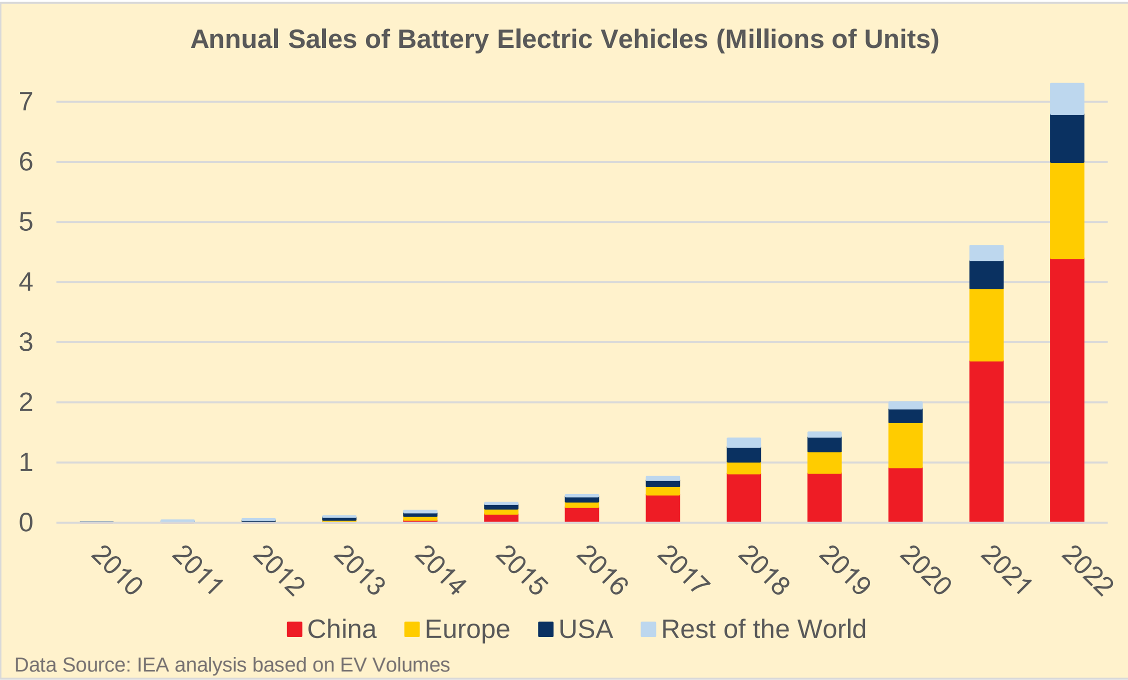
CHINA MONTHLY

NOVEMBER 2023

The Big Picture



China's Electric Vehicle annual sales continue to exceed the rest of the world combined, with domestic auto makers taking 80% market share.

THE BRIEFING

Q3 GDP Upside

China's economy grew at a faster than expected 4.9% rate in the third quarter. GDP grew 1.3% on a quarter-to-quarter basis, which is an acceleration from the second quarter's 0.5% pace. The beat was broad-based as retail sales, industrial production, and unemployment were all better than expectations and suggests 2023 GDP growth will meet Beijing's 5% target.

Xi Visits PBOC

Xi Jinping made his first visit to China's central bank, the first such visit by the country's leader since Mao Zedong. Xi also visited the State Administration of Foreign Exchange and the sovereign wealth fund, sending a signal of the government's focus on the economy and financial markets.

Liu He's Key Role

Retired vice-premier Liu He retains oversight of the Office of the Central Financial and Economic Affairs Commission, a key economic policymaking body headed by President Xi Jinping, according to SCMP sources. Despite the lack of limelight, US Treasury Secretary Janet Yellen, US Commerce Secretary Gina Raimondo, and some European leaders are all said to have sought out unpublicized meetings with the 71-year-old during their China trips.

Further Opening at Belt & Road Forum

"We will remove all restrictions on foreign investment access in the manufacturing sector," China's President Xi Jinping said at the opening ceremony of the Belt and Road Forum for International Cooperation in Beijing in October. China would further open up "cross-border trade and investment in services, expand market access for digital and other products, and deepen reform in state-owned enterprises, digital economy, intellectual property and government procurement."

US Senators & California Governor Make Visits

US Senate Majority Leader Chuck Schumer led a six-person delegation to visit China, during which Xi said "I have said many times, including to several presidents, that we have 1,000 reasons to improve China-US relations, but not one reason to ruin them". Two-term California governor Gavin Newsom also met President Xi as part of climate partnership talks, adding to a flurry of Sino-US exchanges that have raised hopes for a 2023 visit to the US by President Xi.

THE JAPANIFICATION OF CHINA?

By Wong Kok Hoi

Differential Diagnosis

Slowing exports and capital expenditure, sluggish consumer spending, slumping property markets, and plummeting stock prices, are causes for concern even on their own. When all these ills are concurrent, the economy is in urgent need of rescue, according to many economists watching China.

