What's next for China?

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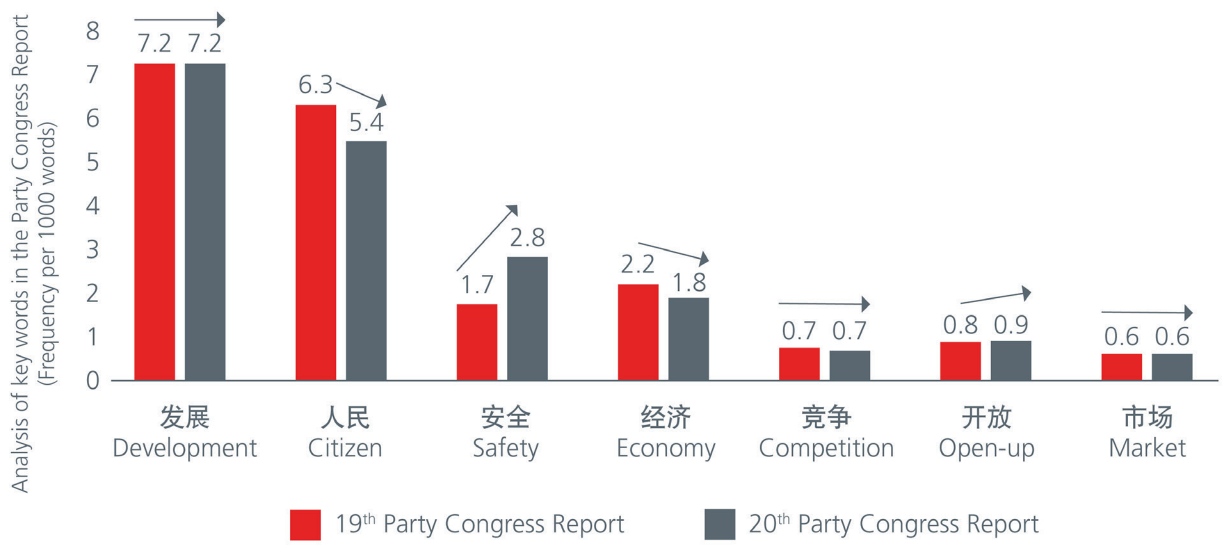
Following the 20th Party Congress, investors should look out for the specific growth targets and policies that will be set out in the upcoming Central Economic Work Conference in December and the National People's Congress in March next year. We believe that there will be increasing policy support towards self-sufficiency, energy safety and technology independency and will look for investment opportunities in related sectors.

China's 20th Party Congress ended over the weekend with President Xi securing a third term as the chairman of the Communist Party. Changes were also made to the Politburo Standing Committee with four newly appointed members (Li Qiang, Cai Qi, Ding Xuexiang and Li Xi). They replace Li Keqiang (Premier of the State Council), Li Zhanshu (Chairman of the Standing Committee of the National People's Congress), Wang Yang (Chairman of the National Committee of the Chinese People's Political Consultative Conference) and Han Zheng (Vice Premier of the State Council) who will all retire from their current posts. It is widely expected that Li Qiang (Current Party Secretary of Shanghai) will replace Li Keqiang as the Premier of the State Council. This will only be confirmed and announced in March next year, when China holds its National People's Congress.

The make-up of the Politburo Standing Committee reflects a centralised decision-making process which may disappoint markets in the near term. President Xi's Work Report ("Report") focused on keywords such as "development", "people" and "safety" (See Fig. 1) but did not drop the words "market" and "opening up" which was a key concern among investors before the meeting. Importantly, the Report indicated that the Communist Party of China ("CPC") will continue its reforms towards a "socialist market economy", and "promote high-quality development".

For investors who may view "development" as a vague concept and were hoping for specific growth targets, it is worth noting that the Party Congress convenes every five years and typically focuses on the long-term vision and objectives of the CPC for the country. Shorter-term economic policies and targets will be unveiled in the Central Economic Work Conference in mid-December, while China's GDP growth targets are expected to be set out in the National People's Congress in March next year. Fig. 2. Effective policy implementation can only begin after the specific roles of the different Politburo members have been decided. Therefore, the Central Economic Work Conference in December and the upcoming sessions in March are key events that will have a significant impact on the direction of China's economy going forward.

Fig 1: Analysis of key words in the Party Congress Report (Frequency per 1000 words)



Source: Soochow Securities. 22 October 2022.

