

## A TALE OF TWO CENTURIES?

CHINA'S BELT AND ROAD INITIATIVE







The world's greatest economies have been built on international trade and investment. From the Greek and Roman Empires of ancient times to the Ottoman Empire and British Empire, global commerce has created huge wealth and unparalleled economic advantage. Meanwhile, every century or so, technological development and political decision-making have combined to catalyse significant shifts in the global balance of power. In the UK, this included the advent of steam power, mechanisation of manufacturing and adoption of steel-hulled ships for transport during Britain's industrial revolution. Scientific and industrial innovation thus enabled the creation of the largest, richest and most powerful empire of all time.

Much of that technology and experience was exported to the United States, enabling the construction of the railroads and creation of the United States of America, creating the military, financial and technology powerhouse of the 20th century.

The same is true for the world's greatest commercial enterprises. The world's first companies – the Dutch and British East India companies – were formed around 1600 to pursue international trade. At their peak, they both owned merchant navies with massively more ships than any country has today. Today, the five largest listed companies in the US are Amazon, Apple, Facebook,

Google and Microsoft, three of which are barely twenty years old. Importantly, all have built their success on innovative new technologies, and all five have businesses that are global in nature. Importantly, these five companies alone have accounted for a material part of overall stock-market growth in the US since 2000. Collectively, they have a market value of \$3.5 trillion, more than the entire capitalisation of Australia's Stock Exchange.

So, it was with great interest that I attended the Belt & Road Trade and Investment Forum in Beijing last week. With prospective investment of over US\$ 1 trillion

over the next decade, this is the largest single investment program in the world today.

In the West, America's president has called for greater economic isolationism – arguing that the nation should “Put America first” and “Build a wall” to defend its southern border with Mexico. As the pace of robotisation accelerates, measures to protect domestic employment have a certain logic, but only if they result in economic advantage for the entire country, and indeed for the large majority of its people. Ultimately, this is a short-term game, driven by an extremely partisan political environment, not to mention the fast-approaching mid-term elections.



## One Belt, One Road

— Silk Road Economic Belt  
 - - - Maritime Silk Road Initiative

Meanwhile, the largest policy measures introduced, including sweeping corporate and personal tax cuts, appear designed primarily to provide short-term benefits to the richest members of society.

The story in the East could not be more different. In building a modern-day Silk

from China Datang commented over dinner, “Computers don’t go shopping”. In other words, if income is not well distributed, demand will flatline or even begin to decline, damaging the interests of all.

Meanwhile, China’s leaders speak repeatedly of the country’s desire to

This will, of course, also benefit China, as a growing global middle class will have the financial resources to buy many of the products and services that China can provide. Nevertheless, the breadth of China’s long-term economic and social vision eclipses the typically short-term combative politics of many Western nations.

If the lessons of history hold true, America’s introspection, combined with China’s dramatic shift to outward investment, will mark a critical turning-point in the global economic landscape. In part, this shift is inevitable. Though the US remains the world’s largest economy, it is home to just 300 million people, the large majority of whom have had almost no increase in real wages for 50 years (it turns out trickle-down economics does exactly what it says on the box). In contrast, Asia is home to 3 billion people, at least 1 billion of whom will be relatively well-off in American terms within the next decade or so. This is the elephant in the Oval Office: the reality that America will become dramatically less important to China over the next decade. Thus, if America’s

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Road – in the form of physical Eurasian rail links, sea corridors and associated logistics – China’s objective is to promote not only international trade, but also economic growth and the creation of jobs in the many participant countries outside China. This focus on employment is particularly important, reflecting China’s understanding of the importance of sustainability. This includes ensuring that the benefits of economic growth are effectively distributed across society, especially as artificial intelligence and robotisation begin to consume many existing white-collar roles. As a senior executive

build a “global platform for international collaboration”, with a strong focus on “win-win deals” built on “mutual respect”. This is a long-term game, in which China sees the benefit of supporting the economic development of the emerging economies in Asia, Eastern Europe, the Middle East and Africa that are home to more than four billion people. One of the largest policy measures – the Belt & Road Initiative – involves substantial offshore investment by both State-owned enterprises and the private sector and is intended to benefit the entire world.





nascent trade war with China continues, the downside risks to American companies are substantial, as US enterprises will be increasingly locked in to the domestic US economy, where economic growth continues to decelerate.

Other storm clouds lie ahead. We anticipate that robotisation will consume jobs more rapidly than new jobs can be created.

## Economic and political introspection in the USA adds greatly to the risks for America,

This will result in stagnating real wages for most of society, particularly in advanced economies. This reflects the experience in the UK during the agricultural and industrial revolutions, as well as during the technology revolution in the USA over the last fifty years. In all three cases, real growth in median wages was at best a few tenths of a percent for five decades. Supporting economic growth in emerging economies is thus more important than ever, to replace what is otherwise likely to be declining demand in advanced economies. China's foreign

policy is designed to support precisely this outcome.

Meanwhile, for the present, America's big five technology companies are anchored in the US, both organisationally and culturally. But, as the world's economic centre of gravity migrates rapidly towards the Asian region, might these organisations begin to shift their focus? This may be anathema

for now, but so long as the right workforce can be recruited, none of these companies has any particular need to remain based in the USA. They are the enterprise equivalent of sophisticated knowledge workers, thus readily able to relocate almost anywhere in the world.

