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*The twice-in-a-decade CCP gathering saw Xi (centre) cement his position with a 3rd 5-year term as secretary general of the party. It also marks the exit of Li (right) – pic Bloomberg*

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### ***China's economy is driven by stronger industrial activities in the secondary sectors and a rally in services sector activities***

**by HABHAJAN SINGH**

A MALAYSIAN-BASED global fund manager is 'very optimistic' over China's long-term prospects at a time when some investment houses are exiting on seemingly adverse political news.

Global fund manager Tan Teng Boo said his position was "based on sound, comprehensive and deep research on China and her efficient government".

"Except for the pandemic lockdown, China's economy is in a Goldilocks position. It has no

inflation problems, plenty of room to cut interest rates, and a manageable fiscal policy...and it has a lot of investment needs that haven't been fulfilled," he said.

Talking at an investment forum organised by his outfit Capital Dynamics Sdn Bhd in Kuala Lumpur last week, Tan believes that China is poised to spring as Covid-19 pandemic woes take a back seat.

"Anywhere in the world, the pandemic is more towards the end than the beginning. So, it is a question of when," he said.

He jokingly told the audience that the Chinese Communist Party (CCP) may have been providing signals that now is the right time to invest, before the boom hits.

Some of the fears about investing in China came about with the recent political developments in China, especially after the conclusion of the week-long CCP congress on Oct 30.

In *Bloomberg*, for example, a recent report noted that China's equity markets have retreated due to a gamut of concerns including aggressive Covid policies, the ongoing property crisis and tensions with the West. All the troubles have erased more than US\$45 trillion (RM213.3 trillion) in market value from Chinese equities since a peak in February 2021. It added that the sell-off got a fresh boost last week after President Xi Jinping doubled down on his policies by removing rivals and installing loyalists in a key leadership reshuffle.

The twice-in-a-decade CCP gathering saw President Xi Jinping cement his position with a third five-year term as secretary general of the party, placing him firmly in the power seat with no apparent challenger. The 20th party congress in Beijing confirms the new line-up for the Politburo and its powerful Standing Committee. It also marked the exit of Premier Li Keqiang and parliamentary Chief Li Zhanshu.

While muted in the local media, the Western media played up scenes on the closing day when former president Hu Jintao was escorted out of the meeting soon after it began. What may have been a purely health-related incident had been played by the Western media as a power-play on the part of Xi Jinping.

Tan does not see the events unfolding at the party's congress as cause for worry for investors looking at investing in China-based stocks.

What happens if the Western funds pull out of the country? To this, he gave the example of what happened when the Asian Financial Crisis hit countries like Malaysia and Indonesia, noting that the foreign funds were the first to exit, leaving many choiced stocks at cheap valuations.

## Post Pandemic

On the post-pandemic scenario, Tan said while maintaining its commitment to put people's lives above all else, China's policy has evolved from "zero-tolerance" to "dynamic zero Covid-19".

"The Chinese government has been known for its pragmatism which is rooted in the dialectical materialism of communism and 5,000 years of civilisation," he said.

On the question whether China is ending its so-called dynamic zero Covid policy, Tan noted that for two years, Chinese officials have been under orders to guard against imported cases and prevent the spread of the coronavirus at home.

"However, there have been signs of a major positive shift in recent months," he said, noting that VP Wang Qishan had headed a delegation to South Korea in May to attend the inauguration of President Yoon Suk-yeol while Environment Minister Huang Runqui had visited the US in June. Prior to that, no Chinese officials had made trips abroad.

"China is already exiting her dynamic zero Covid-19 policy, not in an over-hyped politics-driven manner but in a step-by-step practical manner," he said.

Xi Jinping's trip to Kazakhstan, the first by the Chinese leader since February 2020, was the "best confirmation" that China was ready to exit the Covid-19 policy.

"His trip is to signal that China is ready to move on from her dynamic zero Covid-19 policy, although the Western media chose to misleadingly portray it in a different manner," he said.



China is in a Goldilocks position, says Tan

## China Numbers

In a recent note, MIDF Research said that following a prolonged Covid-19 restrictions, it believes the reopening of the economy potentially in early 2023 would only boost China's economic growth next year. It said China's short-term growth outlook will continue to be influenced by the Covid-19 situation as the government sticks to strict containment measures.

It noted that China's economy expanded faster at 3.9% year-on-year (YoY) in 3QCY22, beating the market consensus of a growth of 3.4%. It was driven by stronger industrial activities in the secondary sectors and a rebound in services sector activities.

The report also noted that China's statistical office published the September 2022 indicators which showed stronger expansion in industrial production (+6.3% YoY), backed by higher output in manufacturing and mining sectors. Meanwhile, retail sales softened again, growing at 2.5% YoY (August 2022: +5.4% YoY), indicating consumer spending still remained weak amid the implementation of the zero-Covid policy. In line with the weaker consumption growth, China's labour market also weakened as the September unemployment rate rose to 5.5%, the highest in three months.

With such numbers coming out, Capital Dynamics is not alone in pushing the China story. In the same *Bloomberg* report quoted earlier, the news agency reported that Jefferies Financial

Group Inc as another party equally positive on China. It noted that half the allocation into China equities over the next five years should go into consumer stocks given the government's focus on social stability.

Sean Darby, a strategist at the New York-based independent investment bank, said the outcome of CCP's congress also suggests that "there is a conscious effort to make a trade-off away from short-term economic growth stimulus to socio-political stability."

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