

Hugh Peyman



China's Change

The Greatest Show
on Earth

 World Scientific

Managing change, a quintessentially Chinese idea, is just as applicable to the West as to the East. With its scale, speed and insights from traditional philosophy, China should be the Greatest Show on Earth for anyone interested in world affairs and the future. For someone sitting in Europe, China's Change tells me lots of things I didn't know. The key thesis, countering all those who argue China will topple over, is a really important one. Through the extraordinary array of people he has known and met over 40 years, Hugh Peyman tells the story of today's China in a way that has never been done before.

BBC Director-General, Tony Hall.

It is rare for a foreigner to understand China from the ground up. Hugh's advantage is that he got to understand China's diaspora before working in China, going through numbers at the ground level and meeting people engaged in both business and officialdom. This book gives one of the best insights into how China is changing, as she grapples with globalization, one of the truly momentous changes in the 20th and 21st centuries.

China Banking Regulatory Commission former Chief Adviser,
head of the Hong Kong Securities and Futures Commission and
author of *From Asian to Global Financial Crisis*, Andrew Sheng.

Hugh Peyman knows what he is talking about. Far from seeing China through a Western prism — and consistently getting it wrong — he understands China like few others.

author of *When China Rules the World*, Martin Jacques

A very valuable book. Makes cogent arguments, with a lot of valid, interesting and provocative statements that will help people to think about China.

Pulitzer Prize winner and author of *Wild Grass: Three Stories of Change in Modern China*, Ian Johnson.

China's Change is essential reading for any serious global investor. China will be the game changer for beta asset diversification and alpha generation. Get insights from the perspective of a researcher who sees things from the top down and bottom up and who has lived in China for 15 years.

Government Investment Corporation of Singapore former Chief Investment Officer and Adviser to PIMCO, Ng Kok Song.

All travellers to China, whether on business, holiday or study, should take this book. China's Change has it all on China: history, philosophy, government, politics, business and economics, past, present and future. For Asia and the West this very timely, wide-ranging and original book answers two critical questions. Can China illuminate new paths for us to manage our increasingly disrupted worlds: in our national, work and personal lives? Can China continue to be the main driver of global economic growth?

Banyan Tree Resorts Founder, Singapore
Management University Trustees Chairman
and author of *The Ocean in a Drop*, Ho Kwon Ping.

Really like the way you are going for "change". I think you are onto something here and it allows your book to be philosophical economics, which is much more beguiling than straight economics, of course! I too wonder at the capacity of Chinese people to absorb change — this is definitely unusual, I agree.

I was particularly drawn in by the question of “what is China getting right” — there is a clear and valid disconnect that you point out between large parts of the Western narrative and China’s result.

*Financial Times Emerging Markets Editor
and award-winning author of
China Shakes the World, James Kynge.*

Fascinating: you’ve clearly done a lot of research and have extensive and authoritative experience in Asia. The thing that impressed me the most was how well written it is, you clearly have a flair for making the difficult to grasp and conceptualize into something accessible.

Chatham House Editor, Mike Tsang.

I am impressed with your way of looking at China — putting things against its history, people, religion, philosophy and culture, facing those stereotypes/sensitive topics and addressing them one by one with objective analysis and benchmarking. I am sure it will be much easier for remote China followers to understand China from a unique perspective which is different from the established typical western conventional approach.

You belong to the realistic camp, rather than being simply pessimistic or optimistic. What gives your book more credibility is your 40 years’ experience in following and particularly living within China. I am sure this book will prompt people’s thinking and will prove in time that you are ahead of the curve, more visionary than most China followers and even lots of Chinese!

Anglo American Group China Chief Representative, William Fu.

Every time the negative alarm sounds about China reach for China’s Change!

State Street Global Advisors Vice Chairman, Ralph Layman.

China’s Change will be valuable to all investors, because while one-third of global economic growth comes from China — larger than the combined

share from the US, Europe and Japan — most of what we read about that country is clouded by misunderstanding and fear.

