

STRATEGY613

战略六幺三

Post-Covid China

What This New China Means to the World?

by Joe Horn-Phathanothai

STRICTLY PRIVATE & CONFIDENTIAL

March 2023

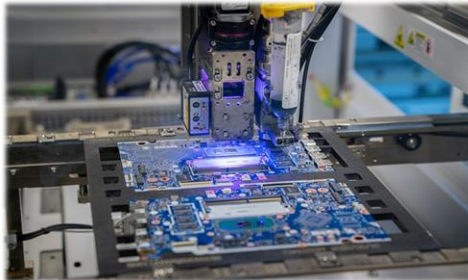


Common Prosperity



Under the umbrella of the Party's Common Prosperity drive, the government intensified its crackdown on numerous sectors; including **technology, gaming, education** and most recently **finance**

Technology



Technology self-sufficiency is at the heart of the country's core economic plan going forward

Real Estate



In a major shift, China **unveiled sweeping measures to rescue the struggling property sector** after years of meltdown

International Politics



China faced with **geopolitical tensions with the US** over trade, accusations of human rights violations and security issues

Decarbonization Plan



China has pledged to **reach a peak in the nation's economy-wide carbon emissions** by 2030 and to reach carbon neutrality by 2060

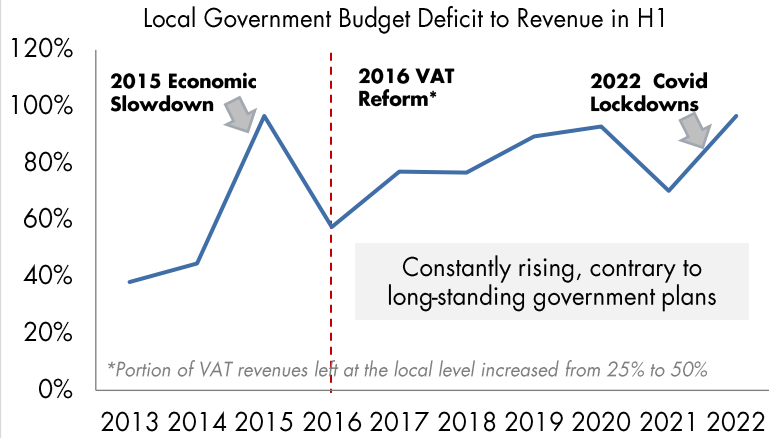
Zero Covid



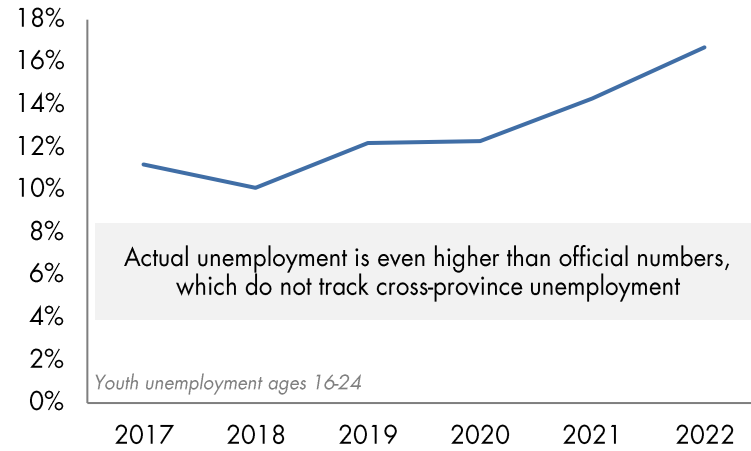
The country is now gradually reemerging after years of draconian measures

