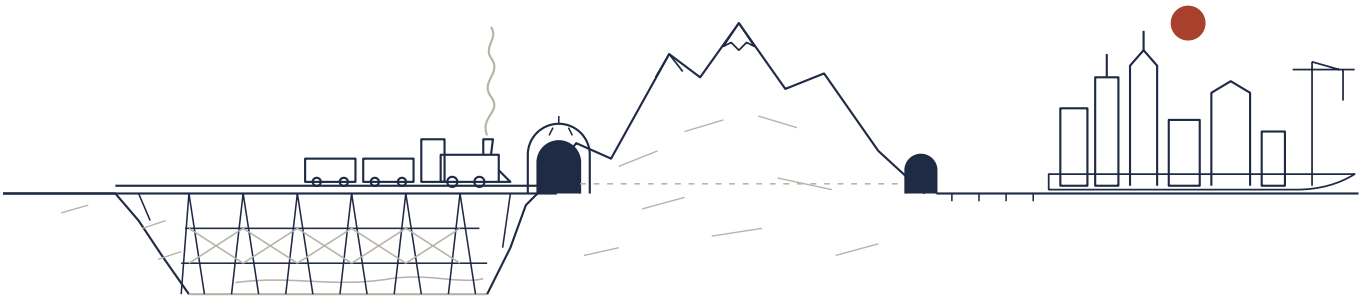
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WHITE PAPER | CHINA

Who Built the Railroad

China, productivity and the long history of uninvestable markets



WHAT THIS IS	An introduction to how I look at China as an investment theme, using Tencent as the worked example, and to the coverage that applies it
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DATE	October 2026
COVERAGE	Eight listed Chinese companies, most of them Tencent-backed, named in the full reports
CLASSIFICATION	General information; not investment advice. See disclosures.

THE IDEA IN ONE SENTENCE

The West has written off hard-working countries before, sometimes with good reason, and the investors who did best were usually the ones who kept looking, bought what was actually productive and made sure the price accounted for the risk.

THE ARGUMENT IN ONE PAGE

We have called a hard-working country uninvestable before

In 1882 Sir John A. Macdonald told Parliament that Canada could have Chinese labour or it could have a railway to the Pacific, and it couldn't have one without the other. Chinese workers built the hardest stretches of the Canadian Pacific and of the Central Pacific in the United States, for less pay than anyone else on the line. Both countries then passed laws to keep their families out. The railways went on to lay the groundwork for the most prosperous century North America has had.

Forty years before that, it was America that Europe wouldn't lend to. Eight states and a territory had stopped paying their debts, and a Rothschild told an American envoy his government couldn't borrow a dollar. British investors lost a lot of money in American railways over the next fifty years. They also financed the most productive economy in history.

China is the market most Western investors now call uninvestable. Some of the reasons are real. The state puts shareholders well down its list of priorities, property has been in a slump for four years, Washington keeps adding Chinese companies to its lists, and Taiwan is a real tail risk. Hong Kong's technology index is down more than 30% this year and sits at a two-year low.

But China is also the world's second-largest economy and its largest manufacturer by a wide margin, and for most of recorded history it was the richest country on earth. It's very good at being the quick follower: taking an idea that someone else proved, and building it faster, cheaper and often better. A country with that capacity for work isn't going anywhere, and ignoring it in a multipolar world seems to me like a mistake.

The second half of the paper is practical. I use Tencent, and the South African and Dutch holding companies that own a large share of it, as the worked example of how a North American investor can own a Chinese company and what each route costs. Then I apply a simple test to eight companies in my coverage, most of them Tencent-backed: what return the risks require, what return today's price can be expected to earn, and the hurdle price where the two meet. At October 2026 prices, and counting stock-based pay as the real cost it is, three of the eight clear the bar and two sit right on it. The other three are good businesses that aren't cheap enough yet.

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Prices are October 15–21, 2026. Stock-based pay is counted as a cost. Names are given in the full initiation reports. A hurdle price is a model output, not a recommendation.

1 | WHO BUILT THE RAILROAD

"Either you must have this labour or you can't have the railway"

In early 1865 the Central Pacific was stuck in the foothills of the Sierra Nevada, unable to keep enough men. Charles Crocker, who ran construction, decided to try Chinese workers over the objections of his own superintendent. Within a few years most of the railroad's workforce was Chinese, somewhere between 12,000 and 20,000 men at the peak by the estimates of Stanford's Chinese Railroad Workers in North America Project, or about 90% of the total.

They cut the Summit Tunnel through granite at Donner Pass, some days by less than a foot, for less pay than white workers, and had to buy their own food. When a few thousand struck for equal pay in June 1867, the company cut off their food and the strike was over in about a week. When the golden spike went in at Promontory Summit in 1869 they weren't in the photograph, and in 1882 Congress passed the Chinese Exclusion Act.

Not long ago I took my kids to Revelstoke and we stopped at Craigellachie, where the last spike of the Canadian Pacific went in on November 7, 1885. The plaque there makes a point I hadn't thought much about: British Columbia barely had anyone in it. The 1881 census counted fewer than 50,000 people in the whole province, about half of them Indigenous, and there was no way to build a railway through the Fraser Canyon and the Selkirks with the people on hand. Between 1881 and 1885 an estimated 15,000 to 17,000 Chinese workers built that section, for about a dollar a day against $1.50 to $2.50 for white workers, and hundreds of them died doing it. Macdonald didn't pretend otherwise. When Parliament debated it in May 1882 he said, "It is simply a question of alternatives: either you must have this labour or you can't have the railway." That same year the line was finished, Parliament put a $50 head tax on Chinese immigrants. It reached $500 by 1903, and in 1923 Canada shut Chinese immigration almost completely until 1947. The federal government apologized in 2006.

The name Craigellachie has a story of its own. It comes from a village on the Spey in Scotland, home ground of the railway's president, George Stephen, and of the Clan Grant, whose rallying cry was "Stand fast, Craigellachie!" When Stephen finally raised the money the railway needed in Britain, that was the telegram he sent his partners in Canada, and there's a piece of rock from the Scottish Craigellachie at the site. So the line was built by Chinese hands with British money, in a province that had neither the people nor the capital to do it alone.

The same arithmetic, a century and a half later

Nobody in 1882 called the Chinese workers an unfair subsidy or a threat to Canada's security. Today the argument is about state subsidies, and China does subsidize. The Center for Strategic and International Studies estimated its industrial policy spending at about 1.7% of GDP in 2019, more than double any other country it looked at. But plenty of countries subsidize industry without becoming the world's factory. China installed about 54% of all the industrial robots put into service worldwide in 2024, it accounts for close to 30% of global manufacturing output, and it ran a goods trade surplus of about US$1.2 trillion last year. That's a country that has moved well past cheap labour, and whose productivity ends up in solar panels, batteries and machinery on every continent.

