



HISTORY

# The Red Tour: Nanchang to Fuzhou

February 23, 2016



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Nanchang, China

My team and I recently completed a multi-city tour of China, mainly via high-speed rail. We've explored cities including [Shenzhen](#), [Nanning](#), [Guiyang](#), [Changsha](#) and [Wuhan](#), searching for potential investment opportunities and seeing the economic conditions in China first-hand. This last stop on our tour offers a look at Nanchang and Fuzhou in southeastern China. The fact that China's economic growth rate is decelerating is already well-known, but we have long expected this to happen as the country transitions to a new model driven by domestic consumption. Throughout China, we witnessed this economic transformation, with clear pockets of strength in many service sectors, including leisure and tourism, that seem to be offsetting slowing in some industrial, export-oriented areas of the economy.

## Nanchang

We left the hugely impressive Wuhan station for Nanchang, the capital of Jiangxi Province. With a population of five million, Nanchang is a major metropolis and the Chinese characters for Nanchang mean "south prosperity," but it's considered a "second-tier" city. Nanchang is located on the Gan River which combines with other rivers to form Poyang Lake, China's largest freshwater lake. Like Wuhan, Nanchang has a strategic position connecting East and South China and is a major railway hub. Nanchang is where the Red Army (the People's Liberation Army) was founded, so when Chinese tourists visit, it is often called the "red tour" or "red trip."



Nanchang, China

One of Nanchang's famous attractions is the Pavilion of Prince Teng (Tengwang Pavilion) on the east bank of the Gan River. It was originally constructed in 653 AD by Prince Tang, the younger brother of Emperor Li Shimin of the Tang Dynasty, but was destroyed a number of times over the years and rebuilt. The latest reconstruction is beautiful and in the Song dynasty architectural style. My colleagues and I climbed up the nine stories of the 58-meter tower and had a fantastic view of the river. Inside there were interesting displays on each floor showing various ancient artifacts, paintings and mosaics. One floor even has a theater with performances and music of that time period, and there's a store with probably the largest collection and variety of beautiful porcelain I have ever seen. Apparently the tower has become a center for the city's antiques trade. The value of the pavilion tower to the people of Nanchang is exemplified by a saying that if the tower falls, the treasure and resources of Nanchang will no longer exist.

We also visited a major shopping mall which caters to families and youths. The company that developed the mall also plans to open a leisure complex catering to tourists with a theme park, cinema, aquarium and hotels. Executives we spoke to at the company told us they consider the following when determining where to build projects: population (at least 500,000 people must live in the area); the area's macro economy/growth rate; and its total retail sales of consumer goods.

To get a sense of other investment opportunities, we also met the executives of the Department of Commerce of Jiangxi Province. They were eager to help and gave us a presentation highlighting the attractiveness of the province. They highlighted its favorable geographic location in the middle of southeast China with a population of 45 million, and its plentiful water resources with more than 2,400 rivers in the province including the largest freshwater lake in the nation (Poyang Lake). The province also has forest resources, mineral resources such as copper, tungsten, tantalum and other rare earths, tourist attractions with beautiful mountains and World Natural Heritage Sites, and agriculture including grain, vegetables, oranges, livestock, poultry, aquatic products/seafood, tea and tea oil. It was quite a diverse list!

Our final visit was with an automobile manufacturer. Executives of the company said that competition was tough in China, and while its light trucks and pickup trucks are sold in more than 70 countries around the world, the relatively strong Chinese renminbi (RMB) was making exports more difficult.



Enjoying a snack on the train to Fuzhou

We were set to depart Nanchang late in the afternoon and grabbed some fast food to eat in the train station. I purchased a snack made of pounded cooked rice rolled into a ball with sweet filling inside (called mochi in Japan). The box containing the rice balls had pictures of generals and a monument. When I asked my colleague Chris about it, he said the pictures were of some of the great Red Army generals who came from Nanchang during the revolution. They made a strategic move to the Jin Gang Mountains northwest of the city and ate these types of rice balls along the Long March. The rice balls were convenient since they didn't need cooking, and the starch provided energy, while the filling provided some protein and the sticky consistency made you feel full. They were included in military rations because they were easy to carry and kept well-preserved for a long time.

## **Fuzhou**

The (often winding) route to Fuzhou traveled through some beautiful mountainous countryside. I now understand why China has so many dialects! We passed the area where oolong tea is grown. Wuyi Rock Tea is a general term for the category of Wuyi oolong tea produced in the north of Fujian Province, which we were entering. One of China's finest teas, it is well-known for its unique aroma, and its rich and mellow finish and slightly sweet aftertaste.

As soon as we arrived in Fuzhou we were welcomed with clear skies and warmer weather. One of Fuzhou's rivers was situated right in front of our hotel, and it was nice to walk and run along the esplanade bordering the waterfront. Traveling around the city we noticed many banyan trees with their thick leaves and multiple roots. The local people believe that they are living in an auspicious place since the city meets the feng shui (wind and water) requirement of mountains behind and water in front.