Chronic Problems Ahead

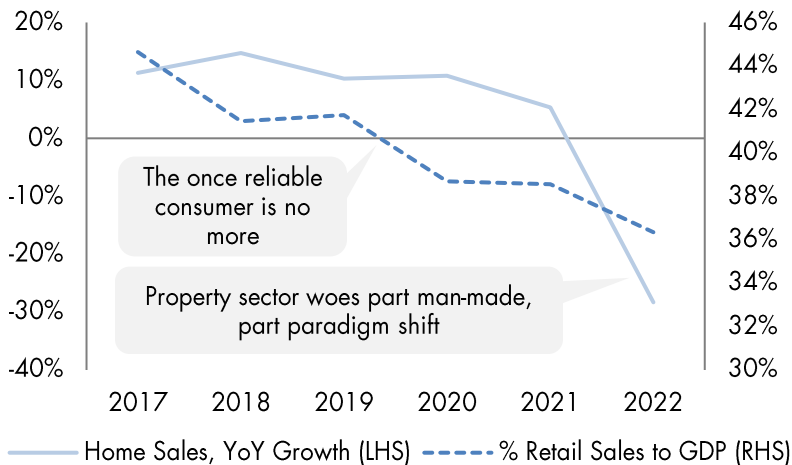
Local Government Budget Deficit



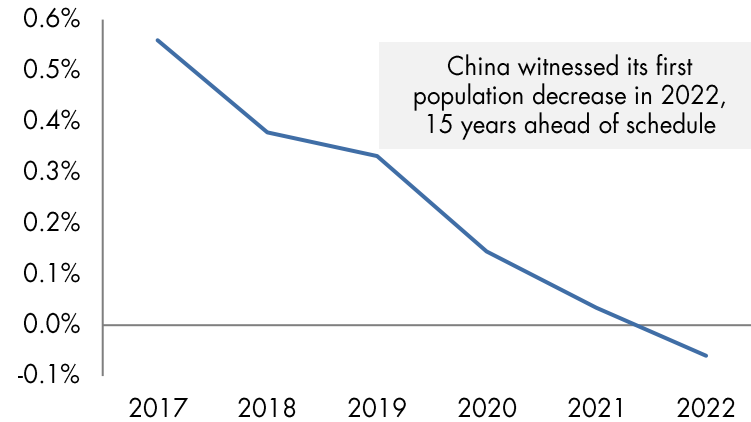
Youth Unemployment



Consumption



Population Growth



Source: Government Report, Bloomberg, NDRC Annual Report, NBS

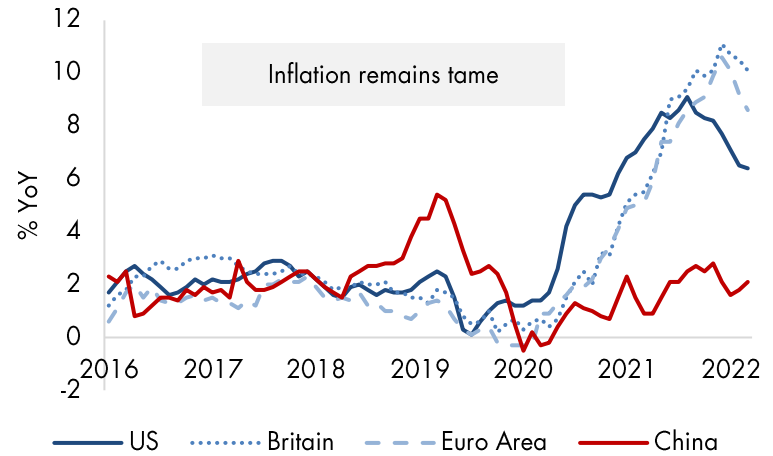


Key Strengths Remain

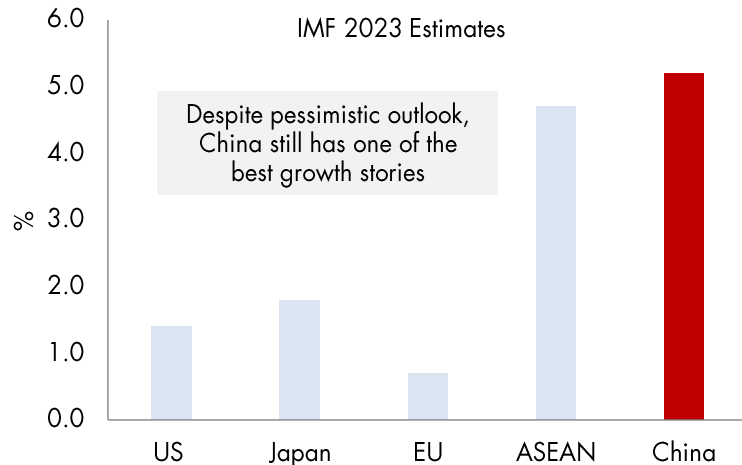
Trade Surplus



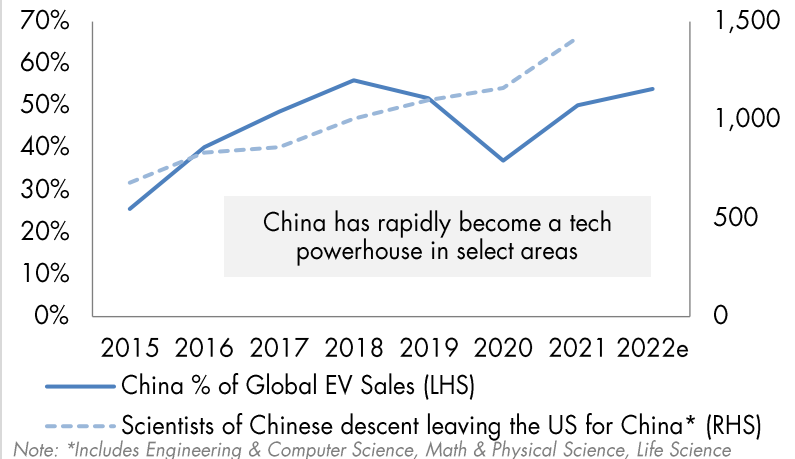
Low Inflation



GDP Growth



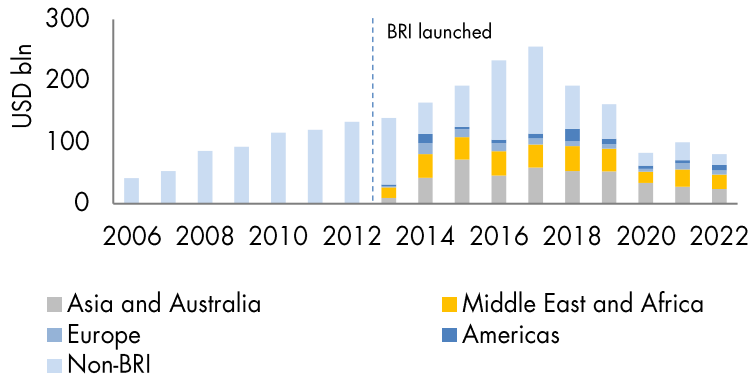
Technology



Where is China Heading?

BRI is Out

Chinese Investment and Contracts Abroad



Source: AEI
Note: Figures are based on the announced deal as of December 2022

Inflow-oriented



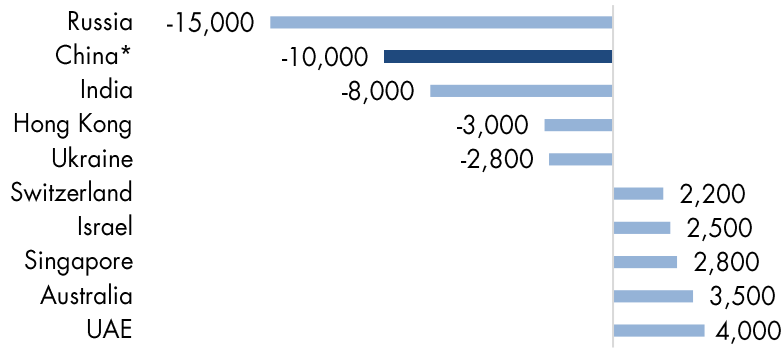
China's enthusiasm for attracting capital is here to stay

Foreign participation required for government contracts

Official FDI figures include some short-term financial investment, investment by foreign-listed mainland companies, and significant round-tripping

Desperately Looking to Flee

High-Net-Worth People Outflow/Inflow (2022)

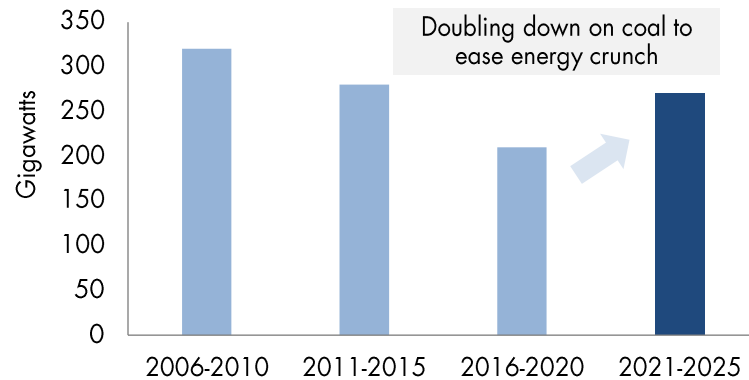


*Worth USD 48 bln

Source: Bloomberg from Henley Global Citizens Report and New World Wealth
Note: Figures are estimates based on year-to-date movements

