Weekly Commentary 1 – First Commentary for 2024

The Death of the Chinese Economy – Oh really??

Will China continue to grow? -- views from Weijian Shan
Impacts of U.S.-China trade war, China's technology progress, demographic issue, etc.

14 NOV 2023

Recently, there are many reports in the western media that suggest that China's economic growth is ending. The more renowned the newspaper, the more likely it is that they are carrying articles that are negative on China. This has been going on for years. As a matter of fact, the collective west is so fearful of China's potential that it has explicitly described the Asian giant as the "enemy". Even the highest levels of government in the west have not minced their words. This is likely due to the competitiveness engendered in an election year, and both the Democrats and the Republicans are bashing China with scarcely any restraints to get themselves political attention. And votes. And the mainstream media is backing the politicians perhaps because they are fearful of a Trump comeback.

The problem with the China bashing is that it is mostly false shit. Made up on the fly because there are no experts to correct the inaccuracies on the facts. Economics is hard enough, and economics described in the Chinese language would be beyond the pay grade of all the western pundits who wax lyrical or pose themselves as experts on the Fed and the Bank of England.

Typically, these false prophets begin the narrative with the stale tale that China's growth is severely limited by the collapsing real estate market and that this will become the Lehman crisis for the country. Then they draw attention to the declining labour force in China due to the falling birth rates. *This year, China's population falls for first time since 1961.* Finally, they say that after the ten percent growth of the past four decades, the recent growth rates at 5% will not cut it and that the economy cannot hope to catch up with the US, which will remain on top.

And this is all the more surprising since the top forecasting agency in the world, the IMF, has just put China's growth at 5.4% on Nov 8^{th}. In short, China has outperformed the US and all the European countries economy this year... So, why all the negativity? Sour grapes??

In the week around the APEC meeting, the world's attention turned to San Francisco, where a face-to-face meeting between the leaders of China and the United States took place. Amid the rapidly deteriorating Sino-American relations over the past few years, a significant focal point has been the trade war. This escalation has been further compounded by the U.S. government's increasing technology export restrictions on China.

The impact of these factors on the Chinese economy is a topic perhaps best commented on by those who actually operate in the Chinese capital markets. One specialist is Dr Weijian Shan, a former Wharton professor who then turned practitioner, as a venture capitalist, and he has published widely on whether the Chinese economy will climb out of its doldrums. On Nov 8, he wrote the translation of 经济增长的政策空间 or translated as “Policy space for economic growth”. Dr Shan is one of the most influential private equity figures in China. As such here is an expert who follows China closely and his company’s performance depends on his accurate prognosis. The article is one of the most popular pieces he has published this year.

Today, we present you a newly-released piece by Dr. Shan: Will China Continue to Grow? [Update: The Chinese version 中国能否持续增长？is now available on Mr. Shan’s WeChat Account]

In this article, Mr. Shan takes stock of, based on 22 exhibits, what China has been really going through over the past five years, both internally and externally. At the end of the article, Mr. Shan answers the question "Will China continue to grow?"

The article breaks down into the following parts:

- China's Challenges
- China's Policy Space
- Health of China's Banking System
- China's Avenues for Growth
- The U.S - China Trade War
- China's Technological Progress
- Demographic Bomb - or Bust
- The China Opportunity

Mr. Weijian Shan is the Executive Chairman and Co-Founder of PAG, a leading Asia-based and focused investment firm with more than USD 50 billion in capital under management. He is the author of *Out of the Gobi*, *Money Games*, and *Money Machine*.

At PAG’s 2023 Investor Conference, held in Hong Kong on November 8, Co-Founder and Executive Chairman Weijian Shan addressed investors on the state of the Chinese economy. Despite domestic challenges and broader geopolitical conflicts, China is expected to meet its

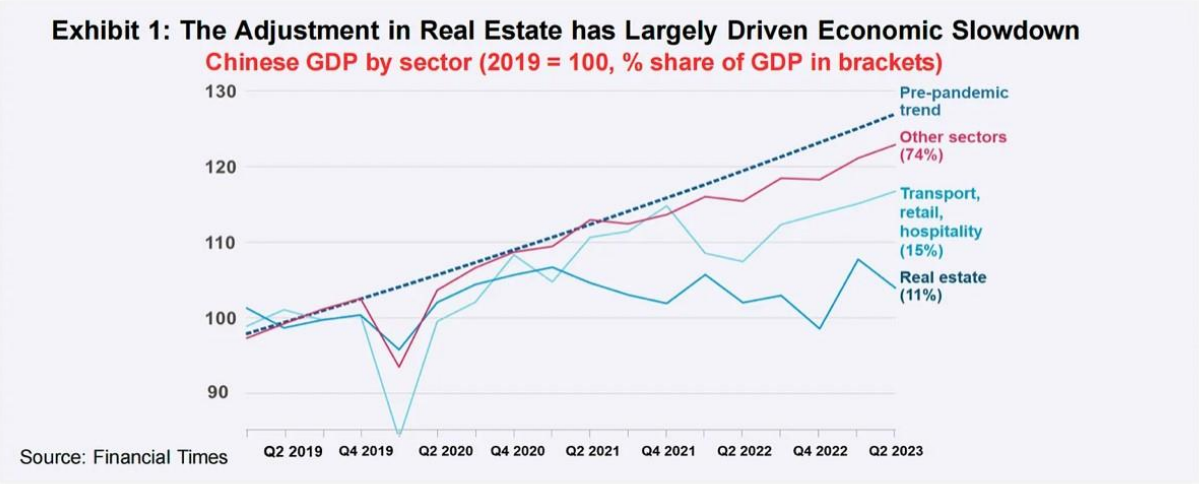
GDP growth target of 5% for the year. But can this growth be sustained? Shan's address looked at China's ability to respond to economic challenges from both a monetary and fiscal perspective, as well as some of the emerging trends, sectors and technologies that have the potential to transform China's economic landscape.

Below is a transcript of Shan's remarks, edited for clarity.

