



# A DEMOCRATIC CHINA

*When not if...*

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The Chinese Communist Party or CCP is celebrating its centenary. This milestone marks the end of one, and the beginning of another even more challenging journey.

This second leg will see China emerge not only as the world's largest, but also one of its wealthiest nations. On completion, China will join the ranks of the world's advanced industrialised nations, all of which are democracies.

China will be too.

Democracy alone can deliver the long-term economic, social and political stability that is the defining mark of advanced economies and indeed a hallmark of the CCP's approach to governance.

A democratic China can successfully navigate an emerging confluence of democratic values and consumerism, allowing for a ramp up of the globalisation China needs to propel its economy into the ranks of high income nations.

The question of a democratic China is not if, but when.



中华人民共和国万岁



世界人民大团结万岁

# WHEN NOT IF...

The Chinese Communist Party or CCP turns one-hundred this year and there is much to celebrate.

No one political party in the world has improved the economic fortunes, as dramatically and for as many people in the world, as the CCP. Under its watch, an estimated five hundred million Chinese citizens have been taken out of abject poverty. By 2030, for the first time since the industrial revolution, a still developing country, China, will come to rank as the largest economy on earth.

Unfortunately, few outside China are celebrating. China's economic rise is viewed with trepidation, a sense of foreboding. China is not yet a democracy. Amongst the ten largest economies in the world, it stands alone.

The world faces a rather disconcerting prospect. A nation that has yet to embrace liberal democratic values will be in an even stronger a position to use its very considerable economic might to influence a rules-based multilateral order and its institutions, centuries in the making, with democratic values at their heart.

That's not all.



## WHEN NOT IF...

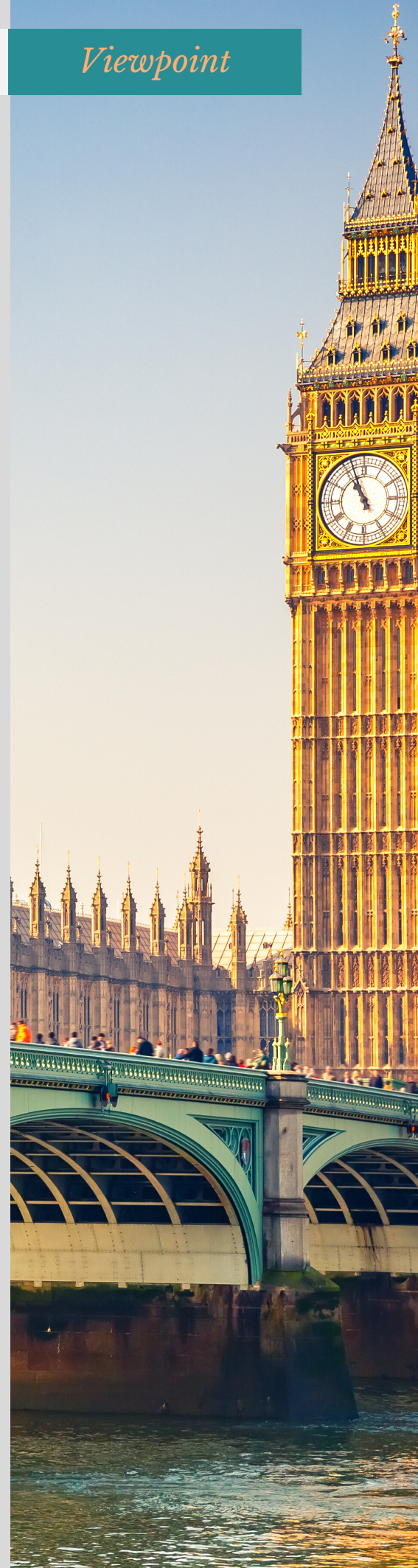
Stability of the global economy may be at risk. Alongside the US, China is arguably the most systemically significant economy in the world. It is in effect the world's factory, present in just about every global supply chain that matters. Hundreds of millions, if not billions of people around the world are directly or indirectly reliant for their employment and general wellbeing on the stable and continuous operation of these supply chains. If China goes down, the global economy goes down with it. To think otherwise is foolhardy.

