Interview with Dr. MAO Zhenhua, Founder of China Chengxin Credit Rating Group and Co-Director of Renmin University's Institute of Economic Research, on his views on national policies and industries

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PART 1

Highlights of Dr. Mao's comments:

1. A successful industrial revolution can change human life. The Internet is the most recent industrial trend and this is still developing.
2. The Chinese government's best strategy to benefit the financial market in today's economic slowdown is to increase capital for enterprises.
3. Land reform in rural areas could lever domestic consumption, aid urbanization, contribute to GDP, and counteract monetary oversupply.

The 2015 Government Work Report was delivered by Premier Li Keqiang at the plenary session of the 12th National People's Congress on 5 March 2015. The Report detailed China's industrial development so far and it emphasized the "new economy". We are pleased to have Dr. MAO Zhenhua, Co-Director of Renmin University's Institute of Economic Research, to give us his views on national policies.

"*Having tried its best, the Chinese government could not achieve its GDP target of 7.5 per cent for 2014. This suggests that the existing model is not able to break new ground as its momentum is not strong enough to do so.*"

Dr. Mao predicted earlier this year that the government would set the GDP growth rate at around 7 per cent. He interprets the word "around" as "If the economy performs well, the 2015 GDP would be 7.1 per cent to 7.2 per cent; otherwise it would be 6.9 per cent."

"*Although China faces economic challenges, the economy is running its medium-to-long-term trajectory. The 7 per cent economic growth rate is still very high in the prevailing global standard.*"

“When Mr. Deng Xiaoping set the ambitious goal to double or triple national economic growth some 30 years ago, he meant a growth rate that was about 7.2 per cent. The miracle happened, and Chinese people enjoyed double-digit economic growth rate for many years. With such a high base, it is not easy to maintain a 7 per cent growth rate.”

A new industrial revolution is yet to appear

Regarding China’s current situation, Dr. Mao pointed out, “Under the prevailing decline in international markets, the internal economic transformation of China cannot be done in one day. China’s economic development will depend on national income and consumption capacity. The salary issue of labor has to be addressed, but any pay rise will cut profitability and erode the competiveness of companies. It is a double-edge sword situation in that salary needs to be increased, but companies cannot afford too fast a pay rise. So the goal of high domestic consumption is not easy to attain. In past years, the government adopted the strategy of increasing investment to boost economic growth, through monetary easing policies to provide liquidity and expand credit to strengthen economic momentum. But, the current conditions are no longer the same. The effect of spurring economic growth by investment becomes less efficient due to the fact that many investment projects have been completed, and the same amount of money pouring in cannot be as efficient and effective as before. The current situation definitely required much more effort than in the past. ”

Therefore the three areas emphasized in the 2015 Government Work Report include nurturing and burgeoning new drivers of economic development.

Optimistic about mobile internet industry

Dr. Mao suggests mobilizing resources to those on-the-run industries as a successful industry must be related to changes in human society.

“All the past industrial revolutions reflected in cost advantage. In China today, many emerging industries rely on government subsidies to operate; they do not have any cost advantage.”

Dr. Mao quoted the examples of new energy, biotechnology and new materials, “In the year of my graduation, I joined Hubei Province’s High-tech Development Strategy Working Group. The four businesses proposed included electronic information, new energy, new materials and biotechnology. After 30 years, the only industry which is considered successful is electronic information technology while the other three show some progress but are not mature enough to change people's livelihoods."

He pointed out that the boom in information technology began in the 1980s and positively contributed to the now-thriving Chinese economy. The revolution in information technology is still going on in the absence of a new industrial revolution.
He says, "In between industrial revolutions, there is a transitional period, but at present there is no sign of a new industrial revolution. We are still searching for signs of it. It will not come suddenly out of nowhere."

"The Internet changes our world completely in how humans live and in our social-economic structure. The Internet is entering an enhancement phase."

Opportunities everywhere for the finance industry

The service industry, which includes finance, is the area that Mr. Mao has been optimistic about for years. He held that, "There are many opportunities in the finance industry, for example, internet finance, and personal wealth management. These are parts of the finance industry which provides diversified services and that targets all walks of life."

Regarding capital exports, the internationalization of the Renminbi, the Shanghai-Hong Kong Stock Connect and the future Shenzhen-Hong Kong Stock Connect are all financial activities. The excellent performance of the A-share market helps to build a favorable environment for the financial sector.

"There seems no direct relation between the performance of the Chinese economy and the stock market. In the past few years, when the Chinese the economy grew fast, the stock market headed downwards. The recent upswing in A-shares was caused by credit-easing policies. I have the view that the Chinese domestic stock market can sustain its bullish trend. Regarding the property market, the upside is very limited. It probably has reached its peak."

Of China's heavy corporate and district government debts which is a concern of foreign investors, Dr. Mao believed that, "Among large economies, there is no country like China that has such a huge amount of operational state-owned assets available for sale. The total amount of government debt is 60 per cent of GDP, a controllable level. Having said that, the issue of corporate debt needs to be addressed."

"The level of enterprise debt in China is too high. The reason why the United States could sail through the recent financial crisis is partly because of the low level of enterprise debt. A low debt level always means resilient to turmoil."

The high investment return of Chinese enterprises does not come from capital, but from debts. China is a country filled with many loan sharks. To remedy this situation, it is important to increase capital for enterprises.

Mr. Mao emphasized that, "The government should regard expanding corporate capital as the important strategy. It needs to find innovative ways to solve the potential problem of corporate debts, including promotion of capital markets, venture capital, refinancing, and tax deduction. This is the right way to deal with the economic downturn."

In conclusion, corporations in the finance and finance-related industries will have many opportunities come their way while debt reduction is being carried out.