Energy Conundrum

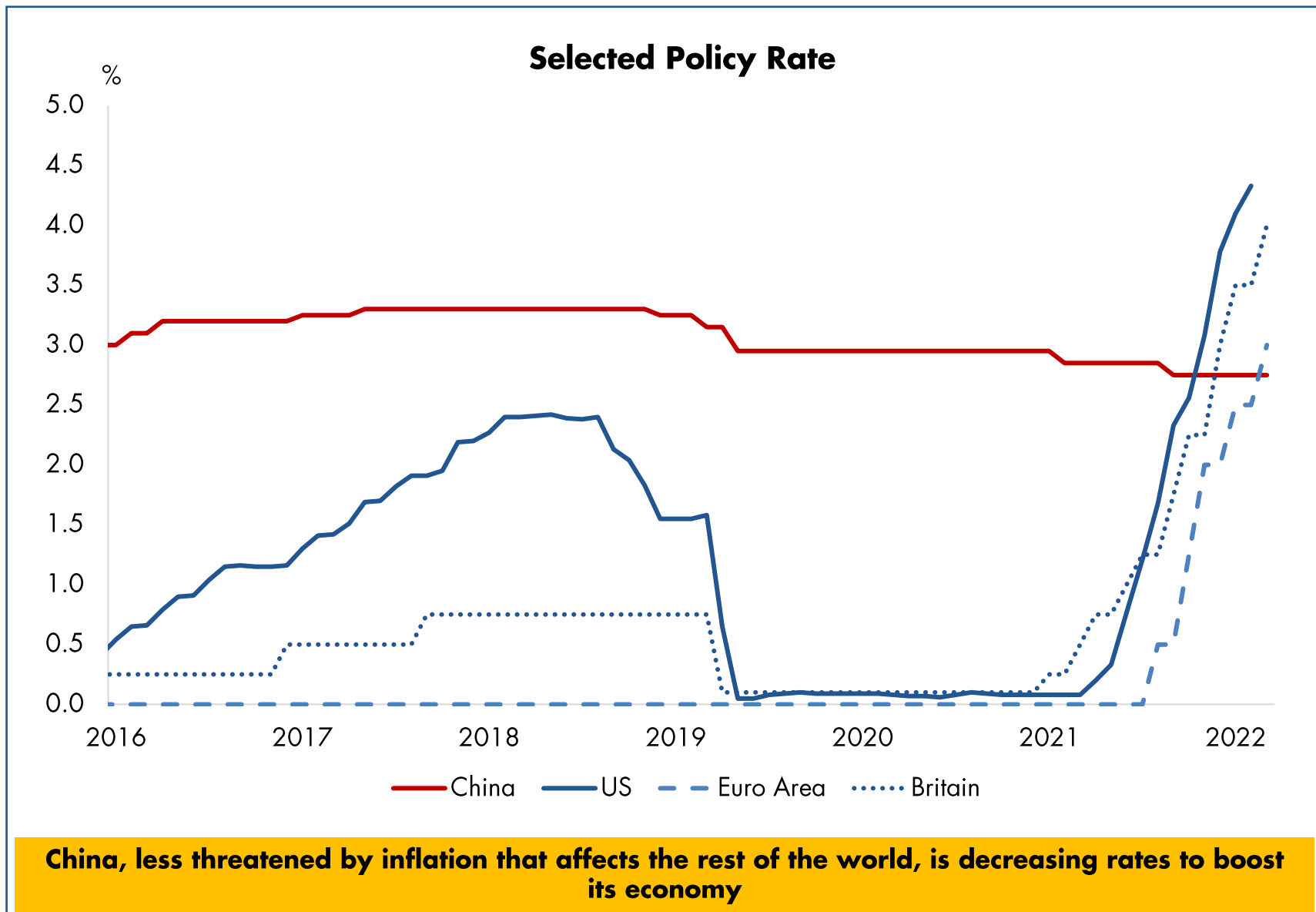
Thermal capacity additions



Source: Bloomberg



Where is China Heading? – China's Rate Cut



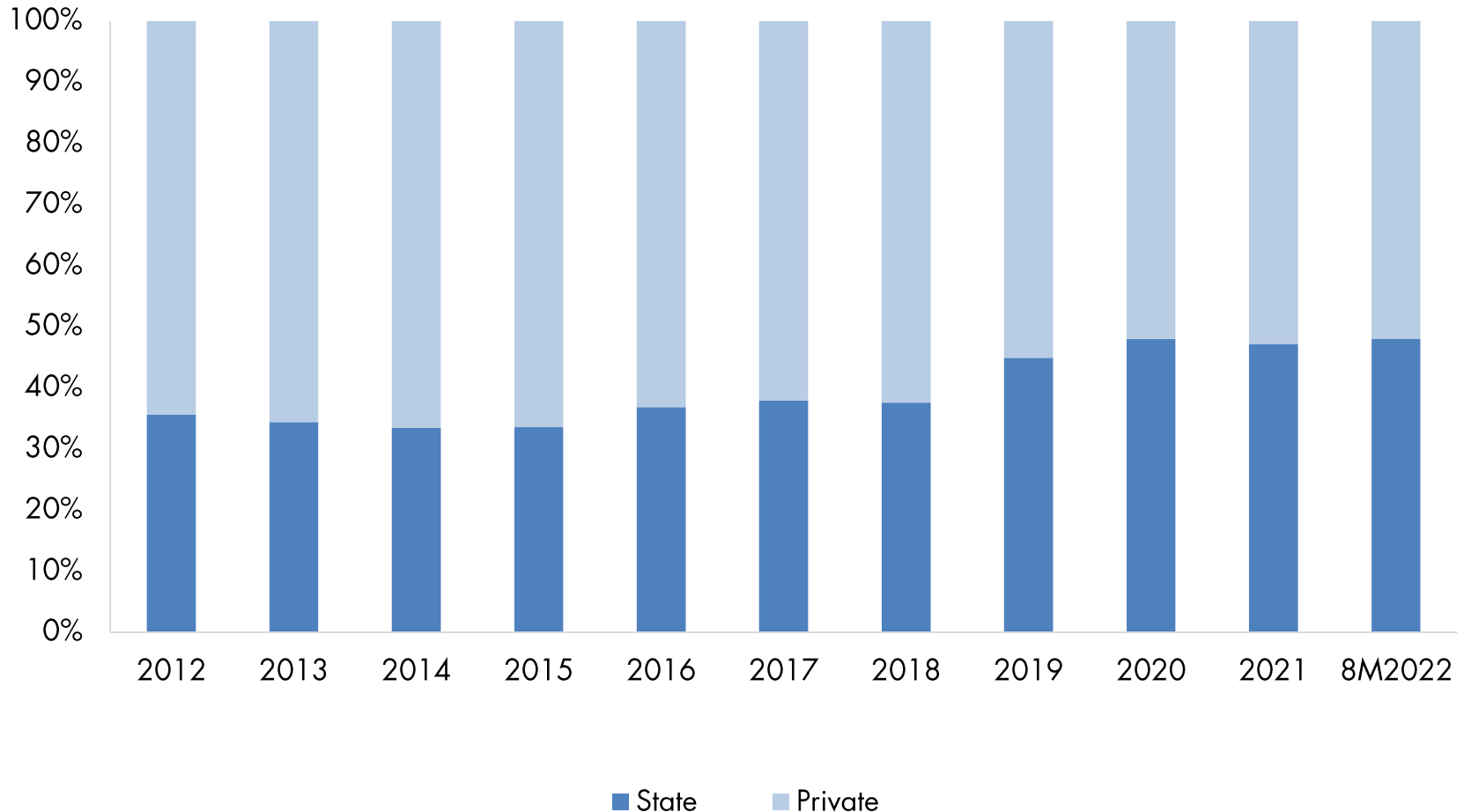