Go down they will.

China's authoritarian governance model is inherently unstable. Authoritarian regimes have failed everywhere they have been tried. That the CCP has maintained China's stability for as long as it has, and progressed China economically and socially to the extent that it has, absent democratic reforms, might be put down to the sheer ingenuity of the CCP to engineer a deeply flawed system of governance to run well past its sell-by date. That it has resisted calls for democracy in China for as long as it has might reflect a level of circumspection, sustained by a long memory of the regrettable role some of democracy's most strident advocates played in China's ruinous hundred years of humiliation.

History, however unfortunate, does not change today's reality. Nor does it absolve the CCP of its responsibility to the Chinese people, and indeed the world, to maintain stability.

Cracks in China's governance model are starting to appear. To many outside China, the willingness of the people of Hong Kong to protest, at times violently, in the face of an overwhelming force arrayed against them is a harbinger of doom. An omen, that as the Chinese people grow wealthier, and Hongkongers are amongst the wealthiest of



## WHEN NOT IF...

Greater China's citizens, they may be less willing to forego democratic freedoms and more willing to surrender economic gains in their pursuit.

Make no mistake, China is living on borrowed time. It will face a reckoning.

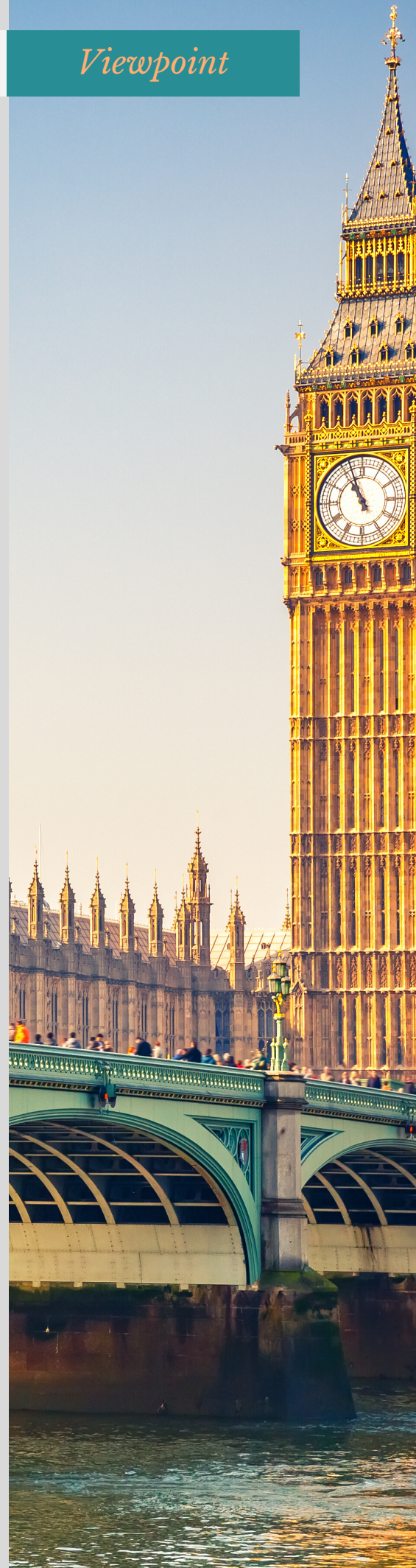
But so will the world, for its failure to compel China to embrace democracy.

Global citizens are in essence the billions of boats around the world lifted by China's rising tide. Should this tide unexpectedly recede, every boat risks being stranded on shore.

As stakeholders in China's success, our voice must be heard. It is incumbent on everyone, whatever the risks, whatever the repercussions, to sound an alarm that can be heard loud and clear in Beijing.

