CHINA'S NEXT ALPHA: OPPORTUNITIES IN A NEW GROWTH ERA

Announcer 00:00:00

Thank you for joining us. Please welcome the panel to the stage.

Robin Hu 00:00:07

Good afternoon. There's plenty of seats right in front if anybody wants to prefer a closer intimacy with the panel. So a very good afternoon. That you have chosen to be in this room instead of the nine other options that's available suggests to me that the panelists probably need no introduction. I do, however, need to explain that Ambassador Kevin Rudd is unable to join us today due to an urgent matter. Stepping in with remarkable grace at a very short notice, is someone whose understanding of China from the inside is unmatched. I am, of course, referring to Christopher Johnson. Chris spent two decades at the top as China's analyst at the CIA and advising senior White House cabinet military officials on all things China. He now leads China Strategies Group, where leading corporations and financial capital allocators come to him very often when the stakes are too high for guesswork. So thank you, Chris, to be here. So now every China panel for the last three years will always talk about things like semiconductors, tariffs, decoupling, and Taiwan. In this particular panel, we might touch some of that as well, but we will get much more, because we have real practitioners on China and in China from the inside. So China engagement, as we know, is not a theoretical question in this room. Each of you has skin in it. So to Goodwin, it is about capital decision. To Yue-Sai, it is a market that you have built over the last 40 years. And to Diana, is a structural economic puzzle that you attempt to solve every single day. And to Chris, it is a geopolitical condition that you have been managing at a very top level. So question one is for each and every one of you. Are you more engaged or are you more cautious towards China than you were two years ago? So two years. It simply means that your posture, how much more attention, and how much more capital, and how much of your thinking has shifted in that time, in which direction, and why? Starting with Goodwin, then Chris, then Diana, and Yue-Sai, you round up.

Goodwin Gaw 00:02:40

I would say today I'm definitely more engaged than two years ago. Two years ago, I think it was very difficult. In China, we always say you have to read the tea leaves, right? You have to read what sectors is the government allowing you to make money and which not. As a capital allocator, we always have to say, how do we get exits? Before we even make a first investment, we said, "What's our exit? How do we exit?" And in China, it's critically important because government policy plays such a big role. If you are in the right sector where they want your money, you actually can make a lot of money because of the size of the economy and the inducement from the government when they want to induce you to go into the sector. But if you are caught in the wrong sector or caught midway in the wrong sector after you invest, before you get out, you could be stuck, and that happened actually to the real estate business, that is primarily our business, right? That business went from a super hot sector where we were chugging along, producing projects, producing hotels, doing office buildings, help building up these cities. And then ~~the~~ government all of a sudden decided that they no longer view real estate as a growth pillar or an important pillar of their GDP, even though it accounts for 27 percent of the GDP, and even though it accounts for the majority of the household balance sheet. Right? So that was a total surprise to all of us practicing in China. So that actually made it a bit of a very confusing, complicated, and chaotic unwind in the whole sector. With the single goal by the government of channeling money towards Made in China 2025, advanced manufacturing, solar, EV, semiconductor, AI catching up, right? So they want to re-channel that money, but the way they did it, it was quite clumsy, and so it caught many practitioners in a bind. But then obviously now you have seen DeepSeek, you have seen China being one of the—token cost in China is the cheapest in the world. And data to train anything from robotic arms to advanced manufacturing is the most abundant data in the world also. Right? China accounts for 28 out of 61 nuclear plants—being built in China today, and that's number one of anyone building. As a result, power is abundant and it's cheap. And AI is all about power.

Robin Hu 00:04:53

Right. A quick word. Is the real estate industry in China out of the woods yet?

Goodwin Gaw 00:04:57

No, not for long. So I'll finish by that. So we're more engaged, but the way we're engaging is, how do I do China adjacent, right? China is real. Many of these industries are real. 70 percent plus of EV cars are made in China, solar panels, and so on. So China Plus One means it's going to benefit Vietnam for manufacturing going to Vietnam. All the AI needs, power needs, nuclear needs, is going to come out of Japan and Korea for the manufacturing side. And then Hong Kong is actually on the way back. Stock market is warring, and then a lot of money is channeling. A lot of family offices are opening in Hong Kong. So China is making it very clear Hong Kong is different than China, and they're allowing a lot of investment to go into China with exits.

Robin Hu 00:05:40

Well, tell us where you are allocating capital later on, but not now. Chris.