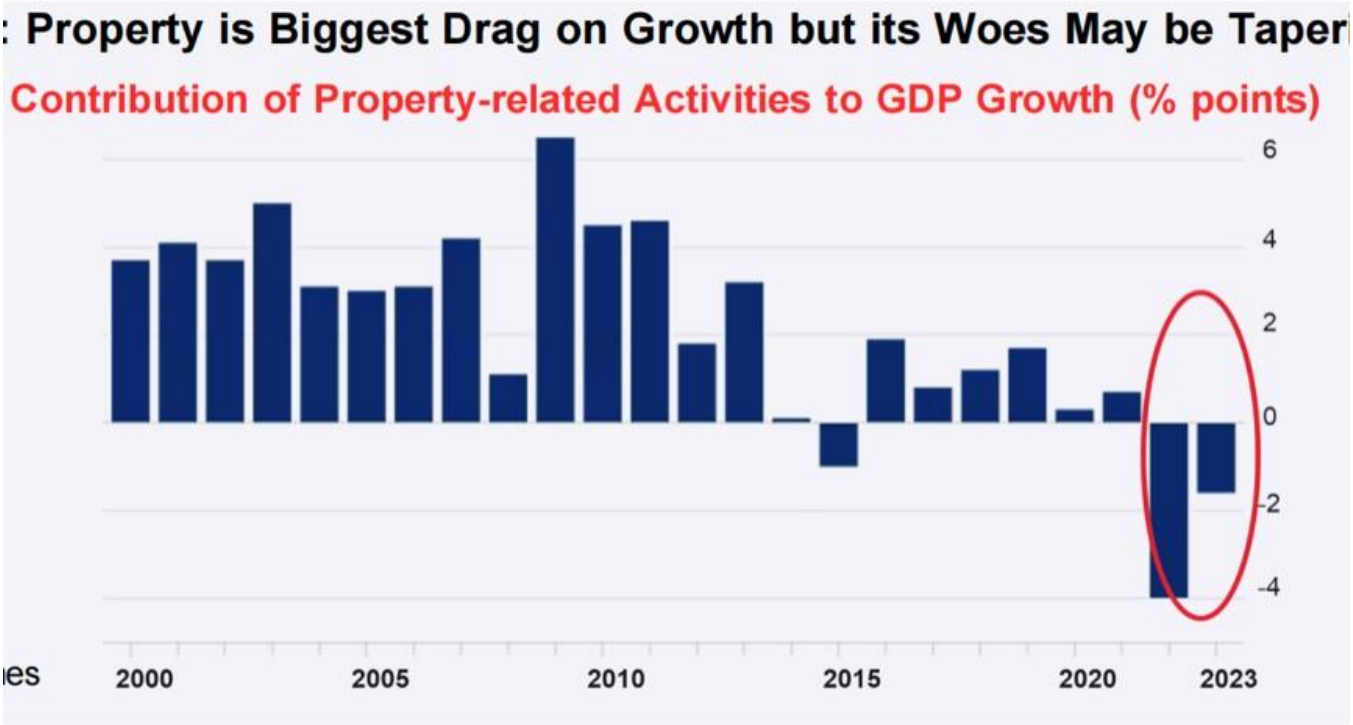
The growth – or lack thereof – of the Chinese economy matters. Not only to China itself and to foreign investors, but also to the rest of the world, as China is now the largest trading partner of more than 140 nations. As a private equity investment firm focused on the Asia-Pacific region, PAG's addressable market has a combined GDP of about USD33 trillion. China's GDP is about USD18 trillion, which represents more than half of that. China's GDP is about four times the size of Japan, six times the size of India, and six times the size of the 10 Association of Southeast Asian Nations (ASEAN) combined. It is 10 times the size of South Korea, and 12 times the size of Australia. Its GDP is about 80% that of the United States and is bigger than all 27 countries of the European Union put together. According to the International Monetary Fund (IMF), China's share of the world economy, as of 2023, is about 18.5%, and it contributes to about 35% of the world's growth.

China's Challenges

The Chinese economy has experienced severe challenges since 2022 particularly in the real estate sector. **Exhibit 1,** which I borrowed from Martin Wolf of the *Financial Times*, shows that the real estate sector, which directly accounts for 11% of GDP (and indirectly for about 25%), has far underperformed other sectors of the economy, which have more or less resumed their pre-pandemic growth trajectory. China's real estate sector in fact has been a negative contributor to China's overall economic growth since 2022 and a driver of the recent economic slowdown.



While the property sector is the biggest drag on the economy, its woes may be tapering off. As **Exhibit 2** shows, the sector's negative contribution to GDP growth has narrowed from about 4% in 2022 to less than 2% in 2023.



China will meet its growth target of about 5% this year. In fact, it was reported on November 8 that the IMF has revised its forecast up to 5.4%. (Beijing has forecast only 5 percent growth in the last six months.) Forecasts by various institutions have gyrated quite widely from month to month this year, reflecting an uneven path of economic recovery. But what's the point of making forecast if it changes monthly? At PAG, we have not doubted the target growth number since it was first released. This is because we believe that China has "quite a bit of policyspace," in the words of U.S. Treasury Secretary Dr. Janet Yellen, to help it achieve its economic targets when necessary. In fact, it may have more such policy space than any other major economy in the world.

China's Policy Space

China's Policy Space

Real interest rate higher in China than the US and EU (so it has room to come down)