Sources: Stanford Chinese Railroad Workers in North America Project; House of Commons Debates, May 12, 1882; CSIS, *Red Ink* (2022); International Federation of Robotics, *World Robotics 2025*; UN Statistics Division; China customs data.

2 | WHEN AMERICA WAS UNINVESTABLE

"They cannot borrow a dollar. Not a dollar"

In the 1830s American states borrowed heavily in London and Amsterdam to build canals, railways and banks. Then came the Panic of 1837 and a long slump, and between 1841 and 1843 eight states and the Territory of Florida stopped paying: Arkansas, Illinois, Indiana, Louisiana, Maryland, Michigan, Mississippi and Pennsylvania. Most eventually settled. Mississippi repudiated its Union Bank bonds and later wrote the refusal into its constitution. Those bonds still haven't been paid.

London took it personally. Sydney Smith, a clergyman and writer who had lost money in Pennsylvania bonds, wrote that he never met a Pennsylvanian at a London dinner "without feeling a disposition to seize and divide him." When the US Treasury sent an agent to Paris in 1842 to raise a federal loan, James de Rothschild reportedly told him: "You may tell your government that you have seen the man who is at the head of the finances of Europe, and that he has told you that they cannot borrow a dollar. Not a dollar."

It was a reasonable view at the time. America had fought Britain twice within living memory, its states had defaulted, its banks were a mess, property rights depended on which state you were standing in, and half the country practised slavery. A careful London investor had plenty of reasons to stay away.

The money came back anyway

Within a decade British capital was flowing back in, and it kept financing American railways through some very bad years. The panic of 1873 started with the collapse of Jay Cooke, the Northern Pacific's banker, and after the panic of 1893 something like a quarter of the country's railway mileage went through receivership. Britain had its own railway mania in the 1840s and lost a fortune on lines that should never have been built. But by 1914, according to the business historian Mira Wilkins, foreign long-term investment in the United States had reached about US$7 billion, more than half of it British and much of it in railways. The investors who bought well did well out of it, and the country did a great deal better.

SOMETIMES THE CONSENSUS IS RIGHT

Holders of Russian railway bonds lost everything in 1917. British capital was just as happy to go to China in the 19th century: HSBC was founded in Hong Kong in 1865 to finance the China trade, and London bought Qing and Republican railway and government bonds. Those bonds defaulted and were never honoured after 1949, when foreign owners of Shanghai's banks, mills and trading houses also lost most of what they had. So I don't think "uninvestable" is always wrong. I think a country's capacity to work and build is one question, and whether capital will be treated fairly there is another, and the price you pay has to account for both.

Japan went through something similar. In the 1950s "Made in Japan" meant a cheap copy. By the 1970s it meant Toyota and Sony, and by the late 1980s Americans were worried about Japanese buyers taking Rockefeller Center. The fear usually shows up after a country succeeds, and often close to the top. With China it has come after four years of falling share prices.

3 | TWO THOUSAND YEARS AT THE CENTRE

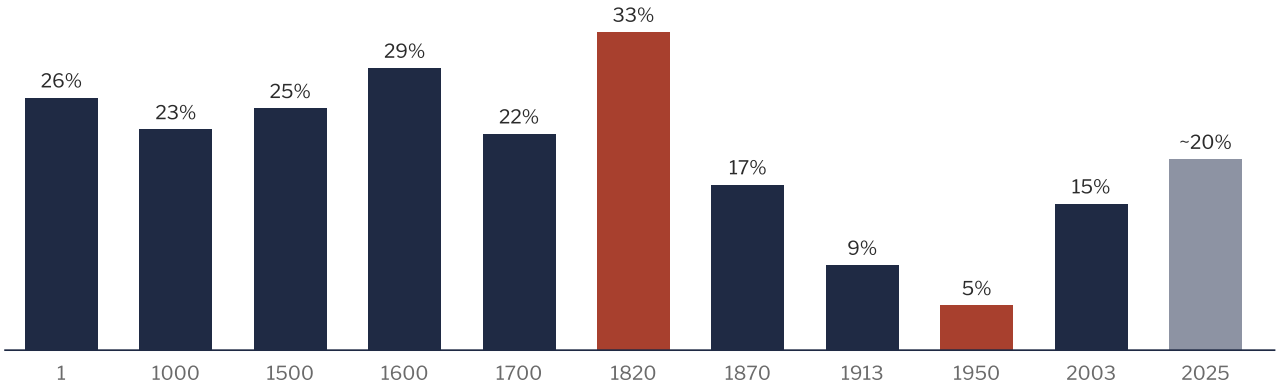
For most of recorded history, China was the largest economy on earth

When Marco Polo got to Kublai Khan's court in the 1270s he found a country well ahead of Europe. He called Hangzhou the finest and most splendid city in the world. He was amazed that the empire ran on paper money, which the Song had been issuing since the 1020s, and that people burned black stones for heat. A century later the Ming admiral Zheng He was sailing fleets to East Africa in ships far bigger than anything Columbus would command.

Adam Smith, writing in 1776, described China as "one of the richest, that is, one of the most fertile, best cultivated, most industrious, and most populous countries in the world," and then added that it had long been "stationary." He was right on both counts. The economic historian Angus Maddison estimated that China produced around a quarter of the world's output for most of the last two thousand years, and about a third as late as 1820.

China's share of world GDP

Purchasing-power basis. Years 1 to 2003 from Maddison (1990 international dollars); 2025 is an IMF estimate on a different basis



Sources: Angus Maddison, *Chinese Economic Performance in the Long Run* (OECD, 2007); IMF World Economic Outlook database (2025, approximate).

The drop from a third of world output in 1820 to under 5% in 1950 is the period Chinese schoolchildren learn as the century of humiliation. Some of it was self-inflicted: the Qing court was rigid and slow to change, and the Taiping rebellion alone killed tens of millions. A good deal of it was done to China from outside, which is the subject of the next section. And the first decades of the People's Republic brought disasters of their own, above all the famine of the Great Leap Forward and the Cultural Revolution. The people who grew up in the aftermath of those years run much of the country today.

Then came 1978. Over the next four decades close to 800 million people left extreme poverty, by World Bank estimates about three-quarters of the global total. China joined the WTO in 2001 and became the factory of the world. Over two thousand years, the last two hundred look more like an interruption than the natural order of things.

