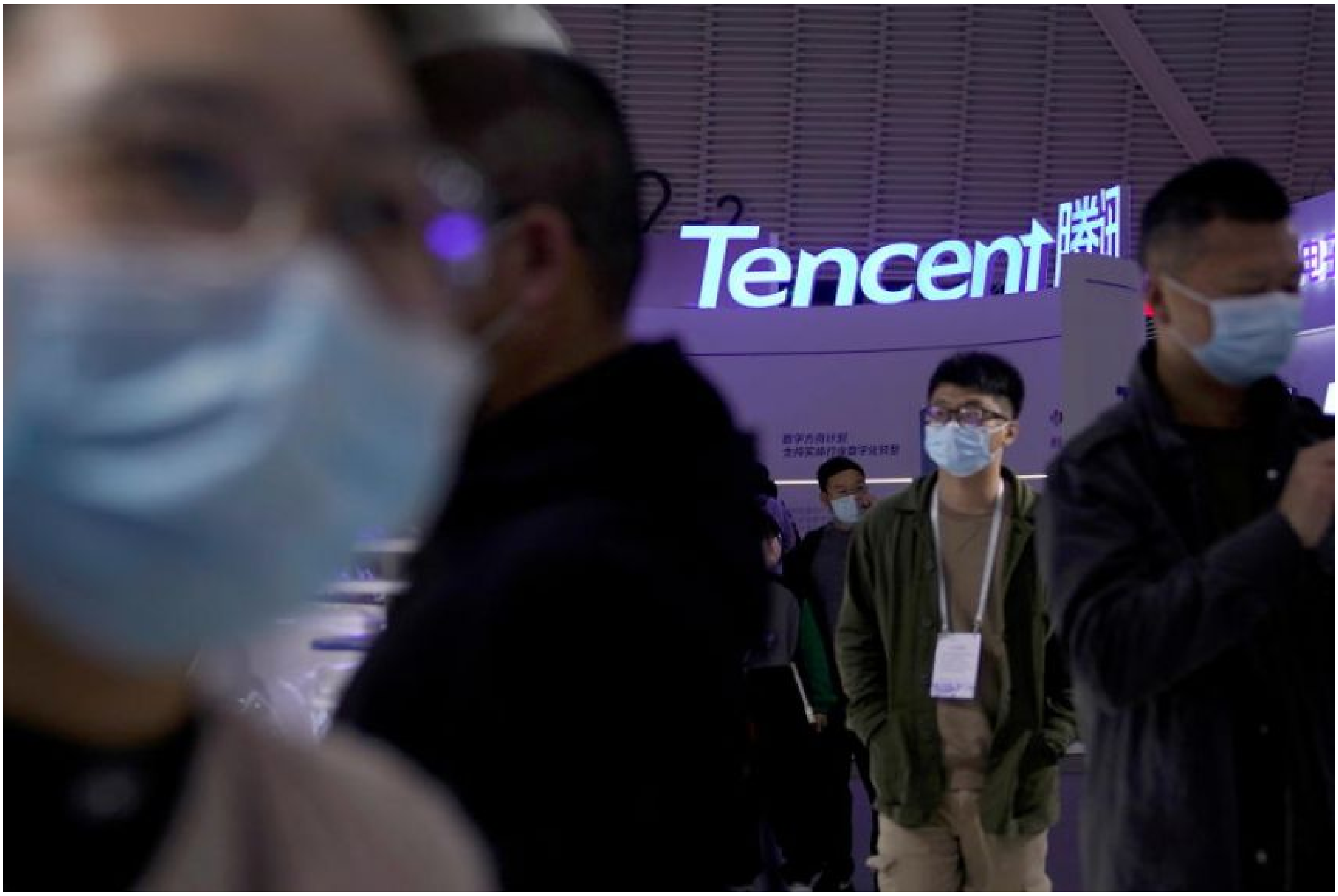
THE STRAITS TIMES

FOR SUBSCRIBERS

Has the 'common prosperity' drive hurt China's prospects?