Understanding how much China has changed over the past few decades is key to assessing what potential, and problems, lie ahead. China's Change is a great way to discover how China has evolved from a static, command-economy to one driven by entrepreneurs, and to learn how dramatic income growth has created a thriving middle-class and the world's best consumer story. The book punctures the biggest myths about the Chinese economy, from ghost cities to shadow banks, while maintaining a realistic approach to the risks to future growth. A great read, likely to change many readers' views on China.

Matthews Asia Investment Strategist,
former US diplomat, Andy Rothman.

Wow! The journalistic skills and realistic perspective (which is long-term) hits this reader squarely on the head with the concise, direct and well written style. Excellent.

South Ocean Management Founder, Brook McConnell.

I found it very good and believe that people outside China could learn a lot from it.

Bing Yuan Founder, Zhou Ping.

China's Change should be a text book for think tanks and policy units, especially for post-Brexit Britain.

JP Morgan China Investment Trust Chairman,
William Knight.

Brilliant. It is the book that needs to be written, helping fill the desperate need for all kinds of people to understand China better and understand our future with China better. The content could move people's view of China. It is a monumental book. A great book.

Odin Capital Management Founder, Ulrik Trampe.

China's Change

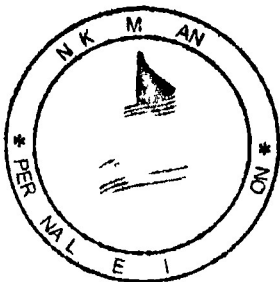
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on Earth

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Hugh Peyman

Research-Works, China



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Preface

Dim, dim, the path in the twilight.

Li Ho (791–817).

If you always do what you always did, you will always get what you always got.

Albert Einstein (1879–1955).

After studying change for five decades, I shall surely be free of serious flaws.

Confucius (551–479 BC), *Analects* 7:17.

Asia and the West face similar challenges. Both need to renew themselves as mounting disruption forges a new era. The question is how: how to change?

“Look to China” is this book’s startling answer. After all, Europe, the US and East Asia have copied China before to great effect, so why not now? Managing change is China’s X-Factor. The concept of constant renewal, *weixin*, is almost 4,000 years old and the *Book of Change* over 2,000 years old.

Such a provocative idea requires a complete rethink about China, and appreciation that its traditional thought, drawn principally from its turbulent history, provides a roadmap for change. This rethink has to start with the two main narratives of the last quarter of a century about China. Both are now outdated. One is that China is destined to rule the world; the other sees China as seriously, if not fatally, flawed.

Neither China’s primacy nor collapse is pre-ordained. Such oversimplistic narratives do not help the growing need to understand

21st-century China, whose rapidly changing reality is driven increasingly by its very demanding consumers, dynamic private companies and new technologies rather than by government or ideology. The state-driven China of recent decades — and still of the popular imagination — is largely passing or passed.

Not before time, much more nuanced narratives are emerging from people everywhere more closely familiar with the new China. As China re-emerges on the world geopolitical scene, Australian China *eminence grise* Stephen FitzGerald gave a lecture, *Managing Ourselves in a Chinese World*, on how to manage relations with China while being true to one's own values. Three McKinsey authors set China in the context of the new global reality in *No Ordinary Disruption*, Edward Tse's *China's Disruptors* captures the entrepreneurial essence of today's China and James Stent's *China's Banking Transformation* describes the reality of one major archetypal state-owned industry.

A large gap in understanding still remains. How has China managed to change so dramatically since 1978? Why has it not gone the way of Japan that also had a very promising three decades? *China's Change* explains that China still has many unused assets to develop but, most of all, China's X-Factor is to manage change by grasping its nature and devising a process to implement it, especially in government, economics and business as well as in life overall. As the *Financial Times* emerging markets editor James Kynge commented when reading an early draft, "I think you are onto something here and it allows your book to be philosophical economics, which is much more beguiling than straight economics, of course! I too wonder at the capacity of Chinese people to absorb change — this is definitely unusual, I agree."

In an increasingly disrupted world, *China's Change* answers two big global questions. How can other countries, firms and individuals find paths out of their dim twilight by adapting Chinese thinking? Can China continue to create one-third of the world's growth, more than the US, EU and Japan combined, to help cure the global economic malaise of the post-2008 stagnation?