4 | SILVER, TEA AND A LETTER TO KING GEORGE

The first globalization ran on Chinese demand, and Britain couldn't pay for it

In the 1570s the Ming government started collecting taxes in silver, and China's appetite for the metal became the hinge of the world economy. In 1571 the Spanish founded Manila, and for the next two and a half centuries the Manila galleons carried silver from the mines of Mexico and Peru across the Pacific to trade for Chinese silk and porcelain. The historians Dennis Flynn and Arturo Giráldez date the birth of globalization to that year. By their estimates and others', a large share of all the silver mined in the Americas, perhaps a third or more, ended up in China. Europe's trading companies paid for Chinese goods the same way, because China didn't want much of what Europe made.

Then the British discovered tea. Over the 18th century it went from a luxury to a national habit, and by the end of the century the duty on it was paying for a meaningful part of the British government. The trade was tightly controlled. From 1757 foreigners could deal only at Canton, through a guild of licensed Chinese merchants, during the trading season, and could not learn Chinese or bring their families. The East India Company had a huge and growing deficit with China and was shipping silver east to cover it.

"We possess all things"

In 1793 George III sent Lord Macartney to the court of the Qianlong Emperor with telescopes, clocks, a planetarium and a list of requests: more ports, a permanent embassy and an island for British traders. The emperor turned down every one. His letter to the king is quoted in every history of the period: "As your Ambassador can see for himself, we possess all things. I set no value on objects strange or ingenious, and have no use for your country's manufactures."

It's usually told as a story of Chinese arrogance, and there's some truth to that. China had invented paper, printing, gunpowder and the compass, the three of which Francis Bacon said in 1620 had changed the whole face of the world, without knowing they came from China. By 1793 it had stopped looking outward, and within fifty years the gap in ships and guns would cost it dearly. But the letter also describes a country that was, at that point, largely self-sufficient and running a trade surplus with the most advanced economy in Europe. Britain's answer to that surplus was to find something China would buy. It turned out to be opium.

THE LESSON CHINA TOOK FROM IT

The Qianlong Emperor dismissed the inventions of others because he didn't think he needed them, and his successors paid for it. Modern China drew the opposite conclusion so thoroughly that it became the world's best quick follower: adopt anything useful from anywhere, as fast as possible, and never again fall behind on the technology that decides who sets the terms. Today's trade surplus, and Western frustration with it, would have looked very familiar to the East India Company.

5 | WHAT THE WEST TOOK

The Opium Wars, the treaty ports and a long memory

I'll keep this short, but it's hard to understand how China looks at the West, or at Western talk of property rights and the rule of law, without it.

The answer Britain found was grown in India. By the late 1830s British and American merchants were shipping something like 40,000 chests of Indian opium into China a year, against Chinese law, and draining the country's silver to pay for it. When the imperial commissioner Lin Zexu seized and destroyed about 20,000 chests at Humen in 1839, the merchants, Jardine's partners prominent among them, lobbied London for a war. They got one. A young William Gladstone told the House of Commons in 1840 that he didn't know of "a war more unjust in its origin, a war more calculated in its progress to cover this country with permanent disgrace." Parliament voted for it anyway.

- **The Treaty of Nanking (1842)** ceded Hong Kong, opened five ports to foreign trade and made China pay an indemnity of 21 million silver dollars for the opium it had destroyed and the war it had lost.
- **The Second Opium War (1856–60)** forced China to legalize the opium trade. British and French troops looted the Old Summer Palace outside Beijing, and Lord Elgin ordered it burned.
- **The unequal treaties** that followed gave foreigners extraterritoriality, so they couldn't be tried in Chinese courts, put foreign officials in charge of China's customs revenue, and carved out concessions in its cities that Chinese citizens could enter only on foreign terms.
- **The Boxer Protocol (1901)**, after eight foreign armies occupied Beijing, imposed an indemnity of 450 million taels of silver, more than the Qing government took in from taxes in several years, to be paid over 39 years with interest.
- **At Versailles in 1919** the Allies handed Germany's concessions in Shandong to Japan rather than back to China, which had sent about 140,000 labourers to work behind the Western Front. The protests that followed, the May Fourth Movement, helped give rise to the Chinese Communist Party.
- **Abroad**, hundreds of thousands of Chinese labourers were shipped to Cuba and Peru as indentured "coolies" in conditions close to slavery, and the United States and Canada excluded Chinese immigrants by law for decades.

I don't think any of this excuses what the Chinese state does today, and it isn't the reason to invest. But it explains a lot. When a Western government lectures Beijing about property rights or open markets, a lot of Chinese people hear the descendants of the people who forced opium on them at gunpoint and took their ports, their customs revenue and their silver. A country with that memory is going to want to build its own industries, control its own capital and never depend on outsiders again, and it has a long time horizon. That shapes everything from Made in China 2025 to the size of the navy.

SELF-SUFFICIENCY HAS DEEP ROOTS

It's a mistake to read China's drive for self-sufficiency in chips, energy and food as a passing policy. It comes out of a hundred years of history, and it will outlast any trade negotiation. The companies that line up with it tend to be the ones the state supports.

6 | THE QUICK FOLLOWER

Second, fast and cheap usually wins

Western business culture puts the inventor on a pedestal. The evidence for being first is weaker than people think. Theodore Levitt argued in the *Harvard Business Review* back in 1966 that "innovative imitation" was both more common and often more profitable than innovation. In 1993 Peter Golder and Gerard Tellis went back through 500 brands in 50 product categories and found that the pioneers failed nearly half the time, and the companies that ended up leading their markets had usually come in years later. The follower gets to see what works and skip the dead ends, and then it's a contest of execution. That's where China is very strong.

THE PIONEER	THE CHINESE FOLLOWER	WHAT HAPPENED
ICQ (1996)	Tencent's OICQ, later QQ (1999)	Hundreds of millions of users; the foundation of Tencent
WhatsApp, Kik (2009–10)	Weixin / WeChat (2011)	Became the operating system of daily life in China, with payments and mini-programs Western apps still don't have
Toyota, Tesla	BYD (cars from 2003)	Passed Tesla in battery-electric sales in 2025; Berkshire Hathaway made many times its money
OpenAI o1 (Sept 2024)	DeepSeek R1 (Jan 2025)	Similar reasoning ability at a fraction of the cost; Nvidia lost about US$590 billion of value in a day
US and German solar research	LONGi, Jinko and others	More than 80% of world capacity at every main stage of manufacturing (IEA); module prices down about 80% in a decade

The pattern is usually the same. Somebody else proves the market. Dozens of Chinese companies pile in and iterate every week, and a domestic market of 1.4 billion people with very little patience for incumbents kills most of them. The one or two that survive come out with lower costs than the pioneer and a product that's been refined by a market that punished every mistake.