Wong Kok Hoi



Participants in the World Internet Conference in Wuzhen in China's Zhejiang province in 2020. PHOTO: REUTERS

PUBLISHED 5 HOURS AGO

I have been travelling in Shanghai, Beijing, Shenzhen and Hangzhou for the past 11 weeks, meeting the founders, chief executive officers and senior management of over 20 listed companies.

Given that the Chinese government's "common prosperity" policy has been a hot topic, I asked them cheekily: "Have you been invited to afternoon tea by your local government officials? How much wealth are you willing to give up to appease Xi?"

None of them showed any sign of stress or anxiety when asked.

A politically connected multibillionaire told me that "common prosperity" was not about the socialist notion of equal wealth distribution, but rather about creating a larger pie so that there is more to share. His view, as detailed below, is representative of those of his peers. "Common prosperity is about helping the working class to upgrade their skills so that they can earn more," he said. "Common prosperity is also about creating opportunities, building better infrastructure, for instance, in the rural areas so that the peasants can do more and increase their income."

Almost every one of those founders and executives have big plans to expand. They would not have the confidence to do so if they thought the ruling party and government were eyeing their wealth.

My 11-week field study has reinforced my view that Chinese entrepreneurs today are among the best in Asia. Many have made their first billion and are supremely confident in their ability to finish much stronger. More importantly, they feel that they are just in the third or fourth inning, with much more to do.

Their calm confidence stands in contrast to media headlines stating that investors fear China is no longer attractive, that President Xi Jinping's "common prosperity" catchphrase is about massive wealth redistribution, a "Robin Hood" mindset, and a "Long March" back to the days of Maoism.

Modernisation failures and the Chinese psyche

To understand whether China truly intends to return to the Mao Zedong era, let us take a detour into history.

While economists generally believe China's first major attempt at modernisation started in 1978 with Deng Xiaoping's policies of reform and opening up, I think China's first serious attempt dates as far back as the 1890s. Reform-minded pragmatists in the late Qing Dynasty, such as Kang Youwei, Zhang Zhidong, Yuan Shikai and Li Hongzhang, knew they had to catch up with the developed world.

However, the attempt failed dismally, mainly because of a lack of strong leadership as well as duelling political factions, made worse by regional warlords, a weak Emperor Guangxu, and the Manchu-Han divide. Political leaders Yuan Shikai and Sun Yat-sen did not see eye to eye on strategies and policies. Chiang Kai-shek and Zhou Enlai, two subsequent leaders who were educated in Japan, also failed to unite the country.

Even after Mao succeeded in uniting China in 1949, the country's modernisation plan using Marxist theories failed and caused much misfortune in terms of lives lost and enormous suffering.

China's history of failed modernisation attempts is instrumental in understanding the psyche not just of Deng but also of today's Communist Party of China (CPC) cadres, government officials and the Chinese people.

MORE ON THIS TOPIC

China to keep job creation at heart of economic growth: Premier Li Keqiang

Common prosperity: Can President Xi make it happen in China?

This probably provides the best clue as to how China will chart its future.

With China having overcome many arduous challenges in the past to reach a level of prosperity it had not enjoyed in a thousand years or more, why should the best minds in Beijing now abandon a system that has worked so phenomenally well? Metaphorically speaking, why would they want to kill the proverbial goose that lays the golden eggs?

Given how most senior party cadres and government officials are engineers by training, I believe they will rarely pull down a bridge without a plan to build a superior one to replace it.

The Zhejiang plan

A plan by the eastern province of Zhejiang to build a "common prosperity" pilot zone, announced in July, arguably provides the best clue. It calls for continuity instead of a return to Mao's 1950s notion of common prosperity.

Nowhere in the plan is there a call for a return to the failed Marxist-Leninist economic system. Common prosperity gets a small mention. Having read the Zhejiang plan and the State Council's supporting opinion, I say with confidence that the plan is a blueprint for building a super-modern nation.