Along the river in Fuzhou, China

There is water in the form of the Minjiang River and Wulong River traversing the city, and mountains in the background facing the ocean into which the rivers flow. Since ancient times, the rivers were an important link to trade with the rest of China and the world. In addition to the main rivers, there are a number of tributaries and streams flowing through the city, offering nice scenery. The city is also blessed with numerous hot springs which attract tourists. Lots of famous people are depicted in statues and other memorials throughout the city, not only from recent history but also from the Qing Dynasty. Between 1405 and 1433, Admiral Zheng of the Ming Dynasty sailed a large flotilla of the Imperial Navy from Fuzhou to the Indian Ocean and beyond seven times— even reaching the east coast of Africa. Fuzhou also was involved in trade in Southeast Asia when the Ming government gave approval for Fuzhou to trade with the Philippines. The Treaty of Nanjing of 1842, which ended the Opium War, resulted in Fuzhou becoming one of five Chinese treaty ports open to Western merchants and missionaries.

We visited the "White Pagoda," a well-kept Buddhist shrine with a series of temple buildings. As we climbed toward the top on stone stairs, we found a temple honoring General Qi Jiguang, who was famous for defending China's east coastal regions from raids by pirates.



White Pagoda Temple, Fuzhou,  
China

On the outskirts of the city we also visited a huge housing development in the Cangshan District, which had beautifully landscaped gardens. We also visited the headquarters of a supermarket chain which began as a small convenience-store business. They discussed with us the challenges they had in terms of doing business as well as their expansion plans. We inquired about competition from foreign firms, and they reported that foreign brands with business models that didn't fit China well were facing operating pressures. Nevertheless, they said there was still much for domestic companies to learn from successful foreign companies in China—not only what they were doing well but also what wasn't working. For example, companies which brought in foreign managers often created conflicts with local employees.

At a large property development we visited, executives told us that with Fuzhou's population of seven million and better weather conditions and environment than in some other parts of China, sales of properties in the city have been good. Residential property inventory in Fuzhou reportedly takes around 14 months to sell, which is considered relatively healthy. Like other developers we visited in China, the showroom was spectacular, with lavish decorations and a large-scale model of the project.

The Fuzhou port is a major port for trade with Taiwan, and during our stay in Fuzhou, we noticed there were lots of references to Taiwan and the Taiwan Straits. Advertising often used the Chinese code word of "Straits" to refer to Taiwan, so there were "Straits" restaurants and even an advertisement on a banner along the street for a surgery clinic in Taiwan which read: "Why go to Korea for plastic surgery when you can go to the Straits?"



At the White Pagoda Temple,  
Fuzhou, China

Fuzhou's city government seems to be taking advantage of various preferential policies granted by the central government to foster increased cooperation with Taiwan, not only in terms of trade but also in financial activities and high-tech industries.

Probably the most interesting part of Fuzhou—and testament to the city's long history—was an area called “The Three Lanes and Seven Alleys,” a well-preserved older section of the city covering four hectares with 268 ancient civilian residences. The area originated in the Tang Dynasty and was called Luo City. The plan of the city was done in a symmetrical pattern with a stream running through it. We toured the delicate tiled houses with white walls, and in most of the houses there are pavilions, gardens, artificial mountains, flowers and small lawns. The doors, windows, steps, door-cases, flower-pot pastorals and columns were all decorated with beautiful carvings showing the civilian art of Fuzhou in the ancient times. Today, the area is commonly called the “Museum of Ancient Architecture.” The Three Lanes and Seven Alleys is also the birthplace of many famous politicians, military men, writers and poets. The liveliest main street was full of traditional shops engaged in all kinds of traditional crafts as well as selling local cakes and candies.

Leaving Fuzhou in the cavernous train station, I spotted video display ads for a popular energy drink as well as a particular cosmetic that would transform a woman's face into what was considered to be a more attractive shape. I also noticed a sight that is common around the world today—many people staring at their mobile phones playing games, sending messages and browsing the Internet. A small crowd gathered around a table at the station where mobile phones could be recharged.

Reflecting on our recent trip to some of the so-called second- and third-tier cities in China gave us the impression that the service sector (including tourist and culture-related industries) is strong and likely to continue growing. Although we did notice that infrastructure and property investment had slowed down due to more stringent approval process and still-high property inventory, we believe that this could improve gradually in 2016 as financing to local governments has improved. While we recognize many investors are concerned about China's growth rate, from our perspective, one of China's biggest potential challenges may be instilling investor confidence. We continue to see consumption as a good investment theme, and we emphasize that investors should consider looking beyond China's short-term market gyrations to its long-term potential that seems clearly evident—at least from our perspective.

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