DeepSeek made the point to the whole world in January 2025. Working under US export controls on advanced chips, a small Hangzhou company spun out of a quant fund built a model that came close to the best American ones, released it openly, and said the final training run on its base model cost about US$5.6 million of computing time. That number left out a lot of earlier work, and the critics were right to say so. But the market understood what it meant for the moats around the leaders. China now spends about RMB3.9 trillion a year on research and development, 2.8% of GDP and above the OECD average for the first time, and it graduates more engineers every year than the United States and Europe together.

HARD ON MARGINS

The same intensity that makes Chinese companies so hard to compete with makes them hard on their own margins. When a profitable niche opens up, ten competitors show up, often funded by a bigger platform. In 2025 JD.com and Alibaba went after the market leader in food delivery, all three spent tens of billions of renminbi subsidizing meals, and the leader's core business went from a RMB52 billion profit to a loss in a single year. The safer places to invest are companies that have already come through those fights, or prices that assume the fighting will go on.

7 | BELT AND ROAD AND THE MARSHALL PLAN

Two great powers that built their own customers abroad

In June 1947 George Marshall told a Harvard audience that the United States would help rebuild Europe. Over the next four years the European Recovery Program sent about US$13.3 billion, roughly 5% of a year's American GDP at the time and well over US$150 billion in today's money, mostly as grants. It was generous, and it was also very good business. A rebuilt Europe bought American machinery, grain and films, held the line against the Soviet Union, and was the biggest market for American exports for a generation. Similar money rebuilt Japan.

China's Belt and Road Initiative, launched in 2013, is the closest thing to it today. By the count of Christoph Nedopil at Griffith University, Chinese engagement in Belt and Road countries reached about US$1.4 trillion by the end of 2025, and last year was the biggest yet at US$213.5 billion, mostly in energy and mining and led by Africa. Ports, railways, power plants and fibre lines have gone up across Asia, Africa and Latin America, and China's trade with the developing world has grown faster than its trade with the West.

	MARSHALL PLAN, 1948–51	BELT AND ROAD, 2013–2025
Scale	US$13.3bn (≈US$150bn+ today)	≈US$1.4 trillion of construction and investment
Form	Mostly grants	Mostly loans and construction contracts, often to Chinese firms
Recipients	Western Europe's industrial economies	About 150 countries, most of them developing
What the giver got	Allies, export markets, a dollar-based system	Commodities, markets for its industry, ports and influence across the Global South
Main criticism	Tied aid; Cold War leverage	Debt distress, opaque terms, uneven project quality

The differences matter. The Marshall money was mostly a gift. Belt and Road money is mostly lent, and when commodity prices fell and rates went up, some borrowers couldn't pay. Zambia defaulted in 2020 and Sri Lanka in 2022, and Sri Lanka's 2017 lease of Hambantota port to a Chinese company for 99 years became the standard example of "debt-trap diplomacy." Researchers like Deborah Brautigam have shown it's more complicated than that, since the lease was Sri Lanka's own idea for raising cash. But AidData has found hundreds of billions of dollars of Chinese lending that never shows up in official debt figures, and that lack of transparency is a real cost to the countries involved.

For an investor the part that matters is that China is building demand that doesn't depend on Washington. In 2025 it offered tariff-free access to nearly every African country it has relations with. Chinese carmakers now sell more vehicles abroad than ever, a lot of them into Belt and Road markets in Southeast Asia, Latin America and the Middle East. The West tends to treat all of this as a threat. It's also how China intends to keep selling if Western markets close.

8 | CURRENCY, DEFENSE AND THE LISTS

A cheap currency that's starting to rise, and a growing list of lists

The renminbi isn't freely traded. The People's Bank of China sets a reference rate every day and lets the onshore yuan move within 2% of it, and the capital account is mostly closed. For most of the past decade the central bank leaned against a stronger yuan. That's changing. The yuan broke through 6.8 to the US dollar in May for the first time in three years, and the reference rate was about 6.72 on October 19, up roughly 8% from early 2025. Goldman Sachs reckons it's still more than 20% undervalued on a real trade-weighted basis, which isn't surprising for a country running a US$1.2 trillion surplus. For a North American investor that matters because these companies earn in yuan. A rising currency raises the dollar value of their profits, after ten years in which it did the opposite. The Hong Kong dollar is pegged to the US dollar, so a Hong Kong line doesn't add a second currency for a US investor; Canadians carry the US dollar on top.

Defense

China's 2026 defense budget is RMB1.91 trillion, about US$277 billion, up 7%. The Pentagon thinks the real number is a third to two-thirds higher. Even so it's well under a third of what the United States spends. The navy is now the world's largest by number of ships and China's shipyards can outbuild America's many times over. At the same time Xi Jinping has purged a remarkable share of his own generals since 2022, more than a hundred senior officers by one CSIS count. I wouldn't expect a military going through that to start a war soon, but I could be wrong, and a blockade or invasion of Taiwan is the scenario that would hurt this coverage most. Russia in 2022 is the template: sanctions, frozen assets, and Western holders of Russian shares effectively wiped out. China is far more tied into the world economy than Russia was, which makes conflict less likely without making it impossible. Position size is the only real protection.

US INSTRUMENT	WHAT IT DOES	RELEVANCE HERE
Pentagon 1260H list	Names "Chinese military companies"; bars Defense Department contracting. Not itself a ban on investing	Tencent added January 2025; BYD, Alibaba and Baidu in June 2026. One company in my coverage is listed and won a due-process ruling on appeal in August 2026. Some funds exclude listed names
Treasury NS-CMIC list	Bars US persons from buying a listed company's securities	To my knowledge none of the companies discussed here is on it
COINS Act (December 2025)	Restricts US investment in Chinese AI, chips and quantum businesses	Most purchases of publicly traded shares are excepted; Treasury rules due in 2027
HFCAA	Delists companies whose auditors US inspectors can't review	Inspectors have had access since 2022; the threat came back in 2025 and could again

The likeliest way for an American investor to lose money here is a decision in Washington that moves a company from a list that names it to one that forces a sale. That's why the route you buy through matters, and why section 12 treats it as part of the investment.