Looking ahead, we are not talking about modest shifts in economic power. Rather, a complete economic regime change appears to be under way. Economic and political introspection in the USA adds greatly to the risks for America, whilst if anything creating

new opportunities for other economies. "Make America Great Again" does very little for the rest of the world, so it is hard to see why the rest of the world should be prepared to sacrifice opportunities in the rapidly growing Asian region simply to retain favoured nation status with the USA. America's desire to scale back its admittedly expensive role as the world's policeman can only add to these challenges.

So, what does all this mean for corporate strategy? Our point is not to take sides in the US political debate – rather it is to draw out the implications of America's and China's policy settings as companies seek new sources of profitable growth.

### **First, you must embrace these changes.**

Be prepared to think the unthinkable – that America's economic star may be starting to wane – and that this may prompt other unexpected events. We note that the world's largest companies now have more economic power than many countries. Gilbert & Sullivan's opera *Utopia, Limited* explored what would happen if a country was run like a company – the 21st century may see companies begin to behave like countries, and behave increasingly independently. The





rise of crypto-currencies further illustrates these trends, with individuals beginning to trust technology with their money more than they trust the governments of the world's largest economies.

**Second, adjust corporate and investment strategy** to ensure that you can take early advantage of the new growth opportunities that are emerging. This means both an explosion in middle class spending power in Asia, as well as longer term potential for significant growth in some of the world's least developed regions, including Africa. In this regard, it was interesting to see which companies and countries attended the Belt & Road Trade and Investment Forum. This is the world's largest investment programme, so ignore it at your peril.

**Third, analyse carefully the likely nature and pace of change** that robotisation will have on your home economy, and the implications for domestic growth. To be blunt, this also means contemplating the weaknesses in a free-market, economic rationalist approach, and recognising the potential downside risks to overall economic

growth and societal stability of increasing concentration of wealth in the hands of the top few percent of society. As a spoiler – the extreme wealth concentration now seen in countries like the USA tends to lead to revolutionary change, which is typically highly damaging to the interests of the economic and financial elite.

**Fourth, remember that the extraordinary impact of technology on consumers' lives** and spending patterns has so far had only a very limited impact on the corporate sector. Dramatic and rapid changes lie ahead, however, as B2B technologies revolutionise a series of old world industries, eviscerating existing industry leaders and, prospectively, creating new global behemoths.

**Finally, make sure that you act!** Faced with such rapid change, not to mention increasingly complex geopolitical forces and investment flows, it is all too easy to be lured by the siren voices of caution and reflection and adopt a wait and see approach. The pace of change and foreign investment being driven by China is arguably the largest single

economic force at work in the world today, so take active steps to make sure you are paddling ahead of this wave, not trying to catch it once it's passed.

Now, more than ever, it is important to be a citizen of the world first, and a resident of any particular country second. Though national allegiances run deep, the abject failure of many political leaders to grapple with the challenges of slowing economic growth, as well as the need for substantial investment to renew aging infrastructure, means that it is increasingly risky to place all your personal or corporate economic eggs in a single national basket.

This will, of course, mean hard choices, both commercially and politically. Our team has a phenomenal track-record in helping Pottinger's clients to navigate problems of this nature, and to unlock long term value whilst avoiding the perils along the way. If you would value our advice, please give us a call!

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## Previous issue from Pottinger Perspectives:



Thirty months ago, I wrote about a crisis in Australian leadership. Though political turmoil was the headline of the day, my focus was on the many lost opportunities to transform leading Australian corporates into global success stories. I also lamented the repeated failure to take commercial advantage of the country's exceptional track record in scientific invention and technological innovation. Wherever you are in the world, Australia's experience holds powerful lessons about the importance of continued innovation and investment, no matter how successful your country (or company) may be.

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### About Pottinger

Pottinger is a global advisory firm headquartered in Sydney and New York. We combine strategic, commercial, financial and transaction perspectives, and focus first on long term outcomes, to deliver commercial advice that is practical and complete. We navigate the uncertainty inherent in commercial decisions, helping our clients to identify value overlooked by others, and to avoid risks which others may not see.

Pottinger helps organisations to adapt, innovate and transform, by providing insight and advice on strategy and public policy matters, as well as the negotiation and execution of M&A and financing transactions. Our combination of strategic thinking, M&A advice and financing capabilities allow us to find innovative solutions to the challenges arising in industries facing dynamic change and disruption.

Our team has exceptionally broad and deep strategic advisory and transaction execution experience, encompassing all of the world's top thirty countries. Examples include:

- Advice on market entry, strategic repositioning, identification of new growth opportunities, spin-outs and other forms of restructuring and advice on strategic investments, using our proprietary Destination-led Strategy® methodology, together with analogous advice to governments on public policy;
- Advice in relation to large and small-scale acquisitions, divestments and takeover responses for both publicly listed and private companies;
- Capital optimisation and financing advice for large enterprises, together with advice on commercialisation planning, capital strategy and capital raising for emerging companies;
- Specialist input in relation to the design, formation, restructuring, sale and dissolution of large scale joint ventures and partnerships; and
- Identification and quantification of risk, by applying advanced statistical techniques to relevant data pools, thus simplifying decisions impacted by significant uncertainty.

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