Confluence Investment Management

Bi-Weekly Geopolitical Report

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Dragon Boat Diplomacy: China's Outreach to US Citizens

Developing global macro investment strategy doesn't just involve geopolitical analysis, economic studies, and financial modeling — or at least it shouldn't be limited to those disciplines. Relationships and conversations in real life can be just as important. To illustrate why, this edition of our *Bi-Weekly Geopolitical Report* discusses a reception and cultural performances that the author recently attended at the Embassy of the People's Republic of China in Washington, DC. The experience offered an opportunity not only to see modern public diplomacy in practice, but also to assess Chinese cultural outreach in real life.

Serious geopolitical and investment research can certainly be focused on analyzing written reports and quantitative data. However, direct engagement with policymakers, diplomats, business leaders, and practitioners often provides context and perspectives that can't be captured through analysis conducted strictly back at the home office. We therefore describe the event to illustrate the principle. As always, we wrap up the discussion with some implications for investment strategy.

Understanding Public Diplomacy

Governments have long recognized that influence depends on more than just the interactions between officials. That's especially true when the country to be influenced is a functioning democracy such as the United States, where voters can have a major impact on foreign policy. Modern diplomacy increasingly targets foreign populations, business communities, universities, media organizations, and future leaders. This activity, commonly referred to as "public diplomacy," seeks to shape perceptions, build familiarity, and establish relationships that can support national interests over time.

Public diplomacy is one of the primary instruments of "soft power," which the US relied on extensively throughout its long post-World War II position as the global hegemon — the big, strong, dominant country that provides global security, order, and the reserve currency. Rather than relying solely on military coercion or economic pressure, countries exercising soft power and public diplomacy seek to make themselves attractive partners to other countries through culture, education, values, and personal engagement.

China's Use of Public Diplomacy

The event at the Chinese Embassy in late May was ostensibly to celebrate China's traditional Dragon Boat Festival. The event highlighted traditional culture, music, performance, food, history, and national identity. However, the objective clearly extended well beyond cultural celebration. For example, the event helped show off China's relatively new embassy building and the way that it evokes power, solidity, and modernity. Situated at the corner of a quiet street in northwest Washington, the structure of heavy, light-colored stone almost evokes the strength of a Medieval

European castle, though with the modern, stark angles of a stealth naval ship. With its enormous Chinese flag flying in front, the embassy building itself seems to announce China's entry onto the world stage, in a way that is palpably different from the relatively modest, sometimes poorly maintained embassies of other countries, such as Germany and France (see Figure 1).

Figure 1

The Chinese Embassy

Held in the embassy's towering main hall, the Dragon Boat Festival event was in some ways a classic example of the standard diplomatic reception, featuring hors d'oeuvres, an open bar, and plenty of opportunity for chit-chat (which explains why national security and intelligence workers often refer to their colleagues in the State Department as "cookie pushers"). However, it also included various information and activity booths not unlike what you would see at a county fair. One booth offered a collection of brochures on travel issues, such as how to get a Chinese visa and booklets from various Chinese universities offering study-abroad programs. Another booth provided a chance to try your hand at Chinese calligraphy, while still another had a rolling rack of traditional clothing from China's many ethnic minorities, as well as a photographer at the ready in case you felt the need to have a self-portrait in traditional Tibetan garb.

Eventually, the guests took their seats and were treated to performances of traditional Chinese music, dance, and even a dancing dragon. Reflecting the savvy insights gained from years of "panda diplomacy" and the goodwill that can be generated by soft, cuddly animals, there was even an enormous, dancing panda (I couldn't say no to getting a picture with it, as shown in Figure 2). Finally, the evening wrapped up with a buffet Chinese dinner and an opportunity to mingle in the nice weather on the balcony off the main hall.

Figure 2

The author with a new friend

In sum, the event was clearly designed for the American audience to encounter China in a controlled, positive way, through a lens other than the US media and with no focus on strategic competition, trade disputes, technology restrictions, or security concerns. Like every major power, China understands that positive perceptions can create long-term advantages in commerce, diplomacy, tourism, investment, and political influence. (At universities across the US, China also long relied on “Confucius Institutes” to teach the Chinese language, highlight Chinese culture, and subtly press Beijing’s view of the world. However, after the US began cutting off funding for universities sponsoring such centers, essentially all have now been shut down.)

Who Staffs These Events?
It’s important to note that such embassy events are staffed mostly by public diplomacy officers and outreach personnel rather than diplomats specializing in political or security policy. This is unsurprising. After all, the purpose of such functions is relationship building. Public diplomacy officers serve as connectors, introducing visitors to embassy personnel whose responsibilities align with their interests. In fact, during the reception, a discussion with one of these officers led to a connection with an embassy official responsible for encouraging and facilitating international investment into China. Over time, this contact could lead us to better understand the Chinese investment climate and economic priorities. At any rate, this experience demonstrated how cultural diplomacy can generate pathways to more substantive economic and policy discussions.