Christopher Johnson 00:05:45

I would say I'm cautiously engaged. And I choose that language very deliberately, and because I'm not engaged cautiously. And I'm a political scientist. I'm someone who's followed Chinese elite politics for decades. And to me, my caution comes from the fact that we have a situation where we can no longer ignore, I think, what's happening at the apex of the Chinese political system. And the reality there is that we have a politburo that is three members short of what it was four years ago. Two of those Politburo members who are gone were the top uniformed military officers in the Chinese military. And that's particularly important because we have to remember the distinction in China, the military, the People's Liberation Army, is the armed wing of the Chinese Communist Party, not the national military of China. And therefore, its purpose is to keep the leadership in power, as we saw demonstrated at Tiananmen in 1989. And so we need to be able to explain that. And when we look at why Xi Jinping decided to move, whatever he saw troubled him enough that he was willing to gamble that regime's security by doing something so disruptive, at least for a period of time, and I think that's very important. In fact, it was very interesting. I happened to just be on the ground in Beijing two days after this topmost general, and supposedly a close personal friend of Xi Jinping's, was removed. And I think elite opinion was very split when I was there. There was one camp that was arguing, this is just the latest manifestation of his political acumen and his calculating political sangfroid, right? Whereas I think another group said, maybe this is a reflection of someone who is aging, someone who is isolated, very isolated, and therefore let his paranoia get the better of him. And I think that really matters when we have a situation where he is considering a fourth five-year term next year. So I think that's very important. But that all sounds a bit pessimistic. On the engagement side, to me, it's mostly in the economic area where I think we've seen some signs that some of the things that have been really troubling the economy in recent years are beginning to look a bit better. So we see deflation, it seemed, bottoming out in the first quarter. I think yes, the property market remains a serious problem, but I think because of that, investors and individuals are increasingly realizing they've got to look elsewhere to generate return. And so we see them turning to the capital markets, to some degree, things like that. That's a transition that is very much in process, but it will be an important one. So that all looked pretty promising. Obviously, the Iran war is a threat to that in some ways, and I think Xi Jinping worries it could be very similar to COVID in terms of knocking his economic agenda off track. And also, we see a situation where despite some of those green shoots, if we want to call them that, the government is continuing to respond—we just saw it when the Politburo met to review Q1 economic performance last week—they're still responding with supply-side responses to demand-side problems, and that's a significant problem.

Robin Hu 00:08:58

Right. You mentioned about the Chinese military, the PLA in particular. Of course, this is the third term of Xi Jinping. And he has already taken out, not once, but two times the entire generation of the PLA leadership. What does that tell us in simple language?

Christopher Johnson 00:09:14

In the simplest possible language, it tells us that he's become extremely impatient with his commanders' penchant for lining their pockets, rather than doing what he wants them to do, which, as he puts it, he wants them to be able to fight and win wars by the centenary of the People's Liberation Army next year. And so if you're a foreign policy maker, that should unnerve you.

Robin Hu 00:09:33

Well, that, by implication, means China is not combat ready.

Christopher Johnson 00:09:38

Well, I think it means today they're not, and I think part of the problem, we see a number of issues. On the hardware side, they have lots of shiny and very capable equipment. What I would call the software side, which is the ability to conduct integrated joint operations, these sort of things—remember, this army hasn't fought since 1979, and they didn't do so well at that time. On the flip side, you can argue that by clearing the table, Xi Jinping is probably saying to grapple with what we're seeing—and we're seeing it every day in the Iran conflict and in Ukraine, changes in the revolution in military affairs and so on—maybe I need a younger crop of leaders who's more aware of those issues.

Robin Hu 00:10:17

And how would you rate the Chinese military's industrial complex?

Christopher Johnson 00:10:22

It's very effective. My personal view, as you and I were discussing this morning, is that I don't see Xi Jinping in a hurry to invade Taiwan or to take Taiwan by military force, but you have to look at certain indicators, and there are a few things they're doing that don't make sense if they don't have that intention. And one of those is they have these missile factories going 24/7, banging out a lot of munitions. And of course, the lessons we're learning in the Iran conflict and others, is magazine depth is incredibly important, and they're doing very well. The challenge, I think, is what we saw, a big motivator for this anti-corruption purge, was the uncomfortable relationships between the senior military commanders and the defense industrial companies. And there are questions then about does this gear actually work?

Robin Hu 00:11:06

Well, Diana, you don't have to comment on PLA, but go ahead.

Diana Choyleva 00:11:11

Oh, I know a lot about the PLA. So I can comment on everything because my view has been, for a long time now, that you can't get where the world is going without interdisciplinary analysis. I'm, by training, a macroeconomist, but you have to pull the macroeconomics, the geopolitics, the technology, social and cultural, behavioral disciplines together, and that's the sort of team I run. And your question was engagement with China. I've engaged with China for over a quarter of a century. When I say it like this, it sounds very scary, but it's true. And I'm even more engaged now than I have been before because my entire career as a global economist, it's been shaped by China. And the only way to get the world right, to get global markets right, is to understand what's going on in China and how does that impact the rest of the world. If I think back to my career, I started as a professional economist in the City of London in 2000. And so 2001, my first call was the commodity, the secular commodity bull story. It was a China call. Then by 2004, the low bond yields conundrum call in the US, that was a China call. Global financial crisis, I wrote a book in 2006, "The Bill from the China Shop," arguing that the world was headed for a global financial crisis. Again, very much predicated on understanding this relationship between China and the US. 2011, I wrote another book, "The American Phoenix." Put your money in US equities, and that's all you had to do for the next few years, at a time when obviously the view was different. Again, partly it was a China call because I saw that what they were doing in throwing that huge amount of money in the new circumstances wasn't going to produce the equity market gains or the performance, but the US would with quantitative easing. Then China's growth slowed down. Then the great decoupling. The thesis I've had since 2017, 2018 was very much going back to making one mistake in the wake of the global financial crisis—I thought that we will see this tension between China and the US already in 2011. It didn't materialize. In hindsight, I realized I got that one wrong because I expected this wholesale transformation of the world purely on my analysis as an economist. And then it's when, by 2015, I realized you really cannot do the world anymore with just macro. So then, by 2017, Xi had come to power. We had his first term, and then Trump became president and we had Brexit in the UK where I'm based, and I concluded, you know what? We now have the critical political mass to then act on these economics that didn't work, and the expression was the global financial crisis. And so then here we are today and I'm more so engaged with China. One, because the rest of the world, in particular the West, is less engaged. And it's quite extraordinary because so much is going on in China that we need to understand. And the other reason—which I'm sort of lucky, but I do feel a great sense of responsibility—I'm equally trusted in Washington and in Beijing. That's very rare. And so I have to kind of really—

Robin Hu 00:15:28

Hang in there.

