

SPECIAL EDITION DATA DELAWARE: Saturday, January 25, 2020
SUBJECT: CHINA, a Delawarean's unique insights! (Podcast transcript-Part II)

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- Dace Blaskovitz: Welcome back to Money and Politics in Delaware. Dennis O'Brien. China, continue.
- Dennis O'Brien: Yeah, I was on the fact what's happening is the supply chain that gets American companies into China in order to take advantage of the giant market, the supply chains are changing. Three of my clients are literally moving their facilities out of China into America, in one case, to compete directly against the Chinese, sort of reversed intellectual property slot. And in two other cases, they're simply moving their operations from China to Vietnam or Indonesia, okay.
- Dennis O'Brien: That is long-term. The Chinese won't get those guys back for a generation or more, and that is really burdensome. The Chinese population has gone, I shouldn't say it has gone, the number of people between the ages 19 and 35 has gone negative. If you look at GDP, how's it formulated? Its growth in the workforce plus productivity plus full factor productivity. Full factor productivity is another word for educating people as to how to use newly invented productivity, things like software.
- Dennis O'Brien: The Chinese, the workforce is declining, actually workforce started declining through '14, new increase in the workforce. And productivity, new technology is largely come from the Western countries, more notably from the United States. And it's come either by us going over there, foreign direct investment, giving it to them or having it stolen.
- Dennis O'Brien: Oddly enough full factor productivity, which is education, think about this, in the last four years, 1.5 million Chinese students, have gotten their education in the United States. And those students are the sons and daughters are the powerful and rich in China. So we've been playing a very key element in the Chinese growth.
- Dace Blaskovitz: Well hang on just a minute. Hang on. Let's make sure everybody's on the same page. In the world of economics, your world, demographics are destiny. You got to have what it was a 2.1 on a birth rate to maintain population. China is less than one. So you have this demographic shift and you have this structural shift in business where businesses are actually on a huge level as a percentage leaving China. Dennis, what happens?
- Dennis O'Brien: Well, I can say I told you this but a few years ago, Dace, I said 2020 is going to be the year when the cows come home. And the chick jumps off the roof.

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- Dennis O'Brien: The demographics and by the way the politics are also there. You got to look at Hong Kong. By the way, recently 17 of the 18 assembly guys in Hong Kong, that don't have that much power came from the protesters. Okay. And the Chinese have not sent the army in. So the Hong Kong protests are starting to affect the way the mainland thinks. Okay. And they're going to have to act. By the way me, the Chinese plan, five years ago, was for the consumer sector to take over from the investment sector to run the economy. Well, guess what in 2019 auto sales went down 12.2%. in the previous year they went down three. The sale of electric cars is down something like 19% last year. In other words, the Chinese economy that was supposed to be new China economy based on consumers isn't working. Okay.
- Dace Blaskovitz: Hang on. We're going to run out of time. You got to do one more topic. In our private conversations, you've been scared to death of debt. We had Will has PRC Capital, your guru in China on the money side, and he'd been talking about debt, debt, debt, debt. Talk to that.
- Dennis O'Brien: Well, I'm not, I'm a lot less scared than he is. Only about 3% of Chinese debt is held in foreign currency. 67% is held by SOEs. The SOEs, our owned by Chinese banks, which are SOEs. They can always roll over the debt like they did in 2008, 2009. Chinese has 300% of their GDP in debt. America by contrast has 105% so it's significant. Okay. And they're going to have to do something about it. But they have a lot of controls that they can use to roll over the debt, and do things like that.
- Dennis O'Brien: It does, however, affect the private sector because the private sector is not owned by state owned banks. They owe the money to SOEs or to SOE own banks. And so that is really problematic because 70% of the growth in China comes from that private sector, 70% of all the employment is in the private sector. Even though the SOEs have 67% of the money, they only employ 30% of the population. So that is a real problem, and I agree with Will. By the way, Will is a much better macro economist than I am. But that's what he's saying is true, but not nearly as dangerous as I think he portrayed it.
- Dace Blaskovitz: All right. But you have very much to your compliment, the piece you wrote in 2003, the piece you wrote a couple of years ago, you were absolutely clairvoyant. So again, we've got about four minutes left in the interview. So begin to wrap it up. The structural change, the sucking sound of business out of China, these demographics, how's it play out and back it in to the trade deal.
- Dennis O'Brien: Oh, let me give you a couple of numbers. China right now is about two-thirds of the size of the U.S. Economy. Okay. They're about 14 and a half trillion. We're about 21 and a half trillion, 21 to 22.2. China is now growing at 6%. okay.

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America, has the potential growth if the Congress and the president can get out of each other's way of about three, three and a half percent, believe it or not. They'll never catch up to us, in terms of absolute GDP and remember they have 4.3 times the population.

Dennis O'Brien: So the income per GDP will never catch up to us. America's going to always lead the world and that's a simple fact. There's 119 men in China for every 100 women, 19 men will never marry a Chinese woman. It's a huge problem for them.

Dennis O'Brien: One man is going to have to take care of the needs of eight people. I won't go through the reality of that, but it's true. So you're going to have a huge crisis. You have negative population growth, but you have the reality that they're not going to catch up the United States in any foreseeable future in GDP, and that's the reality of the situation. And pure arithmetic will show you that.

Dace Blaskovitz: So how's it play out?

Dennis O'Brien: I don't want to quote the Chinese, but I told the story that a friend of mine had been killed 50 years ago and now we all got together to remember him and pray for him. And how at the end of it the commanding officer, said, let's not just pray for Captain Flay or the other buddies who died over there. Let's pray for the North Vietnamese officers and men who died for their country. When a Chinese friend of mine, pretty high ranking Chinese friend heard us say that, he said, because of guys like you, America will never be the second greatest power in the world. Because of guys like you, America will always lead the world. And he ended by saying, God bless America. Okay.

Dennis O'Brien: And he's one of Liu He's closest ally. That's what's going to happen with the world.

Dace Blaskovitz: You got 90 seconds. It's a headline. Give us 90 seconds. Hong Kong and Taiwan.

Dennis O'Brien: Taiwan is a real problem. We got to watch our tails there. Okay. But you know, Taiwan is never going to agree to the deal that Hong Kong has. I think Hong Kong is going to be a changing point in China. I don't think they can walk in with six bayonets down there unless they want it totally collapse the Hong Kong market...the Shanghai exchange, which would happen instantaneously. And they'd no longer be considered as a currency, as a currency in the basket of goods. Their whole model of how to change their financial situation would go away if they did that.

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Dace Blaskovitz: His name is Dennis O'Brien. He is a Delawarean and fascinating guy, obviously. He comes on the programs regularly so when you see that picture pop up on every publication in the world, that's Dennis's buddy. So we thank him for joining us.