OUTLOOK & COMMENTARY

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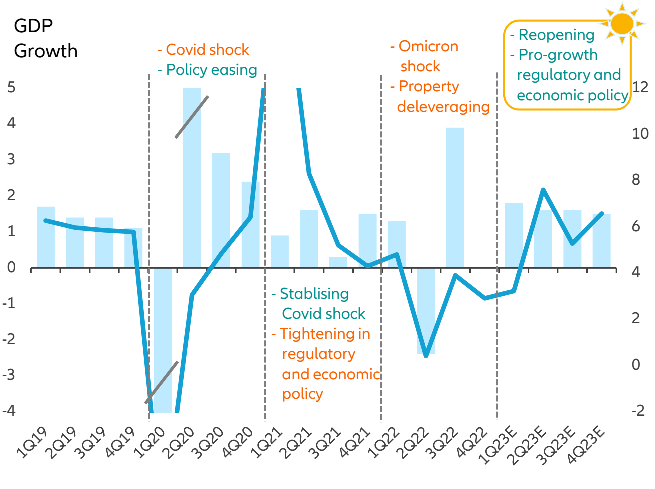
Rising Optimism on China

This paper, written by Christiaan Tuntono, Senior Economist for Asia Pacific at Allianz Global Investors, discusses China's reopening and reasons to be optimistic about China's economy. Christiaan also touches on the outlook of Asian markets.

Summary

The swifter-than-expected relaxation of China's Zero-Covid Policy, coupled with the government's supportive industrial policies and a low statistical base in 2022, would help bolster China's 2023 growth back to its potential level (4.5 - 5%) or above . As shown in Figure 2, contribution to headline GDP from final consumption demand is expected to rebound from 1 percentage point (pp) in 2022 to 4.5pp or above in 2023, like the pattern seen in 2021.

Figure 1: Reopening + Pro-growth policies in 2023



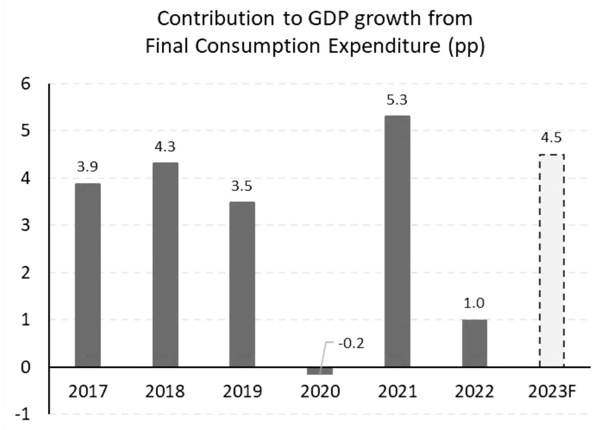
Source: NBS, Morgan Stanley Global Research, AllianzGI Global Economics & Strategy, as of January 2023.

Reasons to be optimistic

Several positive developments on the Chinese government's policies have been lifting sentiment in the Chinese and Asian markets. These are:

- China's swift exit from Zero-Covid Policy;
- the government's renewed supportive stance on the internet platform companies; and
- the government's strengthening supportive stance on the property sector and the "systematically important" developers.

Figure 2: Consumption is expected to rebound



Source: CEIC, NBS, Morgan Stanley Global Research, AllianzGI Global Economics & Strategy, as of January 2023.

Swift exit from Zero-Covid Policy

Since the announcement of the 20-point Covid-19 control refinement measures on 11 November 2022, the progress of China reopening has been much faster than anticipated. Instead of striving to "flatten the curve" as many investors expected, the Chinese government seems to have aimed for achieving "herd immunity" as soon as possible.

Initially the local governments had tried to tighten Covid-19 control policies to contain rising infections, but the announcement made by Vice-Premier Sun Chunlan on 30 November that "China's effort to combat Covid-19 are entering a new phase" was a watershed moment. The fact that Sun said China's Covid-19 policy will be fine-tuned "to constantly keep the baby steps going forward" was a strong signal that the government aims to reopen the economy, despite rapidly rising infection cases.