The printing presses need to be churning out as much yuan as they can, as quickly as they can – like much of the developed world in recent years, including the epidemic years – while a king-sized stimulus plan should already be working its way through China's economy.

Instead, there are no hints of any stimulus plan since the pandemic first struck China in Wuhan four years ago, much less one on a notable scale, while the printing presses remain relatively silent.

Richard Koo, the Taiwanese-American chief economist at Japan's Nomura Research Institute (NRI), has warned that the Chinese economy is suffering from a balance sheet recession, like Japan from the early 1990s, which has attracted attention and debate amongst economists, the IMF, and naturally, investors.

In Koo's balance-sheet recession, instead of consuming or investing, consumers and corporates channel more of their money towards lowering their borrowings. This was the key driver of Japan sinking into deflation, and for the glacial US and European rebounds from the 2008 global financial crisis, according to Koo.

Koo's diagnosis and prescription made its rounds in China's economic and financial circles this past year, and he was in Shanghai this September to speak about this topic du jour. Koo repeated his well-intentioned recommendation that "If the government puts in speedy, sufficient, and sustained fiscal stimulus, then there's no reason for Chinese GDP to collapse."

I have known Koo from our days in Tokyo in the late 1980s and we had met several times each year. He is a brilliant and straight-talking economist. Is Keynesian Koo indeed correct about China already undergoing Japanification? This is no laughing matter as it means a decade or two of spirit-sapping deflation, with property prices likely plunging another 50%-70% and stock prices halving from current levels.

To avoid this damning destiny, should Beijing roll out its heavy artillery and blast out "The Mother of all Fiscal Stimulus", say, doubling its CNY4 trillion post-GFC stimulus? A fiscal plan like the 1 tn yuan announced on October 24 for targeted areas may be alright.

Maybe China's economy is not in the best of form, but is it as dire as some fear? Are 4%-5% GDP growth rates sub-par? Must China target 7% instead? Is China already suffering from a balance sheet recession, as posited by Koo and other economists?

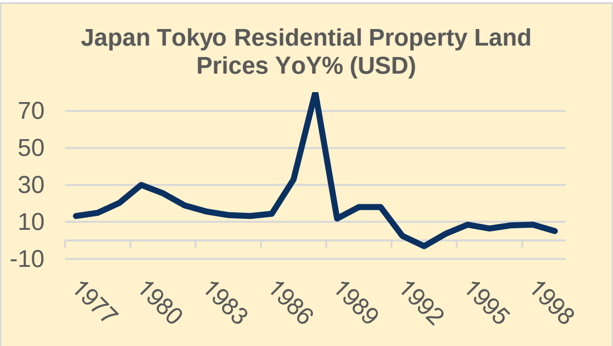
I will offer my thoughts from an investor's perspective, tapping into my experience living and working as a portfolio manager right smack in the epicentre of Japan's bubble years, and before that, five years as a student in Tokyo, as well as a quarter century of investing in China.

From his vantage point as a veteran economist and a former policymaker, APS China Vice Chairman Dr Tan Kong Yam will follow up by conducting his economic analysis and share his thoughts on this subject as we kick off 2024.

I will compare and contrast China's property markets, stock markets, PBOC policymaking, bank lending and corporate borrowing, as well as China's stage of economic development, with Japan's. I will also take a slight departure from conventional analysis and compare the ultimate excesses and crazy habits of homo sapiens on full display on golf courses.

Property Markets

Prices for real estate went off the charts in Japan in the 1980s, and in China from 2000, following years of sustained economic successes. A notable difference is that in the Land of the Rising Sun, the entire nation – salarymen, housewives, bankers, business leaders, policymakers – believed in the "Land Myth", that the value of land in Japan will increase into perpetuity, a "surefire" investment that left many an investment portfolio in a smoldering heap. They were all complicit in the largest real estate bubble in modern history. In short, the entire nation was caught up in what I call "**hubristic exuberance**". Metaphorically speaking, Japan's banks, corporates, households, its central bank, and even its politicians, all were trapped in the same boat when it sunk, "torpedoed" by the bursting of the two mega bubbles.



I will share with you shortly my own personal experiences.

At one point in the 1990s, the land in Tokyo occupied by the Imperial Palace was said to be valued as much as the entire state of California. In comparison, the current value of the land where Beijing's Summer Palace is sited, which is almost three times as large as Tokyo's Imperial Palace, is a tiny fraction of San Francisco's estimated USD2 tn of housing stock in 2022.

Across the East China Sea, whilst real estate prices also soared – especially in Tier 1 cities like Shanghai and Beijing – China's bubble is significantly smaller than Japan's, and moreover, the circumstances were completely different.