Not just in the West: as expectations increasingly are dashed, people everywhere demand new ideas. This includes in the now economically

much slower-growing rest of East Asia. As generational change transforms societies and memory of the East Asian Economic Miracle fades, restructuring is needed, even in Southeast Asia's most successful state, Singapore. Hong Kong and Taiwan, once the homes of Asian Tiger economies, Chinese entrepreneurialism and prosperity, have to find new paths before they recede into parochial backwaters.

For a West that has lost its way, a new China narrative and understanding is all the more relevant. Voters say they want change, but the snag is no Western playbook exists to explain how. Instead, only the same old stale thinking, simplistic slogans and recycled policies fill the confused debate about the future, from increasingly inward-looking Asian societies and post-Brexit Europe to culture wars-divided US.

So why not look to the one region in the world that clearly "gets" change, understands its management? Instead of looking inward, look to East Asia's recent past that created the world's greatest economic success of the last half-century, and especially to China, Asia's philosophical home of change, with its unprecedented recent speed and scale of transformation.

While Brexiteers and Trump supporters say they want to take back control but have yet to convince many they know how, China has regained control of its destiny by applying millennia-old Chinese concepts to manage change, with world-altering consequences. Look around: in the last two decades, China has risen from being Asia's pauper to providing the world's most numerous tourists and biggest individual spenders. Even 10% of Antarctica's tourist visitors in 2015–16 came from China, paying up to almost \$30,000 each. This is a very different China. Much more important, of course, is that China has lifted 700 million people out of poverty, created a middle class of over 250 million and, as the world's top trader, built the largest foreign exchange reserves.

Only a quarter of a century ago, post-Mao China, already 15 years into reform, was floundering politically and economically. Digging into its traditional philosophy, China used a process that found answers, bit by bit, to its problems. The tools of discovery and implementation, the process, were Chinese, but the means selected were

largely Western. Paramount leader Deng Xiaoping's 1992 Southern Tour sparked China's search for the Promethean energy that transformed the West after 1800, establishing its global dominance ever since. Among the means were rules regarding economics and trade, technical requirements like transparency and auditing, and concepts like the rule of law. Very mundane, it is true, but they launched a transformation in ways China did not know.

In what would be an ironic reversal of recent history, why shouldn't others in Asia and the West do what China did in 1992 — look elsewhere for how to conceptualize and implement change? The great strength of traditional Chinese thinking is creating a process to find the means to change: a roadmap. This is not about policy let alone ideology, but about how to handle the future and uncertainty with policies conceived locally. It could be a surprising, dramatic turning of world history's tables.

There is no reason why this cannot happen, once preconceptions are put to one side and misconceptions corrected. *China's Change* tries to provide what Simon Schama did in *Landscape and Memory*:

a way of looking; of rediscovering what we already have, but which somehow eludes our recognition and our appreciation. Instead of being yet another explanation of what we have lost, it is an explanation of what we may yet find... In offering this alternative way of looking, I am aware that more is at stake than an academic quibble.

I have been lucky enough to have observed, absorbed and analysed Asia's dramatic change over the last 40 years. During this time, an increasingly familiar East Asian movie played out. From a front row seat in Hong Kong, Malaysia, Singapore and, for the last 15 years, China, I have watched as five Confucian-based societies, one after another, became First World economies: Japan, South Korea, Taiwan, Hong Kong and Singapore.

Nothing, though, prepared me for China's Great Change since 1978. China's scale, speed and impact have been literally unprecedented with 1.4 billion people creating the fastest ever prolonged economic spurt. The home of Confucianism is now the Greatest Show on Earth

for anyone interested in world affairs, economics, business or their own future. By understanding China's change, anyone can create their own recovery.

Change is China's story. Several times in its long history, China has been in even worse straits than today's West or East Asia, gripped by the same sense of foreboding as poet Li Ho expressed when the great Tang Dynasty began to decline in the 9th century. The path can indeed seem very dim, dim in the twilight.

