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Don't be blind to China's rise in a changing world

Anti-Beijing bias has blinded too many for too long to opportunities

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China's economy is roughly the same size as the US's and expanding at a faster pace © Susan Walsh/AP

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For as long as I can remember, people have said that China cannot succeed. Communism doesn't work. Authoritarianism doesn't work. The Chinese aren't creative. They have a big problem with bad debts and property speculation. Yet every day we see China succeeding in exceptional ways.

It has achieved some of the world's lowest Covid-19 case rates. Over the past year, its economy grew at almost 5 per cent, without monetising debt, while all major economies contracted. China produces more than it consumes and runs a balance of payments surplus, unlike the US and many western nations. This year nearly [half the world's initial public offerings](#) will be in China, including [Ant Financial's \\$30bn listing](#), the world's biggest ever. Even [Tesla's best-selling Model 3](#) car may soon be made entirely in China.

The world order is changing, yet many are missing this because of a persistent anti-China bias. China's extraordinary performance isn't new. In fact, apart from the 1839-1949 "Century of humiliation", it has historically been one of the world's most powerful countries and cultures. Just over the past four decades its economic changes have been remarkable. Whatever criticisms you may have about Chinese "state capitalism", you cannot say it hasn't worked, even if you strongly disagree with how Beijing has done it.

When I first visited China 36 years ago, I would give \$10 pocket calculators to high-ranking officials. They thought they were miracle devices. Now China rivals the US in advanced technologies and will probably take the lead in five years. Since 1984, per capita incomes have risen more than 30 times, life expectancy has increased by a decade and poverty rates have fallen nearly to zero. In 1990, China's first stock market was launched, designed by seven young patriots who I knew. Since then, it has become the [second largest](#) in the world.

All this is to say that China's rise has giant political, economic and investment implications. Politically, China has become a major issue for both parties in the US, which fears its rise, spreading global influence, and rejects its [authoritarian model](#) and treatment of minorities such as the [Uighur Muslims](#) in Xinjiang. China's rejoinder is that a strong hand is needed to maintain order, what happens inside its borders is its business, and the US has its own [human rights problems](#). Its sovereignty over Taiwan, Hong Kong and other areas are also big issues that are hotly disputed. Nobody knows how these tensions will pan out, but they will affect us all.

Meanwhile, China's economy is roughly the same size as the US's and expanding at a faster pace — so time is on China's side. It has a growing population of well-educated people, with around a third of the world's science and technology university majors, three times the US share. It also produces and collects vastly more data to process with artificial intelligence. For many in the west, this has a dark side in terms of [state surveillance](#). But for many Chinese it reinforces positive social norms while also promising vast efficiencies. One way to look at China's relative power is that, with four times the US population, when its per capita income reaches half the US's in about 25 years, its economy will be twice as large.

Last, there are the investment implications. As a global macro investor, I think a lot about how much I should invest where, looking at fundamentals and how others are positioned. China's fundamentals are strong, its assets relatively attractively priced, and the world is underweight Chinese stocks and bonds. These currently account for 3 per cent or less of foreign portfolio holdings; a neutral weighting would be closer to 15 per cent.

This discrepancy is at least in part due to anti-Chinese bias. I think it is about to change. Chinese markets are opening up to foreigners, who can now access at least 60 per cent of them compared with 1 per cent in 2015. Benchmark weights in major indices are [rising](#). As a result, I expect China to enjoy favourable capital inflows that will support the [currency](#), already at a two-year high, and financial markets too. All this argues for a China overweight in my portfolio.

Of course things can go wrong in any country. Beijing may not stay its current course of economic reform, though I doubt that will happen. The US and China are also competing fiercely — some say [warring](#) — over trade, technology, geopolitics, capital markets and military power. No one can know how bad these wars will be, which country will win, or how. That is why I diversify and allocate money to both countries.

In the long run, timeless and universal truths determine why countries succeed or fail. In brief, empires rise when they are productive, financially sound, earn more than they spend, and increase assets faster than their liabilities. This tends to happen when their people are well educated, work hard and behave civilly. Objectively compare China with the US on these measures, as I chronicle in an [ongoing study](#), and the fundamentals clearly favour China.

Prejudice and bias always blind people to opportunity. So, if you have been a China sceptic for reasons that don't square with what is happening there, I suggest you clear your mind. Likewise for events in the US and its place in the changing world. The eve of the US election is a good time to reflect on both.

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