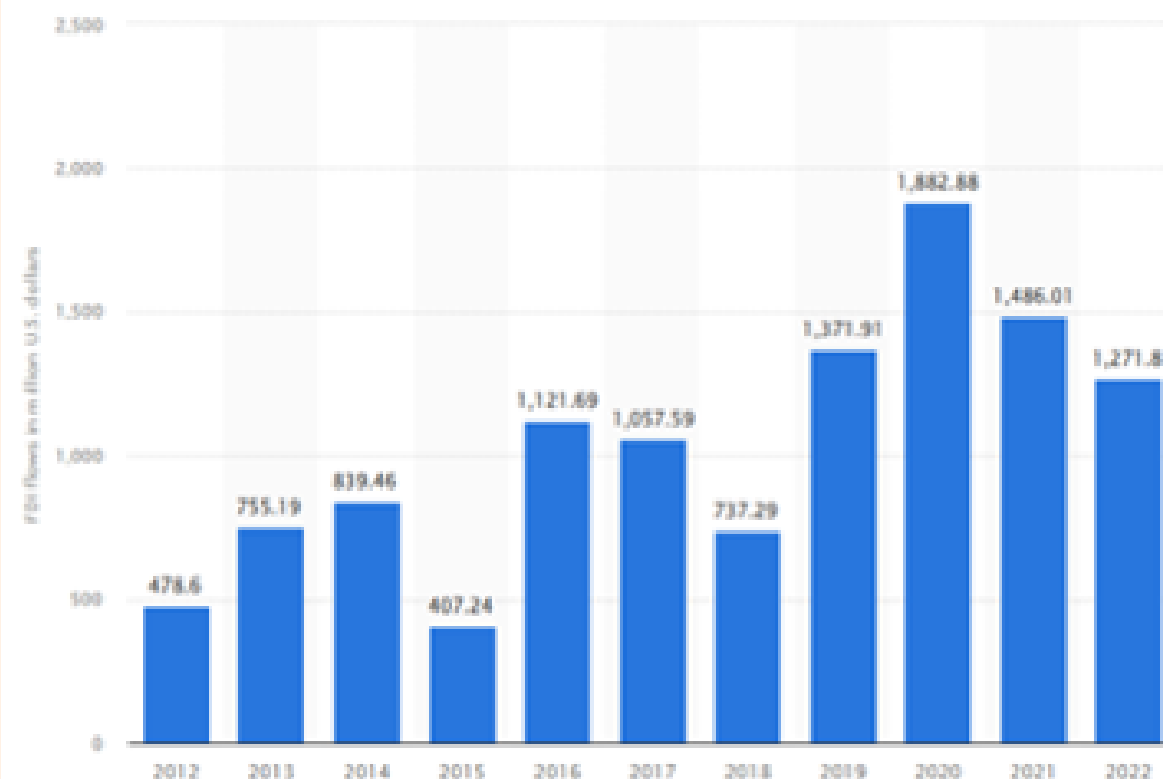
Vietnam Mexico Hungary Ireland Singapore



FINANCIAL TIMES

Source: Rhodium Group China Cross-Border Monitor • 2024=H1; Ireland 2021 n/a

Annual flow of FDI from China to Thailand (2012-22) (in US\$ million)



Source: Statista

การค้าไทย-จีน "ได้ประโยชน์ร่วมกัน" โฆษกสถานทูตจีนตอบคำถามผู้สื่อข่าว (The Better 4 Sep 2024)