Gathering gloom and uncertainty has spread through the West in ways not seen since the 1930s. Asia has not been spared. Politics, policy and politicians are at the root of the malaise, stuck in 19th- and 20th-century ideological ruts. Western political and economic thought has all too often become a slave to some long-dead -ism, as economist John Maynard Keynes might have said. Leaders follow George Bush, who proudly proclaimed he did not "do the vision thing". Short-termism has replaced long-term thinking. Priorities are not realistically or clearly defined. Empty, unrealistic slogans dominate policy in the "post-truth" discourse. Philosophy is rarely considered. This was not always so in Asia or the West.

Great scientists like Albert Einstein and Charles Darwin grasped change's critical importance. Statesmen wrought great change through long-term vision, from Abraham Lincoln to Helmut Kohl in the West to Asian leaders from Japan to Singapore, South Korea to Taiwan and Hong Kong. Central to two centuries of Western dominance and the East Asian Miracle was appreciating how change transforms economies and societies, something now largely lost in Western thinking. Scroll back to the early 1860s. Adam Smith's ideas on free trade, after a century of bitter dispute, finally made it into William Gladstone's 1860 budget. Across the Atlantic in 1861, Lincoln reinterpreted the US Declaration of Independence that "all men are created equal", risking civil war to end slavery. On the other side of the world in 1862, explorer McDouall Stuart crossed Australia from south to north, battling interminable, hostile desert. All three showed vision, perseverance, grit and long-term thinking. Nor was this a unique three years; these qualities were not confined to the distant 19th century. William Beveridge's

1942 report led directly to Britain's welfare state and full employment. John Kennedy vowed in 1961 to put a man on the moon that decade, and did. With long-term thinking and a clear set of priorities, Kohl successfully reunited Germany on generous terms in 1990.

Today, such vision and long-term thinking is lacking. Angela Merkel's 2015 call to welcome refugees was firmly rejected by fellow EU governments. Short-term electoral considerations ruled as supposedly core EU humanitarian values of Western liberalism and the Good Samaritan were quickly swept aside. Not even long-term self-interest ruled: no discussion occurred about Europe's demographic problems as its population ages, a real ticking time bomb in full sight.

Everything is about now, the moment and instant solutions, not long-term thinking. The West seems dazed as it struggles to cope with accelerating change, uncertainty and complexity: disruption. The same is starting to happen in parts of Asia. Navigating these clichéd "uncharted waters" requires bold long-term rethinking. To avoid future problems, stagnation and even decline, nations and individuals need to rediscover approaches that made the West so strong for two centuries. These were not all about Empire, glory and Western exceptionalism, let alone divine right.

Managing change has been central to Western and East Asian progress. Heavy long-term investment in technology, science, government and infrastructure laid the economic foundations; steady improvements in housing, sanitation, health and education radically improved living standards; and step-by-step political reform led to votes for all from the UK to Taiwan, US to South Korea. There were struggles, but managing change, overcoming adverse forces, kept things moving. There is no reason this cannot happen again.

I arrived to live in Shanghai from early 2002, shortly after Gordon Chang published *The Coming Collapse of China*. Over 15 years later, China has not collapsed. Instead it has become of ever-growing global importance and endless fascination. Songwriter Graham Earnshaw jokingly captured the essence of 1970s Hong Kong in *Hong Kong Blues*, "I know it is noisy and crowded, dirty and annoying ... but it's not boring." China today has the same intense mix of energy, confusion,

pace and uncertainty that Hong Kong had in the 1970s, but with so much greater scale and global significance.

Understanding China can be perplexing but also exhilarating. Paradoxes abound. Simultaneously, China can appear to be communist and capitalist, rich and poor, rigidly bureaucratic and manically free-wheeling, traditional and modern, inward-looking and outward-going. Adding further confusion are questions about why China's economy has not collapsed, why it could be the one successful "communist" country. Reconciling all this is a great brain-teaser. Scepticism is rife; myths, misconceptions and complexity obscure the real China. Nonetheless, since my first glimpses in 1977, each decade has seemed to be less — not more — challenging for China. Why? It knows how to manage change, as recent results show.