9 | PROPERTY RIGHTS, HONESTLY

There's some truth in the fear, and it belongs in the price

When Western investors call China uninvestable they're usually thinking of 2020 to 2022, and they have a point. In November 2020 regulators stopped Ant Group's IPO two days before it was due to become the biggest in history. Alibaba was fined RMB18.2 billion. In July 2021 Didi was put under a cybersecurity review days after listing in New York and was later pushed off the exchange, and the after-school tutoring industry was told to become non-profit more or less overnight, which wiped out most of the value of the listed tutoring companies. Children's gaming time was capped at three hours a week. In December 2023 a set of draft rules on game spending took about US$80 billion off Tencent and NetEase in one day before regulators walked them back.

Then property, which is where most Chinese households keep their wealth, broke. Evergrande defaulted in 2021 and a Hong Kong court ordered it wound up in 2024, and dozens of developers followed. House prices have fallen for most of the past four years and confidence has gone with them.

What the fear gets right

- A foreign shareholder in a Chinese internet company is, in practice, behind the Party's goals and the customer. Regulators can rewrite an industry's economics without compensating anyone.
- Most US-listed Chinese companies use a variable interest entity. You own shares of a Cayman Islands holding company that controls the Chinese business through contracts rather than ownership. Beijing now recognizes the structure in its listing rules, but it's never been tested in a crisis.
- Founders usually control through super-voting shares, and governance is weaker than most Western investors are used to.

What it leaves out

- The direction changed after 2023. Xi Jinping met private entrepreneurs, Jack Ma among them, in February 2025, and a Private Economy Promotion Law took effect that May. Game approvals are back to normal.
- The big platforms now pay dividends and buy back stock on a scale they never used to. Tencent bought back about HK$80 billion of its own shares in 2025.
- Prices have already come down a long way. The Hang Seng Tech index hit a two-year low on October 22, 2026, down more than 30% this year, and the selling has been about fund outflows, AI spending and US interest rates, not a new crackdown.

PRICING IT IN

Every required return in this coverage includes a country premium larger than for any other market I follow, and I don't assume multiples will ever close to Western levels. Where a company holds a third or more of its market value in net cash, the cash is a partial cushion against governance risk, as long as it keeps coming back to shareholders through dividends and buybacks. And where I can, I prefer a route that puts a non-Chinese company, with its own board and auditors, between me and the asset.

10 | FEELING THE STONES

A little philosophy: water, cats and crossing the river

Deng Xiaoping's reforms rested on two sayings every Chinese adult knows. The first, which he borrowed from the economist Chen Yun, is "crossing the river by feeling the stones" (摸着石头过河): reform by experiment, one step at a time, keeping what holds. Shenzhen and the other special economic zones were stones to test before anything went nationwide. The second goes back to 1962: "It doesn't matter whether a cat is black or white, as long as it catches mice." What worked mattered more than what the doctrine said.

Both describe the quick follower pretty well. A country that will take a good idea from anywhere and try it in one city before rolling it out to a billion people is very hard to compete with. I think they also describe a sensible way to invest there. You don't need a view on where China ends up in thirty years. You test each step, you size things so that no single stone can sink you, and you keep what works.

Water and stone

The *Tao Te Ching* has a line I come back to: "Nothing in the world is softer and weaker than water, yet for attacking the hard and strong nothing can surpass it." Chinese civilization has absorbed conquerors, outlasted dynasties and come back from disasters that would have finished most states. The work ethic I see in the country today is part of the same thing. It's not dramatic, but over long periods I think it matters more than any single policy out of Beijing or Washington.

A SMALL CORRECTION TO THE POPULAR VERSION

Western investors like to say the Chinese word for crisis, 危机 (wēijī), is made up of "danger" and "opportunity." The linguist Victor Mair has pointed out that it isn't quite right: 机 here means something closer to a crucial point, the moment when things turn. I actually find the accurate version more useful. A crisis isn't automatically an opportunity. It's the point where the outcome gets decided, and the price you pay at that point decides whether it was one.

Templeton and the point of maximum pessimism

John Templeton is the investor usually quoted on this: "The time of maximum pessimism is the best time to buy." In the 1960s he was buying Japanese shares when most American investors thought of Japan as poor, risky and imitative. He was right for most of the reasons in this paper, and also disciplined enough to sell most of it well before the 1990 peak. I don't know whether we're at the point of maximum pessimism on China. A renewed delisting debate and a broad consensus that the market can't be owned is usually what it looks like.

Burke wrote of society as a partnership between the living, the dead and those yet to be born. China thinks about its own history that way, in centuries. Western capital markets mostly think in quarters. That gap is one of the reasons the price can get away from the value.

11 | SALT, IRON AND THE MANDATE OF HEAVEN

China has argued about the state and the merchant for two thousand years

Western investors tend to assume that Chinese culture is hostile to commerce and that the Communist Party invented the state's grip on the economy. Both are only half right. Around 94 BC the court historian Sima Qian included a chapter in his great history on the money-makers of his day, the iron smelters, salt merchants and traders who had grown rich, and he wrote about them with obvious admiration. One line from it is still quoted all over China: "Jostling and joyous, the whole world comes for profit; racing and rushing, after profit the whole world goes" (天下熙熙，皆为利来；天下攘攘，皆为利往).

A few years later, in 81 BC, the Han court held a public debate over whether the state should keep its monopolies on salt and iron, which it had taken over to pay for its wars on the northern frontier. Confucian scholars argued the monopolies were corrupting, made poor tools at high prices and put the state in competition with its own people. The officials argued that the state needed the revenue and couldn't leave strategic industries to private fortunes. The record of that argument, the *Discourses on Salt and Iron*, reads very much like a modern debate about state-owned enterprises. The officials mostly won, and the same argument is still going on in Beijing today.

The Mandate of Heaven

Mencius, writing in the 4th century BC, put the other half of the bargain plainly: a ruler holds the Mandate of Heaven only as long as he looks after the people, and floods, famine and disorder are signs he's losing it. Every dynasty since has understood that its legitimacy depended on results. So does the current one. The Party doesn't face elections, but it does depend on rising living standards and stability, and those depend on the private sector, which by the government's own count produces more than 60% of GDP, more than 70% of innovation, more than 80% of urban jobs and more than 90% of companies.

THE STATE AS CONTROLLING SHAREHOLDER

Families who control listed companies often think in generations, and that can work in a minority investor's favour. A Chinese company has a controlling party of a different kind. The state doesn't share a minority investor's priorities, and when control or security is at stake, as in 2021, it will put those first. But its long-run interest, prosperity at home and influence abroad, overlaps with a shareholder's more than the headlines suggest, because it can't keep the mandate without the companies that pay the taxes and hire the graduates. The businesses worth owning are the ones where those interests line up, at prices that pay for the times they don't.