Many Americans think of embassies primarily as offices that facilitate negotiations between governments. In reality, modern embassies incorporate political reporting, economic analysis, commercial promotion, cultural affairs, public relations, consular services, and outreach activities. Cultural events often bring several of these functions together simultaneously. What appears to be a simple reception may also support business development, academic exchanges, media engagement, and long-term relationship cultivation.

Figure 3

The author with an embassy official

The Networking Opportunity
Finally, we want to highlight how attending these kinds of events broadens our domestic information network, based on the composition of the audience. What types of US residents attend embassy functions or similar events on foreign consulates across the US? In our experience, the US attendees tend to be internationally sophisticated, knowledgeable, and experienced. Many have lived overseas, worked in international business, participated in diplomatic or

national security affairs, or developed extensive cross-border networks. Our conversations with attendees at these kinds of events routinely touch on geopolitics, economics, investment trends, trade policy, technology, and international development.

For professionals working in global markets, conversations such as these provide a much richer, more nuanced understanding of the global investment environment. The concentration of internationally minded attendees often generates insights and relationships that would be difficult to replicate elsewhere. Naturally, we don't try to use these conversations to uncover material, non-public information. Even if we did stumble across such information during such conversations, investment industry regulations and ethical concerns would preclude us from acting on it. Nevertheless, we think that those additional insights and conversations can contribute to our general sense of the evolving political, economic, technological, and financial trends in the world in a way that enhances our global investment strategies.

Implications for Geopolitical Analysis

Attending the Dragon Boat Festival event at the Chinese Embassy reinforces a theme that we at Confluence often emphasize in research and client discussions: understanding global developments requires understanding the people and institutions that shape them. Data analysis remains indispensable, but it is most powerful when supplemented by direct observation and conversation. Public diplomacy events provide opportunities to hear how countries present themselves, what issues they emphasize, and how they seek to influence foreign audiences. These observations can help analysts better understand strategic priorities and evolving narratives.

For investors, the relevance is indirect but important. Investment outcomes are increasingly influenced by geopolitical developments, regulatory changes, industrial policy, technological competition, and shifting relationships among major powers. Informal conversations with diplomats, academics, business executives, and policy professionals can provide valuable context for interpreting those developments. While such discussions should never substitute for rigorous analysis, they can help frame questions, challenge assumptions, and identify emerging trends.

Investment Implications

The Dragon Boat Festival event provided a practical case study of public diplomacy in action. It showed how China uses culture, hospitality, and personal engagement to build relationships and communicate national narratives. These efforts supplement China's other growing soft-power programs, such as boosting foreign aid to less-developed countries as the US cuts its funding. The event itself, and our conversations with other attendees, also helped deepen our understanding of China's evolving role in the world. However, we want to emphasize that it did not alter our fundamental view of current US-China relations and the outlook for global investment markets.

We continue to believe that the most important geopolitical issue of the day is the evolving rivalry between the US (the reigning but increasingly hesitant global hegemon) and China (the upstart power seeking to regain its lost prestige and power). As politics increasingly undermine US military and economic commitments across the globe, and as China becomes more confident and geopolitically assertive, we continue to see the world fracturing into relatively separate geopolitical and economic blocs. This fracturing could even continue, leading to a further disintegration of the “rules-based” international order.

After the new US administration’s trade war against China last year prompted Beijing to wield its newly acquired economic leverage, especially its near-monopoly on key mineral resources, the two countries entered into a kind of détente or period of reduced tensions. A key feature of that has been US reluctance to press Beijing on important trade and security issues. However, we also see some signs that Beijing is willing to take advantage of that US reluctance to further push its geopolitical interests, such as by increasing its effort to assert sovereignty over disputed waters in the South China Sea and continuing to rapidly build up its arsenal of strategic nuclear weapons.

We continue to believe that this new, fractured world will be riskier and more tension-filled, as well as less efficient economically. We continue to expect higher and more volatile price inflation as a result, which we think will hold back real returns for fixed-income assets. The higher spending pressure of an aging population and a more threatening security environment will also likely keep government deficits and debt high in the US and other developed countries, which will likely weigh further on bonds and undermine faith in the dollar. That should increase the return potential of commodities and help keep equities in position to provide the best overall total returns. We also continue to believe that these trends favor stocks in the defense, industrial, minerals, and energy sectors, with growing signs of a rotation in favor of value stocks.

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Confluence Investment Management LLC

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