China's economic re-emergence provides proven, practical and largely universal ideas, not some mysterious, abstract theory from an irrelevant, incompatible country or culture. The concrete fact is that China's real GDP has grown 107% from 2007 to 2016, while the US grew only 12%, UK 9%, EU 5% and Japan 3%: surely a nerve-tingling wake-up call? Solving the China puzzle answers one of today's greatest questions in economics, business and finance, casting light on the world's likely direction and prosperity. That is why, in increasingly disrupted times, fathoming China's change, how it happened and what it might mean, is the Greatest Show on Earth.

Shanghai, December 2017
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Prologue: China and an Increasingly Disrupted World

Other than Stable Eras, all times are Chaotic Eras.... It is morning but the sun does not always rise in the morning. That is what a Chaotic Era is like.

Liu Cixin, *The Three-Body Problem*, 2006.

Before understanding China's change, it is necessary to appreciate the global context. Economic, political and social turmoil capture headlines every day. Voters' verdicts from Brexit to Trump, Philippines to India, suddenly indicate a desire for a break with recent decades, while the most polarized US politics in living memory and European introspection await their denouement.

Some 70 years after the end of World War II, 25 years after the collapse of the Soviet Union and 15 years after interventions in Afghanistan, Iraq and the Middle East, there is a sense of relative power shifts to an increasingly multipolar world. China is not about to replace the US, certainly not militarily. However it could be the world's largest economy by 2025. Already it is the world's largest in terms of purchasing power parity. In the absence of US leadership in the America First era, China is actively helping maintain multilateralism and open trade. It is now the top export market for 43 countries, the US only 32. A new world shape is forming.

When senior partners at McKinsey, high priests of globalization, pronounce we are living in *No Ordinary Disruption*, they define a new

world. Disruption can be good in their eyes, as warm winds from China blow across the rest of Asia, Australasia, Latin America and Africa, not just in mining and agriculture but tourism, education and cheaper goods, rearranging world orders. Chinese consumers, companies, adoption of technology, increasing connectivity and participation in global rule-setting will be central to the world managing its way through this extraordinary disruption. In the West especially, the prospect sends a chill down many spines, but it need not. Indeed, if handled well, it should bring more benefits than problems.

Disruption and China's Great Change

The fastest change in world history is causing “near-constant discontinuity”, in *No Ordinary Disruption's* words. Whereas the UK took 154 years to double industrial output per person while the US took 53 years, China and India have taken just 12 and 16 years respectively. The UK and US each did this with barely 10 million people; China and India have done it with about 100 times as many: one billion people each at incomparable speed, scale and, therefore, impact.

China's Great Change of 1978–2015 began when Deng Xiaoping and the economic reformers adopted reform and opening up to replace inward-looking central planning. Largely unnoticed in the West until after China joined the World Trade Organization (WTO) in 2001, this sparked more rapid globalization in manufacturing and services, followed by accelerating adoption of new technology and systems. Each builds on the other, making change faster, more unpredictable and difficult to manage. Geography and distance, history and social systems, urbanization and consumption, technology and competition, ageing and labour, all amplify each other, leaving people bewildered.

Distance is a barrier to understanding for Western leaders in government, commerce and academia as the Great Change occurred for most “on the other side of the earth”. East Asian economic geography and societies evolve far faster than most Westerners and even many Asians can follow. For those familiar only with their own country, the concept

of one world is perplexing, as Theresa May revealed. Often the Great Change is deemed a threat, leading to paralysis or mistakes. It flies in the face of the Great Moderation from 1992 to 2007, a golden era for Western firms and consumers, basking in the End of History's glow while reaping great benefit from the triumph of Western governance, firms and the post-Cold War peace dividend. Planet Earth would safely remain a Western world. Suddenly, after 2008, no more: such promise rapidly receded into history and a new reality dawns.

So much is happening all at once. Four global forces — shifting wealth, demographics, technology and connectivity — drive disruption and China's Great Change. The world's economic centre of gravity is moving east and south from North America and Western Europe to Asia and emerging economies. As Ronald Reagan said in his *Morning in America* speech, "You ain't seen nothing yet." It is now morning in Asia and the morning sun is rising again.

