

# [***Chinese Signals Will Boost The Country s Anemic Private Sector Investment Harvard Business School s John Quelch***](https://advance.lexis.com/api/document?collection=news&id=urn:contentItem:68MN-9SB1-JBCM-F4FN-00000-00&context=1516831)

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**Byline:** Russell Flannery, Forbes Staff

**Highlight:** Tensions running high as U.S. Treasury Secretary Janet Yellen heads to Beijing this week

**Body**

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The recent return to a higher profile in China by billionaire business icon Jack Ma, main founder of e-commerce giant Alibaba, has stirred hopes for government support for the country's private sector. (Jorge Silva/Pool Photo via AP)

Associated Press

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Brisk economic growth for much of the past two decades helped to turn China into the world s No. 2 economy and give it second-largest membership on the annual Forbes Billionaires List. Growth has slowed in the past year in part on geopolitical tensions with the U.S. and a leftward tilt in Chinese ***politics***. This year,the number of billionaires fell, to 495 from 539 in 2022,amid weak private sector investment and consumer sentiment. The number of Chinese companies to make the Forbes Global 2000 list of the world s top publicly traded companies also declined (see linkhere).

Confidence is really important , said John Quelch, a Harvard Business School professor and former dean of the China Europe International Business School in Shanghai who traveled in the country in June. Chinese businesspeople are not feeling that confident right now about investing in China. And you see the lack of confidence manifested in lukewarm growth in Chinese consumption. Many Chinese are reverting to saving a higher percentage of their available income after necessities rather than investing it. These trends are a source of concern, Quelch told Forbes in a recent interview in Boston. Private sector companies are particularly important as by some estimates, they account for as much as 60% of China s GDP.

Worries about the economic outlook are reflected in the country s stock market performance. The benchmark CSI 300 Index, for instance, has declined by 12.8% in the past year. The Chinese stock market is largely a retail market and it s weak. That s often a reflection of a lack of consumer confidence in the long-term economic prospects, Quelch said.

Yet tepid private-sector investment in the country isn t likely to last forever, Quelch believes, based in part on his observations from his recent visit. There's an effort now to restore the confidence of the private sector with a view to re-igniting investment, he said. The government realizes that they may have over overdone it with respect to clamping down on the private sector, given that this put a damper on private sector investment which is essential to move the economy forward.

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Harvard Professor John Quelch, third from left, visited Fidelity Investments' office in Shanghai last month.

John Quelch

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Quelch, who still serves as honorary chairman of an international advisory board at CEIBS, expects government signals to turn that around. I think it's just a matter of lightening the regulatory touch. The signaling system in China is very well developed, in terms of the central government sending signals to the private sector, he said.

Authorities are also very astute for the most part in knowing whom to signal, Quelch continued. Entrepreneurs started to lose their chutzpah after a technology industry crackdown that went too far, but that is reversing, he believes. Recent public appearances by Internet heavyweight Alibaba s billionaire main founder Jack Ma, a Chinese business icon who fell out with the government in 2020 after criticizing the state-dominated banking industry, point to improvement, Quelch said.

The 71-year-old British-American author of 25 books spoke ahead ofa visit to Beijing by U.S. Treasury Secretary Janet Yellen this weekthat aims to improve badly strained U.S.-China relations. Just last week, the U.S. Embassy advised businesspeople to reconsider travel to the country following the passage of an amended national security law. Reconsider travel to Mainland China due to the arbitrary enforcement of local laws, including in relation to exit bans, and the risk of wrongful detentions, it said.

China s new security policies are open-ended and therefore a significant source of uncertainty and concern among multinational companies, following government raids on American companies conducting research and due diligence including Bain and Mintz. It means that security management and legal counsel figure more prominently in the day-to-day lives of China-based CEOs of multinational companies. Several have established much stricter protocols with respect to internal communication flows of privileged information.

Tit-for-tat moves by the two sides to limit trade in semiconductor equipment and materials underscore the risks of a rising bilateral protectionism whose onset can most recently be traced to tariff increases on Chinese goods by the Trump administration, Quelch said.

Rather than a dramatic overall improvement in the U.S. trade deficit with China, the Trump-era import taxes have led Chinese businesses to upgrade and diversify their manufacturing, he said. In order to sustain demand from the U.S., Chinese producers have doubled down on production efficiency in order to absorb some of the price increases (associated with tariffs) through cost reduction, Quelch said. That further enhanced Chinese manufacturing efficiency.

Other Chinese companies have played into the decoupling agenda by setting up their own manufacturing plants in Vietnam and other friendly countries, he said. Similarly, Chinese businesses including EV maker NIO have made a big push to expand their investment and funding ties with the Middle East. (See related posthere.) Chinese companies are diversifying their export markets and internationalizing their production, Quelch noted.

To be sure, U.S. restrictions on Chinese companies reflect limits to the openness of China s own market, he said. The reality is that China still does not offer a level playing field to American companies operating in China, Quelch said. Washington s regulatory responses have been largely unconstructive but understandable. A falloff in Chinese investment in the U.S. in recent years is also disheartening, he added. I'm sure the more there are mutual trade and investment flows, the better the guarantee of world peace, he said

Visits to China of late by American business leaders Microsoft s Bill Gates and JPMorgan s Jamie Dimon signal efforts to change the dynamic and counter anti-China political rhetoric ahead of the 2024 U.S. presidential election. Collectively, business leadership in the U.S. has reached the conclusion that they need to break the ice in order for the political ice to be broken, and that has been very helpful, Quelch said.

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Chinese President Xi Jinping met with Bill Gates, co-chair of the Bill & Melinda Gates Foundation, in Beijing on June 16. (Photo by Yin Bogu/Xinhua via Getty Images)

Xinhua News Agency via Getty Images

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On other topics, the Harvard scholar, who is also a former dean of the London Business School, said a de-dollarization of world trade, backed rhetorically by China and its partners such as Brazil, isn t about to happen at scale anytime soon.

As a veteran marketer, I believe that any alternative (to the U.S. dollar) has to be better, cheaper, or faster, Quelch said. While there may be government to government trades that are conducted in yuan for political purposes, the notion that the yuan is going to be a regular trading currency at the commercial level is a long way off.

The banking crisis and the rapid increase in interest rates have really hurt emerging markets due to large holdings in U.S. dollar debt in those countries, he said. Both of those factors have given grist to the mill that alternative settlement currencies are now worth considering.

However, the strength of the dollar is substantial, owing to its ownership in currency reserves globally and large U.S. stake of global GDP 25%, Quelch said. Last but not least, he said, China s currency is constrained mightily by the fact that the yuan is not freely converted in the capital markets.

Quelch also expressed concern about the small number of American students currently studying in China. Mainland students attending U.S. universities outnumber Americans studying in China by a ratio of almost one hundred to one, he said.

A decline in the number of expatriates in China since the start of the pandemic and difficulties in getting Chinese visas is reducing the number of foreign experts focused on the country, and making it difficult for internationally oriented schools there to maintain their student enrollments. If the expats are leaving, that weakens the ties between the two countries, and that s not good, Quelch said.

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