Source: Bloomberg



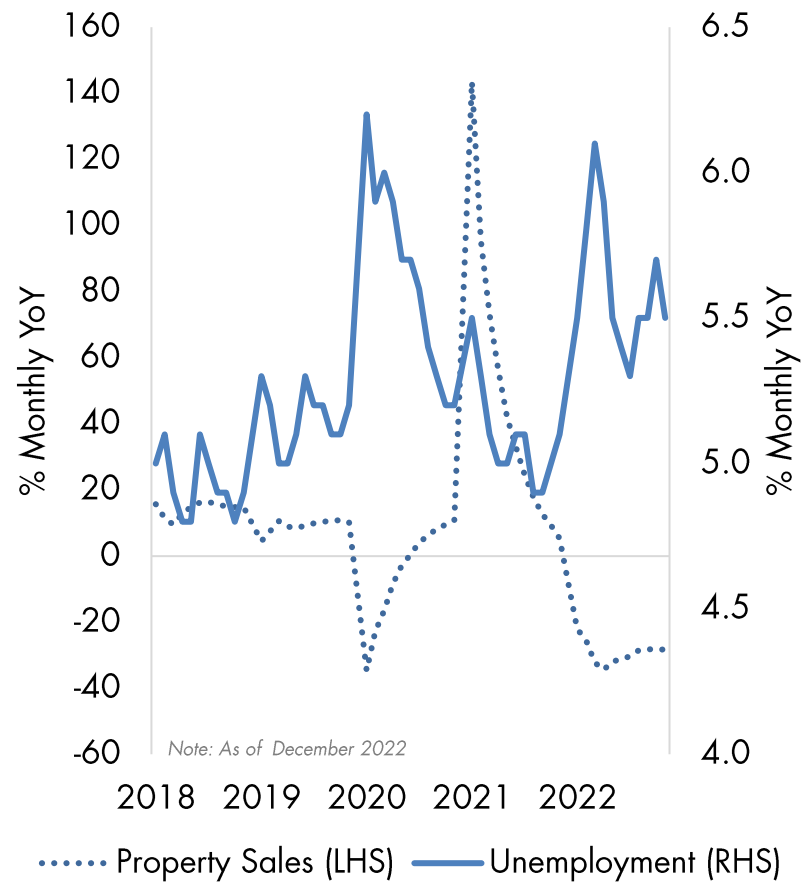
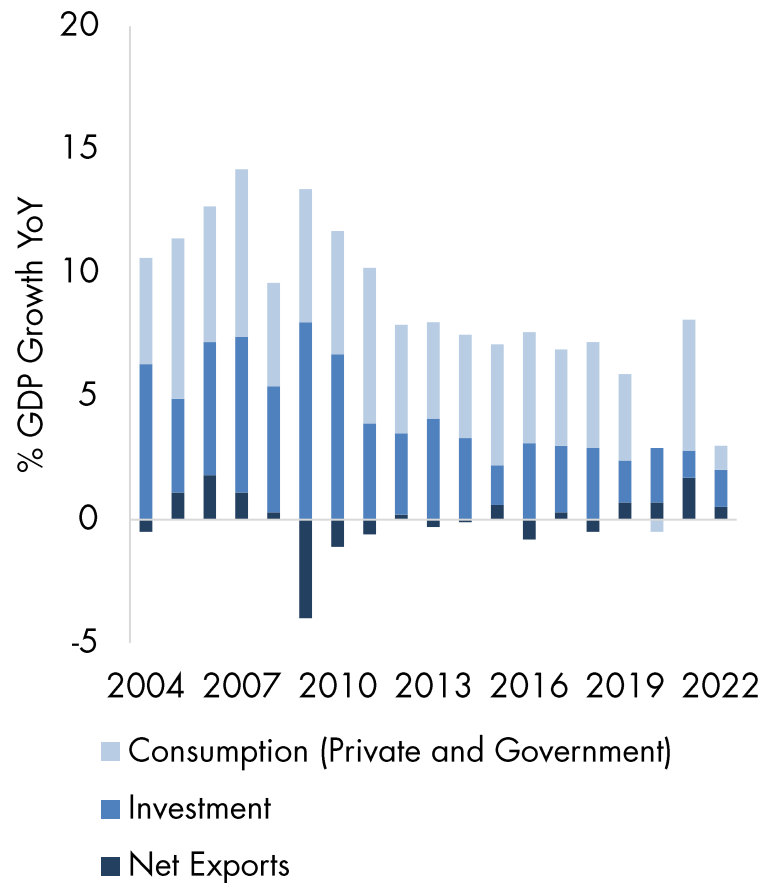
Where is China Heading? – State vs. Private

State Enterprises Advance, Private Sector Retreats (国进民退)