China periodically tightened housing policy measures for over a decade, starting in 2010-2011, and then again in 2013, according to an IMF paper. Beginning in late 2016, municipal governments of 21 major cities imposed a new round of restrictions on purchases of investment properties as a response to the Central Government's September 30 policies in the same year. In 2017, the downpayment requirement and mortgage rates were raised for first-time buyers in major cities to contain price growth. Even President Xi Jinping had to warn his people numerous times in recent years that housing is not meant for speculation, but are homes for living in.

In August 2020, the infamously tough three red lines policy was unveiled to tackle developers' unbridled borrowing, by limiting the amount of fresh borrowing they can get each year. Banks were also ordered to reduce their lending. The Deputy Governor of the People's Bank of China at the time, Pan Gongsheng, was the architect of those red lines.

In major cities, a homebuyer is graded on points scored from a long list of criteria, before being eligible to join a ballot with an anecdotally low success rate. The prize is a new apartment that is priced around 10%-30% lower than recent resale transactions in the vicinity. This is a **unique Chinese characteristic** of the housing market that is not known to many. Homebuyers who had bought a new apartment in major cities in the last two years are probably still above water. Nonetheless, the average 4.6% fall in second-hand housing prices year-to-date 2023 in Tier 1 cities – or -14.7% from the June 2021 peak – is modest, despite the doom and gloom pervading news articles. The housing market in Tier 4 and Tier 5 cities might be more severe, but its impact on the country would not be significant.

Weaving all these strands together, an encore of a Japan-style real estate market crash, leading to a systemic crisis and deflation in China, appears very remote, because the circumstances are starkly different.

Stock Markets

In the wake of Ezra Vogel's 1979 book, "Japan as Number One", investors in Japanese stocks, both foreigners and citizens, were caught up in the euphoria of the uniqueness of the new, successful Japan, which was rapidly catching up to the US in terms of technological prowess and GDP per capita. This **hubristic exuberance** underpinned their conviction that Japan would overtake America in most aspects, bar perhaps military power and nuclear weapons.

Based on my 15 years as a fund manager for Japanese equities and 30 years investing in China's stock markets, I would like to draw some profound contrasts between the two.

After a period of sustained economic prosperity, strong corporate profits, a buoyant property market, and a spirited stock market, the late 1980s Japanese stock market was rife with professional investors drunk on over-confidence, hubris, complacency, and irrationality, which I would call "**hubristic exuberance**".

In the bubble years in the 1980s, save the cautious few, every Japanese corporation threw their excess cash into the stock market, and many borrowed to leverage up. Individuals used margin offered by their brokers to gear up their Japanese stock investments. Driven by massive liquidity and **hubristic exuberance**, the market's P/E ratio skyrocketed to 70 times! Instead of turning cautious, investors sought comfort in Tobin's Q-ratio. Several members of academia in Japan and the US published papers justifying the high earnings multiples by arguing that the market was actually reasonably priced, as suggested by the Q-ratio.

When Tobin's Q-ratio could not fully justify the market valuation after a few more spirited leaps, NRI came up with a new yardstick called the "Price to Future Book Value", which was primarily predicated on the continued rise of land prices!

Whilst this was adequate for young, hot-shot fund managers to continue partying to the music, some sober investors sensed that the music was probably coming to a stop. A few months after NRI rolled out this new yardstick, "Humpty Dumpty" crashed from the heights of 70x P/E, smashed into smithereens.

For two decades, all the King's horses and all the King's men, could not put Humpty together again. With the benefit of hindsight, it is quite amazing that few, if any, leading corporate honcho, banker, politician, bureaucrat, economist, strategist, or academic warned investors that they might be having delusions of unstoppable economic success, and hence a never-ending bull market.

China's last bull market in 2019-2020 peaked at 15x P/E, a far cry from Japan's stratospheric 70x P/E. While there might be some similarities, the differences between the two are considerable.

Powered by greed, herd behavior, and a shortage of experience as well as original thinking, investors did pile into "perceived" growth stocks that proved to be mirages, in sectors like the internet, e-commerce, mobile games, after-school tuition, pharmaceuticals, logistics, etc.

Many China fund managers, including established global names, furiously chased those growth stocks to generate eye-catching outlier returns. Domestic managers had hoped that strong returns would help them gather more assets, so they piled into them without paying much heed to their future fundamentals and valuations. As a result, strong, competent, and honest management teams, as well as sound ESG practices of companies with strong franchises, were neglected by the then star fund managers obsessed with just "hitting it right out of the park".

However, China's two-year bull market in 2019-2020 was driven primarily by China's version of America's Nifty-50 stocks of the 1960s, or "long runway stocks" as some Chinese investors like to call them. Whilst the PERs of these darling stocks skyrocketed to stratospheric levels, most segments of the market were sober. At APS, luckily, we stayed sober and adhered to our investing process, which guided us towards attractive Economic Alpha stocks with strong business franchises, like China Mobile, Suntien Green Energy, Kunlun Energy, and CNOOC, which were traded at 4x-6x P/E, while the "long runway stocks" stocks were exuberantly chased up to 50x-100x P/E. Hence, China's two-tier stock market has never reached Humpty heights, as the euphoria did not pervade every corner of its stock market.