No inflation and negative Producer Price Index

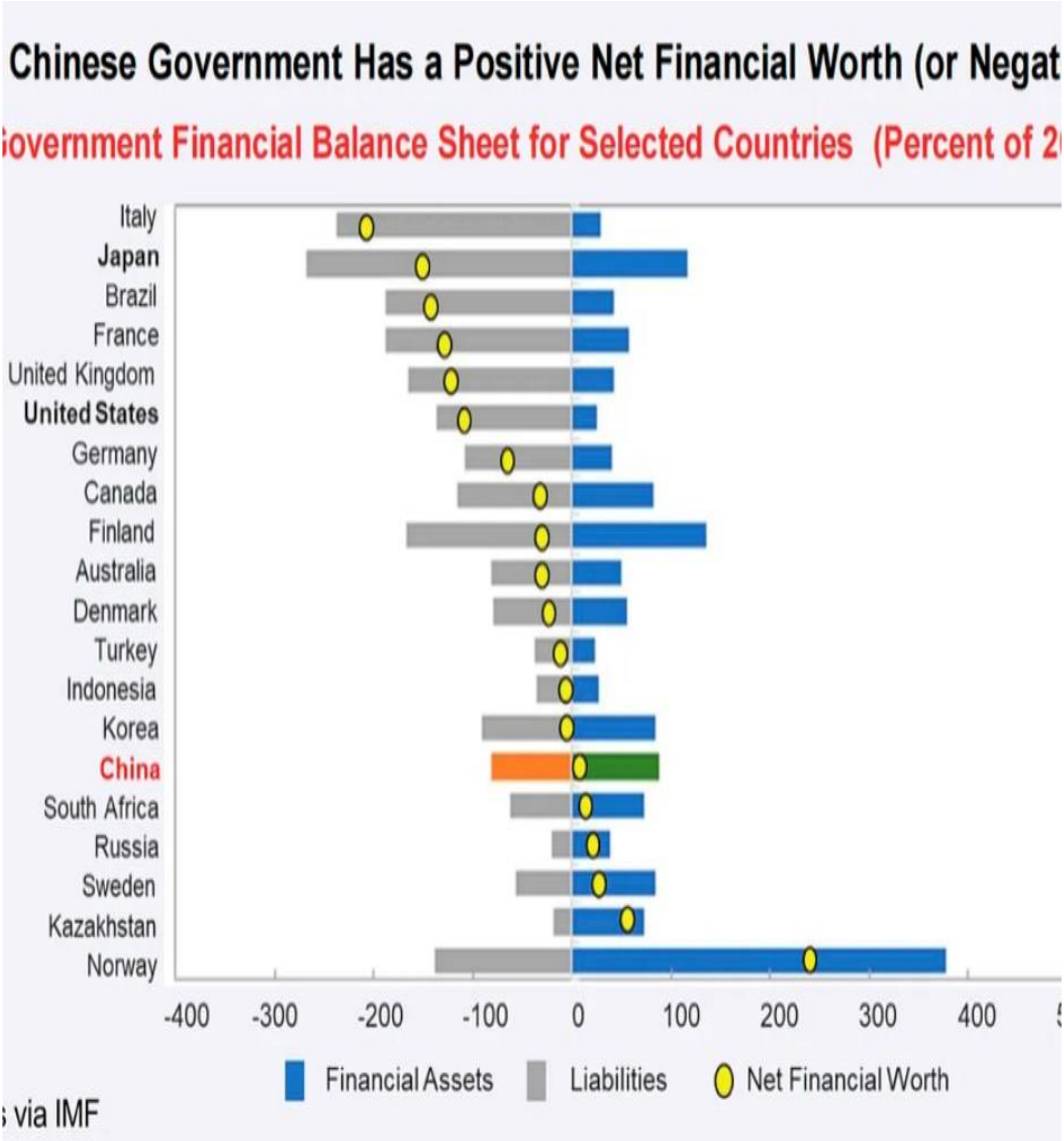
Lending rates remain at 4-4.5%

Large Bank's cash requirement ratio (CRR) with central bank at 10.5%

Compared to 0-1% for western countries

As explained in Exhibit 3, unlike many other countries in the developed world, China is experiencing no inflation. For October, its Consumer Price Index was -0.2%, while core inflation(excluding food and fuel) is 0.6%. Its Producer Price Index dropped 2.6%. However, China has comparatively high interest rates: the prevailing lending rates hover around 4-4.5%. Therefore, its real interest rate – the nominal interest rate minus the inflation rate – is still higher than in the United States and much higher than in Europe or Japan. Its Cash Reserve Ratio (CRR) – the percentage of deposits that commercial banks must park with the central bank – is around 10.5% for large banks, compared with 0-1% for western countries. Therefore, China's monetary policy has room to ease by either cutting interest rates or CRR or both, which no other major economy can.

On the fiscal side, as shown in **Exhibit 4**, China is similarly in a league of its own among sizable economies: its balance sheet shows positive financial net worth, whereas others, such as the United States, Japan and Germany, are deeply in the negative territory. Much ink has been spilled by the world's pundits about China's government debt. In truth, Chinese central government debt represents only about 21% of GDP. Local government debt, of course, is what has been getting all the attention. But estimates for these obligations range only from 50% to 80% GDP, including hidden liabilities. If we take the highest debt-to-GDP ratio of 110% for China's overall government debt, it still compares favorably with that of the U.S. federal government, which is about 140% of GDP, and with Japan's central government debt of about 260% of GDP. Furthermore, the financial assets owned by the Chinese government exceed its total financial liabilities, as IMF's study shows.



The net asset value (NAV) – total assets minus total liabilities – of China's state-owned enterprises(SOEs) represents about 70% of GDP. The country's privately-owned enterprises trade in the stock market at a median price-to-NAV multiple of 5.4 times. If we apply only 2 times to SOEs which are considered less efficient, the market equity value of SOEs amounts to about 140% GDP, exceeding the total debts, by their broadest measure, of the central and local governments by about 30% GDP. It should be noted that almost all of the Chinese government's debt is in local currency. Its foreign currency denominated debt is negligible as a percentage of GDP. It should also be noted that not counted in these calculations are China's vast land and natural resources, all of which are government-owned. Therefore, the fiscal policy of the Chinese government has plenty room to expand.

Health of China's Banking System

Will the slump in the housing sector lead to a financial crisis as it did in the United States and Europe in 2008? Many pundits have rung the alarm by calling the troubles facing the distressed property developer Evergrande, "China's Lehman moment" – referring to the demise of the once venerated American bank which triggered the 2008 Financial Crisis. But the answer is no.

Exhibit 5: No Systemic Risk in Financial System

Housing problems on their own will not lead to a banking crisis

Loan to value ratio for mortgages in major cities is at -40%

Mortgages are unlimited personal liabilities – risk of default very

Developer loans represent less than 6% total loans and are secured

Captial adequacy ratio more than 15% for banking system

Non-performing loan ratio at 1.6%

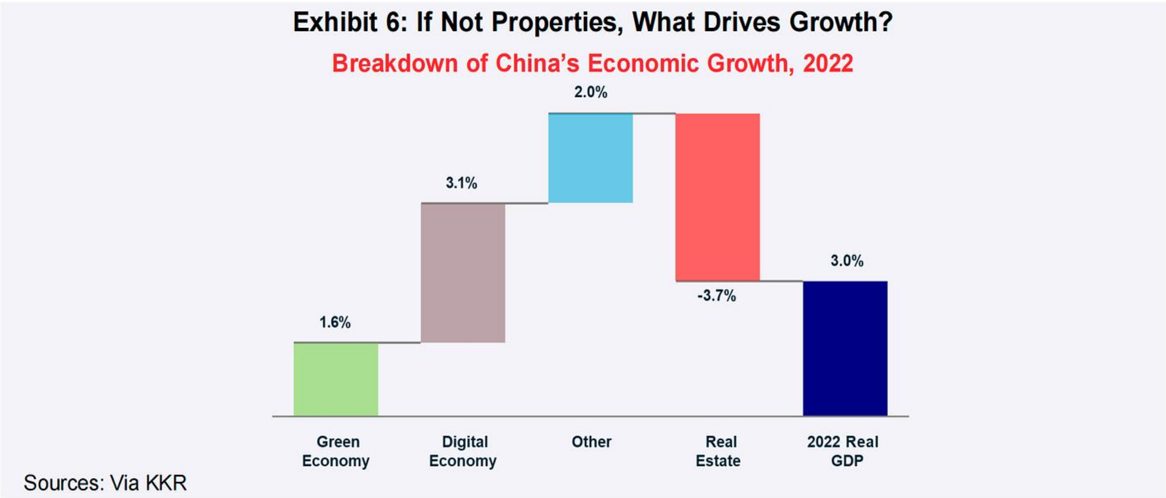
NPL reserve coverage ratio at about 150%

The reasons are laid out in **Exhibit 5**. The average loan to value ratio of mortgages in China's major cities is about 40%, which means that housing prices will have to fall more than half to produce negative equity for homeowners – i.e., where their house is worth less than the money they owe on it. That is not even remotely likely to happen. Moreover, Chinese homeowners cannot simply walk away from their mortgages if that happens, as homeowners can in the United States. In mainland China, as in Hong Kong and Australia, among other jurisdictions, mortgages are unlimited personal liabilities. That is why during the 1997 Asian Financial Crisis, there was plenty of negative equity in Hong Kong's housing sector, but not a single bank failure.

In fact, the Chinese banking system has experienced an opposite problem – too much cash from prepaid mortgages and above-normal savings. Prepaid mortgages amount to 12% of all mortgages in the banking system since 2022. Household savings increased more than their normal levels by RMB18 trillion (USD2.5 trillion) in 2022 and RMB12 trillion (USD1.6 trillion) just in the first half of this year.

Residual loans to property developers represent less than 6% of the loan book in the banking system, and all of those loans are secured by collaterals. Chinese banks are well capitalized, with an average capital adequacy ratio of more than 15%, and their average non-performing loan(NPL) ratio is about 1.6%. Yes, NPLs have been rising in recent years. But banks are selling or writing them off quickly because the regulatory requirement in China for setting aside reserves to cover NPLs is more than 100%, more than any other country I know of. Therefore, it is just not worth it for Chinese banks to hold onto NPLs.