Share of National Investment

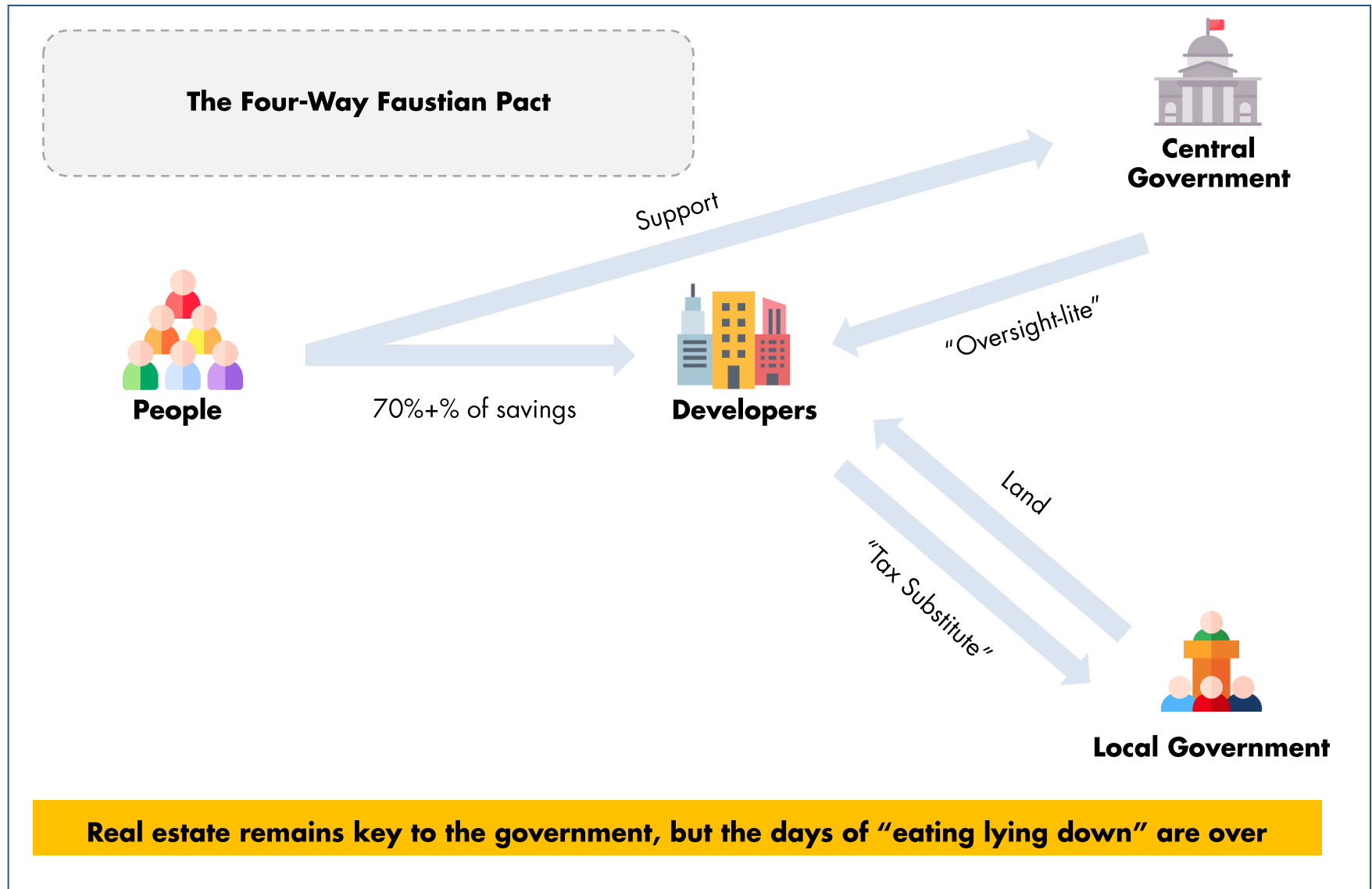


Where is China Heading? – Consumption



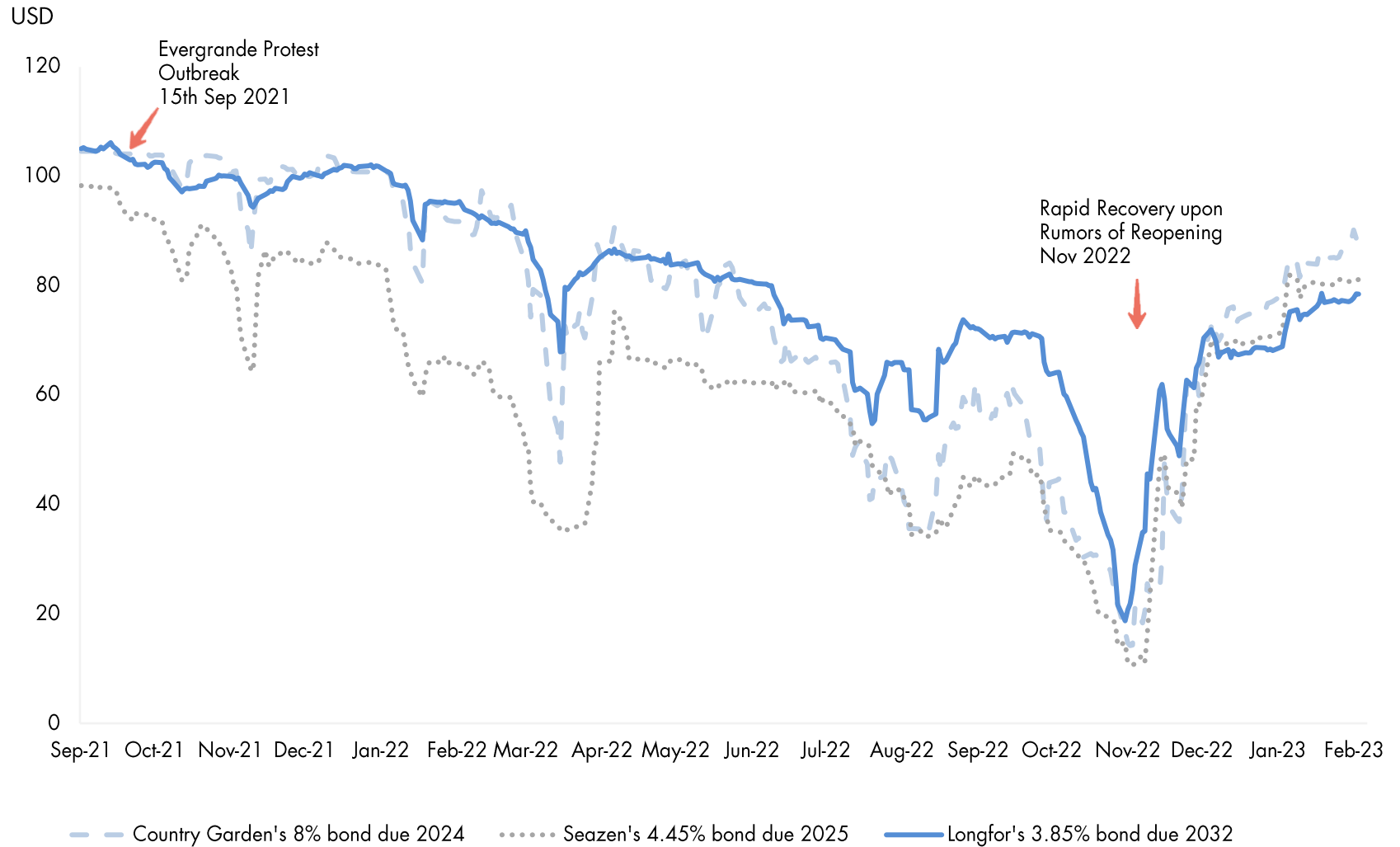
Consumption has been the most dependable boost to GDP in the past, but unemployment, rising costs, and the real estate crash might reduce its contribution in the near term

