

## The Outlook: Sept. 8, 2021

### *China*

“China.” That’s a big subject, isn’t it? It’s so big, and there are so many tons of media ink spilled on “China” every day, that it’s tempting to mostly bypass it, muttering “Ah well, everyone knows about China, let’s look at something smaller.” But that’s a mistake. China matters to us as investors (and as ordinary people) in the short run, the medium run and the long run. China is a real danger and a real opportunity. The trouble is, for most of the last 25 years it’s mostly been “opportunity” for American businesses and for the economic strength of the world in general. But for the last 5 years or so, it is a certainty—not a “near certainty” but a “certainty,” as far as Outlook is concerned—that the “danger” from China is rising while the “opportunity” is weakening. In fact, the danger is rising fast enough to be alarming.

Here's the Big Picture—Outlook’s version.

- China’s economic miracle came from a heavy dose of freedom: individual and market freedom, and capitalism. The dose of freedom was limited, but still heavy. The almost unbelievable creation of wealth which followed has strongly benefited most of the world, and certainly many big American companies, over the last 2 decades—not to mention a billion Chinese citizens.
- The Yangtze River of money which flowed through China changed the lives of its “dictator class:” a tiny sliver of the people who still call themselves “Communists” but who’ve made that word laughable (unless you live in China, in which case you do your laughing by yourself, in a closet, and never share the joke with anyone.) The dictator class’s share of all that money made them rich and globally powerful. They want to stay that way, and they want to stamp out anything which might threaten them.
- From “below” (from their own people) the threats are:
  1. Too much freedom.
  2. Too little money.

The current dictator-in-chief, Xi Jinping, is the most powerful since Mao. He’s been very good at bullying any possible dictator-class challengers into surrender; and he’s been ruthless at stamping out any signs of “too much freedom” among the billion non-dictator class people of China. Like all dictators, Mr. Xi lets actions speak for him, making examples of his chosen victims. Hong Kong knows.

Also like most dictators, Mr. Xi knows he must keep “the billion” happy enough to stay docile. He aims to do that by keeping China’s economic miracle alive for the billion, even if weakened; and by talking a good game: “The wealth must be shared; inequalities must be reduced,” etc. He’s been doing a lot of that over the last few months—so much that China-watchers have wondered whether he understands so little about China’s miracle that he’s willing to drive his country back toward government-controlled economic life and shared poverty.

That is a serious question, because throughout history dictators have indeed done very dumb things, shooting themselves in the foot—or between the eyes. If Mr. Xi really believed the

Communist nonsense he's been slathering through his speeches this year, the long-term business outlook for the rest of the world—and most of our companies—would be weaker, because China would be reversing its 25-year progress. We can only guess on that point: but we doubt he really means it. In his lifetime, Mr. Xi has seen China do the impossible, lifting its billion from abject poverty and placing himself and his class in charge of the second-most-powerful nation on earth, whose second-most-powerful military only got there with that Yangtze River of money. He needs that river to keep flowing, and at Outlook we're pretty sure he knows too many "Communist" economic actions will dry it up.

- Then there are the "threats" from outside.

"U.S. Central Command Warns of "Unprecedented" Acceleration in Chinese Nuclear Missiles." That headline is just the latest in a very long string of them, these last 5 years. All of them add up to a dictator who is going all out to make China the "*most* powerful military in the world," not the "second-most-powerful." They also add up to a dictator who completely understands how to intimidate people and nations to get what he wants.

The Big Question is: "What does he want, exactly?" and "Just how far will he go to get it?"

And the Big Answer is . . . guesswork. If Mr. Xi has a psychiatrist, maybe he knows—but he won't tell anyone, even himself in his closet. But here's something we do know: for bad people, power becomes the meaning of life. It becomes their measure of self-respect and achievement . . . yup, their *identity*. There's only one direction for power, for such people: more.

Mr. Xi no doubt has a document somewhere called "China's Place in the World by the Year 2040," or some such thing—or it may just be in his head. Despite the "Accelerating Nuclear Missiles" program, at Outlook we doubt the document calls for "World War by 2030." But we're sure it does call for "more intimidation, more bullying, more power" at every opportunity, whenever they come along. Those opportunities will grow like weeds when China's opponents look weak. Of all the lessons of history, that is the clearest.

Where does that leave us investors—apart from hanging onto Lockheed Martin?

With another burden of long-term uncertainty, as usual. The future is not laid out before us, if our eyes could only see it. It is made, step by step, by people as individuals and as leaders. Free people always make the strongest steps, rising most steeply toward a better future. We've seen a fair number of burdens upon freedom around the world, this past 18 months; but it's still alive and determined, as we see quarter after quarter in Main Street's truly remarkable recovery from the Virus and Lockdown Calamity. Like the roller coaster ride, the burden of uncertainty must be borne—but it still looks to Outlook as if it will be very much worth it.

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