Diana Choyleva 00:15:29

—feel the responsibility from a human point of view, not just from an analyst point of view.

Robin Hu 00:15:34

Thank you. So much is going on in China, you say that, Diana. And to tell us more about that, Yue-Sai.

Yue-Sai Kan 00:15:43

Your question starts with caution, right?

Robin Hu 00:15:46

Are you more engaged? Are you more cautious about China than you were two years ago?

Yue-Sai Kan 00:15:51

I've been engaged with China for so many years. I was engaged in marketing. I created media. I created the first television show when there was no television show in China. And that was in, when was that? 1984, I signed a contract. And then I started my cosmetic company in 1992, and that was just at the very beginning of the market economy. And I was engaged with China at that time already, and China was truly, you cannot imagine how poor it was, imagine how little infrastructure it had, and China was a miserable place, really. Seriously. My most wealthy friend made $50 a month, and it was really very poor. I remember first time I went to China, the first entrepreneur I met was a guy that was selling sweet potato on the street, and that was the first entrepreneur I met. So when I started my cosmetic company and I registered my company in Shenzhen, my license was 001.

[Laughter]

Christopher Johnson 00:17:11

Wow.

Yue-Sai Kan 00:17:12

So that really means that I was very brave. I went into China when nobody was really actually going into China. But through the years of seeing the growth of e-commerce, through the infrastructure, for all those things that are happening in China, I see this amazing country come to an amazing place where it is now the second biggest economy in the world. So I've lived through all of that. I may be cautious still a little bit because of geopolitical, but I will never stop engaging myself with China, or even with my own brand, Yue-Sai brand. We are launching all kinds of new things, and I personally am investing a lot of things in China, and I think that it's a very exciting place at this moment, actually.

Robin Hu 00:18:04

Well, thank you, Yue-Sai. I hope you've kept the 001 registration certificate. It might be worth auctioning at some stage. Well, four people, four different opinions. So I think that means China is both complex and necessary at the same time. Well, Chris, you spent two decades as the CIA's top China analyst. You now sit across the table from the world's leading corporations, as they navigate mounting geopolitical complexities. So tell us, what are the people in this room invariably wrong about, when they look at US-China relations from the outside?

Christopher Johnson 00:18:49

Right. Well, I guess I would probably highlight three things. I think the first is that there's a view, I think, and it's getting more and more popular the more and more we see China's global power rise, that the Chinese view US-China relations as some sort of great game-esque competition of geo-strategy and thinking 50 years into the future and so on. And there's some of that, no doubt. And, of course, while every country's foreign policy is at least partially a reflection of their domestic concerns and politics, in China, it's almost exclusively so. So, Xi Jinping and his Politburo colleagues, their number one concern every day is regime security, ensuring that the party remains in power. And as such, my sense is that's by nature a sort of defensive or inward-looking approach, which definitely colors their foreign policy, and yet we are barraged almost every day by media and commentariat suggestions that China is somehow on the march globally and is a major threat to the US. And I think we see a microcosm of this problem in the current Iran conflict. I've been personally bewildered by some of the commentary that suggests somehow China is winning the Iran war. I don't think Xi Jinping agrees with that. That's my sense. And if anything, their approach, to me, demonstrates a very serious campaign to try to mask how impotent they actually are in terms of shaping both the conflict itself, and certainly in its kinetic phase, but also in the trajectory that we might see afterward. There is active diplomacy. We see their foreign minister burning up the phone lines with regional parties and so on. But we don't see him get on a plane and go to the region and start engaging in shuttle diplomacy or something along these lines. And the Chinese, of course, have absolute leverage over Iran, but they're also absolutely unwilling to use it, just like they are with Russia, right, in those regards. So, that's the first one. The second one, I would say, and it's closely related, again, the domestic political focus, is that we're always grappling with these narratives that Xi Jinping's power is either not fully consolidated or he's under some kind of personal threat. And we saw a lot of this narrative during COVID, when we saw suggestions that the then number two leader in the country, his premier, or others were pushing him to end the zero COVID policy. They forced his hand there. This was a big theme for a while. Absolutely not true from what I can tell. Secondly, with these generals, the firing of these generals, that he was worried about a coup. So that's why he took these actions. And it matters for US-China relations because if you get the framing of the domestic political standing of your opposite number wrong, then definitely your impression of what they will do on the international stage will be wrong. And then I think the third misperception that's out there a lot is that conflict is inevitable, and that the problems are insoluble, and it is a Thucydides Trap, and so on and so forth. And personally, I don't see it that way. My view is there are clearly intractable structural tensions in the relationship. There's no question about that. But all it requires is leadership on both sides, right? And we've seen in the past that this can work.

Christopher Johnson 00:22:03

I think from a US perspective, US presidents have certainly done well with it when they matched their own ambitions for the relationship with how it was being viewed from Beijing. And I think we saw that work very effectively from the '70s to probably the early aughts, and then subsequent US presidents, I think, have done less well. And the other piece is that I think we saw a very useful thing last year, which is that when tariffs went sky high to 150 percent on each side, and the Chinese responded with their rare earth weapon and this sort of thing, both presidents at that point said, "Oh, this is what full decoupling looks like." They looked over the precipice and they said, "I don't think so." And I think that's very helpful for the bilateral relationship.

Robin Hu 00:22:47

Right. Diana, do you have something to add to that? Is there anything you want to tell the audience here that what is it that they don't know about US-China relations they should, from a structural economic point of view, perhaps?

