

# Between the lines

16 January 2023

## How China's reopening could signal opportunities for investors



*After three years of lockdowns and quarantines, China is reopening its borders to the outside world.*

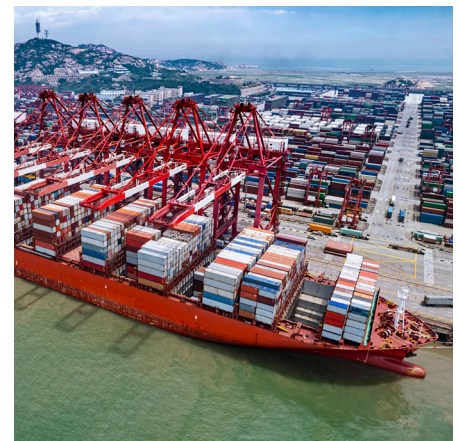
This policy U-turn has caught many by surprise and marks an end to China's controversial zero-Covid policy. Though risks remain, with the coronavirus still a very real public health issue, there are reasons for investors to be optimistic about the medium-term opportunities reopening could bring.

### The cost of an 'All or Nothing' approach

China's zero-Covid policy was emphatic and inflexible. Entire cities and provinces were subject to immediate and lengthy lockdowns at the smallest outbreak of cases. Everyday life was brought to a grinding halt, often with little or no warning from the government. The ramifications were widespread, and the economic price was clear.

For context, in their October 2021 outlook, the International Monetary Fund (IMF) had predicted China's economy would grow by 5.6% in 2022. Fast forward to October 2022 and this was revised down by 2.4% due in part to persistent lockdowns.

Wherever you looked, the costs of zero-Covid were clear. This was particularly evident in February last year when Shanghai, home to one of the busiest ports in the world, was subject to a total lockdown. By May, this was estimated to have cost global trade \$28bn, according to data and analytics company, the Russell Group. This lockdown would ultimately last for a further three months.



### An economy out of quarantine

Whether the decision by the Chinese authorities to reopen was in response to economics or growing unrest is unknown. What is clear is how markets have reacted. As word spread of the reopening, sentiment among investors began to improve. In local currency, the MSCI China index was up 12.5% over the fourth quarter of 2022 (or 5.4% in sterling terms).

China's reopening is expected to bring positives both within the country and beyond. Domestically, it should strengthen Chinese growth as the growing middle class is free to move and spend without restriction. Externally, the reopening of Chinese factories and docks will provide relief for companies around the world. Supply chain networks can return to normality without fear of sudden (and costly) interruption.

In 2022, inflation soared around the world, and the zero-Covid policy has been a driver of this – cutting supplies as demand has rallied, leading to price surges. It is hoped that a return to a fully functioning China, which plays a key role in supporting global trade, could help bring inflation down and in turn give central banks cause to revisit rates.



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*QI 26094/27/2713/January 2023*