Confucius said that a gentleman understands what is right and a petty man understands what is profitable. Sima Qian seemed to accept that most people are the second kind, and that a sensible government lets them get on with it. Chinese policy has swung between those two views for twenty centuries, and since 2023 it has been moving back toward Sima Qian.

12 | HOW TO OWN IT

The route you choose is part of the risk you take

A Chinese company can often be bought four or five different ways, and they aren't the same. Each one trades convenience, liquidity and tax against exposure to US policy.

ROUTE	ADVANTAGES	WHAT YOU GIVE UP
US-listed ADR (NYSE, Nasdaq)	US dollars, US trading hours, SEC filings, good liquidity	The most exposed to a US delisting order; usually a VIE
Hong Kong line	Deepest liquidity for Hong Kong names; survives a US delisting; mainland buyers through Stock Connect	Needs a broker with Hong Kong access; Asian hours; board lots
US over-the-counter ADR	Easy to buy in an ordinary North American account	Wider spreads and thin trading; some are unsponsored; ADR fees
Non-Chinese holding company	A European or South African issuer between you and China; often bought at a discount to look-through value	Other assets come in the package; another currency; PFIC for US taxpayers
Broad ETF	Diversified and simple	You own what the index owns, state banks included, at index weights

Several of the companies in my coverage have both a New York and a Hong Kong listing, and where they do I lean toward the Hong Kong line, even though it's less convenient. Three trade only in New York, and for those a delisting order would mean waiting for a Hong Kong listing or selling. That's a real cost and I size them with it in mind.

Tax, briefly

- **Dividend withholding** ranges from nothing on most Cayman-incorporated companies to 10% on mainland-incorporated H-shares, 15% on Dutch companies and 20% on South African ones, before any treaty relief. Mainland withholding on dividends paid up to Hong Kong holding companies can also bite at the company level; one of my names took a one-time charge for it this year.
- **PFIC.** A holding company whose value is mostly a minority stake in another company can be a passive foreign investment company for US tax purposes, with punitive treatment in a taxable account unless the right election is made. Prosus has said it likely is one. Canadian investors don't face PFIC rules.
- **Registered accounts.** Treaty relief can differ between taxable accounts, RRSPs and TFSAs, and between the US and Hong Kong lines of the same company.

THE TRADE-OFF

The routes that are most convenient for an American investor are the ones most exposed to American policy. Holding a Hong Kong line, or a holding company based outside both countries, costs something in convenience, spreads and tax. What you get for it is protection against the risk most likely to turn a good investment into a forced sale. Tax treatment depends on your circumstances, and none of this is tax advice.

13 | TENCENT, THE WORKED EXAMPLE

The company called a copycat that ended up backing half of Chinese internet

Tencent was founded in Shenzhen in 1998 by Ma Huateng, known in English as Pony Ma, and four classmates. Its first hit, in 1999, was OICQ, a near copy of the Israeli messenger ICQ. When AOL, which owned ICQ, threatened to sue, they renamed it QQ. It had users and no revenue, and Ma tried to sell the company for a few million dollars without finding a buyer. In 2001 the South African media group Naspers bought 46.5% for about US$32 million, which is probably the best venture investment ever made. Tencent listed in Hong Kong in 2004 and found its business in virtual goods and online games, where it became the largest company in the world.

By 2010 it had a reputation for watching what worked, copying it and pushing it to QQ's users until the original died. That July the magazine *Computer World* ran a cover story with a title that translates, politely, as "Tencent, you dog." A public fight with the security company Qihoo 360 followed, and opinion turned hard against it. Pony Ma's response changed the company. In 2011 Tencent opened its platform to outside developers and started investing in other companies instead of cloning them. Over the following decade it took stakes in hundreds of businesses, including JD.com, Pinduoduo, NIO, Sea, Riot Games, Supercell and 40% of Epic Games, along with several companies in my coverage, and gave many of them access to its users. In the same year a small team under Allen Zhang launched Weixin, after Kik and WhatsApp had shown what a phone messenger could do. It's now WeChat, with 1.44 billion monthly users, and it's how China messages, pays, shops and books a doctor.

RMB752bn	RMB260bn	HK$80bn	≈12x
REVENUE 2025, +14%	NON-IFRS PROFIT TO SHAREHOLDERS, 2025	SHARES BOUGHT BACK IN 2025	FORWARD P/E AT HK$411, OCT 20, 2026

Tencent makes its money from games (RMB66 billion in the June 2026 quarter, home and abroad), advertising inside WeChat (RMB43.6 billion, up 22%), and payments, wealth management and cloud (RMB60.3 billion). Revenue grew 11% in the quarter. The worry is spending: capex rose 176% to RMB52.8 billion, mostly on AI computing, and Tencent says its new AI products are losing money. Without them, operating profit would have grown 19% instead of 9%. Mainland funds have been sellers, and the shares fell to about HK$381 on October 22, against HK$664 at the 52-week high.

Tencent is also unusual in handing its winners back to its own shareholders. In late 2021 it paid out most of its JD.com stake, about US$16 billion, as a dividend in kind, and in 2022–23 it did the same with about US$20 billion of shares in a food-delivery company. In July 2026 it sold about US$1.5 billion of a short-video company it had backed since 2017. Between buybacks, dividends and distributed shares, a good part of Tencent's profit has found its way back to shareholders.

Sources: Tencent 2025 annual and Q2 2026 results; HKEX filings; Dealroom (July 2026); prices from StockAnalysis.com and Hong Kong press, October 20–22, 2026. Tencent is on the Pentagon's 1260H list (see section 8).

14 | NASPERS AND PROSUS

The side door: Tencent at a discount, through Amsterdam

Naspers started in 1915 in Stellenbosch as De Nasionale Pers, publisher of the Afrikaans paper *Die Burger*. Its first editor was D.F. Malan, who later became the prime minister who brought in apartheid, and in 2015, its hundredth year, Naspers formally apologized for supporting the regime. Under Koos Bekker it became a pay-TV company and then an emerging-markets internet investor, and the Tencent stake made it one of the biggest companies in Africa. In 2019 it moved its international assets into Prosus, listed in Amsterdam, and kept a majority of Prosus's economic interest.

Prosus owned 22.66% of Tencent at the end of March, and that stake is most of its value. The rest is a set of consumer internet businesses, including iFood in Brazil, OLX classifieds, Just Eat Takeaway, which it bought in 2025, and stakes in Swiggy and Delivery Hero. Those businesses earned US$1.3 billion of adjusted EBITDA in the year to March 2026, up 84%. Since mid-2022 Prosus and Naspers have been selling small slices of Tencent to buy back their own shares at a discount, returning about US$46 billion of value in all, while Tencent's own buybacks have absorbed the shares they sold.

