FLASH NOTE

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A China continua a ser um mercado vital a longo prazo (em inglês)

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Investing in China requires selective positioning and a long-term approach, and foreign investors' recent fears about the country underscore the need to fully understand the reforms that are underway there, says Carmignac Fund Manager Haiyan Li-Labbé

What do you think of the resolution adopted last month by the Chinese Communist Party's Central Committee strengthening Xi Jinping's position as the country's leader?

Haiyan Li-Labbé : The resolution adopted at the most recent plenary meeting of the Chinese Communist Party's Central Committee on 11th November paves the way for President Xi Jinping to embark on a third term in a little over a year. This comes as no surprise to anyone monitoring developments in China. Xi Jinping is immensely popular with the Chinese people, especially in the countryside. Moreover, the Chinese authorities have adopted this resolution to ensure stability and continuity while also guaranteeing that the reforms that have been under way for several years are completed.

This comes amid fresh concerns about China among foreign investors. Could you tell us about that?

H.L : Investor anxiety weighed heavily on the Chinese stock markets this summer after China imposed tougher regulations on certain sectors in order to provide a lasting fix for imbalances like market dominance, social inequality and insecure working conditions. The financial woes of the Chinese real-estate giant Evergrande, which came to light shortly after, did little to reassure foreign investors.

The listing of Chinese companies on Wall Street has also caused concern recently. What happened there?

H.L. : The US authorities have decided to impose stricter transparency requirements on Chinese companies, which will now have to reveal more information, including on their accounts, as well as their links with Beijing. Companies that fail to do so will no longer be eligible for listing on the US stock market. This has sparked anxiety among investors, some of whom are even questioning whether it will still be possible for foreigners to hold shares in Chinese companies. Foreign investors should rest assured that they will still be able to invest in Chinese firms, but only via the Chinese financial markets or the Hong Kong stock exchange.

How do you explain foreign investors' various concerns?

H.L : The first point to note is that Evergrande is a specific, isolated case. With regards to the regulatory crackdown that has been announced, investors have been spooked by a move that is far tougher than those seen in 2015 and 2018. However, the key aim behind this shift is to address imbalances linked to the rapid development of certain business sectors, further reduce poverty and social inequality, and make economic growth more permanent and environmentally friendly. What these fears demonstrate above all, in my view, is investors' vital need to fully comprehend the social and other reforms under way in order to gain a clearer understanding of China's transformation.

Do you think that foreign investors misunderstand China?

H.L : With projected gross domestic product (GDP) of over 16 trillion dollars this year[1], China is the world's second-largest economic power, as well as the second-largest financial marketplace in terms of market capitalisation (around 20 trillion dollars), coming in behind the United States (almost 43 trillion) but ahead of Japan (7 trillion), the UK and France (both around 3 trillion)[2]. And yet China remains underrepresented on international stock market indices.

Isn't this also linked to poor communication with foreign investors?

H.L. : Of course, and the government quickly tried to reassure investors during the incident this summer that I mentioned a moment ago. It is certainly the case that the country still has work to do, but it is opening up more and more to foreign investors and seeking to improve communication and transparency. A growing number of Chinese companies are publishing reports in English and hiring English-speaking managers to ensure better communication with foreign investors.

You mentioned social reforms. This is not necessarily the first thing that springs to mind when you think about China as a foreign investor...

H.L : The reforms under way in China are predominantly designed to benefit the Chinese people. The measures taken by the government in recent years in relation to social security and retirement are some of the strongest adopted in the country in the last two decades. These reforms have, for example, lifted almost a billion people out of poverty.

Do you have other examples of social progress to share?

H.L. : It is a little-known fact that nearly the entire population of China (95%) is now covered by medical insurance compared with just 5% in 1990[3] . Thirty years ago, only 30% of urban workers made pension contributions. The rate today stands at almost 70%[4] . As far as gender equality is concerned, around 60% of women in China participate in the workforce, compared with a global average of 47% according to the World Bank. The number of people with access to a pension fund has gone from 25 million to 900 million in the space of three decades[5].

What about an issue currently at the heart of investors' concerns – the environment?

H.L. : China has set itself the ambitious target of carbon neutrality by 2060 and announced a number of measures to support environmentally friendly investments. Other measures are expected that will boost renewable energy, smart grids[6] , electricity storage equipment and more. We are also seeing significant efforts on the part of Chinese companies to serve investors by improving their publications and transparency in relation to environmental, social and governance (ESG) investment.

How do you see the country's long-term prospects given the reforms that are underway or in the pipeline?

H.L. : We estimate that Chinese GDP could double by 2035 and exceed that of the United States. By introducing these reforms, the country is accelerating its technological independence and fostering investment opportunities linked to strategic transformations. We have identified four major long-term trends: technological innovation, ecological transition, changing consumption patterns, and health and medical innovations.

So, can investors continue to invest in China?

H.L. : Provided investors are selective and adopt a long-term approach, the Chinese stock marketcould offer investment opportunities for the next 10 to 15 years. China remains a vital market over the long term. This requires investors to study the country and its companies, though. Investors should also look into the future growth drivers of the Chinese and world economies, which will undoubtedly differ from those in place today. At Carmignac, we seek to identify future world leaders. One way in which we do this is by analysing the decisions of the Chinese government to try to understand its objectives for China and its economy.

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[1]Source :Statista

[2]Sources :Bloomberg, Carmignac

[3]Source: Ministry of Human Resources and Social Security (MOHRSS) of the People's Republic of China, 31/12/2018

[4]Sources: HSBC Global Asset Management Research - Taking the pulse: China's healthcare sector publication on June 2019, World Health Organization (WHO), Ministry of Human Resources and Social Security (MOHRSS) of the People's Republic of China, latest data available for the study 31/05/2019

[5]Sources: CICC, Ministry of Human Resources and Social Security (MOHRSS) of the People's Republic of China, 31/12/2018

[6]Smart grids are electricity distribution networks that enable data to be shared among suppliers and consumers so as to adjust flows in real time and guarantee an efficient, economical and secure supply of energy.