

The Beijing Olympics as Cultural Bookends

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With the 2022 Winter Olympics winding down, it seems like the appropriate time to write about a topic that has been gaining traction in our geopolitical focused calls.

We will continue to keep you up to date on Russia and the Fed (the two forces the market is battling right now).

- Friday’s [Post Biden Speech Update](#).
- Tuesday’s [Webinar Replay](#) with General (ret.) Marks.
- Last weekend’s T-Report – [Battling the 2 Fronts – Russia and the Fed](#).

But in the meantime, while this isn’t market moving today, if we are right, the cultural shift in China will continue to be a major factor for the global economy and markets for the months and years to come.

But, since we are talking about the Olympics, I have to say how incredibly impressed I am with **Mikaela Shiffrin**. Of all the athletes who had great performances (and there were so many across various sports and from many different countries), her performance stands out. Yes, her results were a trainwreck, but she kept getting up and coming back for more. She endured interview after interview without giving up. Hopefully, she will go on to win many more races, but I think that her grit, determination, and attitude exemplified the Olympic spirit so well and that is as amazing as winning any medals.

Back to The Beijing Olympics as Cultural Bookends

As you know, Academy was early in identifying China as a Strategic Competitor (General (ret.) Walsh helped craft the National Security policy that first highlighted that shift in recognition). See [A D.I.M.E Framework for China, Trade & Strategic Competition](#) from December 2019 [or China-Update – Geopolitics, Macro & Trade](#) from March 2019. That concept of “**Strategic Competition**” drove much of our analysis for the past three years, but this past summer, we really started to shift our view to the [Recentralization of China](#). This **Recentralization and Delinking of China** shapes our thoughts on markets, the economy, inflation, geopolitics, and so much more. The Olympics seem to be perfect bookends to our thesis.

Summer Olympics – Beijing 2008 – China’s “Coming Out” Party

In many ways, 2008 symbolized China “joining” the world. It was an opportunity for China to show off their spectacular growth and feats of engineering. Saying that the opening ceremony was insanely spectacular is probably an understatement. It also gave China the opportunity to win the most gold medals (and the most total medals).

China clamped down on their economy ahead of the Olympics to reduce the often-toxic pollution for visitors.

They gave reporters a relatively high degree of freedom to cover the Olympics.

This was the era of embracing U.S. companies on the fast food and coffee side.

Every company had to have a “China Strategy!”

It saw the rise of people like Jack Ma and companies like BABA became household names. A dominance in some aspects of tech also started to emerge (like Huawei).

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Chinese stock markets and real estate attracted global attention.

Newly rich and well-off Chinese citizens were a huge boom to global tourism.

It was this type of thinking and relative openness to foreigners that led to the Silk Road Economic Belt, now known as the Belt and Road Initiative.

It was a time when it seemed difficult to believe that this was the same country that had the Tiananmen Square protests and subsequent crackdown just 20 years earlier.

Winter Olympics – Beijing 2022 – China’s “Going Home” Party

So much has changed over the past 14 years:

- **The reassertion of the Communist Party.** The Communist Party has always been in charge, but there have been a series of little things that seem to be reminding everyone about who the boss really is. Sometimes subtle and sometimes overt, but all pointing to ensuring that the populace understands who runs the country.
- The Jack Mas of the world are no longer the “unofficial” spokespeople of China.
- **Hong Kong** is looking less and less like “One Country, Two Systems.”
- Every cell phone has facial recognition, which seems to be used to track people and enforce certain types of behavior.
- The **Digital Yuan** may sound great, but it is yet another form of information gathering and ultimately control (China doesn’t want “money” or “wealth” outside of the system).
- **Whatever the origins of COVID-19**, the initial handling of COVID by China in terms of information sharing has created some serious distrust and impaired relationships.
- **Debt Diplomacy or Economic Colonization** seems to have been the result of much of their Belt and Road Initiative. They have a collection of important assets across the globe (especially ports and critical infrastructure) that in hindsight, probably should have been more protected. They have countries that are something less than allies, but something more than vassal states. Geopolitical allegiances have shifted and continue to shift.
- **Military expansion.** They continue to militarize the South China Sea. They’ve taken a “brown water” navy (coastal protection) and changed it into a “blue water” navy which lets them project power across the globe (they don’t match the U.S. or even Russia in terms of that yet, but it seems like only a matter of time).
- **Real-Estate Bubble?** It is far from clear how bad the real estate problem in China is, but there is evidence that it could be problematic. My sense is that they will “fix it” by isolating and turning to “domestic” solutions, which may hurt foreign investors (further delinking China) and it is likely to **shift wealth from the rich to the general populace (kind of back to basics for communism)**.
- **Increasingly important domestic market.** This is a “good” reason for some of the delinking. As China has achieved a level of wealth for many, the domestic economy becomes more important and that is part of why China is less outwardly looking.

