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Chairman Mao and Investing in China

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We recently wrote about the [political dangers of investment in China](#) from the perspective of especially large tech companies that are being forced to follow the Chinese Communist Party line or be subjected to humiliation and worse. But not only could investments in China run afoul of the powers on high but also from discontented youth across the length and breadth of China. *The New York Times* writes about the words of Mao Zedong who asked “[Who Are Our Enemies?](#)” Chairman Mao is seeing a resurgence of popularity among the disaffected youth of China. Chairman Mao and investing in China are related dilemmas these days.

Long Hours and Low Pay for Chinese Workers

The picture that many in the West see regarding China is of shining new construction in huge cities, increasingly powerful businesses, and more and more aggressive foreign policy under the current leader, Mr. Xi. But, a closer look reveals tired and angry youth who hate their long hours at work (9am to 9pm), low pay and lack of affordable housing. These young people have taken to reading and quoting the first Communist leader of China, Chairman Mao. We suggest that investors pay attention to what is going on as Chairman Mao and investing in China are going to be related.

Angry Chinese Youth Question What They Are Getting from the Government

As noted in *The Times*, Mao’s call for violence and struggle is ringing true for disheartened young Chinese workers. The focus of this resurgence is not the chaos visited in China by its first Communist leader when millions died due to poor decision making and attempts to maintain power. Rather, it is that Mao’s works help justify the anger that these people feel about their situations as “struggling nobodies.” Workers view the prosperous business class in China much as 19th and early 20th century workers viewed rich capitalists in Europe and North America with similar calls for violence if things do not change.

The Consent of the Governed

Political philosophy says that governments are only legitimate and justified in using the power of the state if they govern by the consent of the people. This happens in democracies by free elections. When it happens in authoritarian countries like Communist China it is because the government is giving people much of what they want even though the people have no say in who runs the country or how. In China the Communist Party has kept people happy by creating a system in which there has been lots of employment and the ability to create wealth in their system of “managed capitalism.” The Party claimed credit for all success and tells the people they should be grateful. That sounds increasingly hollow to those working the traditional 9 am to 9 pm six day a week job in China with no prospect of moving out of such a trap.

As economic growth slows the ability of the Party to bribe its citizens with “things” is less than it used to be.

With no labor protections, housing the young people cannot afford, and draconian work schedules the current Chairman, Mr. Xi, is turning to nationalism and tighter controls with finger pointing at tech companies which is the first [political danger of investment in China](#) that we wrote about.

But, as Mao found out, riling up the people and trying to use them as a weapon against your enemies can backfire or at least have unexpected consequences. The one that the Party fears the most is a general uprising against a non-elected government.

Chairman Mao and Investment in China

It would not take an all-out civil war to create havoc in China's economy and cause damage of investments in China. The rise of a true "people's movement" is what the Party fears and while they were able to take over Hong Kong and eradicate remaining liberties by portraying youth there as traitors to the mainland, the same approach will not work within mainland China. Back in the late 19th century in Europe and North America workers became so angry that there were bombings of government offices and assassinations. Move forward to China of today and you have just one more reason to follow the ABC (anywhere but China) approach to your investing.

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