"Will China Tip the World into a Major Global Recession?"

- Carol Roth

In this informative newsletter, Carol covers the major factors shifting China's growth rate; how the real estate industry is embedded in the wealth of China's middle class; how the real estate bubble popping could impact China's and the global economy; how much a decrease in China's GDP could impact global GDP; how a global slowdown impacts your portfolio and what you can do; and more!

Please note this content does not constitute financial, investment or tax advice; it is being provided for informational purposes only. You should consider any investment based on your own financial position, risk tolerance and other factors. Please consult your own advisor(s) before making any decision to invest.

Will China Tip the World into a Major Global Recession?

Demographics, real estate and a shifting economy could become a global contagion

Ever since the US permanently normalized trade relations with China and walked them into the World Trade Organization, the Chinese economy has exploded. By trying to incorporate some "capitalistic" elements into their communist system, almost 90 percent of China's population was lifted out of extreme poverty within a half-century's time.

With more than four times the population of the United States, China's economy, which had been steadily climbing to become the second largest economy in the world, was projected to overtake the US late this decade to become the leading global economy in terms of aggregate size. However, now, per reports in the *Wall Street Journal*, various economists and researchers are projecting that to be delayed, with some considering it may never happen.

The reality is that while China tried to move somewhat closer to capitalism, they are at the core communist—it is in the name of the ruling party: the Chinese Communist Party- one that does not value individual rights, including property rights.

Now, their economy has started to unwind.

China's central planning policies, like their one-child policy, which was meant to slow the country's population growth and ended in 2016, has created a series of demographic challenges. These include a population moving from one of the highest birthrates in the world to one of the lowest and the expectations that within a decade, the number of pensioners will be double that of the taxpayer base. Plus, they have a population where the men outnumber the women, creating the impossibility of mating for many and with that, a declining population.

While China was once an emerging economy and could take advantage of a low-cost structure that comes with it, they have now emerged and are dealing with fallout from not being able to compete on price in many areas. That, along with their history of intellectual property theft (not a surprise from a country that doesn't value property rights) has led more manufacturing to move to lower cost countries, such as Vietnam and Malaysia.

As the Chinese middle class emerged, real estate became a substantial driver of economic activity. Given that the Chinese people tend to trust real estate over the stock market, that's where the bulk of their investment dollars flow. Real estate activity was pushed by the CCP via cheap capital (not unlike what happened in the US pre-Great Recession Financial Crisis) and real estate became a driver of reportedly about a third of China's economic activity.

This led to overbuilding in a ridiculous way. Ghost buildings that nobody lived in were erected in the middle of nowhere and related industries thrived.

As a result, housing began to account for a reported 70 percent of household wealth in China. Per the *New York Times*, this made housing, "the most important investment for most Chinese people." According to *International Policy Digest*, in China, "more than 90 percent of households own their residences." This compares to a rate of around 65 percent home ownership in the United States.

With all of this, the cost of housing became a bubble. The CCP wanted to control costs, to make housing more affordable for everyone, and popped the bubble they created. Now, we have seen the unraveling of major real estate developers, including mega-development firm Evergrande, among many others. This is creating a recession that could be a depression in an area that, as I noted, is almost a third of the economy.

Take this, with the aforementioned issues and layer on some new economic issues, and you have a recipe for a big economic mess. Strict CCP-imposed covid policies have created disruptions to supply and the economy. Heatwaves have impacted some of the country's water-power sources, causing the CCP to ration energy to factories and homes alike in certain areas.

The treatment by the CCP of technology companies and their executives that became "too capitalistic" (aka, too powerful in relation to the CCP itself) has taken away excitement about the industry and job opportunities. That has led to youth unemployment surging to 20 percent.

The *New York Times* noted that, "The country's economy is on a path for its slowest growth in decades. Its factories are selling less to the world, and its consumers are spending less at home."

This can become a contagion for the world economy, as China accounts for around 18% of global GDP. Per a report by *Aljazeera*, "In a 2019 study by the United States Federal Reserve, economists estimated that an 8.5 percent fall in China's GDP would result in a 3.25 percent drop in advanced economies and nearly 6 percent decline in emerging economies."

While 8.5 percent is quite a lot, you can extrapolate that even a fraction of that would have a major drag on the global economy. This is just another economic headwind in the face of energy crises, rampant inflation on the back of a global money printing bonanza, and other factors.

Whether it takes a while for China to stabilize, or whether they use this as an excuse to act out- perhaps with an invasion of Taiwan or otherwise- China's economic backdrop creates another substantial concern for where the global economy is headed.

While it may seem like there is little you can do, one step you can take is to make sure you are hedged in your portfolio for a global growth slowdown. Adding hedges like gold may make sense. The US Bureau of Labor Statistics noted, "in times of either a crisis or inflation, many investors turn to gold to protect their principal." While past performance is never a guarantee of what will happen in the future, with the continued debasement of currency in the US and abroad and the groundwork laid for a global economic contraction, having more hard assets is something for which many experts, including me, are advocating.

If you are not sure how to get started, or are thinking about adding to your hard assets, talk to your financial advisor and also consider giving my friends at Goldline a call to answer your questions on what makes sense for your portfolio.

The world is changing rapidly and the future is not setting up to look anything like the past decades of general prosperity the US has enjoyed. Make sure you are prepared and protecting your money and investments.