In the last three decades, capitalism has drawn out the best from the entrepreneurial DNA of the Chinese. China's government recognises the contributions of the country's entrepreneurs, and wants to ensure that its regulations catch up with the times to tackle economic dislocations, market abuses and capital market excesses.

As Vice-Premier Liu He said in a speech in September, China's private economy contributes more than 50 per cent of China's total tax revenue, more than 60 per cent of its gross domestic product, more than 70 per cent of its technological innovation, more than 80 per cent of its urban employment, and more than 90 per cent of market entities.

In the 27,000-word document of the Sixth Plenary Session of the 19th Central Committee of the CPC on Nov 11, the words "rejuvenation" and "national rejuvenation" were mentioned 32 times and 25 times respectively, against just eight times for "common prosperity". It is another hint into the minds of the policymakers.

MORE ON THIS TOPIC

Beijing treads fine balance in common prosperity drive

Winners and losers in China's sweeping private-sector crackdown

There is no evidence, be it in China's policy documents or on-the-ground business sentiment, to suggest that China is about to change course. The ingredients that have made China so phenomenally successful remain unchanged: Political stability, well-planned and forward-looking policies, high-quality infrastructure, entrepreneurship, as well as diligent and hungry workers.

What may change is that the new icons of China's industries are likely to replace those of yesteryear.

The new icons

Internet platform companies like Alibaba, JD.com, PDD, Tencent, Meituan, Didi and Lufax have all declined 40 per cent to 60 per cent from their 2020 or 2021 peaks. At PE (price-to-earnings) multiples of 20 times, Alibaba and Tencent valuations have bottomed out, some have argued.

I disagree for three major reasons.

First, regulations will be increasingly stringent. A draft amendment to China's 2008 anti-monopoly law was released in October this year. Supervision will be tightened and penalties increased. The old days of doing whatever you like to make the extra dollar are over.

Second, their business models are impaired. The days of fintech companies charging 30 per cent to 40 per cent interest rates are over. Logistics costs in the e-commerce sector are due to go up.

MORE ON THIS TOPIC

Tough challenges ahead to achieve common prosperity given wealth gap in country, says China

Third, raising huge amounts of fresh capital every year will be challenging. After investors were burned badly in the past year, the old business model of raising fresh capital every year to grow gross merchandise volume and revenue aggressively by telling a good story does not work any more. Besides, regulators have expressed disdain for the disorderly expansion and use of capital by these companies.

I think it is way too early to buy Internet stocks just because the stock prices have declined, because earnings are likely to contract for not just a year or two.

If Internet icons are history, what will be the new icons?

Many rising stars are to be found in the industrial and software sectors - such as factory automation equipment makers, photovoltaic equipment manufacturers, satellite and artificial intelligence-based topography and mapping companies, and defence equipment companies. Also promising are the semiconductor, AI, bioscience, cyber-security, Big Data and renewable energy sectors.

China's Zhejiang plan states that it must focus on technology and innovation to realise its ambition of rejuvenating the nation. The above companies and sectors sit well with the national agenda.

China has been known as the factory of the world, making cheap, technologically inferior products. Many manufacturers have been trying to catch up with foreign technology for more than two decades.

This time, I detect a quantum jump in the confidence of many manufacturers. A senior executive in factory automation equipment told me that they had struggled in the past to secure orders from even Chinese companies, not to mention foreign ones, because their technology was inferior. In the last two or three years, they have caught up and now receive orders from almost every manufacturing industry in China. They are also beginning to make inroads into overseas markets.

His parting remark was that they are confident of surpassing their foreign peers in a few years.

If the factors for development remain in place, coupled with Beijing's ambition to build a super-modern China, there is no other way but to conclude that China remains as attractive as ever to investors.

• Wong Kok Hoi is founder and chief investment officer of APS Asset Management.

MORE ON THIS TOPIC

Global wealth surges as China overtakes US to grab top spot: McKinsey report

President Xi's 'common prosperity' drive triggers rare debate in China