Where is China Heading? – Real Estate



Source: Strategy613

Where is China Heading? – Real Estate



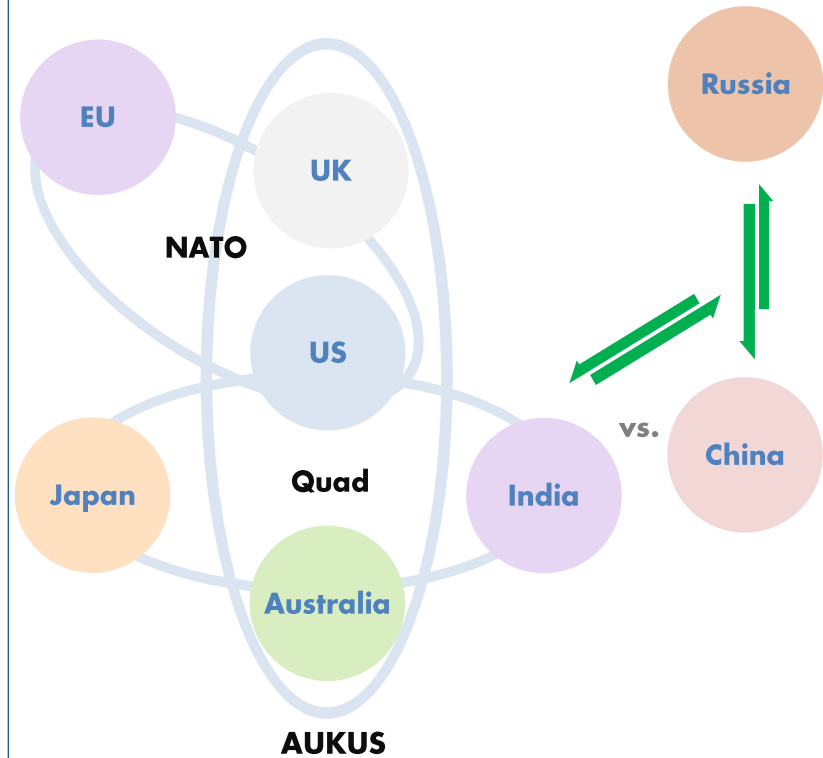
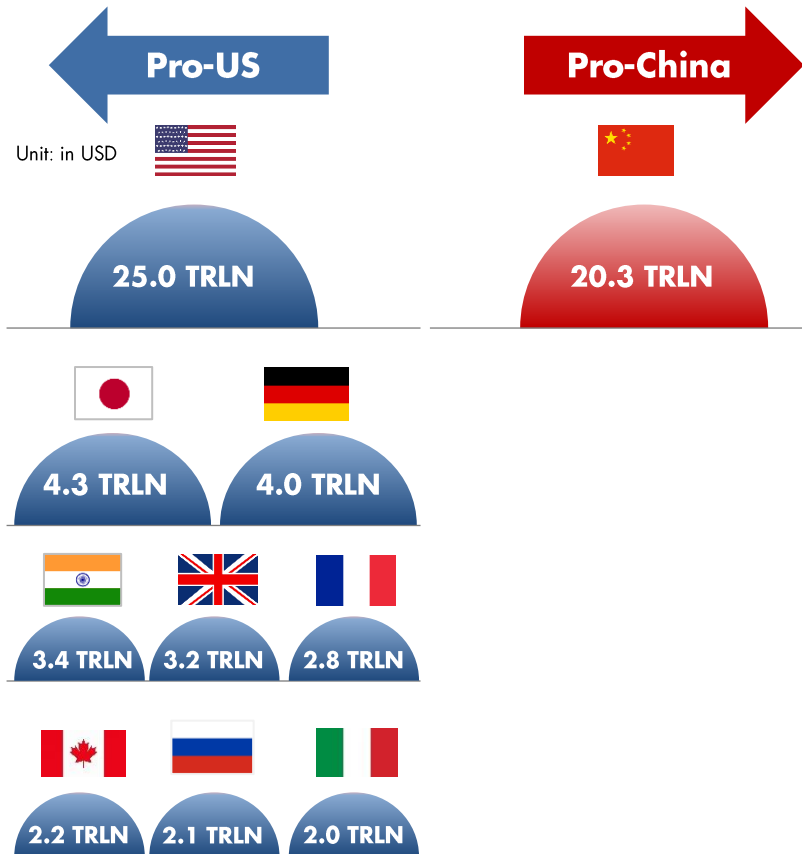
The real estate sector has recovered in recent months, on the back of government support

Source: Bloomberg, As of 6 February 2023



Where is China Heading? – Isolation

Geopolitically Isolated



Source: Bloomberg, 2022



Where is China Heading? – Isolation

Technologically Isolated

US



China



News/Media Outlets Censored in China



Where is China Heading? – Tech

Tightening Regulation on Tech Giants Follow the Following Pattern



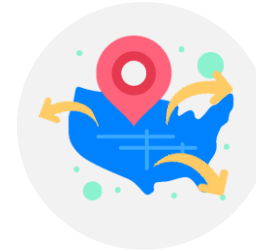
Market Regulation

- Suspended [Ant Group's](#) IPO
- Fined [Alibaba's](#) and [Tencent's](#) online education platforms
- Fined [Alibaba](#), [Tencent](#), and [Didi](#) for breaking antitrust law
- Blocked [Tencent's](#) plan to merge the country's top two videogame streaming sites [Huya](#) and [DouYu](#) on antitrust grounds



Data Security

- Ordered to remove [Didi](#) from app store for violations against collecting personal data, five days after its IPO in the US
- Ordered to remove [Full Truck Alliance](#) and [Boss Zhipin](#)

