

CHINA: THE NEXT 30 YEARS

By Liang Du, CEO at Prescient Investment Management China Limited gives his perspective on President Xi Jinping's mission to modernise China by 2035

October 2017 saw one of the most important events in the Chinese political landscape - the 19th Communist Party Congress. President Xi Jinping solidified his power in China, but more importantly he provided a vision for China, incorporating his philosophy of a modern socialist country.

In fact, China's Communist Party approved a revised charter that enshrined President Xi Jinping's name under its guiding principles, in a move that suggests he will influence China policy for a long time to come, and elevating him to a status that eluded his two predecessors.

President Xi's speech was by no mean an optimistic puff piece. After 30 years of development, the basic needs of the Chinese people have been met, although the China of today is still an unbalanced, unequal, polluted country with risks of corruption and financial leverage. His plan for China is not to pretend these issues do not exist, but to tackle them one by one.

The first part of the plan to lead the country to "socialist modernisation" by 2035 is structured around a few big ideas:

A nation of innovators. One of the most recurrent themes throughout President Xi's speech is that all solutions require innovation, and that China must move up the value chain. As a nation China needs to be far more innovative, moving away from copying and improving to innovating. On a macro scale, the government will provide national science and technology projects to inspire the nation, while on the micro level, government will provide subsidies for innovative industries, making their development easier. Combined with the continued reduction in red tape for small business, the policy encourages innovation with the price of failure low and the rewards high. China wants a market-oriented system for innovation, bringing together enterprises, universities and research institutes to promote a culture of innovation and protection of intellectual property.

Supply side reform. The second important part is continued privatisation and the reorganisation of state assets, with the goal that state-owned enterprise (SOE) assets should be productive, efficient and supportive of China's long-term goals. Mergers will continue to reduce price wars in areas where China is already world-class, while introducing privatisation and competition in areas where SOEs are lazy and unproductive. This will also be supplemented with developing infrastructure to support both the private sector and SOEs, creating advanced manufacturing clusters with world-class infrastructure, access to power and transportation.

Raising intellectual and moral standards. President Xi also focused on cultural aspects and improving things like adherence to rules, being more friendly and less money orientated, and developing an ethical and moral sense towards the community and country.

Rural vitalisation. Most problems in rural areas have been resolved, with the days of taking farmland without compensation in the past. The program will continue to modernize the agricultural

A greener China. China needs to change tack on pollution. President Xi's speech stressed the value of the environment, undertaking that China is not only going to pollute less, but also develop methods to roll back previously polluted areas and clean them up.

Political reform. Although the word "democracy" was mentioned many times during the speech, in this context it certainly does not mean one person, one vote. President Xi's ultimate goal is to reform the political landscape so that has rule of law, with everything codified. This reduces the opportunity for corruption, with the corruption clampdown having become a way of life in the party. Ultimately, the Chinese version of democracy is a government that works for the people.

Like any summary there are many more points within the plan, yet what is extremely clear is that the Chinese government is aware of the challenges facing China and the hard work required to achieve its long-term plan and vision.

Although execution will be key, if there is one government in the world that deserves the benefit of the doubt, it is the Chinese government given what they have already achieved. Although no country is without it's risks, the reality is that China faces its challenges, while other countries muddle through, concentrating on the short-term.

What does it all mean for the South African investor?

Over five years ago Prescient decided that China was just too big to ignore and, today, we have one of the best performing funds in country - dedicated to investing in China. With stability and planning, we think China will become bigger and better. More and more global investors will invest in China, with the MSCI indices having started to include A shares for the first time this year.

The idea that China is going to explode tomorrow should not be any investors' base case scenario, rather an extreme outlier. China will be one of the largest economies of the future, and there is so much more to it than just Tencent. For South African investors, we think it is well worth the effort to get an understanding of the second largest capital market in the world, one that can bring rich rewards over the long-term.

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