China's Avenues for Growth

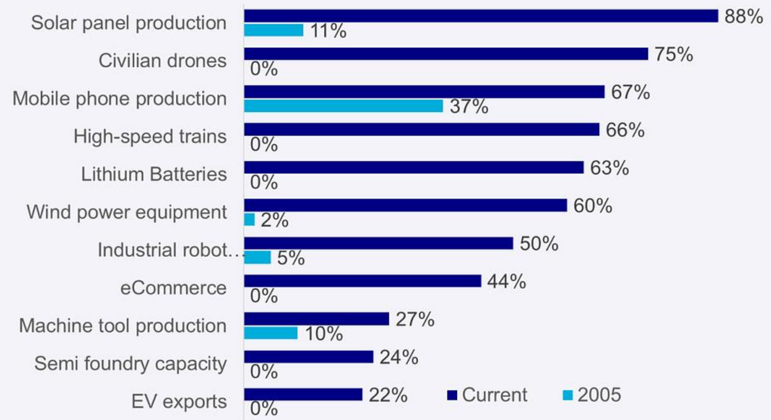


This doesn't mean there will not be any short-term – or potentially longer-term – pain in China's real estate sector; I am only saying that China's real estate issues will not infect the banking system as a whole. The real estate sector still is a negative contributor to China's growth, as I discussed earlier. So, if properties will no longer drive economic growth, what will?

Exhibit 6 is taken from KKR's recent publication, *Thoughts from the Road – Asia*. It shows that in 2022, the "Green Economy" and the "Digital Economy" added 4.7% to China's growth rate, more than offsetting the negative contribution of 3.7% by the real estate sector.

Exhibit 7: World Leader in the Fourth Industrial Revolution

China's Global Share, %

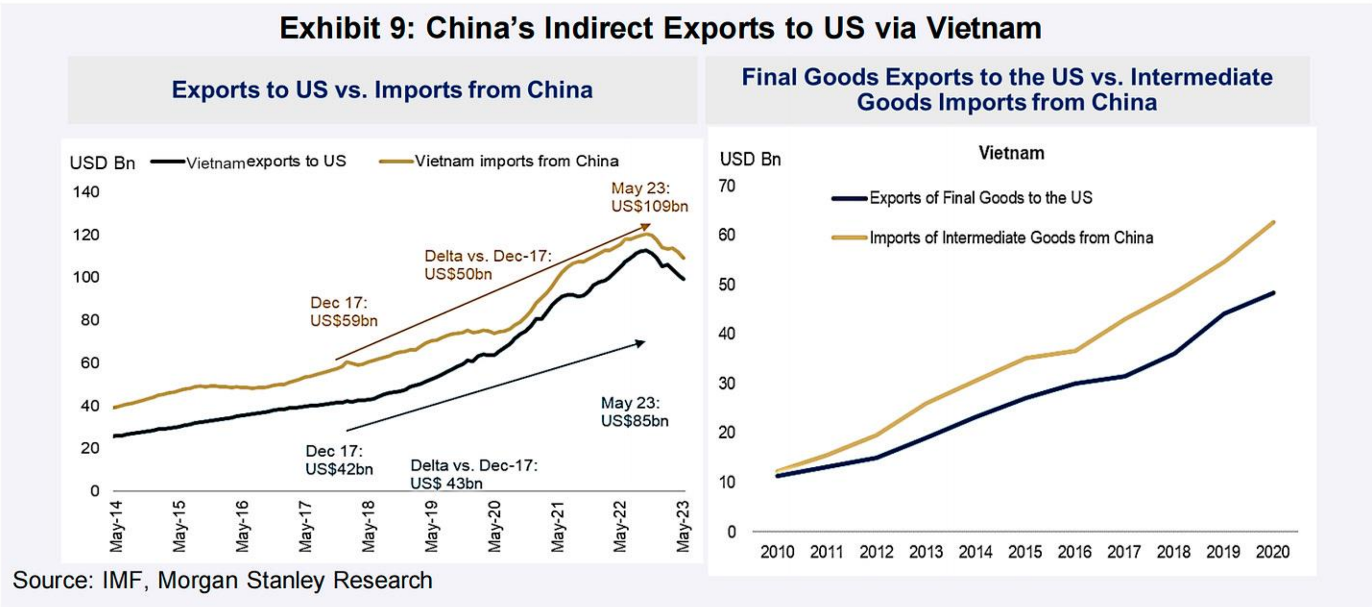


Source: Various via KKR and author's own research

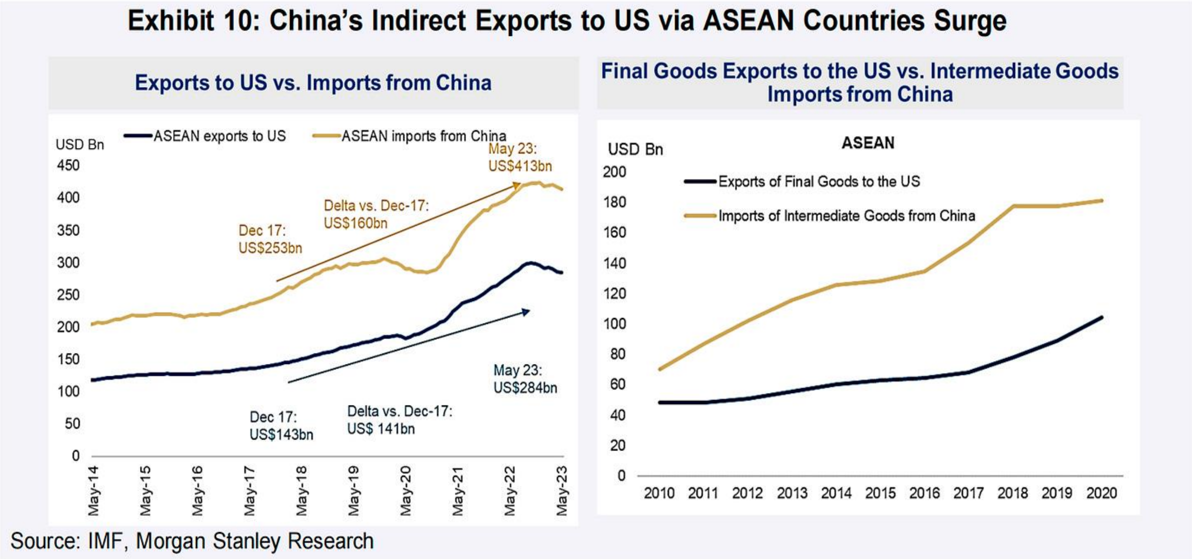
Indeed, China leads the world in the industries enabling, and enabled by, the Fourth Industrial Revolution – green energy, digitalization, industrial robots, artificial intelligence, etc. **Exhibit 7** is based on a similar chart from KKR's paper and I added a couple more sectors. These are all growth industries, dominated by the private sector (with the exception of high-speed trains and to some extent semiconductor foundries). China has surpassed Japan as the largest exporter of cars this year – and a quarter of those are electric vehicles. In lithium batteries, an essential component of electric vehicles, mobile phones and other industries on this list, China went from zero percent of the global market in 2005 to 63% – nearly two thirds – today. It has marked similar growth in wind power and industrial robot installation. I should note however that despite their large market share and rapid growth, we don't consider most of these sectors attractive for private equity investment, because they are prone to over-competition and overcapacity, and therefore low profitability.

The U.S.-China Trade War

How much impact has the trade war had on China's exports? **Exhibit 8** shows that it has not dampened U.S.-China trade and indeed **the bilateral trade reached an all-time high of about USD700 billion last year**. Even then, direct trade does not tell the full story.



Take a look at **Exhibit 9**. On the left-hand side, since the start of the U.S.-China trade war in 2018, Vietnam's exports to the United States have surged, but its imports from China have increased even further. The chart on the right-hand side is more striking. Vietnam's imports of intermediate products from China far exceed its exports of final products to the United States. In effect, Vietnam can be seen as a conduit for China's indirect exports to the U.S.