Unlike Japan's bubble-era where bankers, corporates, and individuals were heavily entangled in both the real estate and stock market bubbles, China's situation is drastically different. Its stock market does not, and will not, suffer from a feedback loop between its stock market and real estate market, and hence this type of systemic risk is unthinkable.

It was not uncommon for the blue-chip Japanese companies, especially the zaibatsu groups, to hold equity stakes in as many as a hundred companies, as part of their keiretsu system. They also invested in real estate. In contrast, China's major companies by and large do not invest in real estate. Save for some corporate HQs, the big boys like Alibaba, Tencent, Moutai, Baidu, BYD, Huawei, Xiaomi, China Mobile, SMIC, and many more, would not be affected even if China's real estate market and the stock market were to collapse, because they do not dabble in them.

This colossal difference between present-day China and 1990s Japan may have been missed by economists on the China Japanification bandwagon.

The PBOC is not the BOJ

Instead of working to prevent or rein in Japan's 1980s runaway asset bubbles, and staying calm, composed, and neutral, the Bank of Japan was itself caught up in that nationwide **hubristic exuberance**. Sadly, they were party to that party, by creating a geyser of liquidity.

Across the East China Sea, the People's Bank of China for years had watched with concern the one-way property market. The affordability ratio of home prices to income had skyrocketed to double-digit figures in the cities. Worried about the risk of a Japan-style systemic crisis if home prices were to crash, the PBOC issued the draconian three red lines policy in the autumn of 2020. Banks had to reduce their exposure to the developers, while developers were compelled to reduce their leverage. China's housing market spiraling down into its biggest slump is policy-induced, but that decline still pales in comparison to 1980s Japan.

For many years, bankers and home buyers all believed that housing prices would have to continuously rise despite anti-speculative measures, because of rapidly rising wealth, a lack of investment products, capital controls etc., just like Japan. Fortunately for China, the PBOC took a different view over a decade ago and deployed a series of measures, including the three red lines policy, preventing a Japan-style "Land Myth".

Kudos to the PBOC for its forward-looking policies at a delicate time during the epidemic year of 2020, to defuse a time bomb which might have blown up the entire banking system one day, if tough actions were not taken.

As of the time of writing, China's major banks are still prohibited from expanding their exposure to the struggling real estate sector. Even if China's real estate prices were to plunge another 50% from here, a systemic banking crisis will, in all likelihood, still be averted.

Bank Lending

When Japan's property bubble burst, almost every bank became insolvent overnight, with over 200 financial institutions bankrupted. Not a single large bank was solvent. To stay alive, they had to merge with other banks and had to receive bailouts from the BOJ. Even after the mergers, their ruined balance sheets would not allow them to increase their lending.

How did they end up in those dire straits? When the bubble was in full swing, corporate Japan decided that it must also have a piece of the action in the stock market. Japanese companies were persuaded by the proponents of "Zaitech", which was "using financial engineering expertise" to make no-brainer, Zaitech profits. Zaitech is a portmanteau of the Japanese word for financial dealings "Zaimu" (財務) and engineering.

Every other listed company took out bank loans at 3%-5% per annum to punt stocks, and for a time, double-digit annualized returns looked like child's play compared with the arduous business of manufacturing. As their portfolios grew, many started to outsource the investment function from their finance departments to professional fund managers, but with bigger stakes this time.

And that was how I met the urbane 70-something chairman of a Japanese steel company. Over an extravagant lunch to thank me for a job well done over the past year, the veteran corporate chieftain confidently predicted that Japan would become the largest economy in the world. Maybe "Japan as Number One" had pride of place on his bookshelf. Predictions of a rosier Japan increased each time the Nikkei 225 index hit a new high.

All this crazy stuff were fueled by the BOJ's monetary policy of ample, cheap capital: margin financing for speculative trading in stocks, Zaitech investments, cheap mortgages, new golf course projects spouting all over the country, and marquee iconic overseas real estate purchases like the Rockefeller Center with its Radio City Music Hall and hotels in the golf paradise that is Palm Springs.

Banks vigorously grew their mortgage portfolios by lending on thin spreads, just like the US sub-prime market two decades later, on what was believed to be a no-brainer, cannot-possibly-lose business. Loan officers would convince the rare skeptic to take a loan that even exceeded the property valuation, convinced that the land of rising property prices could only see higher prices.