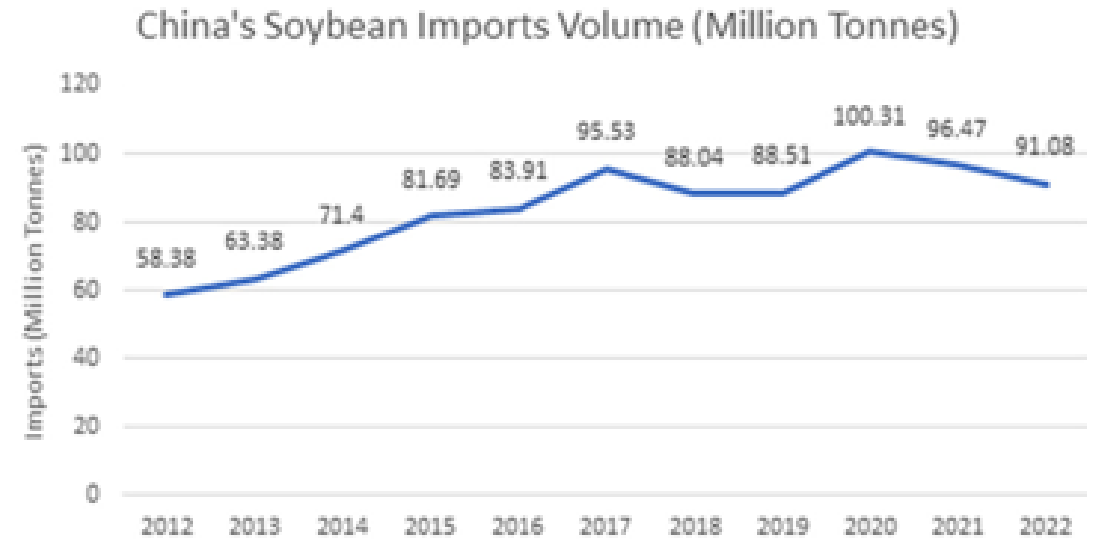
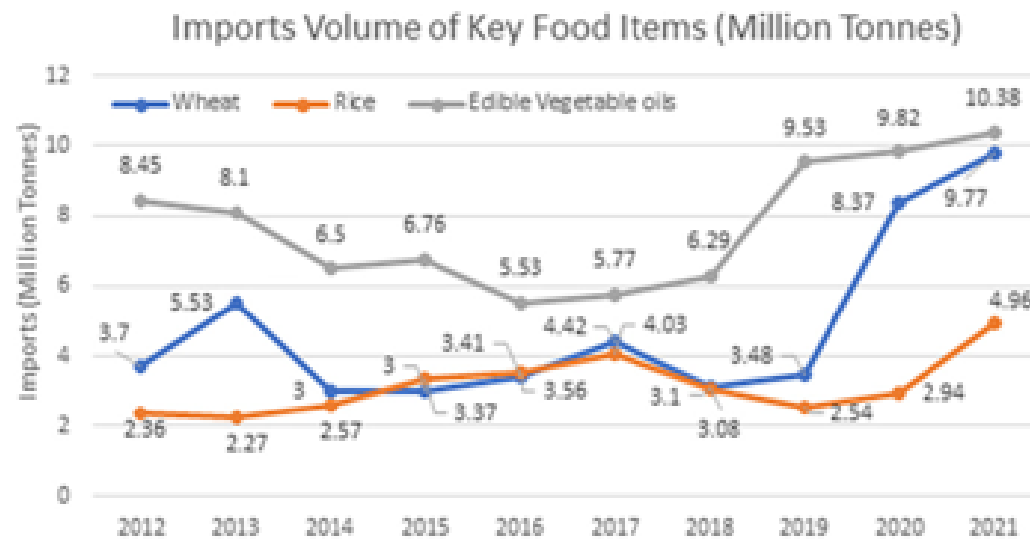
จีนเป็นคู่ค้ารายใหญ่ของกว่า 140 ประเทศ จีนมีส่วนร่วมต่อการเติบโตทางเศรษฐกิจโลกที่ 30% มานานกว่า 10 ปีติดต่อกัน จีนมุ่งมั่นที่จะสร้างระบบเศรษฐกิจตลาดสังคมนิยมที่มีคุณภาพสูง และเปิดกว้าง