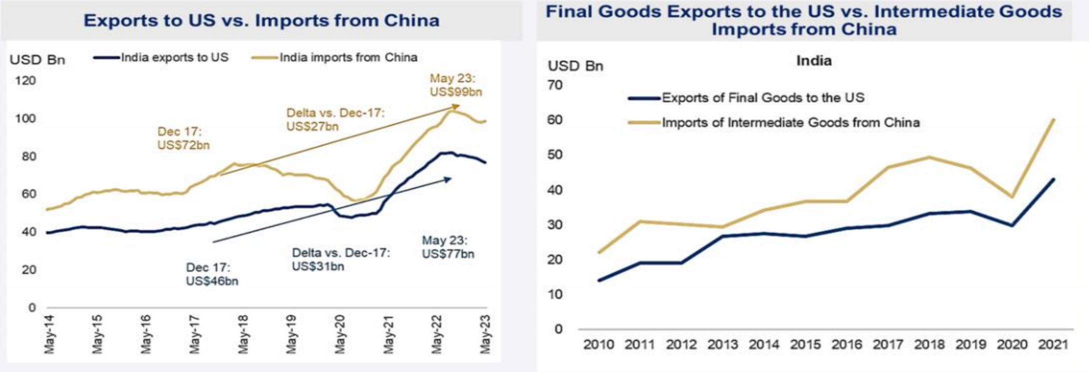
Vietnam is one of the 10 members of ASEAN. In 2020, ASEAN replaced the U.S. to become China's largest trading partner. As shown on the left-hand side of **Exhibit 10**, ASEAN's exports to the United States went up sharply since the start of U.S.-China trade war, but its imports from China grew even faster. The chart on the right-hand side shows that ASEAN's imports of intermediate products from China far outpace its exports of final products to the United States.

The same story is repeated even in India, as shown in **Exhibit 11**.

So, what is going on here? Please see **Exhibit 12.** China's manufacturing is deepening, i.e., it is moving up the value chain into the production of higher-value, higher-technology products and components. Its total share of the world's manufacturing value-added keeps rising, now representing 31%.

In an article I published in 2019, I noted that China's value-added to Apple iPhones represented only about 4% of each phone's retail value. An article published in *Foreign Affairs* this year notes that value-added number has climbed to 25%. That is the best example of how fast China's manufacturing is deepening.

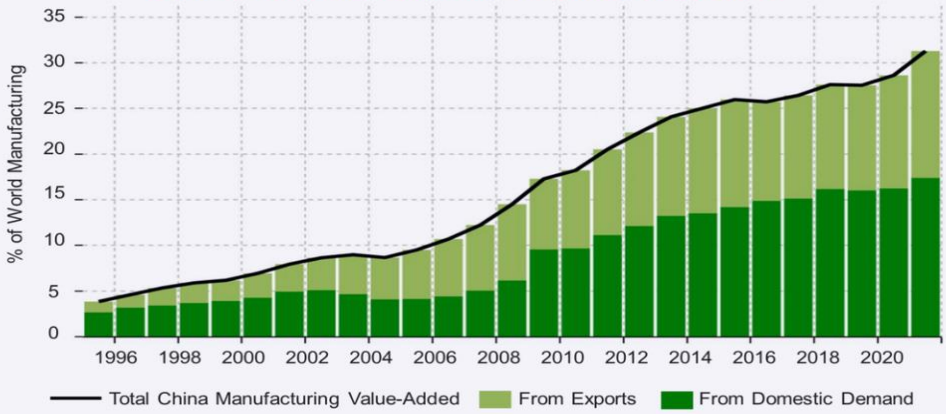
Exhibit 11: China's Indirect Exports to US via India Jump



Source: IMF, Morgan Stanley Research

Exhibit 12: China's Manufacturing is Deepening and Rising

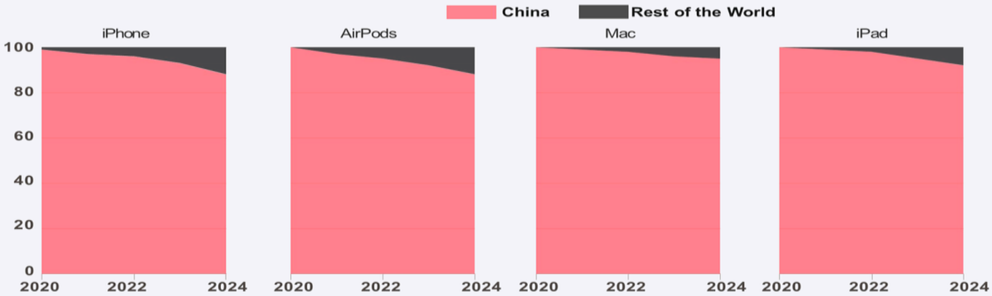
Share of World Manufacturing Value-added, By Source



Source: https://andrewbatson.com/2023/06/13/breaking-down-chinas-manufacturing/

Exhibit 13: Apple Has Made Little Progress Moving Manufacturing out of China

Where devices are manufactured (%)



Source: Financial Times

That helps explain why Apple is so attached to manufacturing in China, which also now happens to be the world's largest market for Apple's iPhone. As the *Financial Times* reported, shown in **Exhibit 13**, Apple's efforts to diversify manufacturing away from China will make almost no difference in the foreseeable future.

China's Technological Progress

Alongside the long-running trade war, there is now also a technology war, as the United States has banned high-tech exports to China in areas ranging from advanced semiconductor chips to quantum computing and AI. Will the policy contain China's technological progress?

In the short run, yes, it will dampen China's technological capacity. But in the long run, it will not. China has a strong technological base, which export bans are unlikely to affect; it has the meansto catch up in areas it is behind, owing to its years of value-added manufacturing and innovation; and thanks to the export bans, it has a strong incentive to develop its own versions of now-unavailable technologies.

When I was a professor at the Wharton School, I studied the then-nascent biotechnology industry. I asked myself why biotechnology and Silicon Valley were such a uniquely Americanphenomenon, even though Europe and Japan were also rich developed countries. What does it take for a country to become a high technology hotbed and hub? I came up with five necessary conditions as summarized in **Exhibit 14.**

Exhibit 14: Five Necessary Conditions for High-Tech Leadership

1. Concentration of Top Talent ✓
2. Concentration of Research Institutions ✓
3. Capital Availability ✓
4. Deep Manufacturing Capabilities ✓
5. Big Enough Market ✓

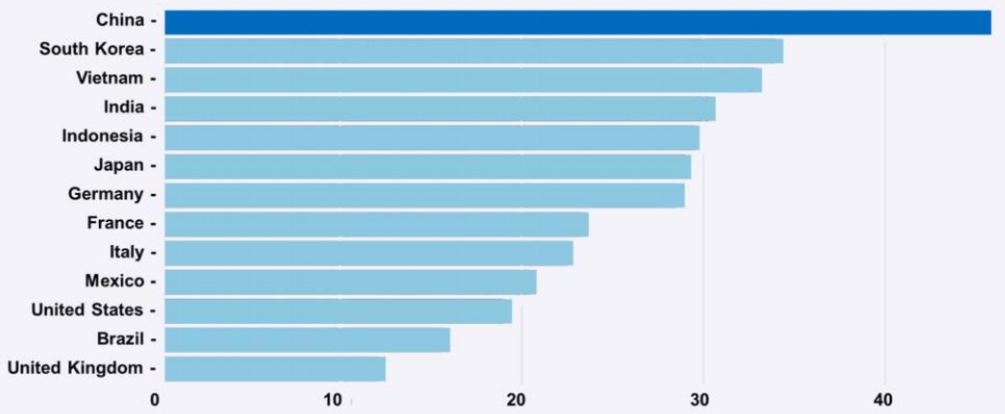
China now possesses all five of the conditions I outlined, which together are sufficient for it to catch up in almost any technology, and to take the lead in some. It is just a matter of time. In fact, China's pace of innovation will only be retarded if the likes of Qualcomm and Nvidia are permittedto continue to sell to and dominate the Chinese market, because their products are currently better and cheaper. But the export bans by the U.S. open up the domestic market for Chinese firms to accelerate their technological progress.