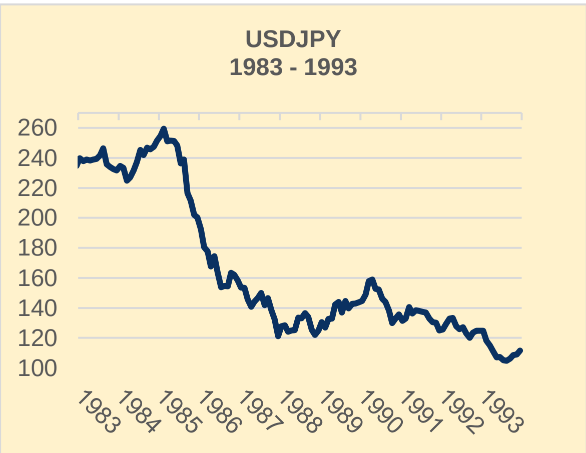
As I mentioned earlier, at the peak of Japan's property bubble, the 1.15-square-kilometer Imperial Palace was worth as much as the entire state of California! Believe it or not, at that time, neither the policy makers – including the BOJ – nor academia, nor corporate Japan, had warned that a real estate meltdown would sink the Land of the Rising Sun.

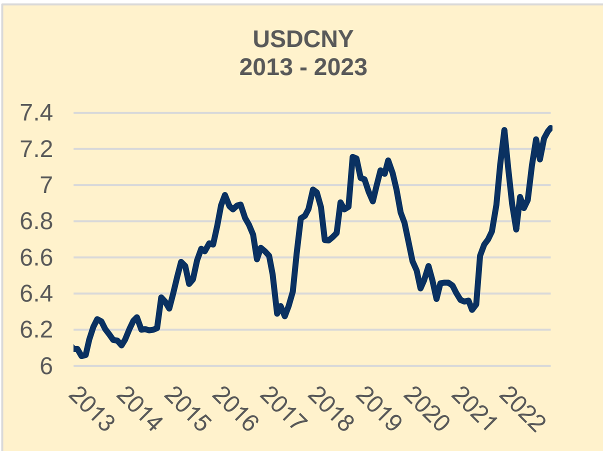
In China, the situation is once again rather different. There are no signs that any of the Top 4 banks are under pressure of insolvency today. In fact, each of the Big 4 banks are on course to report profits of USD30 billion to USD60 billion, even after provisioning for non-performing loans. Their loan book exposures to developers and mortgages average around 10% and 20% respectively, bearing in mind that the latter are full-recourse loans where strategic defaults are not realistic options.

Again, the healthy financial position of China's major banks stand in great contrast to the bankrupted banks of 1990s Japan. Chinese banks have the willingness and capability to lend today if there are worthy borrowers.

Corporate Borrowing

Japanese corporations in the 1990s were not keen to borrow, even if Japan's zombie banks were willing and able to lend, but they were not. The Plaza Accord of 1985, which aimed to make US exports more competitive and reduce the American trade deficit, resulted in the massive appreciation of the Japanese currency. This rendered many Japanese exports uncompetitive.





Corporate failures were rampant. Hokkaido Takushoku Bank, Long-Term Credit Bank of Japan, Dai-Ichi Kangyo Bank, Yasuda Trust Bank, Yamaichi Securities, Yaohan department stores, Japan Airlines, Sega, Akai, Onkyo, and many others, all came to grief after the bubble burst.

For those who might survive after the bubble's bursting, the number one KPI from the CEO to the freshman was to ensure that the company would avoid "Chapter 11". They are all "salarymen", or employees with almost no equity in the company.

In Japan's lifetime employment and seniority system, you join and retire in the same company. This is the best outcome. The salaryman's greatest fear in the post-bubble years was that their employer went under and they had to look for another job. Firstly, because the pay cuts would be significant, secondly, their promotion prospects as mid-career hires would be markedly inferior to "seisha-in" – regular employees who had been with the firm since graduation. Therefore, the salarymen managers in those years were least interested in taking on new risks by leveraging their balance sheets for new projects. The preponderance of sluggish corporate borrowing at that time was due to this unique aspect of Japanese corporate culture, but this is not the case in China.

Has the balance-sheet recession camp taken this unique factor into account? I do not think so.

Many leading as well as promising companies in China, on the other hand, are either founder-led or State-owned Enterprises. The latter's gearing ratios have been strictly guided by the central government to very prudent levels, while also benefiting from an implicit state backstop. By and large, they are not allowed to speculate in real estate and hence are not a likely source of stress for China's banking system. For example, China Mobile has USD50 bn of cash, equivalent to 30% of its market capitalization, despite paying out an annual dividend yield of 8%.

Founder-led firms will typically not shy away from loading up on debt if the ROIC is much higher than capital costs, though at present many of them have little incentive to build more capacity in the face of sluggish economies, both foreign and domestic. The few exceptions may be entrepreneurs in Electric Vehicles, semiconductors, and other hard tech sectors.

Having spoken to many founder-led firms this year, I have no doubt they will borrow again when the local and global economies improve.

Country Stagnates When Still Making Technological Advancements?