What a Prosus share buys, October 2026

US$ billions. Tencent at HK$410.8; Prosus at €33.93; HK$7.78 and €1 = US$1.12



Everything Prosus owns outside Tencent, including iFood, OLX and Just Eat Takeaway, is implied at less than zero.

At October prices a Prosus share buys its piece of Tencent at roughly a 20% discount after allowing for central debt, and the rest of the portfolio comes for nothing. Against full net asset value, analysts have put the discount at 35–37% this year. Naspers adds another layer of holding-company discount on top, in rand.

What the side door does and doesn't do

- **It does** put a Dutch company, audited in Europe and listed in Amsterdam, between the investor and Tencent's 1260H listing and the VIE question. A US order forcing the sale of Chinese issuers probably wouldn't reach it directly.
- **It doesn't** take away China risk. If Tencent falls, Prosus falls further because of the debt. The discount can last for years, and it can widen if management spends heavily on acquisitions, which some holders think it did with Just Eat Takeaway.
- **For US taxpayers**, Prosus's likely PFIC status is a real drawback in a taxable account. For Canadians, and in US tax-deferred accounts, it matters much less.

What you're buying is a listed holding company at a discount, with an owner whose interests line up with yours. Here the holding company is the access route as much as the investment.

15 | THE METHOD

The useful question is whether a given price earns the cost of capital

The test is simple: the return a company's risks require, against the return today's price can be expected to earn.

Required return

I build it in US dollars from the 10-year Treasury yield, about 5.1% on October 21, plus an equity risk premium, a China premium for the risks in sections 8 and 9, and premiums for the specific ways each company can hurt a minority holder. It's higher than for anything else I cover, and higher than two years ago because US rates are.

COMPONENT	PREMIUM	WHAT IT PAYS FOR
US 10-year Treasury	5.1%	The return available without taking any equity risk
Equity risk premium	4.5%	Owning a business rather than a bond
China premium	3.0%	Regulation without compensation, sanctions, capital controls, Taiwan
Structure	0.5%	VIE contracts in place of ownership; founder control
New York-only listing	1.0%	No Hong Kong line to fall back on if delisted
Pentagon 1260H list	1.0%	Higher odds of a future US restriction; fewer eligible buyers
Business-specific	0.5–2.0%	Cycles, competition, size and stage of development
Required return, coverage range	**14.1–16.1%**	In US dollars, before any view on the yuan

Expected return and the hurdle price

The expected return is what the model expects from today's price over five years: cash paid out through dividends and buybacks, growth in core earnings, and the move from today's multiple to a conservative exit multiple of 7 to 15 times core earnings. Excess net cash is valued at face, with its interest taken out of earnings. Earnings are after stock-based pay, for the reasons in section 17. I assume no move toward Western valuations and hold the yuan flat. The hurdle price is where expected and required returns are equal. It's a model output, not a price target or a recommendation.

A WORKED EXAMPLE, USING A HYPOTHETICAL COMPANY

ILLUSTRATIVE ONLY; COMPANY X IS NOT A REAL COMPANY. IT TRADES AT 44 WITH FORWARD EARNINGS OF 5 A SHARE. EARNINGS GROW 8% A YEAR, IT PAYS OUT 60% THROUGH DIVIDENDS AND BUYBACKS, THE EXIT MULTIPLE IS 10 TIMES AND THE REQUIRED RETURN IS 14%.

	VALUE
Earnings in year 6, and value at 10 times	7.35 / 73.5
Cash paid out over five years	17.6
Expected return from a price of 44	17.3% a year
Hurdle price at a 14% required return	about 50
Expected return if the exit multiple is 7 / 13 times	10.6% / 22.7% a year

16 | THE COVERAGE

Eight Chinese companies, and where each price sits against its hurdle

Six of the eight were backed by Tencent before they listed, and a seventh brought in Tencent and JD.com in 2017. All lead their markets, make money and can be bought from North America. Status shows where each price sat against the model's hurdle price in October 2026, with stock-based pay counted as a cost. The last column adds it back, the way consensus does.

COMPANY	LISTING	WHAT IT GIVES YOU	REQUIRED	EXPECTED	MODEL STATUS	PAY ADDED BACK
Freight network	New York	Freight matching for shippers and truckers; over 40% of value in net cash	14.6%	16%	Clears the hurdle	19%
Discount retailer	New York	Online off-price fashion; pays out about three-quarters of earnings	14.6%	18%	Clears the hurdle	21%
Video platform	Hong Kong	Short video and live commerce, plus a leading AI video model	14.1%	15%	Clears, on the AI stake	18%
Lidar maker	New York, Hong Kong	Largest automotive lidar supplier, now in robotics; on the 1260H list	16.1%	16%	At the hurdle	20%
Recruitment platform	New York, Hong Kong	Largest mobile hiring app; payouts near 6% a year	14.1%	14%	At the hurdle	19%
Housing platform	New York, Hong Kong	Largest home-transaction network, plus rental and renovation	14.1%	8%	Watch	13%
Local-services platform	Hong Kong	Food delivery and bookings, recovering from a subsidy war	14.6%	9%	Watch	13%
Online broker	New York	Mobile brokerage in Asia and North America, at peak-cycle earnings	15.6%	12%	Watch	12%

"Watch" means the price is above the model's hurdle price; "at the hurdle" means within about 1%. Required and expected returns are annual, in US dollars, over five years, from prices on October 15–21, 2026. Statuses are model outputs at one date's prices, change as prices move, and are not recommendations to buy, sell or hold.

What's on the line, and what's on watch

Two names sit right on the line. The lidar maker and the recruitment platform both clear comfortably if you take their adjusted earnings at face value, and both land almost exactly on the hurdle once their share grants are counted. The video platform clears only because of its AI video model, which I value at about US$6 billion; without it, the hurdle drops about 17% below today's price.

The three on watch miss by more than stock-based pay can explain. The housing platform needs a price nearly a quarter lower, and would still miss with the pay added back. The local-services platform has to rebuild margins after the delivery war, and its share grants are the largest relative to profit in the group. The online broker barely pays in stock, but its earnings come from a record trading year, and I've also taken out the mainland clients Beijing told it to wind down in May. I'd sooner keep good companies on the list with a hurdle price attached than lower the bar.

Sensitivity: each turn on the exit multiple moves the expected return by roughly 1.2 to 2 points. The full grids are in the initiation reports.

