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INVESTMENT ROUNDTABLE

CHINA - THE WAY FORWARD

INVESTMENT ROUNDTABLE

FEDERAL RESERVE: VIEW FROM THE TOP

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China's economy experienced a very impressive V-shaped recovery from the pandemic from 2020 - 2021, outpacing all of its peers. But this year, growth is slowing sharply as supply chain disruptions, property market weakness and the authorities' zero-Covid stance, weighs heavily on economic activity.

China's financial markets have also been concerned by changing regulations at home, Federal Reserve rate hikes abroad, and the risks that Chinese firms may become affected by the war in Ukraine.

But has China really become 'un-investable' as some observers suggest ?

In our latest Investment Roundtable, we are honoured to hear from **Professor Justin Yifu Lin**, one of China's premier economists and a former chief economist of the World Bank, as he gives his views on China's current outlook and long-term opportunities in the world's second largest economy.

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KEY TAKEAWAYS

China's current economic situation

1. There is no single reason for China's slowdown. Instead, growth is being restrained by a combination of factors. Production has been disrupted by power cuts, shortages of semi-conductor chips and strict lockdowns to ensure zero-Covid cases. Lockdowns have also hindered consumption and China's property markets have been weakening.

2. The new agenda for 'Common Prosperity,' however, is less likely to have been a factor in China's slowdown. The authorities are not aiming for expedient, short-term solutions to tackle inequality by, for example, simply raising taxes on higher income earners.

3. China's slowdown is being reflected in the CNY weakening this year. But the depreciation is modest, China has the world's largest foreign exchange reserves and both capital inflows and outflows are managed.

4. The war in Ukraine is affecting China's economy through increases in food and energy costs but the spill-overs are limited. China's inflation rate is also tame at the moment despite the surge in global commodity prices.

5. The government is targeting GDP growth of 'around 5.5%' in 2022. China's slowdown is challenging but growth may still reach 5% this year if lockdowns start to lift from mid-June. Importantly, 5% GDP growth is higher than investors currently anticipate.

KEY TAKEAWAYS

China's longer-term trends

7. China's economy still has considerable scope to catch up with advanced economies over the next few decades. The experiences of Germany, Japan and South Korea shows growth can be very high for more than a decade - when their economies were at similar stages of development to China now. China can keep improving productivity levels through the increased adoption of technology and investment in education.

8. The transition to green energy will also be an important driver of China's growth over the long-term.

9. The push for a more resilient economy to make activity less vulnerable to internal and external shocks will be another key driver of growth. The policy of 'dual circulation' aims to make the domestic economy the mainstay of China's growth. To lessen its dependencies on foreign imports, China's economy is likely to see more focus on developing its own expertise in key sectors including semi-conductors and artificial intelligence.

10. China's economy remains very much 'investible.' The enterprise and aspirations of China's people and stability of the government offers significant long-term prospects for investors.