China, one of the world's top producers of STEM graduates, is taking huge strides in terms of technological achievements, making progress in sectors such as AI, semiconductors, EVs, 5G smartphones, satellites, aerospace, AI, quantum computing, factory automation, green energy, telco infrastructure, as well as news in September 2023 of SMIC and Huawei's breakthrough in the 5G-capable Kirin 9000S 7-nanometer chip design and the fabrication of chips at scale. Huawei's 5G smartphones have a fair shot at taking chunks of market share from Apple and Samsung.

During the Covid years, the Chinese EV OEMs and component companies quietly designed and produced electric vehicles that are setting new standards today. I had test driven them twice this year and must say their body and interior design, AI features, and driving comfort are simply awesome. I think they have backfooted their international peers. It is therefore no surprise to me that Volkswagen took a USD700 million stake in EV upstart X-Peng in August.

I think China will become the new “king of autos” in the global USD3 tn-a-year automotive manufacturing industry.

I cannot think of an economy that has peaked out when its many tech industries are still making huge strides in technological advancements. China should not be the exception. Why so many in this world have been making such damning verdicts about its future, is a mystery.

Some might think that under the pressure of unrelenting US attempts and efforts to stymie China’s technological advance by employing technological bans, trade tariffs, entity lists, and what not, China would crumble like Japan. Here, I would argue again that China is not Japan. Because Japan relied on the US nuclear umbrella, it could not fight back against the US efforts in containing its technological advancements.

It is not an exaggeration to state that the US had successfully planned the downfall of Japan’s leadership position in the semiconductor industry. Whilst Japan capitulated, China doubled down by mobilizing its STEM graduates, persuading the return of its overseas engineering talent (returning sea turtles), exhorting its companies to invest heavily in R&D, and getting its local governments to co-invest bns of dollars.

On the Chinese currency, it can and will resist a Plaza Accord-style appreciation, in a short period of time. Paradoxically, the government today actually wants a stronger RMB. Nonetheless, China’s exports would not become uncompetitive in the same way as Japanese exports which suffered from the abrupt, steep appreciation of the yen post-Plaza Accord.

To recap, Japanese semiconductor companies NEC, Toshiba, Mitsubishi Electric, Fujitsu, and Hitachi had overtaken American players such as Intel and Fairchild Semiconductor to become the world’s leading chip makers by the 1980s, while the cold war silently raged.

The US then made its move. It first targeted Toshiba by alleging that its subsidiary Toshiba Machine was supplying highly advanced milling machines to the USSR to build nuclear-powered submarines that were quieter and therefore more difficult to track and intercept.

Toshiba Corporation suffered a broad spectrum of consequences from the alleged misdeeds of its subsidiary. The Japanese government, in order to appease Washington, imposed harsh economic penalties on the company; as an unnamed Japanese government official noted, “short of driving Toshiba into bankruptcy, I think they were the toughest sanctions we could take”.

By July 1987, this furor was dying down, but in August 1987, the CIA briefed National Security Council and State Department officials about fresh, strong – but ultimately inconclusive – evidence linking Toshiba Corp with transfers of significant microelectronic technology to Eastern Europe since at least 1979. Tokyo denied any wrongdoing by Toshiba Corp and many in the administration wanted to believe the company, hoping the issue would fade, according to a confidential CIA document declassified in 2014. Many in Congress, however, saw this as a weapon against Japan, to stoke the anti-Japanese fire already being fueled by the trade deficit, according to that document.

After the US hit Toshiba with sanctions, Toshiba's semiconductor division never regained its position as the world's second largest chip maker and the group is now a shadow of its former self and is up for sale. In Chris Miller's "Chip War", he attributed Japan's semiconductor decline to its failure to switch from memory chips to microprocessors, which was a small factor.

The Japanese automotive industry became the next target. High-quality, fuel-efficient Japanese cars sold remarkably well in the US after the second oil crisis. Eventually, Japanese auto companies bowed to US political pressure to accept "voluntary export restraints" (VERs) and built plants in the US.

Vogel's 1979 book, "Japan as Number One", was probably a game changer for the Japanese, in that it gave them confidence that they had finally arrived, and that Japan's economic success was unstoppable. Western management gurus rushed to Japan to study everything Japanese that created the economic miracle. Strangely, life-time employment and seniority systems were touted as the foundational strengths and successes of Japanese companies. After the economy collapsed, no management gurus praised them anymore.

A decade later, another best-seller, "The Japan That Can Say No" boosted Japanese confidence further. It was co-authored by the late Shintaro Ishihara, former Japanese Minister of Transport as well as Tokyo governor (1999-2012), and Akio Morita, co-founder of Sony Corporation. The book argued for a more assertive Japan less dependent on America. Taken together, these two tomes, amongst others, efficiently encapsulate the spirit that underpinned Japan's **hubristic exuberance**.

Golf Mania

The property and stock market bubbles which thrived and fed on **hubristic exuberance** were best manifested in Japan's golf mania.