Diana Choyleva 00:22:57

From an economic point of view, Western audiences seem to be looking at China very negatively at present. We had, a few years ago, this peak China. At least that has kind of died down a bit. And I don't see that. I see China having a very difficult structural transformation that it has to go through, but going through it and making the right choices. In 2015, they started a wholesale supply site transformation, including the Made in China 2025 policy, but a lot of introducing marketization in parts of the economy that they didn't have. Then, September 2024 was a huge U-turn, and for the first time in my career, I see them now committed to consumer spending, to rebalancing, finally, the economy towards consumption, not least because they realize that they're too big. They've industrialized. They are a global behemoth. They're too big to just go via the catch-up growth route. So they have to generate genuine demand, and it's not going to come from exports because the rest of the world has turned much more hostile towards them. So it has to come from domestic consumption. And that's a very interesting story because a lot of the time, I think, the questions I get are revolved around the industrial side, the supply chains, the sort of decoupling in that domain. But I'm a forecaster, and I always look towards the future. What we have seen in China's industrialization is already reshaped. What's the future on the industrial side? It is the AI race, and often I think it's not entirely clear in the West that China is running a very different race to the one that the US is. The US is running the AI hyperscaling race, and China is running the AI diffusion race. And actually, there is a higher chance potentially of them winning that particular race than the US. And then there is this financialization of the economy. That's what is going to transform and what, well, the rest of the world, and what would—if we understand correctly where this financialization of their economy is going—shape how everything else in the world works.

Robin Hu 00:25:47

That's right. I think China's AI is gravitating towards the physical AI because the SaaS model in China is very unlikely to work because of subscription refusal. So clearly I think what we have is here is a US-China relation that is more structural than the headlines may suggest, and more contested than what the optimists would claim. So let's move on to the next question. I've got Yue-Sai, you in mind for the next question. Now you came to this panel with a provocation, I think. Though China's next alpha is not only in the hard technology that we just talked about, microelectronics and AI and so on, it is also about consumer brands, cultural intelligence, and emotional demand. Pop-ups, Labubu, $5.4 billion last year, built on one character. Luckin Coffee—two characters, sorry. I stand corrected on that. I know one. I think there's another one my granddaughter may like.

Yue-Sai Kan 00:26:45

Monster.

Robin Hu 00:26:46

Yeah. The Luckin Coffee is 31,000 stores worldwide, and I understand you are investing in there as well. So what are Chinese companies learning to do that folks in this room may not be aware of, but they ought to know?

Yue-Sai Kan 00:27:00

All those brands you're talking about, from Xiaomi, from Temu, from TikTok, all these are looking to go out of China. That is really exciting. We can discuss why they really want to leave China and just expand the market out overseas. There are a number of reasons for it, and they are really exciting, actually. It's really exciting. Number one, they need to move out. Chinese market, as you all say, is slower. There's no question about that. The consumer is a bit more—and even real estate money is not there anymore, really. And therefore, you can see stores closing all over China, right? So there's no question the economy has slowed down. So, that's first reason. Second reason, it's really difficult to do business in China. I have run a business in China, so I know how impossible it is. This competition is fierce, that you cannot even believe how fierce because don't forget, we're 1.4 billion people there, right? The moment you produce one single product that is good, the next morning somebody's already copied you at a price lower than yours. So this is China. It reminds me of the song, you can make it in New York, you can make it anywhere. You can make it in China, you can make it anywhere. Trust me. Because China is so tough. Really, it's so tough. So the third reason is that really, China is over-capacitated. The capacity of China is so—how do you say? Over—

Christopher Johnson 00:28:53

Overcapacity.

Yue-Sai Kan 00:28:54

You know what I mean. Yeah. So, in other words, China really is a valve. It's not an option. You really need to—especially if you are a very successful company with the muscle to go overseas, you would definitely want to go overseas because that is necessary. When Silk Road, Silk and Road—

[Crosstalk]

Robin Hu 00:29:25

One Belt, One Road.

Yue-Sai Kan 00:29:25

—One Belt, One Road initiative came about, I understood it immediately. I said, "How many bridges can China build? How many tunnels can they drill?" Right? In China itself; they need to go outside. They can use that overcapacity to be outside. So that is another reason. The fourth reason is that, of course, the Chinese today have a lot more confidence. The Chinese brands have a lot of confidence today. Look at BYD. Just look at BYD. It's just going all over the place, right? And everybody just—

Robin Hu 00:30:00

It's the number one selling car in Singapore.

Yue-Sai Kan 00:30:02

Yeah. For sure. Everywhere. These are remarkable brands, right? If you look at the brands like TikTok, I just mentioned, right? Temu. I shop on Temu. And there are many other Chinese brands today that are really quite remarkable, and they have confidence now. Remember, it was in the old days, a Chinese product was only marked Made in China. Remember? Now it's not. Like MINISO, for example. I invest in MINISO, for example. So they're all over. They are all over. So their confidence is amazing, right? And then of course, the Chinese products, the Chinese companies today are very easy to market overseas because their model is so fast. They produce...is that me?

[Speaker unclear] 00:31:06

No.

[Speaker unclear] 00:31:08

Might be you.

Yue-Sai Kan 00:31:10

That's a Chinese brand. But anyway, oh, I don't think it will ever stop. Sorry. This is just accompanying me [Referring to noise/interference]. What was I talking about?

Christopher Johnson 00:31:22

Temu.

Robin Hu 00:31:22

You were talking about Chinese brand and—

Yue-Sai Kan 00:31:25

The Chinese brands are amazing brands. Aren't they amazing brands? Don't you guys agree that it's amazing, right? They can transpose this model very fast outside China. They produce fast, and they design fast, and they do everything fast. Their infrastructure is amazing, and they produce it in such a cheap way. You kept asking me, Robin, how much is my jacket. How much do you think my jacket is?