Consider what probably lies ahead, starting with wealth. China's 2020 e-tail market may total that of the US, Germany, UK, France and Japan combined, McKinsey calculates. By 2025, it estimates half the *Fortune Global 500 Companies*, once synonymous with being Western, will be headquartered in emerging economies: most in China. In 2000, only 5% were outside the West, a time in which many Western observers of China and Asia seem to be stuck. By 2025, the consultant sees more billion-dollar-sales companies in China than in the US or EU: muscle. By 2030, McKinsey estimates 60% of people with annual incomes over \$20,000 will live in emerging economies, the largest number, again, in China: spending power. Nearly half the world's growth between 2010 and 2025 will occur in just 440 emerging-economy cities, again with China having the largest number: importance. Even if the forecasts are over-optimistic, few dispute the trend or outcome.

Transformative forces have spread rapidly from the West to the rest of the world, which has adopted new technology with alacrity, often faster, and on a greater scale. Instant data available to consumers and companies has ballooned. So has the power to collect and process it. All this shortens life cycles of products, companies and

industrial structures. Decision-making has to be faster: all increasingly complex and difficult, with no let-up in sight.

Disruptive technologies are all around us. Dobbs, Manyika and Woetzel list four: beginning with the fundamental building blocks from the human genome to advanced materials. China has grasped their significance and acted swiftly. It now has the world's largest gene sequencing capacity: see Chapter 14. In the next wonder material, graphene, 200 times stronger than steel, China has forged strategic partnerships with world leaders. First with Manchester University, whose Nobel Prize-winning scientists pioneered the latest research, and then with leading producers. By 2012, China was registering more graphene patents than any other country. Manchester now has 4,000 Chinese students and 170 Chinese staff.

New machines will alter life further, ranging from much more sophisticated automation and robots to driverless vehicles on the ground and in the air: a truly new world. The first airborne solo taxi service is planned for Dubai's skies, carrying someone up to 50 kilometres on a single charge. Ehang makes the machines: a private Chinese company that did not exist four years ago but now leads in pilotless flight.

The Internet of Things uses sensors and actuators in machines to collect data to monitor operations, making decisions in everything from manufacturing and infrastructure to healthcare: all speed accuracy, information flow and action. Mobile computing devices are now much cheaper, more connected, spurring innovation and productivity, while cloud computing makes the digital world simpler, faster and more powerful. All help create new business models that are more flexible and rapidly scalable, requiring less capital.

Artificial intelligence will revolutionize work. Jobs once only humans could do are now done by machines that can learn, work with people and use artificial intelligence. All this accelerates the use of new technologies, amplifying trends, providing greater reach, better customer service and more efficient sales. New products are created at almost no marginal cost, empowering new entrants with lower costs and faster product times to market. Established players are often

complacent, making them vulnerable to new, hungrier competitors who accept lower returns and work harder.

Changing demographics, as Western populations age and shrink, favour a younger Asia with China at its economic heart. Linking all this is the fourth trend, connectivity. China's Great Change is visible everywhere, in the flows of trade, capital, people and information. Made-in-China has become even more ubiquitous than did Made-in-Hong Kong, Made-in-Taiwan or Made-in-Japan. Road warriors flit around the world, from airport to airport, continent to continent. Global conference calls connect people, no matter the hour or location, in this 24/7 world. Yet it was only in 1987 that Professor Qianbai sent China's first email, "Crossing the Great Wall to Join the World". Now China has 900 million internet users, almost treble the US population.

Globally, all aspects of life are changing, sparking anxiety for the left-behind and those yearning for a simpler, more familiar past: Stop the World I Want to Get Off. Yet shifting wealth, technology, demographics and connectivity will not stop. Indeed, if handled properly, they should not. They just need to be managed so the "world is richer, more urbanized, more skilled and healthier" as *No Ordinary Disruption* anticipates. It adds that the big winners should be consumers, who may capture two-thirds of all cost reductions, reversing firms' growing pricing power of the 1990s and early 2000s.