Living in Tokyo at that time provided little protection to the infectious "golf virus". All my male colleagues played golf. After three years of their wooing and coaxing, I finally took up the game. I struggled like most beginners, as I would slice to the right and hook to the left, but my fondest memory was my first of two hole-in-ones six months into the game. Thanks to my golf-crazy former colleagues, I now play about once a week and enjoy it.

Golf was so popular then that there was even a 5-tier 24-hour driving range in Tokyo! A new golf course seemed to be completed every other day. Golf club memberships were going for USD500,000 to USD1.5 mn for courses 90 minutes' drive from Tokyo. For USD250,000, you could secure the privilege of driving 2.5 hours each way to play 18 holes at mediocre courses. Mind you, that was 35 years ago!

Banks decided that they should not be left out. They joined in the party, offering generous 80% loan-to-valuation ratios. The 15 mn golfers were swinging their golf clubs on weekends and speculating on weekdays which new club membership will catch the fancy of golfers and skyrocket, which is analogous to hedge funds chasing tech start-ups in recent years.

During those crazy years, one could even trade 400 golf memberships like stocks on the Japan Golf Exchange, a stone's throw away from my office. Believe it or not, there was even a Nikkei Golf Index compiled for the USD200 bn golf club membership market!

Many could not resist the addictive sports and membership frenzy. Many of my colleagues owned multiple golf club memberships then, inviting me to play each time they made a fresh acquisition. They tried convincing me of the "sure-bet" on memberships, on the argument that land supply could not be increased. My standard reply was: "Let me think about it." I just could not convince myself to fork out those sums of money for an average golf club membership. Truth be told, the **hubristic exuberance** permeating Tokyo at the time did not sit well with me.

Top Japanese golfing brand Honma, its gold-plated clubs a garish symbol of the sport's hubristic heights in Japan, filed for bankruptcy protection in 2005, weighed down by burdens that included excessive investments in golf courses. Japan's 3,000 golf courses for a population of 125 million dwarfs China's 600 courses in a nation of 1.4 bn. In some ways, one can say that China still has a long way to catch up!

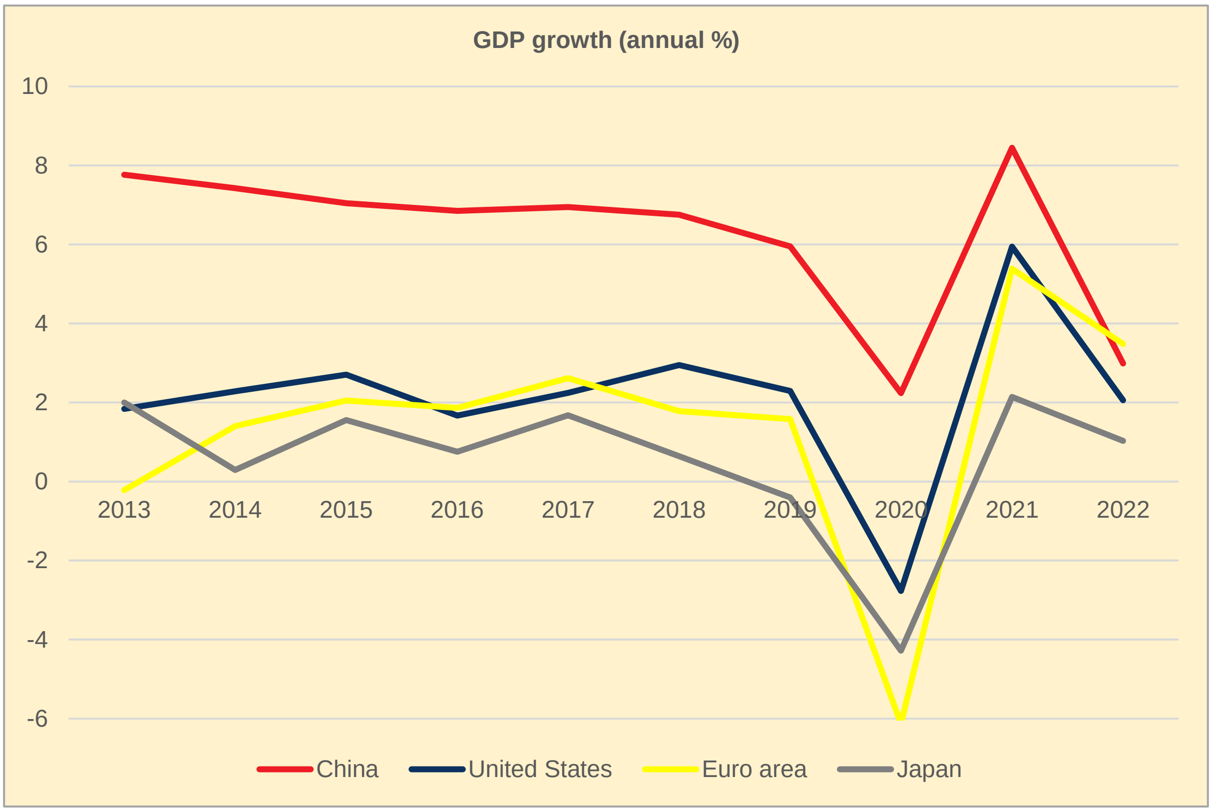
President Xi Jinping is not offering much help for China to catch up on that dubious honor. He actually banned Party cadres, government officials, military personnel, and SOE executives from playing golf from over a decade ago. He even ordered 100 courses to be shut down, as the land parcels were acquired under dubious terms.