Robin Hu 00:31:54

I don't know. Tell us about it. I know, just quick digress to the audience here. I was walking with Yue-Sai along the streets, and then four guys stopped her and complimented on her jacket. Not mention, about my tie.

Yue-Sai Kan 00:32:13

So I want you to guess how much. This is a China-made jacket. Okay, Curtis, how much do you think this is?

[Someone speaking from audience] $80.

Yue-Sai Kan 00:32:25

$80? $80.

Goodwin Gaw 00:32:28

That's 550 RMB.

Yue-Sai Kan 00:32:31

Too expensive. I paid 250 yuan in Shenzhen for it.

[Speaker unclear] 00:32:40

Well, that's like $30.

[Speaker unclear] 00:32:41

$35.

[Speaker unclear] 00:32:41

$40.

[Speaker unclear] 00:32:43

$40?

Christopher Johnson 00:32:43

Yeah, 30, 40 bucks.

Robin Hu 00:32:46

Yeah. Send an order through her for your fellow friends. And different colors and designs available.

[Crosstalk]

Diana Choyleva 00:32:54

Talking about clothing—because I'm quite partial to fashion as well, I must admit. Although four men did not stop me on the street. Luckily. At the China Development Forum, when I went in March, there were a lot of presentations about sort of consumption and how each city is going to foster this consumer-led growth. It was very interesting. One aspect, I think it was Shenzhen, they are now going to take over the whole made-to-measure clothing market. Where you'll get fully bespoke clothing, but in a kind of much more structured way. Experiential consumption as well is where the Chinese—and this fits with Xi Jinping being very much against ostentatious spending. So this sense of being part and experiencing consumption, rather than sort of buying Hermès bags, is also another interesting dimension.

Robin Hu 00:34:11

We will need the Chinese to spend more and save less, right? Goodwin, I just want a quick question on you. And sitting as a capital allocator, does the China consumer brands conversation Yue-Sai just shared with us feature in your portfolio conversation at all?

Goodwin Gaw 00:34:29

Absolutely. Very relevant, right? Obviously, China did achieve President Xi's goal of Made in China 2025, which is why you do have overcapacity from highly advanced manufacturing, which is why the Chinese EV company, six out of the ten largest electric car companies are in China. 70 percent of EV production is out of China. 56 percent of all installed batteries is out of CATL and BYD, the batteries. So you look at all that, right? So you have one factor where 40 percent of the household wealth, actually 27 percent of the household wealth got whacked in one shot because of the real estate correction. 40 percent correction prices, 70 percent of the household balance sheet is real estate. So that actually affects consumption in a big way. Consumption sentiment. That's one. You've got involution overcapacity, which is why driving margins are nothing, so companies are making very little money. As a result, actually, it's creating a very interesting dynamic. Investment opportunity, partnering with many of these companies with advanced manufacturing ability to go overseas. FDI—I bet you, you start really looking through the hood. There are more and more Chinese investments into US in the manufacturing sector in the Midwest, right? Case in point, a fund manager—one of our analysts—saw this company and said, "Goodwin, do you know this company makes these Invisalign, right, these molds for the teeth?" So Invisalign, the US company, makes all the Invisalign molds in Mexico, but this Chinese company called Angelalign, listed on the New York Stock Exchange, has a factory in Wisconsin selling to all the dentists saying, "This is made in USA. " But they are making it—the unit economics are cheaper making it in Wisconsin than the Invisalign making it in Mexico. Purely because of robotics, advanced manufacturing ability. So they're shipping these lines over. And you see that on and on. You see ANTA, right? ANTA, they own Arc'teryx, they own Salomon, they all own that. You don't know that a Chinese company actually own these foreign brands. After they buy the foreign brands, they increase the penetration in China, they produce better design, better quality, better advanced high-tech material, nano material, and then they're selling it to the world, right? Because China now has the ability to design, manufacture, and with the technology. And so they're buying the brand in some cases. And in some cases, they're actually buying the brands in foreign countries, so it's no longer made in China.

Robin Hu 00:37:02

Exactly. And then enter, sign up, NBA basketball players. Spokespersons for their product.

Goodwin Gaw 00:37:06

Correct. So they're doing all of that, and you wouldn't even know how to differentiate at some point. And how then, if you're the US government, would you say, "I don't want Chinese investment into opening advanced manufacturing in my Rust Belt, even though all the employees are going to be the blue collars?" Where would that go? That's interesting.

Robin Hu 00:37:24

That's a fabulous, interesting story. Diana, you land in LA with something in your pocket that I suspect will surprise this room, right? You spent 25 years getting China right and very rarely wrong, and you are turning positive on Chinese stocks. Tell us about it.

