

A View on China and Implications for (Un)-Biased Investing

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When I arrived in Hong Kong five years ago, I was enamored by images outside my window in the distance of neat rows of Chinese primary school children in uniform singing the *March of Volunteers* as the Five-starred Red Flag was raised in the courtyard. I asked myself: was this not the same as Americans “pledging allegiance” to their own flag? Or as Americans recite “with liberty and justice for all”. I wondered if these children were demonstrating subservience as a method of loyalty to

figureheads. The history-based lyrics and ideological grounds of both countries and cultures may be different but over time I came to the conclusion that both are simply manifestations of pride for one's nation.

After five years of living in China, I became more and more conscious that some of America's values and morals are not always universal values to the global population. As an investor living and working abroad it became clear to me that investors must tolerate various points of view. Investors are better off if they seek out and observe those outlier opinions to inform their conjectures but not allow those outliers to commandeer those conclusions. Open-mindedness and immersion I feel are under-practiced skills, which are fundamental to investment rigor.

Blueprint

The recent Two Sessions meeting, which is effectively the central planning committee of the People's Republic of China (PRC) and consists of the National People's Congress (NPC) and Chinese People's Political Consultative Conference (CPPCC), is clear evidence of a methodical and calculated approach to decision making for the country's 14th 'Five-Year Plan'. Yes, China still operates on the traditional Marxist economic model: central planning. While speeches by the Premier and President and other officials are highlights, committees examine and deliberate the finer points of the 'working plan'. This process is fairly similar to how Governors of British Overseas Territories operate: they lay out an annual legislative agenda for their respective parliaments after which officials debate and draft laws on which to be voted.

So, why the fear of the Chinese approach to governing? It could come down to the influence of the immersion in one's community from teachers, friends, family and multi-form media. China's history and values such as patriotism, the one-party state and collective value, and America's history and values such as democracy, freedom and capitalism can not only influence conclusions but the very established process to get there. This predominance of bias doesn't bode well for investors and analysts. Consequently, they must be even more determined to move outside the bounds of their circle and patiently listen to those alternate theories, theses, and positions. However, while taking all points of view into consideration is crucial for a reasoned evaluation, I believe that investors must still follow a regimen, in order to arrive at credible investment decisions.

Don't Resist the CCP

During a recent visit to Fujian province President Xi Jinping stated: *"We must rely on innovation for the country to advance in the next five years."* Growth drivers abound in China. productivity upgrades, clean energy transition, and healthy living, are all linked to R&D spend, which grew approximately 10% year-over-year in 2020, representing 2.4% of GDP, according to official statistics. It's expected to grow rapidly over the next several years. Moreover, there are all the classic enhancements of a budding nation abound: 30 civilian airports in next three years according to Wang Zhiqing, China's vice transport minister, doubling the kilometers of high-speed rail network in the next 15 years [35,000km to 70,000km], and building massive solar, wind and natural gas plants to meet carbon emission targets. In addition, there are rare government subsidies, credits and tax breaks for healthcare access, drug discovery and specialty care hospital construction. However, China also has other structural reforms underway that set it apart from developed markets: supply side, capital markets and real estate. These are all aspects that are well entrenched in the American capitalist system.

In fact, China isn't downsizing its state-owned enterprise (SOE) structure, a relic of the central planning economy. Economic officials are propping them up as a way for the Chinese Communist Party (CCP) to continue its involvement in the development of "China Inc.", domestically and still, internationally. China is dually leveraging the public sector (SOEs) and the private sector to achieve collective prosperity. This is key and is likely being missed by most investors. As the *Economist* wrote in August 2020 "Blooming for the Glory of the State," "[Xi's] idea is for state-owned companies to get more market discipline and private enterprises to get more party discipline, the better to achieve China's great collective mission." Isn't this cooperation similar to public-private partnerships, that we observe in the US and Europe? So while on the surface it appears China is usurping the private enterprise into the Party as a form of loyalty, **we think that loyalty to the Party is really a version of economic coordination for prosperity.** While some investors might view such subservience as a negative, this loyalty is simply a mechanism to promote mutual economic growth. **Americans have oft repeated "Don't fight the Fed"; the corollary in China is arguably "Don't resist the CCP".**

Grounding

An established premise of a reasoned debate is the ability to take all points of view into consideration. Laterally, investment decision making follows similar parameters. Prudent investing begins with seeking out and absorbing various pieces of information, far-and-wide, and then making conjectures on that disparate configuration of data.

Therefore, a key facet of successful investing is the establishment of an investment philosophy or process. This is crucial to grounding one's thought process to substantiate conclusions that are based on logic or reason. A reliable system to enable a harmonious evaluation of inputs to make substantiated conjecture is a key pillar of investing. The ongoing dialog amongst my colleagues at Tocqueville is an example of a forum that inspires reasoned debate.

We all have a bias, but in investing, less bias is more. A mosaic theory of investing which considers all points of views, without the prejudice of pre-existing assumptions, and which methodically leads to reasoned debate in my estimation can improve outcomes in the sphere of wealth creation and preservation.

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