The question of democracy in China is not if, but when. The sooner, the better.

**The Highforest Team**  
London



# SEA OF BROKEN DREAMS

For decades, the world had a dream that China would democratise as it grew wealthier. Integration and interaction with world markets and their participants would precipitate economic, social and political reforms. Over time, as its political framework evolved, China would become indistinguishable from any other leading market economy.

That dream has turned into a nightmare. China is within shooting distance of becoming the world's largest economy, and yet in the last decade has backtracked on reform and otherwise signalled to the world that it has no intention of embracing liberal democracy. As if to emphasise the point, China's current administration rolled out a new-fangled "socialism with Chinese characteristics".

In having nightmares, the world isn't alone.

The CCP is set to have its own nightmare. For even as it celebrates its centenary, it is veering towards an existential crisis. A crisis precipitated by an emerging confluence of democracy and consumerism that could slam China's future growth and unravel the CCP's social contract with the Chinese people.

# THE RISE AND RISE OF CHINA

This year's celebrations mark the end of a first and the beginning of a second and final leg of China's thousand mile journey to economic rejuvenation. In the first leg, China successfully migrated from a low income to developing middle income nation. In the second half, China will endeavour to migrate from a middle to a high income nation.

It has no choice. Every person on earth aspires to live in a high income nation. The Chinese people are no exception.

Delivering on this aspiration, however, is no small feat. Appropriately dubbed the K2 of economic development, in the last seventy-five years only five developing nations have successfully reached its summit. By the time they did so, all five were democracies.

The sheer scale of the challenge facing China is jaw dropping.

By 2030, when it is expected to emerge as the world's largest economy, China's GDP on a per capita basis, in US dollar terms, will still be less than one-quarter that of the US. To close this wealth gap in the next fifty years, China's GDP growth every year will need to be three percentage points higher than the US's. If the US grows at 3%, China will need to grow at 6%.

**By 2080, China will need to create a new domestic economy equal in size to the entire global economy in 2030.**





# DIVIDENDS ABROAD, DEMOCRACY AT HOME

China's leap to high income status will likely require it to double down on globalisation. Four-fifths of global purchasing power, a proxy for market size, still resides outside China. The largest, highest value markets that Chinese corporations must conquer are abroad. Receding into a hermit kingdom, isolated from the world, reliant solely on its domestic market for growth will unlikely deliver China into the ranks of high income nations.

But it takes two to trade. The world too will need to double down on globalisation. For this, China will need to address its trading partners' longstanding demands that investment and trade be more free, fairer. They have a point. China may still be a developing country, but its most successful corporations, its pioneering national champions, have successfully cultivated competitive advantages at home that allow them to outcompete abroad. If they are allowed to deepen their penetration of overseas markets, it is only right that their international peers be allowed to do the same in China.

For China, harmonising international investment and trade regulations and practices to level the playing field is necessary, but it may not be sufficient.

There's one more thing.

## DIVIDENDS ABROAD, DEMOCRACY AT HOME

As China's corporations expand into overseas markets, they will face a consumer landscape that is rapidly evolving. A digital and biotech technology revolution and climate change are transforming products and services and the business models that support delivery. These changes are influencing consumer choices. Heightened concern for the environment, social inequity, human rights and freedoms, and growing demands for transparency and digital privacy mean purchasing decisions are no longer just about quality and price, but also values and trust.

A new herd of values-driven consumers is set to make its mark on global consumer markets.

Wearing the guise of values-driven investor, this herd has already helped transform investment markets. ESG, a new values-driven investment asset class, which focuses not just on financial returns but also on the environment, social issues, and governance, is spreading like wildfire. According to Bloomberg, this asset class, which less than a decade ago existed on the fringes of investment markets, will by 2025 account for a full one-third of global assets under management.

The herd's success in helping incubate and sustain ESG investment markets implies significant purchasing power. Enough, potentially, to make a difference in the global trade of goods and services, estimated at \$15 trillion annually. Many of the same values that guide ESG investment strategies will inform consumption habits. As we choose to invest, so shall we choose to consume.