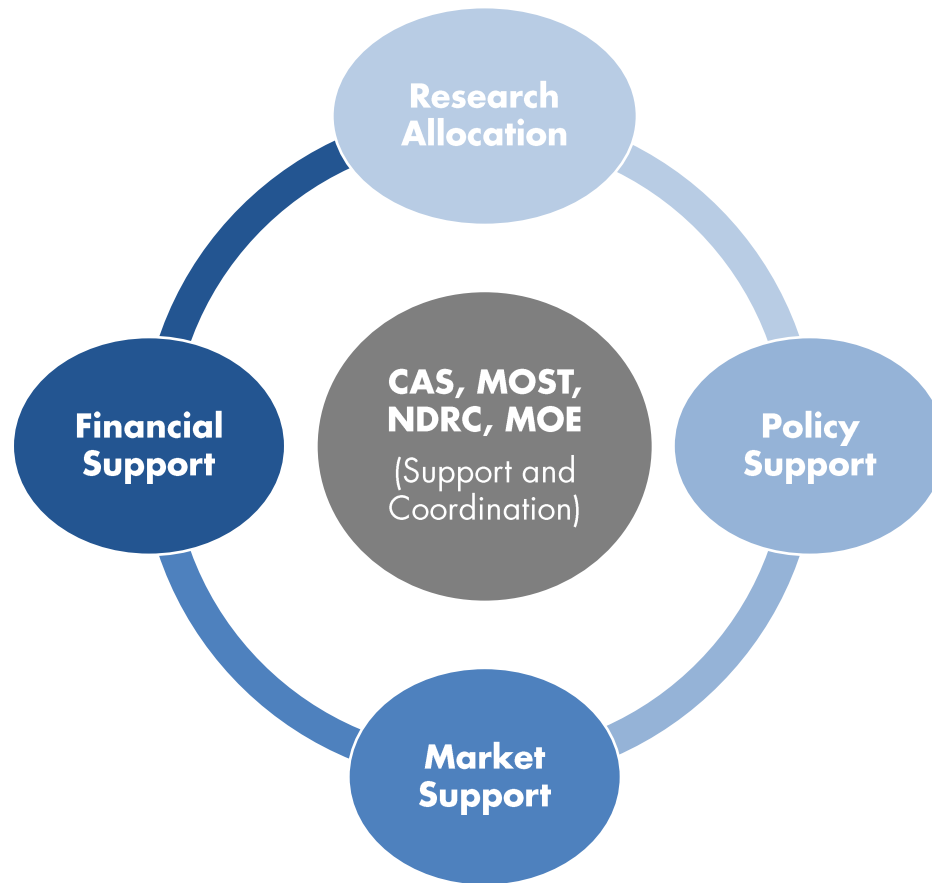


Undue Reliance on the US

- Tightening supervision of Chinese companies listed offshore
- Further scrutiny on VIEs
- Chinese tech firms facing fund-raising challenges as US listing is less attractive going forward

Despite crackdowns, the sector is a key sector for China's growth, and is actively supported by the central government

Where is China Heading? – Tech



China's push in technology and innovation is what riled the USA, however, China cannot progress without technology and this push will continue just as strongly, if more low key

Where is China Heading? – End of Zero Covid

Gradual Resumption of Travel



Current Status

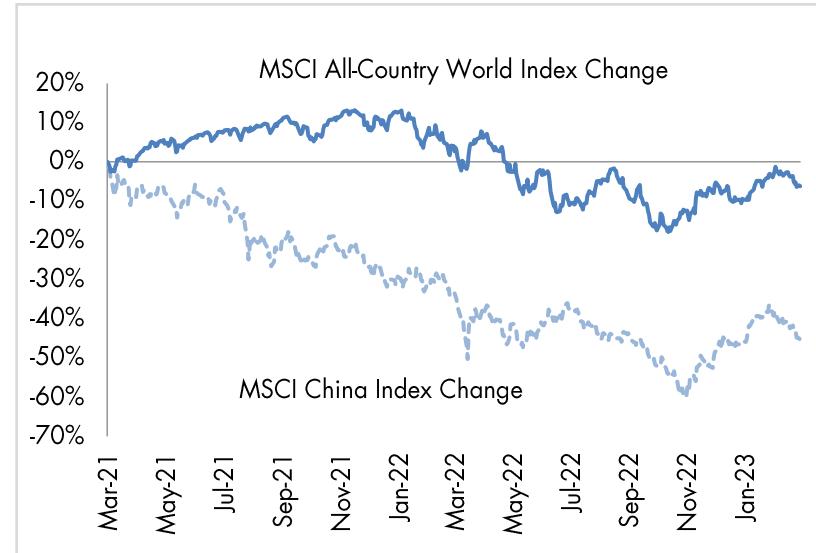
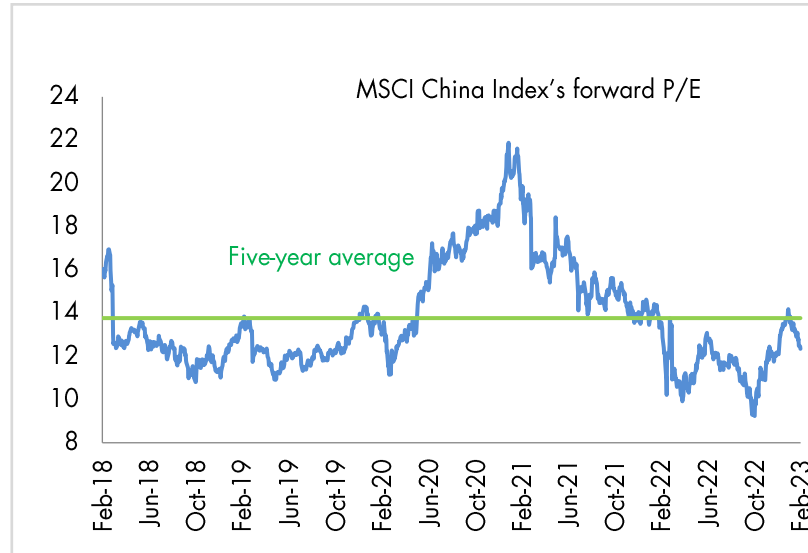
- **Drop in outbound travel restrictions**, Mainland China-Hong Kong border reopens, no more quarantine for crews on international flights. Outbound tourism pilot program resumed on 6 February, with Thailand among the list of 20 countries. Bookings for outbound travel products are booming with bookings for Thailand, Maldives and New Zealand increasing 10 times YoY. PCR requirement for entry from some countries (including Thailand) has been removed
- **Domestic flight numbers are surging** and reached 88% of pre-epidemic levels by the end of January
- **International routes are increasing at a steady pace** but will need some time to get back to normal operations
- **Growing interest in vaccine tourism**: mainland Chinese are eager for Western mRNA, with Hong Kong, a natural first destination for Mainlanders, now open for bookings

Future Direction

- There is going to be a short-term bump, but the economic damage of three years of pandemic will not be easy to mend: **leisure travel likely to gradually pick up in 2Q** when passport and visa approval processes re-start, and flights have fully resumed

