

Navigating Competitive Interdependence

NEXTChina
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Closing Keynote



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Transcript

Introduction

I just want to start by thanking SupChina for inviting me to speak. My remarks today, lasting roughly ten minutes, [will] talk about one of the key programs going forward for the People's Republic of China, which relates to what The Party wants to do for at least the next three decades. Founded 100 years ago, China's Communist Party has always established itself as a brand for workers and peasants but The Party is also known for being flexible and pragmatic with rising wealth and improving social mobility. A process is underway in China for poorer people to move into the middle class. This process is known as The Party's "Common Prosperity" program. The Party is moving with its constituency, and in fact in my view is taking its brand on the success of common Prosperity.

Let's put it in context. China's population counts for 1.4 billion, already has 340 million middle class people, defined quite strictly. Actually some estimates put in 400 million people but that's already larger than the entire population of the United States. China aims to increase their middle class to 500 million people by 2025 and 750 million people by 2035, meaning to say the target is for roughly half the Chinese population to be classified as middle class under fairly strict definitions by 2035. By then, it aims to double its economy again, achieving income levels similar to that in many countries in Eastern Europe. Currently, a majority of the Chinese population is classified as lower income, although absolute poverty has been eliminated in recent years.

What is Common Prosperity

Common Prosperity is critical to China's vision but it has caused confusion among some investors. So what I'm doing here is I'm bringing out a specific plan called the Zhejiang plan, which was announced in the middle of this year, which is revealing clearly what Common Prosperity is all about. It should help to clear up some of the confusion.

Zhejiang, which is of the Yangtze river delta, population is 65 million people, has set itself 52 performance targets, and is intended to be a model at the demonstration zone for the whole country, and you reassured the plan supports private enterprise, supports innovation, market development and SMEs (referring to small and medium enterprises). The plan is definitely anti-monopoly. It is pro-level playing field and it aims to deflate China's real estate bubble. Overall objective is to create a society that looks more like an oval rather than like a pyramid.

The plan does not emphasize wealth distribution. This is not about common poverty. It aims to make society more productive and fairer with measures added to promote social stability and better welfare for the needy. And in my view, it confirms Beijing's commitment to "state capitalism" which is the Chinese version of what in the world is increasingly called, "stakeholder capitalism". The market opening grow business reforms the past four decades, definitely are irreversible. Today's China has 40 million SMEs private enterprises, providing 50% of tax revenues, 60% of the economy [GDP], 70% of patent applications and more than 80% of urban employment. So whatever you do, you don't want to kill the entrepreneurial spirit of the Chinese people.

Longer-term implications of Common Prosperity

Beijing's regulatory campaigns over the past year against property developers, internet platforms, after-school tutoring etc. are aiming at problems that can't wait for long-term solutions. But what you get from the Zhejiang plan is that it's mainly about long-term structural reforms. I think President Xi himself has mentioned that Common Prosperity will take three decades to achieve. Stock markets and other capital markets are to be encouraged so that more savings can be channeled into manufacturing, innovation and green energy. These are the key priority areas for savings with capital markets employed as platforms, or as a bridge between savings and investment. While the flow of savings into real estate, investments will continue to be restricted, as housing in China seems to be overbuilt and bubbles are formed. So the question here is, can it work? So, here's my own take.

We have something like 80 analysts in our team, many of them are on-the-ground in mainland China. The Party's track record, lifting 800 million people, roughly 10% of humanity out of poverty, extreme poverty over the past 40 years has inspired confidence among the Chinese public that Common Prosperity targets can largely be achieved. But of course, anyone trying to predict the future face many uncertainties. So, there's a huge range of factors that can bring success or failures, including social, political, economic, financial issues, geopolitical tensions and frankly even the accidents of history. Although I'm glad to know that the surprises can be upside, not just downside. For example, just about half an hour ago, I saw on the news that the United States and China have agreed to cooperate together on fighting climate change. This is an unexpected new development.

One of the biggest challenges facing China, is in fact the overheating property market, and how it can be deflated. The thing is, property and related services account for something like 20 to 25% of the entire Chinese economy. So you have to thread very carefully if you are going to deflate it. Over the past decade though, house prices have increased by 50% in the urban areas of China. Too much savings have been misallocated to real estate. The sector is overbuilt. Right now, something like 80% of Chinese households own their own homes, 40% actually have second homes. There's been a lot of hoarding, so we need to look for a soft landing for property. Over-regulation, of course, would trigger social and financial instability, which would be unacceptable. But somehow,

they had to find a way to “tame” the property monster. Potentially, I think the government is even thinking of banning pre-sales of housing projects, which would upset or even kill the business model of the entire property sector and cause the weaker players to fail. But since a large percentage of Chinese savings, an estimated 40%, are invested in real estate, it is a real dilemma. The success of Common Prosperity could depend on getting property right.

I will conclude here by saying that overall, China is looking to create a highly sustainable and inclusive society. It needs to make housing affordable while avoiding serious damage to people's savings. A complicating factor from the Chinese point of view has been the increase in tension between China and the United States, which makes the targets that much harder to achieve. And a much more complicated scenario, increas[ing] the range of factors that could go wrong. So, I, from the Chinese perspective, China will be looking for ways that might be available to try to improve relations with the United States.

Additional Points on China

Lastly, since I have spare time, there are two additional points I would like to make.

First of all, I don't know whether your audience is aware that the world's second largest stock market is actually China. It's actually Shanghai and Shenzhen, what we call the domestic China markets. And in terms of daily trading volume, the volume of trading, they are by far the largest stock markets in the world. Their trading volume in Shanghai and Shenzhen combined is something that three to four times the size of New York. And it's many times the size of Hong Kong, which is offshore mainland China. So, what this seems to show is that capitalism at this level is alive and very well indeed on the Chinese mainland. The Chinese, in fact, I would say that you just can't reverse this kind of amazing propensity of Chinese people to trade, to buy, to sell, to speculate, etc.

The second fact I want to share is about education. Because I'm trying to indicate that Common Prosperity really isn't about common poverty, and really isn't about turning back the pro-market and pro-business reforms of the last four decades. I do see it though as an effort by the Communist Party of China, to enhance its legitimacy and move with the times and the tides, and its constituency.

Now, this table in front of you shows something really interesting. You may not realize it, but China is producing roughly 9 million college graduates, university graduates now, every year. And the number keeps increasing. The number of people coming out of Chinese universities every year exceeds the combined total of college graduates in the US, UK, Germany, Japan and South Korea, combined together. This is an astonishing situation and a very large percentage of these graduates are specialized in STEM subjects, science, technology, engineering, and mathematics. This is a very important reason why there is so much optimism within China that Common Prosperity program, despite all the hassles, all the problems can eventually or largely succeed possibly by 2035. This large pool of skilled and young talent, to some extent, offset the declining birth rate and gives China the opportunity to move up the technology ladder, the skill level. The figures you see here doesn't include also a large pool of people coming out of vocational schools with technical and skills training. I can't remember the number but the number is also very large. Basically in the last 40 years, the People's Republic of China has invested very heavily in education and are now harvesting the results. So, I urge you to look at Common Prosperity not from purely who's winning,

who's losing in the geopolitical sense, but in a sense of lifting the living standards and the potential for civilization of the world's most populous country. Thank you.

- End -

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