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China on the way to new strength

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Impressions of a trip to Beijing

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Driving through Beijing you will see megalomania without limits – in houses, traffic, and people. A trip in a tuk-tuk, which looks like a motorcycle on three wheels, allows you a short glance into the past. It is at these moments that the rift between rich and poor becomes obvious.

Irrespective of the opposites in the social strata, the eyes are looking towards the future of the metropolis, home to millions. Led by the government, plans are to take the country to new strength. The control exercised especially in the area of infrastructure and with respect to property prices is enormous.



Decline in output due to air pollution

Some 28 companies in Greater Beijing and North East of the city have to drastically reduce production until mid-March due to the deteriorating air pollution, which is particularly problematic during the winter months and has to be dealt with. Short commentary by the affected companies: “It is what it is.”

I went to Beijing to attend a conference on China. In my numerous talks with companies across several sectors, everything seems to be “alright”.

The government-held banks have not only improved their asset quality. The number of bad loans has also decreased drastically. The commission business has incurred some minor losses due to the fact that the fees have reduced massively – as of course ordered by government. The asset manager China Cinda Asset Management’s business in distressed assets is thriving; they account for 40% of total income.

Property remains an important factor

In the property sector, the gold rush is not as intense as back in 2016 and at the beginning of this year, but the trend should remain stable, with a small downwards bias especially in the big cities. After all, the demand for “concrete gold” is as strong as ever. Big construction companies are getting bigger in order to strengthen their network around local authorities. Some companies are afraid to turn from a shark into a shark’s prey and thus into a takeover target.

Consumption, too, should gradually start picking up again. Household appliances such as refrigerators and AC units are currently going through a phase of extremely strong demand. Replacement purchases account for 40% of total sales in so-called tier 1 cities (i.e. cities with more than 20mn inhabitants). In tier 4 cities (>150,000), the share of household goods in terms of total consumption is 20%.

Online trade in bloom

Much like in other parts of the world, the importance of online consumption has been on a rapid rise. 16% of sales in consumer goods are already generated online. This sector is expected to record an annual growth rate of 5% in the coming years. The so-called “Singles’ Day” on 11 November has shown how strong the shopping frenzy is in Beijing: the online businesses were fighting a veritable war of discounts.

For example, Alibaba, the biggest online dealer in China, surpassed their previous year’s record with sales of EUR 15.6bn around noon. In total, Alibaba sold goods worth EUR 21.8bn throughout the whole day.

Interest rate cuts support consumer optimism

Where does all this optimism stem from? Much can be explained by the fact that China is currently in a phase of falling interest rates. At the moment, the key-lending rate is 4.35%. Five years ago, it was at 6%. While most analysts expect the key-lending rate to remain unchanged in 2018, there is still downside potential.

The general question is, how can such a big country be organised and governed; and by a central one-party government no less. How much self-determination and freedom are possible? Even freedom of thought requires a long learning process. The implementation of a model of Western democracies would therefore be premature. After all, in its long history, the Chinese society has always been geared towards one central, united focal point of power. The emperor was embedded within strict rules and ceremonies and provided orientation and safety for administration and people. This arc spans from the pinnacle of the Chinese empire in the 12th century to the 21st century.

Mao’s heirs have done away with state-directed economy

While in the past, the doors would have been closed to new ideas, the ideological wall has been broken in various places today. Mao’s heirs have long since done away with state-directed economy. China is irresistibly morphing into a market economy, away from the petrified structures of communism towards the glitzy world of materialism.

The hierarchy that makes the masses governable on a day-to-day level is key. This is also what the 19th National Congress of the Communist Party of China that was held in October clearly showed. And President Xi Jinping represents its unalterable head.

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