Fig 2: Key political and policy events in China

Dates (possible)	Key political and policy events
Early Dec 2022	Politburo meeting on 2023 economic policy outlook, preparation for CEWC
Mid Dec 2022	Central Economic Work Conference (CEWC)
Jan/Feb 2023	Second Plenum of the 20th CPC Central Committee
Mar 2023	Two Sessions - NPC and CPPCC
Oct/Nov 2023	Third Plenum of the 20th CPC Central Committee

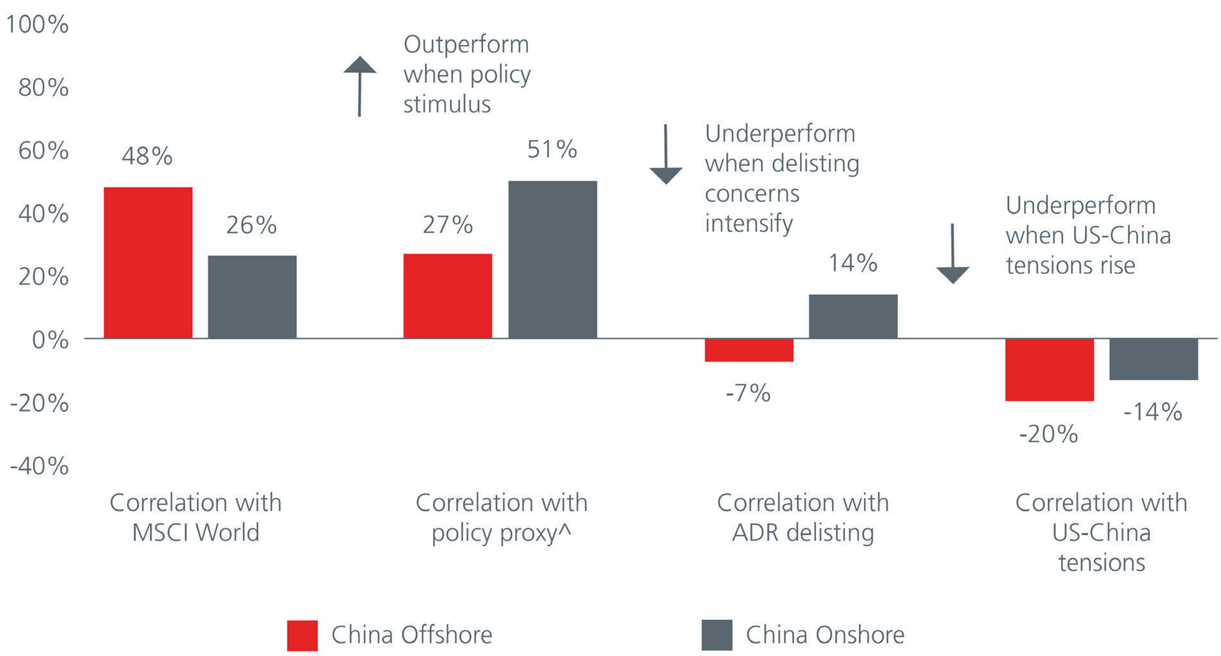
Source: Goldman Sachs. October 2022.

Compared to the China off-shore market, China A-shares equities are more correlated to domestic macro factors and liquidity conditions, and are less correlated to MSCI World, potentially offering greater diversification to global portfolios. Fig. 3.

In terms of sector positioning within the China A-share market, we will be focusing on the structural opportunities aligned with the key words "development" and "safety" which were outlined in the Report. As shown in Fig. 1., the mention of "safety" was significantly higher compared to 5 years ago. We believe that there will be increasing policy support towards self-sufficiency, energy safety and technology independency. As such, we continue to look for new opportunities in the new energy, automation, information security, electrical/medical equipment sectors, favouring companies that have core technology competencies and a globally competitive edge.

We expect China's Dynamic Zero-COVID policy to remain in place until at least the 2nd quarter of 2023. The policy was considered a success in China, as highlighted in the Report, and there are no imminent signs of a relaxation. We anticipate that ultimately, the Chinese equity markets will trade higher leading up to any changes to the policy. This will be in line with the performances of other markets which we have observed, ahead of their respective economic re-openings.

Fig 3: China A-shares more correlated to domestic factors



^ Offshore China proxied by MXCN while China A shares proxied by CSI300 index. Correlations are calculated from 2012 and monthly data are in use (except MSCI World using weekly data)

Source: Goldman Sachs Research. October 2022.

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