

What's next for China?

China's 20 years of growth and beyond

Key messages:

1. China's current five-year plan (2021–2025) outlines how it expects to continue transforming its economy, and we believe that it also serves as a roadmap for new growth opportunities. One focus is on high quality, which means upgrading through innovation. The belief is that innovation will drive economic growth. China is fostering innovation and entrepreneurship by creating a system that instills confidence. Regulating markets and industries to meet best practices internationally will lead to more stable and reliable funding for businesses.
2. Sustainable growth requires energy reform as China has long relied on fossil fuels and now is embracing renewables. This transition will be no small achievement. As a global leader in renewable energy technologies, China can help other countries reach their carbon targets. Further, energy reforms lead directly to another significant goal: improving the health of the environment.
3. The aim of the Common Prosperity framework is to benefit society and economic growth.

Summary

High quality and sustainable growth

- High quality products and sustainable economic growth will come from innovative Chinese companies in industries such as semiconductors, advanced manufacturing and telecommunications.
- Tech markets, such as ChiNext and the more recently established STAR market and the Beijing stock exchange (founded in 2021), are there to help small- and mid-size companies raise funds, drive innovation and provide a reliable market for investors.
- Sustainability in energy and the environment are in focus to meet the objectives of lowering carbon emissions now and reaching carbon neutrality by 2060.

Is China still investable after recent regulatory shocks?

- Last year's regulatory changes were front and centre for investors because in past years China was a very pro-business market, so this was a significant and surprising contrast. It affected a lot of the "platform" companies, which are large, well-followed and highly visible. But, China is not the first country to make regulatory changes and it's unlikely to be the last. In other developed markets, policymakers will be looking at monopolistic behaviours and privacy protection. Having regulations in place is positive for markets and investors, as everyone can understand the rules of the game and how to play without penalties.
- ChinaAMC believes that investor expectations will be more easily managed with these new regulations. Given the outcome of the Annual Central Economic Conference in December and its emphasis on stability, it's likely that 2022 will provide a better investor experience.
- It's important to remember that 2021 also suffered from problems related to the pandemic, ranging from health concerns and lockdowns to supply chain issues, including an energy shortage. But, again we're seeing moves to bring about more stability. Monetary policy has been loosened a bit more recently, and the Communist Party has restated its unwavering support for private businesses.



Common Prosperity framework

- ChinaAMC believes that Common Prosperity will help ensure the sustainability of China's growth and improve the standard of living for its citizens.
- There has been some misinterpretation of the policy; news stories have suggested that Common Prosperity was the end of private enterprises and entrepreneurship. But the government has made it clear that there will be no more charity taxing and that it will protect and support the private sector's property rights.
- Stable funding for innovative businesses and entrepreneurs should come from pension plans, mutual funds, insurance companies and other institutional investors. Investing in Chinese businesses will be good for Chinese citizens. It creates a virtuous circle for building wealth long term. The government wants this and will continue to push for the development of private companies and entrepreneurship. The goal is to change the shape of wealth distribution in China to be less polarized and more like an olive, with a fat section of many middleclass citizens.
- ChinaAMC sees opportunities to invest in ESG areas such as sustainable energy growth and better social values in China. With this new rigorous governance structure, Chinese companies will have a strong chance to lead in this emerging global theme. Helping in creating values in these investments for the long term.

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