Diana Choyleva 00:37:44

I am, on A-shares, as well as on H-shares, and sort of the role of Hong Kong as a global financial hub. And the reason is related to what I started talking about earlier. It's this realization within Beijing that the next phase of China's development has to involve developing its capital markets. They've industrialized. Next, if you remember, while they were industrializing, the private sector was getting funded through FDI, and they were outsourcing their IPOs, and they had a closed capital account and kept their domestic financial sector fairly isolated. And as a result, much more underdeveloped given China's might. Now, the next phase is about improving the allocation of capital internally or solving all this over-investment, as well as equitizing household wealth. And there is no better sort of evidence that they're serious about this than how strict and how much they have stuck to their real estate policy. Because Goodwin is absolutely right, this was a huge blow to the well-off Chinese urbanites that had the majority of their wealth in real estate. And since the authorities started cracking down, they haven't returned to let's go and save the real estate market. Meanwhile, they've lowered interest rates, and we have the majority or half of household financial wealth in interest-bearing deposits that now are being—this is a very interesting 2026 story because term deposits in China this year that are coming to maturity are nearly very close to the size of the overall Chinese A-share market. And now they have to roll over, and they have a decision. They used to have 3, 3.5 percent before. Now they're going to have 1.5 to 2 percent at most. So it's almost the government is creating this kind of funneling of Chinese household wealth into the equity market. And simultaneously, it is developing, and professionalizing the equity market. I mean, when I used to live in Hong Kong between 2009 and 2013, I started advising China's domestic fund managers. It was my first sort of experience because up until that point, I was advising much more Western investors in how they could sort of play China outside of China. But when I advised the domestic guys, I just understood what a liquidity short-term play this was and how underdeveloped and casino-like market it has been. So the authorities also acknowledged that, and loads of reforms are underway to professionalize the Chinese equity market to make it safer, but not just for retail investors, but to really institutionalize the flows into the A-shares. And they're tackling involution. Again, they're serious about that, and it's going to take a while. None of these reforms are going to produce positive outcomes. But ultimately, what they want to do—what they've realized—we've created all this productive potential in the economy, but our households have not benefited from this. We have ended up in a situation where a lot of what households have their money in is inactive. It's real estate. It's housing that doesn't really sort of come with productivity growth. And yet they have been incredible at achieving sustained productivity growth over such a long period of time. If you want to create consumers that will become the engine, then you need—if you look at it as a macroeconomist, if you look at wages as a share of GDP in China, they're actually the same as in the US. They've caught up there.

Diana Choyleva 00:42:25

There's not a lot of kind of scope. If you look, though, at household disposable income as a share of GDP in China, it's way lower than in the US, and the entirety of it sits in income from assets. So households have not been able to benefit from the productivity growth, and take part in that, because the equity market has really been outsourced abroad, and that has changed. So now if you are a Chinese company, you're no longer going to be IPO-ing anywhere else but either Hong Kong or on the A-share market, or both. And what's also very interesting is that if you split the world in China's sphere of influence and US sphere of influence, and you put in the US sphere of influence, Europe, Japan, Korea, India, pretty much everyone, and BRI on the other side, you end up with annual flows of savings of more or less equal size, but higher in China. So this recycling of Chinese savings, what is turning into a very interesting story, is not just funneling household wealth, primarily through equities over the long run, but the role of Hong Kong as a safety valve in that kind of vision. And Hong Kong with its connect schemes, which are an extension of China's capital control system that it has created, becoming the way that if you are a foreign company and you want to access Chinese savings, you need to also be listing in Hong Kong. No longer will China's domestic savings be intermediated necessarily on the global scale than we have seen in the past, and that creates very interesting dichotomy. In the US sphere of influence, I would argue that investors at this point in time are not thinking about the cost of capital, the real cost of capital. It's high, it's about to get higher. Sustainably higher. Why? Because in the US, you have this desire to invest, need to invest in so much more to replicate this re-industrialization that you have to achieve for national security point of view, at exactly the same time as half the global domestic savings that have been circulating freely, let's say more or less in China's case through the central bank interventions, et cetera, but nonetheless were part of that system and were intermediated, will no longer be intermediated in the same way on the same systems even.

Robin Hu 00:45:27

Well, thank you very much for laying down the evidence for the thesis. So clearly the ceiling is real, but the opportunity is also real at the same time. But let me come back to Yue-Sai, on the next question. Now you're one of the very few people who have developed or synthesized a framework that you have synthesized over 40 years of investing in China. That framework, you call it the four D framework. Can you take us through that framework of yours?

Yue-Sai Kan 00:46:00

D, okay. First D is you really have to design the products with the Chinese in mind. Today, for example, when I launched my cosmetic company—by the way, at the time when no one in China was using cosmetics—my tagline was, "The best the world has to offer for Chinese women." So everything I did was promoted for them. You don't promote, especially today—the consumers are so sophisticated in China today, so you really have to remember that. Number two is you have to make decisions in China, because when I first sold my company to L'Oréal, L'Oréal was making decisions in Paris. By the time we get an approval, the trend is over. And I said, "This is not going to work, so we're going to have to change it." You have to give the local team the power to make the decisions. The third D, I think I talk about is, the decision to think really big, okay? Because China is huge. If you think small, if you're thinking Singapore or you're—it isn't going to work. And you know how big China is, right? And even though the market is uneven, but is a really very good market because we relaunched a new product recently, a sunscreen product. Just shows you how incredible. In one day we did 6 million euros, just in one day in one product. So China is amazing. I could talk all day about how extraordinary the companies in China are doing that today. And so the fourth D is—what do I have on four D?

Robin Hu 00:48:12

Digital?

Yue-Sai Kan 00:48:13

Ah, digital. Oh my God, yes. Digital. Oh my God. You cannot think of Chinese market without thinking digital today. Have you heard of Luckin Coffee?

[Speaker unclear] 00:48:26

Mm-hmm.