China's Consumers

"Thunderbolt in the wine world" is how organizers of the *Revue du vin de France* World Championships described the 2016 victory of Chinese wine tasters. Beating over 20 other teams, including from France, Italy, Spain and the US, the winners diplomatically put winning down to 50% knowledge and 50% luck, a classic Chinese response with traditional self-effacing modesty. Hearing this, my mind went back to a vineyard in Ningxia where I helped with the harvest. Over dinner, with no fuss, the parents mentioned their daughter was going to Bordeaux in the morning to study viticulture for seven years: she was 15. Prepare the next generation early, otherwise how to compete?

Get used to thunderbolts from China. Think about this: Chinese made 50 times more mobile payments in 2016 than US consumers, trebling to \$5.5 trillion in China while US payments only grew 39% to \$112 billion. This confirms what is observed in other industries: Chinese consumers are much faster adopters of new technology than Europeans or Americans. How will that play out over the next five to 10 years? A Great Digital Divergence seems underway, a striking reversal of what held for two centuries.

“China’s consumers are now so demanding and globally minded ... you have to be world class to serve China,” notes Gary Rieschel of Qiming Ventures. As Mike Morris explained over a quarter of a century ago, “The one thing you need know about Chinese consumers is they only care about two things: brand and value.” Squaring that difficult circle is the China challenge: not easy but very rewarding for those who succeed. All this matters now China is the leading market for so many products and raw materials; by 2030 it could be for almost all. Chinese consumers not only create demand but keep manufacturers and service providers on their toes. Having lived through disruption all their lives, they have very low trust in claims made.

Famously well-informed, they spend longer researching purchases than consumers anywhere. Be it online or offline, they pay particular attention to the internet, social media and friends’ advice. 61% of Chinese look for reviews online before buying a product: in the US only 39% do. After making a purchase, 52% of Chinese consumers write online reviews compared with 31% in the US. Chinese download 59% of all the world’s smartphone apps, over treble their share of population. None of this seems remarkable in China with its palpable desire to engage the new, to experience the previously unknown or unattainable. Chinese consumers are making up for lost time, desiring exhilarating 21st-century change. This is not just confined to the rich. A young porter at Beijing’s high-speed railway station arranges taxis with the latest iPhone. He is participating, living the life and is part of change. So are his high-speed train passengers.

China has long had the world’s largest population but had minimal impact. Too poor for almost two centuries, China did not matter.

What now elevates its consumers to global importance is their purchasing power and curiosity. They in turn are changed by global exposure. From wine to autos, phones to fashion, Chinese have become a global force. Dairy products were not even part of their traditional diet. Indeed Chinese were said to be lactose intolerant, unable to digest milk or cheese, yet Pizza Hut has enjoyed great success in China.

Leisure and entertainment illustrate China's Scale. Shanghai Disneyland opened in 2016, making the Magic Kingdom easily accessible to the 300 million people living within three hours by expressway or high-speed rail. The \$5.5 billion attraction, boasting Disney's biggest castle, exceeded its first-year visitor target of 10 million by over 10%. Box office success will increasingly be determined in China. Tencent in 2016 bought the *World of Warcraft* for \$8.6 billion, shortly after its latest game-to-movie production grossed \$156 million over the first five days in China, while the US opening weekend took in a lacklustre \$24.4 million: no matter. Over half *Warcraft* players live in China where 15 new cinemas opened every day and ticket sales rose 50% in 2015. China could soon be the world's largest film market, leading to more Western films with Chinese flavour and storylines: TV too. The BBC introduced Chinese clues to its *Sherlock* detective series. Over six million in China viewed *Sherlock's* 2016 season opener on social media and internet within 24 hours of its TV showing.

For global companies to acquire or maintain world leadership, they have to win in China. Automaker Toyota lost the 2016 world sales crown to VW because it lagged behind in China. Despite its diesel scandal, VW sales in China climbed 12% to overtake Toyota, whose image is tarnished by the Japanese government's hardening attitude towards China.

This is not just about numbers. Chinese consumers have characteristics that will change world tastes and products. Upmarket hotels now have hot water at the ready, with thermos flasks and electric kettles in guests' rooms, along with China Global Television Network. Some Chinese restaurants in the West even serve good food because Chinese travellers now demand it. China influences design from electronics to

clothing, regionally at first but globally later. Some only add to demand but others provide direct competition, and Chinese firms' great advantage is they naturally understand better than anyone the world's fastest-growing and often largest market, China.