None of the APS staff in China play the game; it is more a matter of coincidence than decree though. The Chinese are less conformist than the Japanese, where most people subscribed to the mantra of "Nail that sticks out, gets hammered down." Keeping up with the Joneses as a form of societal pressure is common in Japan, as witnessed in the game of golf. All said and done, I have not detected any of the golf excesses in China as I had experienced in Japan.

The Chinafication of China

Some economists have hastily jumped to the misplaced conclusion that China's economy is mired in a deep malaise. Is it?

China's GDP growth during the three-year Covid period was not bad at all; it was "humming and whistling". Its GDP growth leads that of all the major world powers, as China successfully navigates with little handouts and money printing. That feat would be the envy of nations now toting up the bill for giving their citizens a cushioned ride. That said, I would concede that China's managing of the lockdown last year could have been done better.



After China's fairly strong 3Q print, several foreign economists have revised upwards their full year forecast to 5% GDP growth. Is 5% really that dismal? It might not be the best figure for China, given its past phenomenal performances, but that is still a respectable figure nonetheless. It is therefore bizarre that the number of reports positing that the economy is in BIG trouble has increased in recent months.

What about those economies that will post 1%-2% growth this year? Are they not in bigger trouble then? Singapore's GDP figure this year will fall in that range but I do not see reports warning that the economy is about to be afflicted by a "balance-sheet recession".

Some argue that GDP figures can be doctored. Economic data that cannot be tweaked by even a dollar is trade surplus. China's trade surplus totalled a remarkable USD1.69 tn in the three pandemic years and is on track to hit a record sum of USD847 bn this year. How can an economy that is depicted to be in big trouble achieve these things?

It is correct to say that the housing market is in a slump, but one must not forget that it is a **policy-induced slump**. It is also correct to say that certain sectors are faring poorly, but is it correct to go a step further by diagnosing the entire economy as being very sick, and hence would need a **strong dosage of fiscal stimulus**?

The view held by Koo, the IMF, and many more economists – that China is already afflicted with a Japan-style balance sheet recession – is, to my understanding, plainly wrong.

Reading Koo's book, "The Escape from Balance Sheet Recession and the QE Trap", I do not get the sense that his prescription for Japan would be suitable for China.

Japan's GDP growth after the bubble economy imploded had been lackluster, even with many dosages of fiscal stimulus. Building "bridges to nowhere" etc. had not rebooted the economy. There was a whiff of pork barrel politics, such as disproportionate amounts of infrastructure being built in sparsely populated rural areas that were LDP strongholds.

China could have taken the easy way out by injecting liquidity to goose the economy and deliver a nice print of 7% GDP growth. China eschewed that path and instead took steps to rein in the shadow banking system, including thrashing out the draconian three red lines policy against the over-leveraged developers.

China's rapid economic growth in the last four decades has for sure created dislocations and excesses that need to be tackled, but they are quite different from Japan's, in both scope and nature as well as root causes. Therefore, it will be a grave mistake to adopt strong fiscal stimulus measures for the sake of stronger growth. I would argue that it might exacerbate many of its present problems.

In my view, China should adopt a targeted approach to tackle its unique set of problems, rather than a blanket fiscal stimulus plan. Just to mention three suggestions:

1. As geopolitics is one major reason for the slowdown in exports and hence the sluggish manufacturing industries, China can double down on its efforts to increase trade with the BRICS and other friendly countries.

2. It can allocate more financial and human resources to accelerate the development of key high-tech industries. Such an industrial policy is certainly more effective than a fiscal stimulus plan focusing on infrastructure.

3. If China needs more growth, one less costly, effective way is to provide a sound legal and business environment that is conducive to business. For instance, fair and consistent enforcement of laws and regulations with improved clarity, to give entrepreneurs confidence, which is sometimes lacking. Singapore has done exceedingly well in this aspect, from which China can learn. Chinese entrepreneurs whom I have met over the years are diligent, smart, hungry, and love making money. What they would need is an operating environment conducive to building successful businesses. In due course, talented Chinese nationals will also return from abroad.

Last but not least, Deng Xiaopeng started China's economic miracle using socialism with Chinese characteristics. Should the problems of this economic miracle not be tackled in the same Chinese way too? Most of the dislocations and excesses faced by China today are a result of loose monetary policies, lax supervision, and unbridled fiscal stimulus in the past. I cannot see how a new fiscal stimulus package can solve its problems. In my view, the Chinafication of China would be the best approach.

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