I don't need to dwell on those conditions that are obvious. But most notably, capital is no constraint for China as it is now a capital rich country. Its savings rate is in a category of its own among sizable economies, as pointed out by Martin Wolf of the *Financial Times* and shown in **Exhibit 15**. China is also a leading creditor nation including to the U.S. government by its holdings of U.S. Treasuries and Agency Bonds.

It should come as no surprise that the U.S. and China lead the world in R&D spending, according to the *Wall Street Journal* in **Exhibit 16**. Since the size of China's economy is about 80% that of the U.S., its R&D spending as a percentage of GDP is about the same as, if not more than, America's.

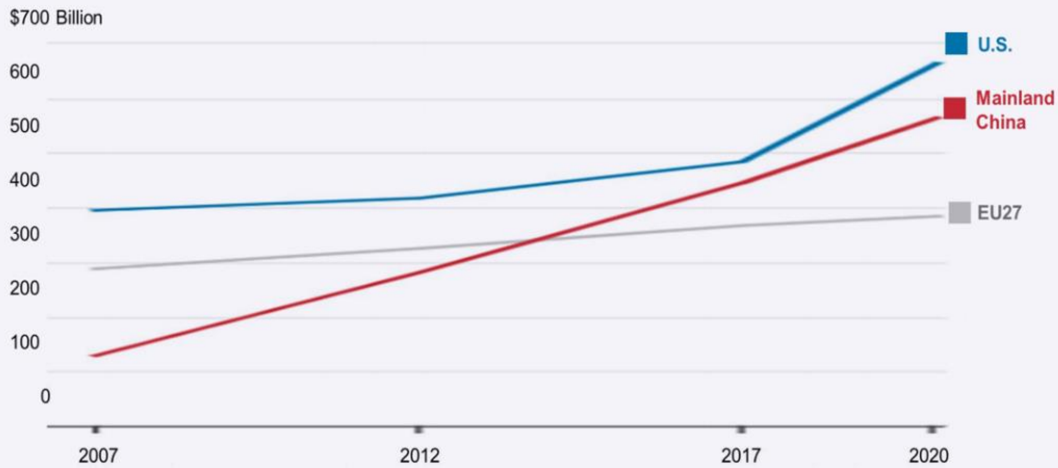
Exhibit 15: China's Savings Rate is in Category of Its Own Among Sizeable Economies

Gross National Savings as a % of GDP, 2023, Selected Countries



Source: Financial Times

Exhibit 16: The U.S. and China Lead the World in R&D Spending



Source: The Wall Street Journal

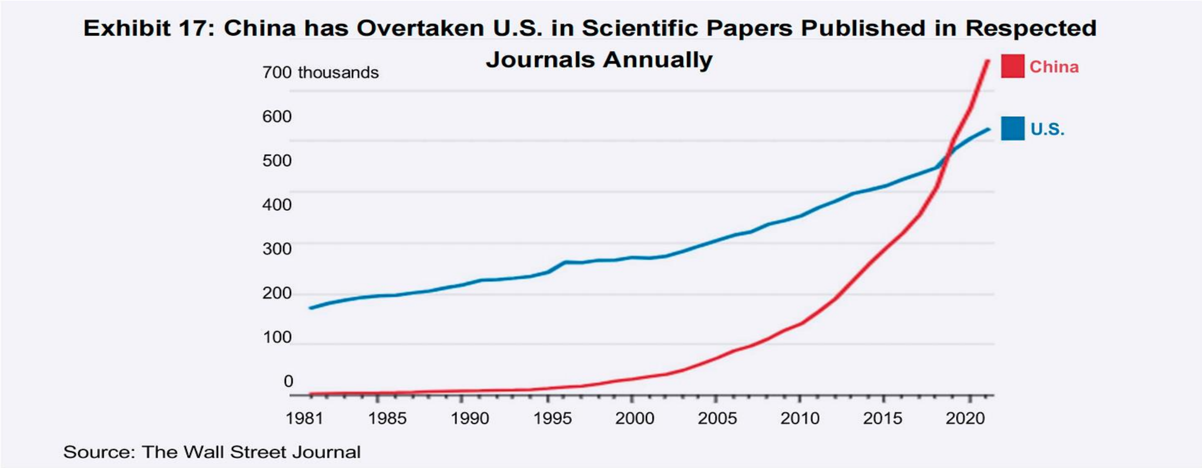


Exhibit 17: China has Overtaken U.S. in Scientific Papers Published in Respected Journals Annually

Source: The Wall Street Journal

Furthermore, as the *WSJ* notes, in **Exhibit 17**, China has overtaken the U.S. in scientific papers published in peer-reviewed, respected international journals annually.

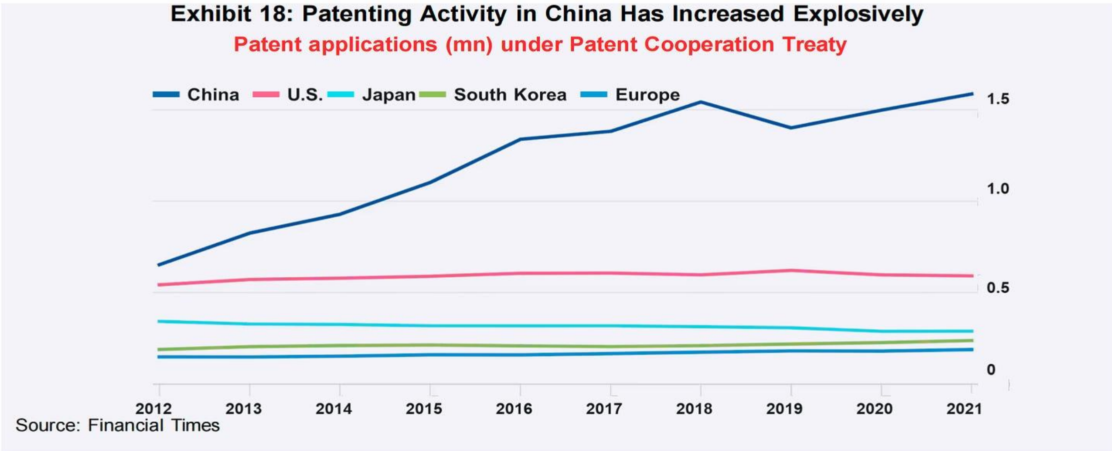


Exhibit 18: Patenting Activity in China Has Increased Explosively

Patent applications (mn) under Patent Cooperation Treaty

Source: Financial Times

And the *Financial Times* gave us **Exhibit 18**, which shows that China's patenting activity has increased "explosively" (Martin Wolf's word). The number of patent applications in China per yearis now more than the U.S., Europe, Japan and South Korea combined.