จีนมีตลาดที่ใหญ่มาก แต่ไม่เคยตั้งเป้าว่าจะต้องเกินดุลการค้ากับไทย จีนยินดีเปิดตลาดให้ไทยส่งออกไปยังจีนมากขึ้น และได้อำนวยความสะดวก ออกมาตรการการสนับสนุนในด้านต่าง ๆ

รัฐบาลจีนเรียกร้องให้บริษัทจีนและชาวจีนดำเนินกิจการตามกฎหมาย ขอบังคับในต่างประเทศอย่างเคร่งครัดโดยตลอด เราสนับสนุนรัฐบาลไทยให้เข้มงวดในการกำกับดูแลตามกฎหมาย แก้ไขปราบปรามการละเมิดกฎหมาย และกฎระเบียบที่เกี่ยวข้อง

ชาวจีนบางคนได้เข้าร่วมในธุรกิจการบริการในประเทศไทย โดยมีคนเป็นจำนวนน้อยเกี่ยวข้องกับธุรกิจสื่อลามก การพนัน และยาเสพติด และบางคนได้หลีกเลี่ยงข้อจำกัดทางกฎหมายโดย “ให้คนอื่นถือหุ่นแทน” สำหรับปัญหาการละเมิดกฎหมายของท้องถิ่นที่ต้องสงสัยเหล่านี้ จีนสนับสนุนไทยในการสืบสวนและปราบปรามการกระทำเหล่านี้ตามกฎหมาย และรักษาความสงบเรียบร้อยของตลาดที่มีความเป็นธรรม และสภาพแวดล้อมทางธุรกิจที่ถูกต้องตามกฎหมาย ความจริงแล้ว หน่วยงานบังคับใช้กฎหมายของทั้งสองประเทศได้ดำเนินการความร่วมมือที่ดีในการป้องกันธุรกิจสีดำและสีเทาโดยตลอด

China's rising food import dependency



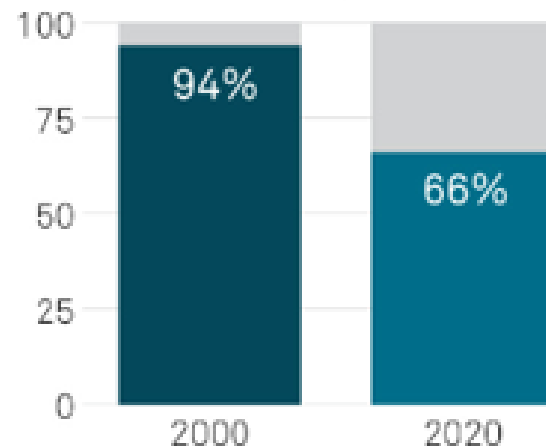
China's per capita grain output 2013 = 462.5 kg. 2021 = 483.5 kg → rising imports

China has 9% of global arable land to feed 20% of the global population.

US has a dominant position. It holds nearly 70% of patents in agricultural biotechnology

SSR

Food Self Sufficiency Ratio (%)



China accounts for 60% of global soybean trade.

- Domestic soybean production 20.28mn tons in 2022
- China imports 82% of its soybean demand.
- China is the world's largest soybean importer.

If Trump wins: US international economic policy will become more transactional and unpredictable + more nakedly protectionist. Trump vowed 60% tariffs on imports from China.

- But his approach to China, and the intersection of economic and national security, is less clear – will make sure US not harming allies?
- How will US industry be regenerated?

If Harris wins: will be similar to Biden -- same views on China. Lots of money flowing into US manufacturing. But risk that national security concerns determine more economic policy issues.