This new herd will comprise billions of individual consumers, united by values. And it will span the globe.

Over the last seventy-five years, under Britain and America's watchful eyes, liberal democratic values that originated in the West have found universal appeal, spreading far and wide. In 2015, for the first time in history, multi-party democracy replaced autocratic rule as the dominant form of government. Today, a majority of global citizenry has come to cherish its right to speak freely, to



## DIVIDENDS ABROAD, DEMOCRACY AT HOME

gather in protest on issues of their choosing, to freely elect leaders from a diverse pool of candidates they and only they select, to directly hold their leaders accountable for their actions. The minority that doesn't enjoy these freedoms hasn't rejected democracy; it hasn't been given a choice.

When this herd of values-driven consumers charges, governments beware. There is no defence.

A private individual's purchasing decision does not fall within the ambit of international or domestic law. Consumers, individually or in concert, can therefore act extraterritorially and do so with impunity. They are free to choose from a selection of alternative offerings. Their purchasing decision can be enticed but not compelled. Their weapon is the simple act withholding custom.

This should worry China.

Its path from low to middle income saw its corporations exploiting their production cost advantages to effectively embed themselves in global supply chains. They were visible to shareholders of international companies seeking to maximise profit by manufacturing in or sourcing from China, but often invisible to end consumers beyond the small print, "Made in China". For this next journey, as China's corporations climb the value chain, which they must, branded China will directly face this herd of values-driven consumers. If China wants this herd's wallet, China will have to embrace its values. For China's national champions to earn dividends abroad, the CCP will have to embrace democracy at home.



# AN EXISTENTIAL CRISIS LOOMS

Values-driven consumers may be falling out of love with China. Recent polling suggests that perceptions of China, especially in the world's largest, most lucrative consumer markets, have started to rapidly deteriorate.

China's actions in Hong Kong have not helped. Many around the world are beginning to interpret its efforts to rein in Hong Kong's highly respected democracy as a tacit admission—if any were needed—that China's socialism with Chinese characteristics is not only incompatible with liberal democracy, but in China's eyes, unable to co-exist. To many, events in Hong Kong reflect a realisation in Beijing that flourishing trade and commerce, with its unfettered open and unrestricted exchange and embrace of new, revolutionary ideas and free, expansive people to people interactions poses an existential threat to its system of governance.

Global citizenry is beginning to question whether they too may someday suffer a fate like that of Hong Kong. With their own economic relations with China deepening—in hindsight, Hong Kong's grievous error following its handover in 1997—people the world over are asking if China will seek to curtail freedoms that underpin their hard-won, cherished democracies. Will China seek to protect its own system of governance by sacrificing theirs? Will it do so against a backdrop of threats to losing access to the large Chinese market on which they have grown ever more reliant? Whatever the legal merits of China's rebuttal, it appears to matter little to global citizenry.

A crisis is brewing.



## AN EXISTENTIAL CRISIS LOOMS

Under the CCP's social contract with China's citizens, the Chinese people have surrendered civil liberties against a promise of rapid, sustained economic advancement. The CCP's mandate is to deliver wealth and opportunity to the Chinese people. No amount of nationalist fury propagandised by the CCP will shift this bottom line.

Wooing the values-driven global consumer is becoming more difficult for China's national champions expanding abroad. If they fail, China's exports will suffer, slowing or even stalling the nation's progress to high income status. Societal pressures at home are sure to build up. China is no stranger to rebellions sparked by a disenchanted aspiring middle class denied its promised dream and Mainland China is far wealthier today than it was in 1989. Calls to renegotiate the social contract will almost certainly grow, could potentially turn violent as they did in Hong Kong, but unlike Hong Kong, may be far more difficult to suppress if they galvanise discontent in the CCP's heartlands. The CCP's monopoly on governance could unravel.