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- **Demographics are problematic.** China has two big demographic issues.
 - **An aging population.** The one child policy has left China with a population heavily skewed towards the elderly. They are trying to fix this by moving to two children and now three children as policy. But even assuming that the birthrate will rise rapidly without the restrictions, it will take time to fix.
 - **Disproportionately high number of young men.** It is just a fact, as sad as it is, that the one child policy wound up with far more families with one boy rather than one girl. One thing that does scare me a bit (more a back of the mind type of fear rather than something that keeps me awake at night) is that one “traditional” method of reducing the number of young males in a population is war. In many ways, I can’t believe I’m writing this, as it sounds so far-fetched, yet between the military’s growth, constant Taiwan headlines, and what Russia is doing on the Ukrainian border, I can’t help but write about it.
- Whether changing the rules or merely enforcing existing rules, their companies have become far more dangerous for foreign investors.

Maybe I have painted too rosy of a picture from the mid-2000s or too gloomy of a picture from today’s perspective, but I think that the shift is real, and history will look back at these two Olympics as coinciding with big shifts in China’s attitude.

Domestic versus International

One of the most profound statements that I hear frequently comes from General (ret.) Marks:

- **Every issue that affects China, anywhere on the globe, is considered a domestic issue.**

There is logic to this. If something affects you, why is it that much different if you are being affected by internal or external forces?

We differentiate between internal and international all the time. It is how we think. China does not. To be honest, maybe we spend too much time differentiating and letting that impact how we proceed to solutions. Maybe not.

In any case, as you think about your strategy with China, I think that this is such an important point that I wanted to highlight it separately.

The Competition for Resources and Climate Change

The Strategic Competition with China is only growing. [Rare Earths – A National Security & Environmental Threat](#) from a year ago is even more relevant today.

Securing resources will be an ongoing issue for us and China. In many ways, China is ahead of us. I’ve focused more on the rare earths and critical minerals that are becoming increasingly important as we change our energy needs and sources. But, as the China/Russia gas pipeline deal shows (and so much of their dealings are in coal) we need to make sure existing needs can be met until new sources of energy come on line in a significant manner.

Also, if COP22 didn’t make it clear that China is going to march to the beat of their own drum on climate change, some of their recent actions should make it clear.

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I say it half-jokingly, partly because it is too depressing, but I'm left with this thought:

- **“We” (the U.S. or West) have visions of where we want to get to, but very little planning on how to get there.**
- **China has little vision of where they want to be, but is aggressively securing everything they think “we” might need.**

It is so easy to envision a map of the world, circa 2000, where if you plot sources of oil and natural gas, it will overlap almost perfectly with high levels of U.S. engagement. I suspect that by 2025, that map which overlaps with high levels of U.S. engagement will correlate with rare earths and critical minerals. Sadly, I think that China figured this out several years ago and we are playing catch-up. We can still win, but we need a plan!

Business Follows the Flag

There is a saying that “business follows the flag.” That typically means that high levels of U.S. presence (including military) tend to create environments that are good for business.

So, on the bright side, as we work to secure new resources and shift supply chains, there will be new opportunities. **Without a doubt, tech and healthcare related products will see intense pressure to be more secure.** We cannot face pandemics without the ability to manufacture our own PPE and medicines. So, there will be opportunities to build out domestically and with countries that are “close” to us, either via proximity, or political views, or both.

There is a danger, though, that as we have pulled our proverbial flag back across the globe, business will become more difficult. Maduro is still in charge of Venezuela which I think is meaningful and relevant to this topic.

I do think that while China might be more inward looking, there is at the same time a move away from China, which will impact the global economy.

Just a “Thought Piece”

Somehow, I felt the need to caveat today's report as a “thought” piece because these changes have been taking place already, the Olympics (as bookends) is more of a symbolic construct than a defining moment, and finally (and even I think that it sounds a bit pessimistic) it doesn't tell me what to do on Tuesday morning when markets open.

Having said that, I think that exploring what it means for your business or investments if we are correct about a more inward-looking China is a crucial exercise for you to undertake.

Now back to checking newsfeeds every few minutes to see if something has changed in Ukraine, which is a pretty sad state of affairs when you think about it 😞.

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