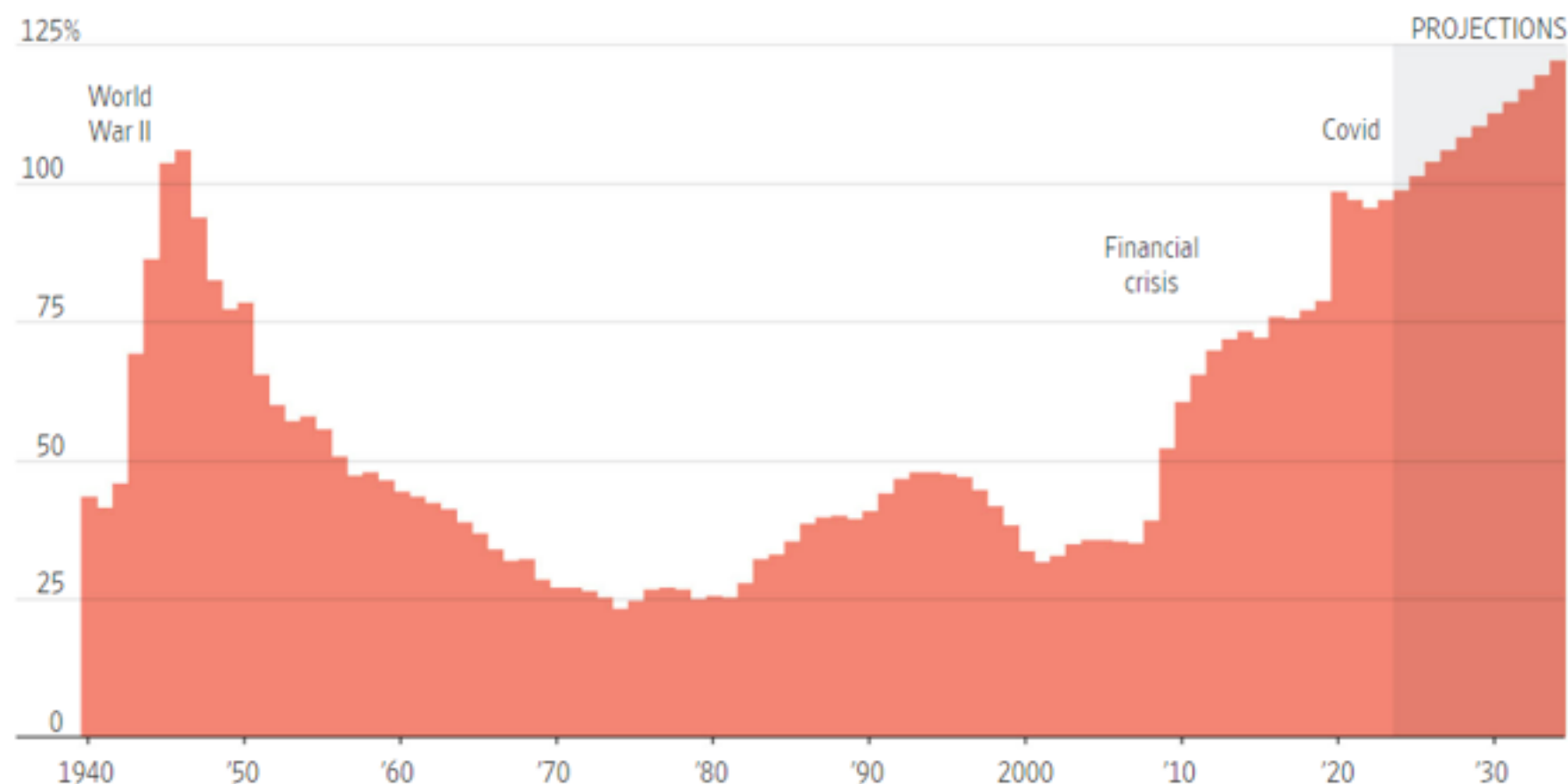
Regardless of who wins: A deeper trend in US towards protectionism.

- Promote US manufacturing jobs, or promote national security, or accelerate clean energy?
- Or all of them... It's not clear.

Whoever wins in Nov 2024 will face 2 fiscal tests.

- Need to raise the federal debt limit in mid-2025.
- Expiration of the 2017 tax law at end of 2025.

Publicly held debt as a share of GDP



Sources: Office of Management and Budget (actual); Congressional Budget Office (projections)

US budget deficit in 2024 = \$1.9trn -- 6% of GDP, equal to World War II, 2008 GFC and Covid-19.