"Darn right scary" is how McKinsey's Jonathan Woetzel describes cutting-edge surgical implants some Chinese undergo. China's Millennials are widely seen as being adventurous, often very experimental. It is all part of making up for lost time, trying the new, believing in it, something that China's middle class until recently has not been able to enjoy. Lei Jun of Xiaomi says that he sells not a product but "the opportunity to participate" in the 21st century and wider world. It is all part of life's new journey of modernization, new experience and participation.

China's Millennials

The single most important consumer group in the world is China's 15–29-year-olds, its Millennials. Some 318 million strong in 2015, they now outnumber the entire US population. Two-thirds are in China's highest income stratum, thanks to their greater education. *China Skinny* describes them as the "shoppers, travellers and hedonists who contribute most to China's retail sales growth". The average age of a BMW owner in China is 35; in Germany it is 53. Unlike their frugal Cultural Revolution parents, who experienced much uncertainty and so save rather than spend, China's Millennials have only known rising prosperity.

Combining pragmatism with opportunism, Millennials have a much more positive view of China than their parents. They have a confidence in the future. A global poll found 49% believe the world (presumably mostly their own) is becoming a better place. In the US and UK, the numbers were a mere 6% and 4% respectively. They have good reason to be optimistic: seven times more have a degree than those born in 1980. Comprising half of China's 120 million travellers overseas, their curiosity is powered by education and social media. Their incomes are seen doubling in the next decade.

Now China has real consumers of its own, hundreds of millions of them: at least 250 million in the middle class, by 2030 maybe 500 million. 70% of Chinese Millennials own their own home, with 81% of the remainder intending to buy within five years, compared with 35% who own in the US and 31% in the UK: double or more, according to a 2017 HSBC survey. Once a modern home is bought, the next priority is to fill the space with white goods and furnishings, whose growth in 2015 significantly outstripped property purchases. While filling the home, leisure, travel and entertainment spending have also taken off. Millennial China feels like 1950s or 1960s US and Europe, with the build out of suburbia and consumerism. As British Prime Minister Harold Macmillan said in 1959, “You’ve never had it so good.” That is what the bulk of Millennials are experiencing, what Asia’s young from Hong Kong and Singapore to Japan and South Korea felt in the 1980s and 1990s.

China’s Millennials may be the world’s most driven people, based on German research firm GfK’s 22-country 2016 survey. In France, US, Australia, South Korea, UK, Japan and Hong Kong, the greatest concern was insufficient income “to live their lives”. In China the top three concerns were pressure from self, inadequate sleep and not enough time to do what one wants — proving what many know: some Chinese work very hard, maybe too hard. On the plus side though, they do not generally max out their credit cards to support lifestyles beyond their means or run up bank debt, apart from mortgages. Only 25%–30% of new cars are bought with financing, the rest with cash, compared with 90% in the UK. Thrift and living within one’s means for most are still a virtue in China.

The scale and importance of China are well known. Swatch makes 49% of its sales to Chinese, Ferragamo 39%; Apple sells 26% of its iPhones in China. The 19th-century wish of Manchester textile merchants for lasting fortunes by selling an extra inch of fabric to every Chinese never came true nor did Standard Oil’s desire to fill the lamps of China, but 21st-century foreign firms are now realizing similar China dreams. The list could go on and on. The point is that China now matters, and it matters mostly because of its Millennials and the

China's Change reveals the key to China's record-breaking economic transformation: its traditional philosophy, China's X-Factor. Harnessing two millennia of history and thought to create a process that manages change, this roadmap enables any society, firm or individual to handle today's accelerating global disruption. Ironically, Chinese thinking has similar approaches to those that powered the West's economic dominance for two centuries, using such now-ignored ideas as long-term thinking, clear priorities, gradualism and non-ideological pragmatism.

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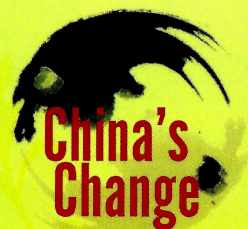
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