Exhibit 19: Paradox: High-Tech Bans Induce Technological Acceleration?

China Breakthroughs Reported in Foreign Publications in Just Last 3 Months

Huawei Chip Breakthrough in Blow to US Sanctions.

The company's Mate 60 Pro is powered by SMIC's 7nm chips, according to TechInsights

- Bloomberg (Sept 4, 2023)

Hypersonic Missiles Are Game-Changers, and America Doesn't Have Them

The weapon Beijing launched traveled at speeds of more than 15,000 miles an hour as it circled the globe. Flying at least 20 times the speed of sound, it could reach anywhere on earth in less than an hour.

- Wall Street Journal (Sept 18, 2023)

New Quantum Computer 20 Billion Years Faster Than the Fastest Supercomputer in the US

Named Jiuzhang 3, their latest quantum computer has solved an ultra-complicated mathematical problem within a millionth of a second

- Physical Review Letters (Oct 11 2023)

China's YMTC makes world's most advanced memory chip in 'surprise technology leap

YMTC memory chip, found in a solid-state drive, shows firm has continued to develop advanced technology despite being hampered by sanctions

- TechInsights (Oct 26, 2023)

Chinese scientists create chip that can perform AI task 3,000 times faster than Nvidia's A100.

The light-based chip reached a computing speed of … 3,000 times faster than one of the most widely used commercial AI chips, Nvidia's A100. The Chinese chip also consumes 4 million times less energy, researchers found.

*- Nature (*Nov 1, 2023)

China's world-leading cancer drug makes historic foray into the US

Innovative cancer medicine toripalimab has become the first biopharmaceutical drug from China approved by America's FDA.

– South China Morning Post (Nov 4, 2023)

Paradoxically, high-tech sanctions on China have induced an acceleration in technological progress. **Exhibit 19** shows a few selected headlines from the global scientific journals and press on China's technological breakthroughs in just past 3 months. All of these except the last one, the cancer drug recently approved by the U.S. Food & Drug Administration, concern areas on the US sanctions list.

Demographic Bomb – or Bust?

The accepted opinion is that China's demographics, namely an aging and declining population, will ultimately thwart its long-term growth. But the data doesn't support it.

Exhibit 20: Demographics Will Unlikely Stop Long-Term Growth

1. The size of China's labor force peaked in 2012
2. GDP has doubled in 10 years since then
3. R&D and productivity increase will allow China to avoid "middle income trap"
4. Mandatory retirement age still too low: 60 for men, 55 for white-collar and 50 for blue-collar women
5. Urbanization rate is only 65%, compared with 91% for Japan and 85% for the US

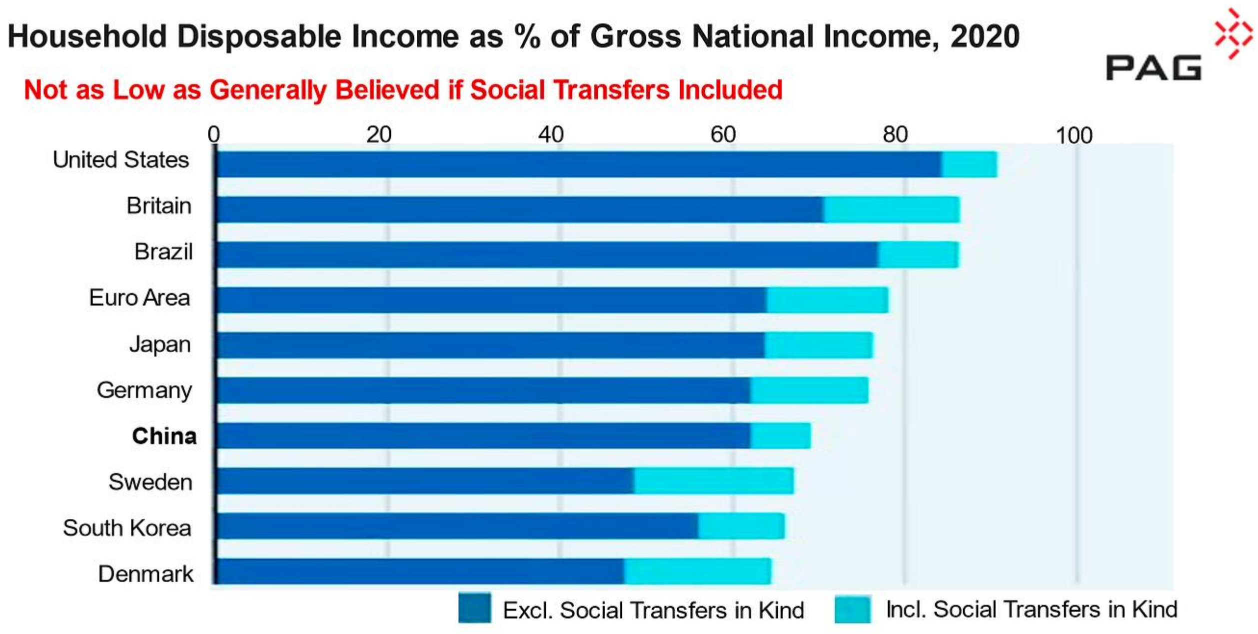
I outline a few reasons shown in **Exhibit 20**. The size of China's labor force plateaued in 2012 and began to gradually decline. Yet its GDP has doubled in the 10 years since then. Yes, China's productivity increase has slowed in recent years, but it has still managed to propel economic growth.

Some believe that China is primed to fall into the "middle income trap" that has mired so many developing economies, particularly those in Latin America. Yet here, China's R&D spending and productivity increases set it apart. China is now at the forefront of industrial automation, as evidenced by having installed 50% of the world's industrial robots. It is unlikely that China's demographics will cause a labor shortage in the foreseeable future; in fact, its labor force is likelyto be significantly underutilized, for reasons laid down on this slide.

As one U.S. based investor pointed out to me, if the international investment community is so bullish on Japan, which has worse demographic issues, why not China?

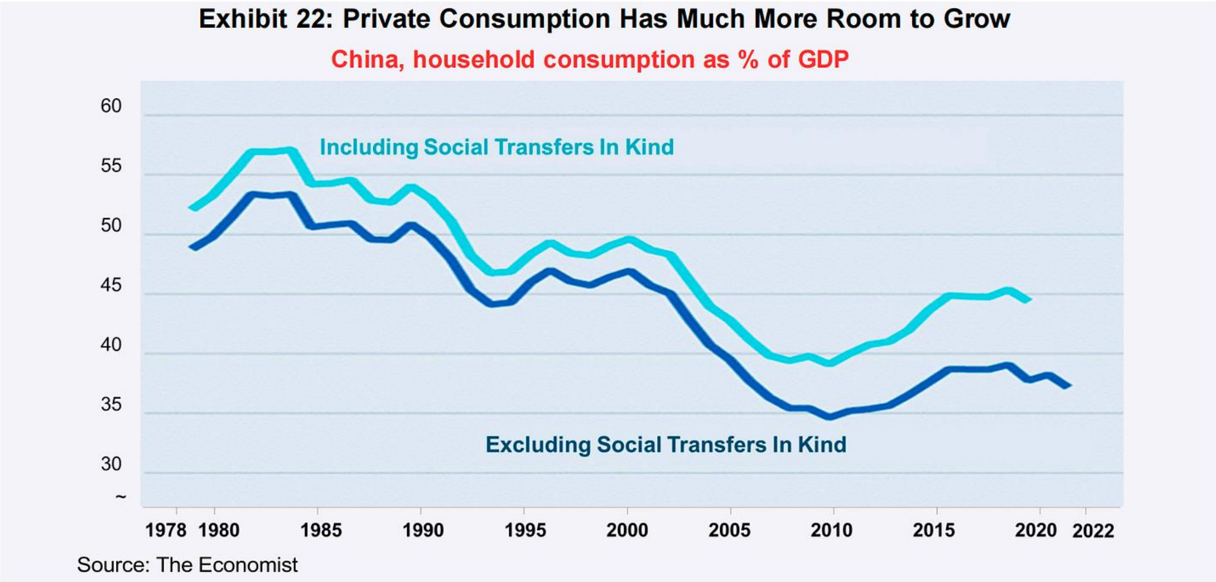
The China Opportunity

From a private equity standpoint, PAG is long-term positive on China. As I said earlier, we avoid "hot" sectors prone to over-competition. So where are we looking to invest? The answer is in leading businesses that cater to private consumption.