Yue-Sai Kan 00:48:27

The whole entire company is digital. The cellphone is the store. The store is just a fulfillment center. So the e-commerce model in China is so mature. I think last year, 2025, they had 250 billion express packages sent out. That's an enormous number. That's almost more than half a million a day of packages. That's how mature the e-commerce market is. And they have the whole thing worked out already. The selling platforms are fantastic, from Tmall to Douyin to Xiaohongshu, all those platforms are—the moment you place your order, immediately you can pay it by Alipay. So mature, right? Alipay, WeChat Pay, immediately. Immediately, the warehouse that is managed today by computers and robots already got it. Immediately, the delivery people are able to deliver you. The entire China is literally blanketed with yellow bicycle people, right? And they are the Meituan people to deliver it for you. So a product can deliver to your home in 15 minutes. If you don't know how to do this, if you don't know how to use a streamer, I just went to the most successful Chinese brand called Guyu, and you know what I saw that is shocking? 300 people were there, 300 in a big room. Each one works six hours a day, and they are literally selling the products every single hour on the platforms. That really means at 3 a.m., you can be selling your product. So if you don't understand that, you cannot do business in China. You don't know.

Robin Hu 00:50:41

That's right. Livestreaming influences. So design for China, decide locally, deliver digitally, and dream big. I do have one more question for Goodwin and one more for Chris, but before that, we have one from the floor.

Colin Tate 00:50:55

Yes, can I have the microphone?

Robin Hu 00:50:56

You probably have to shout a little bit, yeah.

Colin Tate 00:50:59

I'll try to speak loudly. Hello. My name is Colin Tate, and I'm from Australia, so I feel I can ask this question, because we cuddle up to China and US in the same ways, because we have to. My observation, first of all, and then my question is, 10, 15 years ago at this conference, many times I went to sessions on China that were the ballroom full with 2,000 people, and here we are with 100 people, which I find just extraordinary, that we're missing something, that we've moved so dramatically from China being so hot and in everyone's interest to 50 or 100 people here at one of the main China sessions. So it's kind of firstly my observation. But my second, the controversial part I'd like to hear from the panel on is, global capital is moving. It's on the move, and there’s no doubt, and the US was a preference for capital 10 years ago because we had concerns around China's corruption, we had concerns around rule of law, we had concerns around the technology race, and we had concerns around human rights, et cetera. The American market seems to have moved on. Now China's looking much more attractive. Would you agree?

Yue-Sai Kan 00:52:10

Yes.

Robin Hu 00:52:10

Thank you. Maybe Chris, you want to take that one? Maybe Goodwin with a quick comment.

Christopher Johnson 00:52:13

Go ahead.

Robin Hu 00:52:14

Yeah, Goodwin, go for it.

Goodwin Gaw 00:52:15

Absolutely, right. If you look at the US counterpart, you say, okay, you have Anthropic, OpenAI, then you have DeepSeek, right. These are closing on a trillion dollars. That's 20 billion, right? You have Meta, which is, you said that may be a Tencent, and you look at one trading at 25, 28, 30 times, one is trading at 10 to 12 times, right? Alibaba, Amazon, you can go on and on. Whether it's private sector or public sector. So it's because China sent a lot of chaotic messages, right, confusing messages last couple of years. And this event being a lot of financiers, you all look at how do you make money? And yes, it looks cheap, but how do I ultimately make money? Are the rule of law allowing me to make money, and how do I exit? And I think the fact that Hong Kong stock market is now the number one IPO market last year, printing IPOs and more to come this year, it's showing that, yes—you have to understand it's one country, two systems, and then which system can you actually make money in the sector that you want to invest in? And then you'll find your picks. And then in Hong Kong’s particular case, it's happened to be a tax haven, money center, and in a way, with what's happening in Middle East, it's a safe haven also. So that's actually attracting capital going back in.

Christopher Johnson 00:53:27

Yeah, I would just add, I think, one, while that's all true, I think it's balanced against the government getting in its own way so frequently. And the message really, since Mr. Trump even has come back, which is a massive opportunity for the Chinese, is we're building fortress China, with our economy and decoupling, really. Or at least where we're not decoupling, we're trying to firmly cement the important supply chains in China. So I think that has a lot of people nervous. And the second piece, I think that's reasonably closely related, is that you have to see yourself in a situation where the Chinese look like they're willing to give a little bit to other countries, a middle power like Australia or Europe. They need to get out of their own way. Part of it is a little bit of cultural hubris, I think, middle kingdom and all that. And then part of it, I think, is that dialectical materialist mindset that they have, as Marxists, tells them it's all about the material forces and we're China. We're massive, our economy's massive, so we don't have to do anything for these people. And I think they're finding that puts them in a bad spot.

Robin Hu 00:54:32

Right. Maybe a quick comment to your question. I think if you look at the stock market in Taiwan, in Japan, in Korea, you'll see that now they have gone way up. In fact, they've overtaken London and certainly Paris and Frankfurt. So money is actually generating somewhere. And so even the fact that the room here is somewhat sparse, that the capital is certainly working in that part of the world in a very vibrant fashion. A second maybe small point to your question is that actually the online audience watching this particular livestreaming is actually quite considerable at the same time. So—

Goodwin Gaw 00:55:06

Robin, can I make one quick comment?

Robin Hu 00:55:08

Please do.

Goodwin Gaw 00:55:08

I was going to say, recently, I finished my investor conference with a cartoon. I thought it was quite telling. The cartoon is actually a painter and then someone doing dishes and laundry. Right? In one picture, it said China is going to where the painter is still the human, but doing the chores is actually robots. A robot. Whereas the US picture is showing the painter as being the robot. And then the chores—manufacturing, which is equivalent—is actually the human. I thought, wow. It's actually kind of interesting. It goes back to that whole inference layer, distillation versus large language model.

Robin Hu 00:55:46

Fantastic. Yeah, you have to show me that cartoon.