The policy veering has prompted the State Council to announce another 10-point measures on 7 December 2022 to further relax Covid-19 control measures. These measures have significantly relaxed China's Zero-Covid Policy, ending 3-years of mass testing, harsh lockdowns and centralised quarantines.

The relaxations have led to a rapid spread of the Covid-19 virus nationwide. However, as the infected recovered the cease of tight mobility controls helped normalise inter- and intra-city mobility, evidenced by the rebound in subway passenger flows, intercity highway usage and the number of operating flights.

The National Health Commission (NHC) also downgraded the effective risk level for Covid-19 from Level 1 (pandemic) to Level 2 (endemic) and removed the quarantine requirements for inbound travellers from 8 January 2023 onwards. Under Level 2 risk category for infectious diseases, policy focus will be shifted to the control of severe illness from the stemming of infections. Centralised quarantine, identification of close contacts, and categorisation of risk areas will all be removed.

The NHC has also renamed "COVID-19 Pneumonia" as "COVID-19 infection" to downgrade the severity of the infection. On border control, inbound travellers only need to present a negative PCR test within 48 hours of departure going forward.

Supportive industrial policies

Besides exiting Zero-Covid Policy, the Chinese government's latest policy moves on the internet and property sector are also constructive, signalling a turnaround from the previously restrictive policies. This signifies that the government's antitrust and prevention of "disorderly expansion of capital" efforts under the "Common Prosperity" banner has drawn to an interim close.

Internet sector

In the internet sector, the China Banking and Insurance Regulatory Commission's (CBIRC) approval to the capital raising plan of a major internet platform company's consumer finance unit signifies an end to the government's restrictive stance on the sector. The statement made by China's top financial regulator Guo Shuqing that the compliance checks over fourteen internet platform companies' financial businesses are largely complete further support such notion.

Meanwhile, the positive comment issued by the US's Public Company Accounting Oversight Board in mid-December has also defused an imminent risk of Chinese American Depository Receipt (ADR) delisting. The development has further lifted sentiment in the Chinese internet space.

Property sector

In the property sector, the State Council's Financial Stability and Development Committee's decision to help shore up the balance sheets of some "systemically important" developers signifies strengthening governmental support to the real estate sector. The comment is in line with the People's Bank of China (PBoC) and CBIRC's 16 property-sector supportive measures (launched in mid-November 2022), which marked a major policy shift from "imposing restriction" to "providing support" to the property developers.

Greater pressures on Asian exporters

In other parts of Asia, we think the boost from China's reopening and the negative drag from slowing developed markets' demand (US and EU) are likely to transform the macro dynamics in the region.

Thailand has reopened its tourism sector and shall benefit from the return of Chinese tourists. Thailand's tourism recovery accelerated in December 2022 with 2.24 million arrivals. As China reopens Chinese tourist arrivals are likely to surge through the year, estimated to push up the number of Thailand's total tourist arrivals to 25 million in 2023. Increased service export inflows are expected to turn Thailand's current account back into a sustainable surplus.

We are neutral on (1) Taiwan, Korea and Australia which have a higher export exposure to China than the developed markets; and (2) India, Indonesia and Japan which are less exposed to global trade.

Economies that have a higher export demand exposure to China than the US and EU combined are likely to be less impacted by the weakening developed market economies. Bigger terrestrial economies that are less reliant on exports as a growth driver are also expected to be less impacted by weakening developed market demand and its spill-over effect on domestic demand.

We have turned cautious on Malaysia, Vietnam and the Philippines, which are export-driven and are more exposed to the slowing developed markets' demand than Chinese demand.

*Read **Asia's Export Engine Slowing Down** to learn about the main factors affecting the demand for Asian exports (ap.allianzgi.com)*

To view more market insights from Christiaan Tuntono, visit **Market & Model QuickUpdate** at **ap.allianzgi.com**

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