Source: The Economist

It is suggested that China's household consumption is constrained by low household disposable income as a share of gross national income. However, **Exhibit 21** shows that according to data from *The Economist*, if you include social transfers in kind – meaning benefits like welfare, social security, and other forms of government and nonprofit assistance – China's household disposable income as a share of gross national income is higher than in such countries as Sweden, South Korea and Demark, although still much lower than other places like the United States, the EU and Japan.



The bad news is that private consumption, even including social transfers in kind, remains too low at about 45% of GDP, compared with 72% for the United States (**Exhibit 22**). But the good news, particularly for investors like us, is that there is much room for growth. It does require China to rebalance its economy more in favor of private consumption and away from fixed assetinvestments. But we believe this will inevitably happen as China's savings rate, and therefore investment rate, declines over time along with the aging of the population.

Conclusion

In conclusion, China is not without its economic challenges. There are good reasons for business and consumer sentiment to be weak and confidence low at the moment. It will take a couple of years of policy stability and concrete policy support for the private sector to fully regain confidence. The economy is underperforming its full potential. But as I have tried to illustrate here, **China's economic fundamentals are sound; its government has ample policy space to tackle its current economic slowdown; and its industrial development has positioned it well for the future.** All of this is to say that China's growth, despite the naysayers, will likely continue for the foreseeable future.

Allow me to add my own analysis to the analysis by Dr Shan above.

> I have commented on the likelihood of the Evergreen/real estate bubble turning into a Lehman type crisis and crashing the economy much like the sub prime crisis did to the US and the collective west in 2008-9.   I have always had the view which I wrote about 1.5 years ago that Evergreen would not pose the same risks as Lehman did to the US.

Those who have followed the Chinese real estate market will know that this market has a much higher volatility profile than in the US, and in any given year, it can fall by 30% and then come right back. In other words, investors in Chinese real estate are used to a much higher level of volatility than most westerners. They don't panic easily. As such if they don't bail on a whim, then the market would be more stable.

As Dr Shan has also commented, the asset value of most Chinese properties, especially in the big cities to the loan value is high (north of 40%) and for this to continue crashing is unlikely. So there are limits to the real estate collapse.

I have come across some western commentators who say that it is stupid of the Chinese to invest in tall towers with empty apartments. But China is not quite the US or Europe. The urban rural divide is less than 2/3rd's of the population. One third still live in the rural sector. In the typical western country, the ratio is closer to 90%. The Chinese government has made it a policy objective to reduce poverty and that also means moving people to the cities because the urbanization process is also poverty reducing, as peasants learn new skills and become more productive. So having that capital stock on hand, and ahead of demand is exactly what they have in mind. Look at the classic "ghost" city in China, Kangbashi-Ordos in Inner Mongolia. It was built up and empty for nearly a decade and when the government moved people there, it was fully occupied with 30,000 residents in a couple of years. Now the city has 200,000 inhabitants. The town was much aligned in the western media - the failed utopia. Pudong in Shanghai was also a ghost city in 1997 – I saw it myself back then. So was Tianjin New City just a few years ago when whole skyscrapers were erected. As well in the new capital XiongAn, in Hebei. But when the government drives up the urban-rural mix in the country, since this is still quite low, having those towers ready to absorb the migrants is not a bad thing. And unlike the haphazard development of traditional cities, if you want proper urban planning in the new urban areas, building ahead of demand by 5 years reverses the development experience of most cities in China. If you take the planning horizon of the Chinese – what's five years? - there is no problem.

The other misnomer about the real estate crisis in China is that it would unravel like the Lehman crisis because the west experienced that. So western media types think the same must happen in China. This cannot be closer to the truth. In the US, the government was caught by surprise by the 08 crash. We were all there in 2008. And when the markets are not prepared for something, the crash will be deeper. In China, this is not the case. The government engineered the slow down deliberately. Beijing was not so keen about the rise in real estate prices, and particularly the corruption in the sector. When 90 percent, at one time, of all rich people emerged from real estate development, and most of it from taking on leverage, the government decided to act. As such, measures were implemented to make the leveraged developers reduce borrowing. Beijing imposed a number of criteria to monitor the liquidity of the developers and that in fact brought down the wider property market as a whole. But this was intentional and controlled. As I wrote 1.5 years ago, this is not going to become a Lehman crisis. After all this time, it has not; and as the data shows, the real estate bubble has already been, quite safely, deflated.

And it is important to note that the trend of property prices has been rising for 25 years. The earliest investors are up multiple times their original stake, and for most investors in China, especially in first tier cities, a crash of the market to the original stakes is not likely. Therefore, there is no crisis.

From what can be seen, the central government's attempt to divert resources away from real estate speculation has worked out quite well. The industrial and technological sectors have developed nicely, and China has now the largest ev industry in the world. This year, 4.4 million evs have already been sold, and by 2030, this number is expected to rise to 10 million vehicles. As such, the car industry in China has caught up with Japan, overtaken Germany, and since these evs are across the entire price range, this is sustainable. This is technological leapfrogging just as China did when it did not implement landlines and went straight to cellular phones. The BYD Seagull is the size of a Honda Civic and sells for US$11,000. In Australia when this was launched, 10,000 were sold in the first 24 hours! The EU wants to move away from the internal combustion engine to evs. And then they panicked when they realized that this will benefit China almost exclusively. The same technological and industrial advances have been made in solar panels, drones, ship building, fast rail, high tech cell phones (as mentioned by President Xi in his New Year address) and other leading industries that will sustain the economy. Very soon, this will be followed by wide bodied airliners after the commercial success of the C919.

The key to understanding the huge advancements in China's industrial and technological sectors is to see how the country has educated and trained from 300,000 university graduates a generation ago to 12.3mllion this last year. Many of them are in STEM disciplines. The number of STEM graduates each year is more than the number of engineers in the US. This has important labour force implications. We read how in the recent UAW auto workers strike, the minimum wage has been negotiated up to US$100,000 per year per worker. Well good luck, the Chinese auto industry will eat the US one for lunch, soon enough.

As for the aging population, what's the problem? The entire work force is now on a 50 years retirement age for women and 55-60 for men. They can easily change this. And the problem will be immediately solved. Also the Chinese industrial sector is the most AI-automated in the world. Not enough workers? More robots then.

If you want to bet against China, think twice. Better to bet against a much bigger problem – the 35 trillion national debt in the US. Or a 81 year old geezer working as president…

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Un-Influencer in a World full of Hubris