17 | STOCK-BASED PAY

Share grants are a real cost, but the add-back isn't foolish

Almost every Chinese internet company reports an "adjusted" profit that adds back the shares it gives its staff, and the consensus forward earnings most screens use are built on that number. I think that flatters them. Shares handed to employees are pay, and the owners bear the cost either through dilution or through the cash spent buying the shares back. At Tencent the add-back was RMB35 billion in 2025, about 13% of adjusted profit, and across my coverage it runs from almost nothing to more than a third. So the primary numbers in this paper count it as a cost.

The flip side

The case for adding it back is better than it sounds. A good part of the buybacks these companies run simply mops up the shares they grant, and if I deduct the grants from earnings and also credit every buyback as cash returned to owners, I'm at risk of counting the same cost twice. Some grants are one-time catch-ups after a share price fell, and they shrink as the price recovers. A few companies, the broker among them, pay very little in stock at all. And in a market where every local investor and most of the sell side quote adjusted numbers, that's the basis prices are set on, whether I like it or not.

I'd rather be wrong on the conservative side, so the add-back is the flip side here, not the base case. The table shows both. For most names the gap is three to five points of expected return, enough to decide whether two of the eight, and Tencent itself, clear the bar.

PRICE VS HURDLE	PAY AS A COST	PAY ADDED BACK	WHAT CHANGES
Freight network	7% below	17% below	Clears either way
Discount retailer	12% below	20% below	Clears either way
Video platform	4% below	16% below	Clears either way
Lidar maker	at the hurdle	15% below	From the line to clearing
Recruitment platform	at the hurdle	16% below	From the line to clearing
Housing platform	29% above	4% above	Watch either way
Local-services platform	31% above	9% above	Watch either way
Online broker	15% above	about the same	Watch; little stock pay
Tencent (benchmark)	7% above	6% below	From watch to clearing

Prices October 15–21, 2026. "Pay added back" uses consensus forward earnings, which add the grants back. Model outputs, not recommendations.

What quality costs: Tencent

Tencent is the benchmark rather than one of the eight. It requires about 14.1%. With stock-based pay counted as a cost, the model expects about 12.4% at HK$411, with a hurdle near HK$385; on adjusted earnings it's 15.5% and clears. Through Prosus the same stake costs about 20% less, which lifts the expected return to about 18% on the stricter basis, unless you're a US taxpayer facing PFIC rules. That's the best argument I know for the side door.

18 | WHAT COULD MAKE THIS WRONG

The risks I take most seriously, and how I try to manage each

RISK	WHAT IT LOOKS LIKE	HOW THE METHOD HANDLES IT
A US forced sale	A company moves from a list that names it to one that bans holding it; ADRs delisted	Hong Kong lines and holding companies where possible; New York-only names held smaller
Taiwan	Blockade or war; sanctions and frozen assets	Position size. Nothing else really works. A China allocation should be one a portfolio can survive losing
Beijing changes the rules	An industry's economics rewritten overnight, as with tutoring in 2021	Country premium in the required return; favour companies that line up with stated policy
The follower gets followed	A better-funded rival arrives, as JD did in food delivery	Favour markets already won and balance sheets heavy with cash; never pay for the absence of competition
VIE and governance	Contractual control fails in a crisis; controllers look after themselves	Owner behaviour scored; cash paid out counts for more than cash held
Deflation and property	Falling prices and weak housing last for years, as in Japan after 1990	Bear cases assume it; the housing platform is the most exposed and priced for it
Currency	The central bank reverses course and weakens the yuan	Returns measured in local currency first; the yuan is cheap, which limits the downside
Tax	PFIC treatment of Prosus; withholding that can't be recovered	Set out for each route; less of an issue for Canadians and tax-deferred accounts
My estimates are wrong	Chinese data, company disclosures or my assumptions mislead	Estimates are labelled, and the key assumptions are set out in each report

There's also the risk that applies everywhere: a cheap stock can stay cheap for a long time. Hong Kong-listed Chinese technology has been cheap by Western standards for most of the past four years. The method doesn't count on that changing. It looks for earnings, cash and buybacks that would pay an adequate return at today's multiples.

WHAT WOULD CHANGE THE VIEW, AND WHAT WOULDN'T

A move by Washington to stop US persons holding these shares would, and so would a military move on Taiwan or a return to the kind of regulation China had in 2021. A falling share price wouldn't on its own, and neither would a bad quarter, a new competitor or another round of headlines calling China uninvestable. Those are usually the times when the prices start to get interesting.

19 | THE CASE

Owning part of the world's work engine, at a price that pays for the risk

The railway at Craigellachie was built with Chinese labour and British capital, in a country that had been written off in London only a generation earlier, and both the workers and the investors were treated as outsiders at the time. North America got rich on what they built.

China today has a lot of what made those bets work. It has a workforce and an engineering culture that will outwork and out-iterate almost anyone, a habit of following quickly and improving relentlessly, a currency that's cheap and starting to rise, and a state that, after the crackdowns of 2020 to 2022, wants its private companies to do well again. It also has real problems: an authoritarian government that puts shareholders well down the list, a property bust, a growing set of US restrictions and a dispute over Taiwan that could cost investors everything. And it has a long memory of what happened the last time it let foreigners set the terms.

I don't think the answer is to ignore the second-largest economy in the world, and I don't think it's to buy everything either. I'd rather own a small number of companies that lead their markets, make money and pay it out, through the routes least exposed to a political shock, at prices that pay for what could go wrong. With several of these companies holding a third or more of their value in cash, I think some of those prices are available right now.

WHAT THE MOTOMERU COVERAGE PROVIDES

A full initiation report on each of the eight companies, with scenarios, the required-return build including a China country premium, hurdle prices and sensitivity grids, access routes, governance notes, and currency and tax notes for Canadian and US investors, plus a note on Tencent, Prosus and Naspers as access routes. The same reports are available on the same terms to every subscriber. Details are at motomeru.ca.

For anyone who has stayed away from China because everyone else has, I think these companies are worth an hour. China has been at this for a very long time.

Jordan Hiebert, Motomeru Strategies

DISCLOSURES AND SOURCES

Important information

About the author. Jordan Hiebert, CFA, analyzes private real estate and credit vehicles for investment dealers and has worked extensively with lower-middle-market companies focused on real assets. Motomeru Strategies Inc. is the author's independent research practice; the views here are not those of any employer.

Disclosure of interests, as of October 26, 2026. The author personally holds shares of Full Truck Alliance (the freight network), KE Holdings (the housing platform), JD.com and Prosus, and through Prosus holds an indirect interest in Tencent. Motomeru Strategies Inc. holds no shares in any company discussed. Motomeru Strategies Inc. receives no compensation from any company discussed.

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