Opportunity 1: Looking Cheap

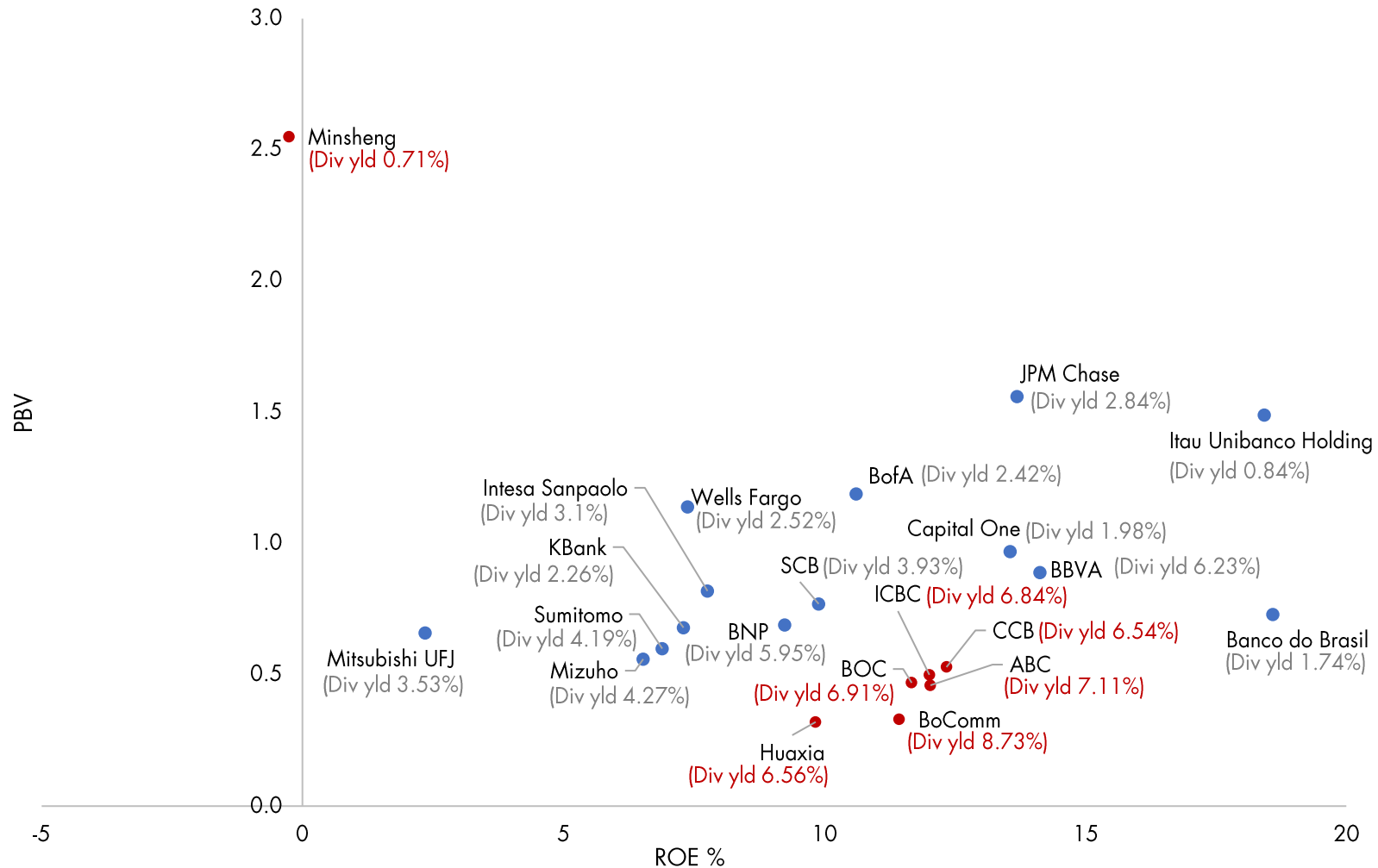
Cheap Relative to Itself and the World



Despite headwinds, China is still a global growth powerhouse, and valuations have not looked this cheap since the Asian Financial Crisis

Source: Bloomberg, Strategy613

Opportunity 2: Banks



Banks face headwinds. Regardless, they are looking attractive as an investment. The same applies to many sectors

Opportunity 3: Chinese Tech – Now a Relative Bargain

Then (Nov 2020)...



And Now (Feb 2023)



As of 6 Feb 2023



Opportunity 4: Stimulus Policy



Fiscal stimulus

- The government has invested CNY 2.5 trillion as a tax credit and fee cuts for SMEs to keep them alive till year-end



Lower funding cost for local governments

- In certain cases, local governments can borrow directly from the central government at very low interest rates



Infrastructure stimulus

- The government has made CNY 6.8 trillion funds available for infrastructure to spur growth for 2022



Banking sector support

- Banks have been “ordered” to support corporates, especially SMEs

The government has gone about tackling this crisis in much the same way as it always has; it only worked moderately well

Opportunity 5: Open For Business

Increasingly Looking for Foreign Capital

- The number of sectors where **foreign investment is encouraged** keeps increasing:
 - Current list is nearly 20% larger than the 2020 version
 - Strong focus on advanced manufacturing, modern services, high technology, and energy saving
 - Specific policies for relatively underdeveloped areas: the provinces with the most encouraged sectors are tourism and healthcare center **Hainan** as well as EV hub **Sichuan**
 - Some provinces have announced **specific targets**: Zhejiang aims to utilize USD 20 bln in foreign capital and to have foreign capital account for over 27% of manufacturing investment
- In 2018, NDRC instituted **special teams to coordinate major foreign-funded projects**. Investments announced since then have a combined planned investment of **USD 170 bln** and include:
 - **Samsung** in Xi'an: ca. USD 26 bln to expand its flash memory base (10% of world production)
 - **BASF** in Huizhou (Guangdong): USD 10 bln by 2030 (group's largest investment ever)
 - **ExxonMobil** in Huizhou: wholly-owned petrochemical complex
 - **BP** in Zhoushan (Zhejiang): JV with ZPCC for a 1 mln ton acetic acid plant (group's largest)
 - **SABIC** in Zhangzhou (Fujian): JV with FJPEC with total investment of USD 6 bln
- Despite all the decoupling talk and the economic slowdown, 2022 also saw some marquee investments, such as:
 - **BMW**: USD 4.2 bln to take control of its JV and USD 1.4 bln for EV battery production
 - **INEOS**: four 50:50 deals with Sinopec, two of which have already been completed
 - **VW**: USD 2 bln in a joint venture for software production
 - **Credit Suisse**: USD 160 mln to take over its local JV from Founder Securities

While official FDI figures offer limited insight, it is clear that the focus on attracting foreign capital is not going anywhere