Goodwin Gaw 00:55:47

I thought it was—

Robin Hu 00:55:48

You got it here. Yeah. Sorry, I need to wrap up this particular session. I want to go back to Goodwin, I do have a question for you. And congratulations on the largest real estate deal in Japan, 2025. Congratulations. Also, your new fund in the Gulf, that was launched last month. So China is still in your portfolio, right? So walk us through how you go about capital allocation right now. China versus Japan, Japan versus Southeast Asia, Southeast Asia versus the Gulf. Two minutes.

Goodwin Gaw 00:56:18

Okay. Well, as I mentioned earlier, right? You look at all these positives on China, but it's still very confusing in terms of what sector the government wants you to make money and when they have policy change. So as an investor, when your investment thesis is so tied to policy changes, it's actually risky. So we have to look at how do we play the rise in China, the continuing rise in China, robotics, AI advances, and play China adjacent. Which to me, Japan, Korea, are the two deepest capital markets with liquidity. And the semiconductor space is going to benefit. Japan has such a long, long, long history of manufacturing. Right? They have all these small, medium-sized factories making all these specialized parts. You have no idea, this toilet maker called Toto, they have this ceramic coating that happens to play a role in some of these servers' racks in the optical switches, on the ceramic coating. All of a sudden, that little division went from, I think, 5 or 7 percent of the profit to 50 percent of the profit of the Toto maker. Right? So Japan, you can go on and on and on. Of course, in Korea, you hear Samsung, you hear SK hynix. In Japan, you have KIOXIA. And then in Japan, you also have the heavy industry doing a lot of heavy lifting for all the nuclear power plants being built to power the world, right? So you can play China adjacent. Vietnam, you can play as factories from China, that shares the southern border of China and Vietnam. So a lot of those made in China will be supply chain from China, but made in Vietnam and beyond. So you have a lot of plays in Southeast Asia. Think about it. You can also play China adjacent. I'll finish this with this point. Think about it. ByteDance, right? One of the top large language model players in China, but very, very large e-commerce player. TikTok, short video. They need huge amount of data center capacity for AI training. Where are they opening data centers? They're opening in Malaysia, they're opening Indonesia, because that's where they actually can get access to the chips they need to do the training. So these are all ways to play China without being inside China.

Robin Hu 00:58:20

Okay, last question for Chris before I ask everybody to round out with 10 seconds. Private firms, POEs, or privately owned enterprises in China, generates about 80 percent of China's urban employment and more than half of its tax revenue. And yet, Chinese entrepreneurs are not investing with the confidence that they once had. Why?

Christopher Johnson 00:58:42

I think because they see that the government is not trustworthy, right, in terms of the approach. And as Diana was pointing out earlier, the government only gets round to saying, "We need the private sector," when it becomes absolutely clear the state sector can't deliver on whatever it is they're after. So we've seen this with technology. Increasingly, we're seeing it now with the government more openly embracing the need for high-quality services, to be providing those. And yet, the political context, the control factor, right, is such that if you're a private entrepreneur, you recognize this. And the government will always put very firm lines around what the private sector can do. And we see increasingly that if you're a private sector firm and you're willing to play within those lines, you can do very well. But don't expect to exceed those lines or go somewhere else.

Robin Hu 00:59:30

Right. We're going to wrap up the session with each of the speakers giving us a 10 to 15-second wrapping up, starting with you, Yue-Sai, that way. Go ahead.

Yue-Sai Kan 00:59:40

What do you want me to say? I bet China from before you were born.

[Laughter]

Robin Hu 00:59:51

Not possible.

Yue-Sai Kan 00:59:53

I mean, because I saw it.

Robin Hu 00:59:57

I look young.

Yue-Sai Kan 00:59:57

Because, Robin, I saw it from the very beginning. The beginning was so miserable. The beginning was so unbelievable. See what they went through at WTO, and the e-commerce, celebrity commerce. I mean, in the consumer sector, that's one sector I understand very well. I mean, it has been nothing but extraordinary. So my wrap-up, I would bet on China.

Robin Hu 01:00:27

Okay. It's a resilient economy. Chris.

Christopher Johnson 01:00:30

I think mine would be, if things go according to plan, we're going to have potentially four leader-to-leader summits this year. That's never happened in the modern US-China relationship. So let's hope that officials on both sides are thinking about that as a progressive opportunity and not just an opportunity to trade soybeans for X or Y, but rather they're building towards something that puts the relationship on a more stable footing.

Robin Hu 01:00:52

So what can we expect in 10 days' time?

Christopher Johnson 01:00:54

A lot of transactionalism.

Robin Hu 01:00:57

Goodwin.

Goodwin Gaw 01:00:58

Have to keep an eye on China to figure how to invest around China, adjacent to China, because if you believe in the AI revolution, it's all about trainable data and a lot of power. China has both.

Robin Hu 01:01:09

Final word, Diana.

Diana Choyleva 01:01:10

For the first time in my career, actually structurally positive on the market as a whole, both A-shares and H-shares. Within that, AI diffusion in China, not AI hyperscaling. And much more bullish on the consumer-driven side of the story, but very much about services and experiential consumption rather than goods. On the great decoupling, continued decoupling, though, even though I agree with Chris that we're likely to be more positively surprised, in terms of China-US relations, than probably markets appreciate. But nonetheless, this remains a kind of superficial great deal that's being coined. So the fundamental tech race and great power competition will remain fierce and intact.

Robin Hu 01:02:15

Well, this has been a great panel, and this is because of the wonderful panelists that we have on stage. Ladies and gentlemen, can you please join me in thanking them?

[Applause]

Announcer 01:02:23

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