Publicly held federal debt = **\$28trn -- 100% of GDP.**

If Congress does nothing, total debt will rise \$22trn to **\$50trn by 2034.**

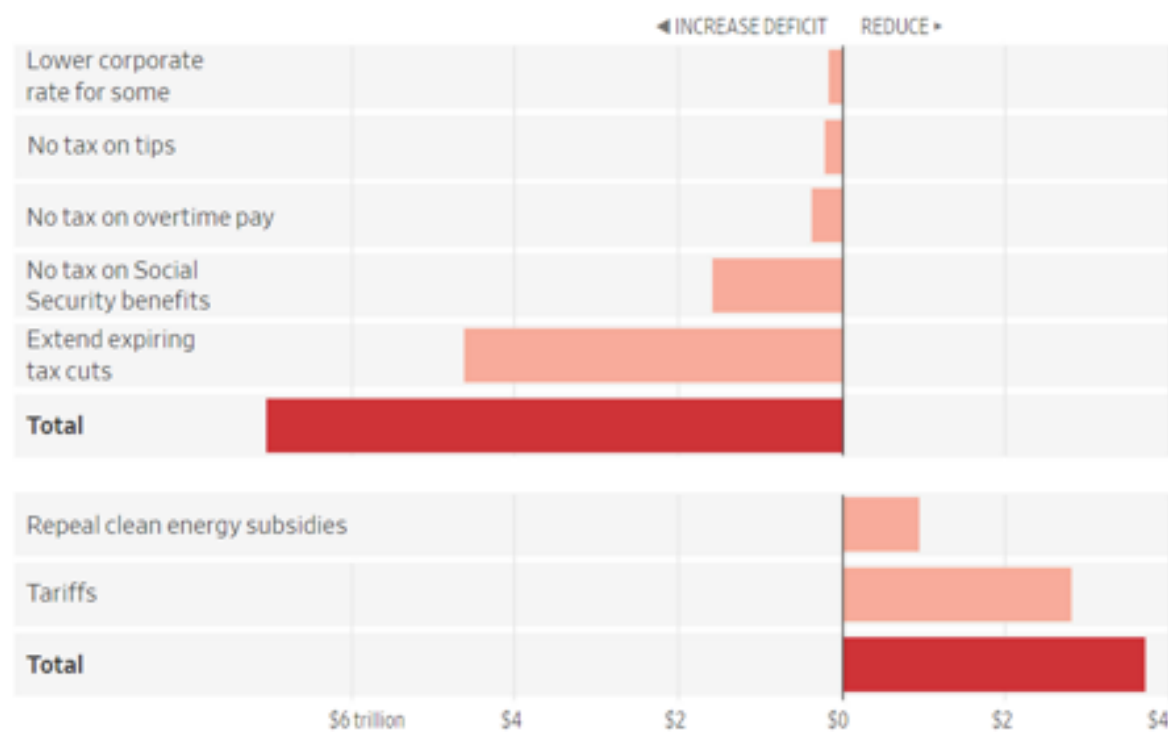
Interest costs will exceed annual defense spending

US fiscal deficit could be even higher in the next 10 years.

- Harris fiscal proposals: rise by \$1.5trn
- Trump fiscal proposals: rise by \$3.0trn

