

# China Watch

A China Business Report prepared by David Mahon  
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W i n t e r 2 0 2 1

*Not to let small things leak and spread,  
Not to let secret matters rise to deception,  
Not to squander and neglect the end of the journey –  
These are the authenticity of a hero.*

Hong Zicheng, Daoist, 16th century CE

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## China's zero tolerance

Amid China's zero-tolerance stance towards COVID in its communities, the economy is still likely to exceed 8% GDP growth this year. Exports have contributed significantly to Chinese productivity over the last two years, but will drop in the next three financial quarters as the impact of COVID decreases, allowing global production to recover and demand for Chinese goods to stabilise. In anticipation, Chinese banks are reducing their exposure to the export manufacturing sectors.

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Real-estate colossus Evergrande's debt crisis did not turn out to be the 'Lehmann Moment' many Western commentators feared, but property developers have come under closer scrutiny by regulators, and speculators are finding it harder to secure project approvals and financing. This will de-risk rather than weaken the Chinese economy in the longer term, but growth will lose some momentum in the shorter term.

Household consumption will slow next year as families save more, knowing the Chinese Government's commitment to keeping COVID out will restrict the economy in yet unquantifiable ways. Household savings rates are up almost 5%, to a national average of around 40%. Chinese New Year, usually a peak season for consumer spending and travel, will be more restricted than usual, and tight quarantine rules

around the February Winter Olympics and the March National Party Congress will limit mobility. Given present trends, the Chinese economy will still grow in excess of 5% next year, a more than adequate rate for such a diversified economy of scale.

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Quality food and beverage products, health supplements, entertainment and fitness, lifestyle services, and general household goods will nevertheless be in demand in 2022, and e-commerce will continue to evolve and grow rapidly. Investment in the agriculture, technology, and sustainable energy sectors will remain strong, as will policy commitment to poverty alleviation.

Consumer confidence in the fundamentals of the economy is still high, and in the absence of a public health crisis, spending is likely to improve by the third quarter of 2022. But reduced labour mobility and truncated global supply chains have exacted a significant cost on small manufacturing and hospitality businesses. China's 8%-plus growth rate this year is an abnormal result stemming from COVID's disruption of global manufacturing and China's sharper-than-expected recovery from the pandemic last year. China is likely to maintain the pace of economic growth it achieves next year for the coming three years or more. In absolute terms China will still be growing faster than during its years of double-digit growth, as the total economy is so much larger now.

### Seven football fields

In some cities, those caught within seven football fields of a COVID carrier may be tested daily, and in many instances, quarantined in their apartments for two to three weeks. There is no anti-vaccination movement in China or significant protests on social media, although there are some grumpy people quarantined in small apartments who question the medical logic of the 800-metre rule. It appears, nevertheless, that most Chinese citizens support local government precautions.

Next year China will face the hard choice of whether to relax domestic COVID restrictions and allow a measure of opening of its borders to selected trading partners, or to maintain a zero-tolerance policy and remain closed to partners, many of which may have already opened to each other. Chinese people are as prone to conspiracy theories as

those in any culture, but unlike many Western citizens, have a fundamental faith in science and assume that their health authorities have based COVID management decisions on empirical evidence.

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Neither the Chinese leadership nor the general populace have illusions about the price of widespread outbreaks in China's densely populated cities, despite having almost twice the number of hospital beds per population as the United Kingdom, and an 88.5% vaccination rate.

The Chinese Government may begin to open its borders to foreign visitors by the summer of 2022, welcoming them to spend time in purpose-built quarantine facilities, the quality of which appears to reflect the haste of their construction. With such a large population and an economy that is rich in human resources and increasingly commercially independent, there appears no unmanageable economic price to being cautious. Taking most economic indicators into account, China is already a post-COVID economy, although there are costs to be borne once the country does open up.

Vaccinated foreigner visitors will still struggle to secure visas next year, and will not only face periods of quarantine on arrival, but be required to obey the same tracking and tracing obligations as Chinese citizens. While administered in a convivial matter-of-fact manner by health workers (not security personnel), monitoring is relentlessly efficient.

### **Egalitarianism**

COVID aside, urbanisation is slowing and in China's most developed cities, wealth and privilege are crystallising, hence the Chinese Government's reassessment of the fortunes of some shadier wealthy citizens and the commercial monopolies they represent. China's strong economic growth over the past four decades has been the product of entrepreneurial courage, flair and hard work, but a significant minority have become rich through corruption, cunning and governmental favour. Once admired as pathfinders and economic pioneers, some are now resented especially among the urban middle class, although, perhaps differently from the West, most of the Chinese middle class still believe their lives and those of their children will continue to improve.

The Chinese Government's policy of 'common prosperity' is becoming clearer each quarter and appears primarily aimed at reducing illicit economic gains and corruption, and rebalancing society. While denying that it is a quest for egalitarianism, it is in fact just that. The government knows that more individuals will get rich in the coming decade and many others will inevitably be left behind, for in a market economy, common wealth can only be an aggregate that requires some redistribution. The government also knows that stoking envy of the

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wealthy squanders political resources better spent to alleviate poverty. China's common prosperity drive is having little negative impact on business confidence as it is widely understood as being targeted at injustice, not wealth.

The protests in Hong Kong in 2019 gave Beijing a glimpse of China's social future if the same extreme income disparity that was allowed to develop in the territory eventuated in mainland cities. The main force behind the Hong Kong protests was a sense of economic injustice and abandonment, later fuelled by the Hong Kong Government's inability to respond, and the West's ill-considered support for what they misunderstood as a one-pointed movement for democracy and independence. Beijing must take some responsibility for preferring an ineffectual government in Hong Kong for decades rather than a more socially innovative one, which while being bound by the terms of the handover, may have challenged the Party.

If the Chinese Government can implement this economic and social balancing act successfully, it will attain something that even smaller, resource-rich Western countries have only approximated. There are no templates for a socialist free market in a developing economy of scale. Many pitfalls lie ahead, but as its record with the current pandemic has shown, China is more stable than its enemies hoped and its foreign observers assumed.

### When Biden met Xi ... online

The Xi-Biden virtual summit was courteous and at times even convivial, although somewhat bland. It was also important, largely for the fact that it took place at all. As long as these two leaders keep talking, the political tensions between their countries can be kept in check, and perhaps some of the common ground lost during the Trump years may be regained. American economic influence in Asia will

nevertheless continue to decline, due not to China's rise, but to US domestic economic imbalances, and all the while China's economic power and regional influence will increase.

Washington's attempts to bind allies into an anti-China bloc will put them under pressure and force them to change their rhetoric, but it will not hold, for the economic imperatives of small- and medium-sized nations trading with China are too strong. Congress is now trying to restrict American companies' links to China, but under present circumstances much of this will result in little more than economic self-harm.

China's economy is strong, despite Herculean efforts by the US to weaken it; China does not need nor want a war. The US is struggling with deep social and political imbalances, and some in Congress believe that demonising China will distract a disillusioned US population indefinitely. But even they must know that the US cannot wage and win a war in North Asia.

Despite more than 60% of Chinese people now holding negative views of the US, there is little personal enmity against individual Americans or official curtailment of US business interests in China. Many Chinese still remember that China's re-emergence from the Cold War was based on US-China rapprochement in the 1970s, and the following four decades of economic growth were in large part due to US-China commercial and political partnerships. This is a cause for hope. Businesses and people working together, in what remains a globalised world, can have more power than the sabre-rattling rhetoric of governments. 🤝