The CCP will find itself trapped in a pincer grip.

An intransigent values-driven global consumer, demanding democracy as a price for its custom on one side, and the Chinese people demanding rapid, export-led wealth creation and the opportunities that come with it, on the other.

There is but one escape. Surrendering the CCP's monopoly on governance, allowing democracy to take root, will help channel the purchasing power of the growing herd of values-driven global consumers into Chinese goods and services, enriching Chinese corporations, with a knock-on benefit to China's economy. Wealth and opportunity will flow to the Chinese people. The CCP's political franchise may stand diminished, but it will be lionised at home for acting in China's national interest. Abroad, it will be celebrated for acting in the interest of global stability and for embracing democratic values.

To stay in power, the CCP will need to give some of it up. If it does, there's every chance the CCP will emerge the dominant party in Chinese politics, holding the reins of power for decades to come.



## AN EXISTENTIAL CRISIS LOOMS

If it doesn't, the outcome for the CCP may be quite different. Values-driven consumers will shun Chinese goods and services. Long-term economic growth will likely fall well short of the Chinese people's expectations. Angry and frustrated, they may be inclined to show the CCP the door.

For all its incredible achievements, the CCP will go down in history as having failed in its primary mission. It will have failed to deliver the China dream.



# DEMOCRACY WITH CHINESE CHARACTERISTICS

For now, Zhongnanhai will have none of this talk. Calls for democracy in China, from within or without, will continue to be met with terse, angry rejoinders and for an unfortunate few, much worse.

This is understandable. The first two stages of grief or accepting the inevitable are denial followed by anger. The reality that its monopoly is damned will take time to sink in.

But sink in it will.

Any institution, not least one as well versed in the art of self-preservation as the CCP—having come to power in the aftermath of a devastating World War, then survived a political, then cultural, then economic revolution—will eventually find the inner strength to swallow the bitter pill.

It needs a 'eureka!' moment; one prompted by a realisation, a discovery, and an acceptance.

A realisation, that global citizenry may have been attracted to democracy for its wide-ranging freedoms, but has chosen to stay for its long-term economic, social and political stability—the ideological lodestone of the CCP's governance model.



## DEMOCRACY WITH CHINESE CHARACTERISTICS

A discovery, that the machinery of democracy delivers stability by incorporating, in lay terms, a pressure valve, a reset switch, and an independent control mechanism. Freedom of expression through the media and rights of protest, at times violent, are in fact the valves releasing societal pressure and a signalling mechanism of the need for policy change, or a policy reset. Free, fair, periodic elections function as the reset mechanism. Voters, independent of government, function as the control mechanism, continually assessing the machine's performance, triggering the reset switch when necessary.

An acceptance, that absent the pressure valve, the reset switch and an independent control system, authoritarian, single-party governments have an unenviable track record of collapsing, unleashing chaos. They are the very antithesis of stability.

When the penny does drop, stability and not ideology will guide both the new dispensation and the transition. A CCP long haunted by the collapse and descent into mayhem of the Soviet Union will obsess over ensuring that China does not suffer a similar fate. The transition will be quintessentially CCP—gradual yet determined, rolled out in a measured and controlled manner. There will be pilots, simulations, dry runs aplenty. The entire population will be re-educated. Little will be left to chance. China will build its new house before burning down the old.

For casual armchair observers, this will be a masterclass in the art of the u turn, from the very CCP that in 1978 skilfully executed one of history's most extraordinary about faces. It abandoned communism for capitalism but chose not to change its own name. For decades, a so-called communist party has been running one of the world's most successful capitalist economies. For its sequel, the CCP may take a similar approach. The social contract, the operating system running the machinery of government, will receive a routine yet critical "software update" that incorporates a new pressure valve, a reset switch, and an independent control system to improve reliability and stability. The word democracy might not receive a single mention.

To the Chinese people, this will be a functional democracy in all but name. To the outside world, it will be a democracy with Chinese characteristics.







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