Fiscal Outlook Under Trump

How proposals by Donald Trump could affect deficits over 10 years

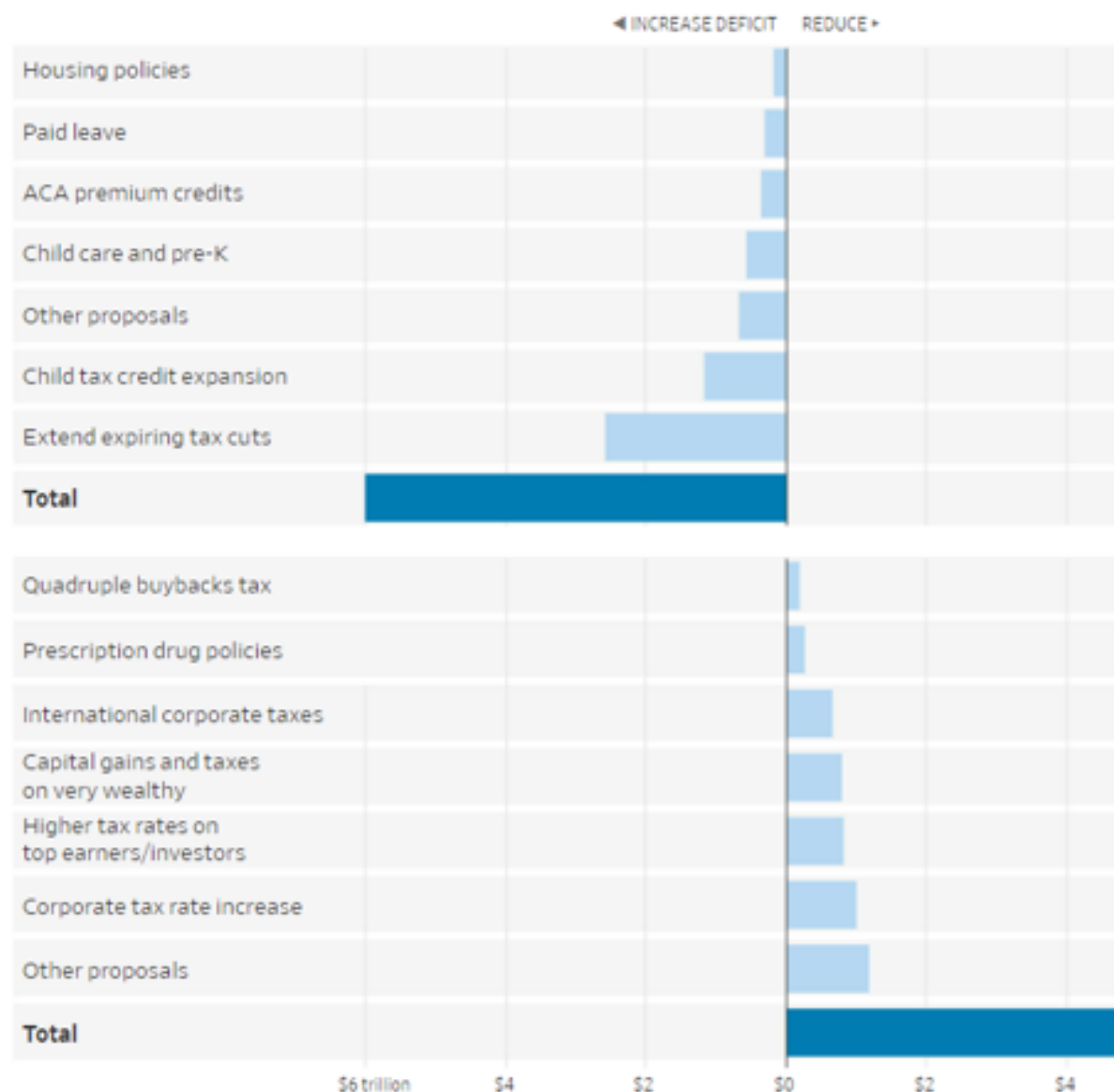


Notes: Selected proposals. Analysis doesn't include missile defense and mass deportation programs. Lower end of range shown for overtime proposal, which Tax Foundation estimates could be \$1.1 trillion or more, depending on details.

Sources: Piper Sandler analysis of campaign proposals; Tax Foundation (overtime tax)

Fiscal Outlook Under Harris

How proposals by Kamala Harris could affect deficits over 10 years



Notes: Selected proposals. Analysis uses some Biden budget numbers for policies where Harris hasn't provided details.

Sources: Piper Sandler analysis of campaign proposals; Harris campaign (medical debt)