FINANCIAL TIMES

ft.com > comment > blogs >

beyondbrics

China's entrepreneurship persists despite slowdown

Guest writer Author alerts Sep 14 12:18 Comment

By Edward Tse, Gao Feng Advisory Company

China's recent stock market turbulence and currency devaluation has attracted enormous attention from around the world—with a disproportionate amount focused on whether we are seeing the end ofChina's growth story.

True, many people lost a lot of money (though doubtless some also made a lot) and the reputation of the country's economic managers has been badly damaged. The aftermath resulting from the meltdown will likely continue to be felt for at least several months, particularly by those private sector companies which have had to shelve plans to raise funds via initial public offerings.But unlike the global financial crisis of 2008, which resulted in a worldwide slowdown,China's economic fundamentals are not shaky: its GDP growth is slowing, but a hard landing looks unlikely.

Certainly this is what the government appears to believe.

Over the past few days, Premier Li Keqiang, People's Bank of China Governor Zhou Xiaochuan and Minister of Finance Lou Jiwei have all acknowledged the global impact of China's stock market crash and currency devaluation.

But they also all stressed that China's currency had now stabilised, suggesting we are highly unlikely to see any further major devaluation. And they also said they expected China's growth to remain at around 7 per cent a year for the next half decade, and that during this period, the government would continue to implement structural reforms.

It is these reforms which really matter. If China can emerge by 2020 with its economy redirected towards consumption and services, and growth having averaged around 7 per cent along the way, its officials should have more than recovered their reputation for economic competency.

What makes this 7 per cent figure credible is the fact that while some parts of the economy are clearly struggling — especially those sectors with huge over-capacity, such as steel, coal mining, aluminium and cement — a range of others remain hugely dynamic.

One example is smartphones, where an ever longer list of companies is continuously trying to muscle in on Xiaomi's phenomenal success in displacing Apple and Samsung as China's market leader.

But Xiaomi's rise has now been almost matched by another company, Huawei Technologies, which in the second quarter of this year nearly caught Xiaomi in terms of market share, with its 15.7 per cent share of shipments just a whisker behind Xiaomi's 15.9 percent, according to market research firm Canalsys.

Huawei's emergence as a consumer products company is a major achievement – not least because it is also continuing to more than hold its own as the world's biggest maker of telecoms infrastructure equipment, including a 20 per cent share of the world's mobile infrastructure market.

China's e-commerce industry also continues to advance at hyper-speed. Alibaba's share price may have dropped to below its issue price, partly because its revenue growth dropped to 34 per cent year-on-year in the quarter to June, down from a 45 per cent last year.

But that is happening because it is seeing greater competition at home, notably from JD.com, China's second biggest e-commerce company, which saw its revenues rose 61 per cent to $7.4bn during its second quarter.

Tencent is another company benefiting from Alibaba's slide in market value. This week it displaced Alibaba as China's biggest internet business by market capitalisation banking on its record quarterly profits stemming from the continued success of its online games – responsible for more than half its revenues – and the more than 1bn users of its two free messaging apps, smartphone-based WeChat and PC-based QQ.

In short, while the country's economy may no longer be a rising tide floating all boats, it will continue to generate many opportunities — some of them could be of major significance.

As China makes the shift from being manufacturing – and investment-driven to seeing services and private consumption take over – a key factor driving these opportunities will be the sharp rise in affluent households. According to a study by Cornell University, China's middle class population will double in size from its current 300m people by 2025.

This continued rise in private demand will encourage companies to chase growth – providing they are producing the goods and services these people want.

For this to be extended to the rest of the economy, the government needs to accelerate the implementation of its already announced financial and industrial reforms. Doing so will lead to further deregulation, further encouragement of competition, and further greater demand for valueadding innovation and entrepreneurship.

On top of the internet and consumer electronics, other sectors where private firms look likely to drive major advances include medical equipment and other healthcare related businesses, energy and transport, including electric vehicles.

As the stock market stabilizes, the IPO plans and other fund raising plans would most likely return. Capital markets will continue to find good companies to invest in and vice versa, good companies will tap into the capital market for new funding.

So while China growth is slowing, the rise of Chinese business is far from ending. Rather, if there is a moral that should be drawn from the market turbulence of recent weeks it is that rather than looking only to the Chinese government to drive growth, the world should also be looking more towards the country's private sector.

China's growth will inevitably continue to experience some ups and downs, and some cycles will be more pronounced than others. The country has produced a body of entrepreneurs who are willing to take risks, often enormous. They and their businesses are hungry and fast moving. A slowdown will test their resilience – and could well send many to the wall. But others will emerge stronger and they will ultimately be the force that carries the country forward.

Edward Tse is CEO of Gao Feng Advisory Company, a global strategy consulting firm with roots in China, and is author of the recently released book China's Disruptors: How Alibaba, Xiaomi, Tencent, and Other Companies are Changing the Rules of Business (Portfolio/Penguin).

Back to beyondbrics

Tags: China debt, China entrepreneurship, China equities, China GDP, China slowdown, china technology
Posted in Asia, China | Permalink