

# GLOBAL EMERGING MARKETS



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For institutional, professional and wholesale investors only

## YEAR OF THE DRAGON BREATHES OPTIMISM FOR CHINA



Portfolio Manager Colin Dishington visited China in December 2023 as part of his ongoing research for the Martin Currie Emerging Markets Strategy. He met with a host of companies across several sectors and it was clear to him that it's 'business as usual' in China. We will explore a few of his key takeaways here.



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### What is the general feeling of companies about the macro backdrop in China?

Companies are broadly constructive on the economic environment and there are pockets of strength. This varies across sectors, from semiconductor companies seeing a gentle recovery in the smartphone market, to online recruiters observing a steady recovery in job postings across all sectors. Despite the prevailing issues in the real estate sector, property sales are still growing in the tier 1 and 2 city centres. One shopping mall operator even reported that their tenants had seen same-store sales growth of over 20% in the first 10 months of 2023.

These are very encouraging comments from companies which tell us that they are running as normal and that despite valuation headwinds, they are optimistic about the macro backdrop.

### Are there any trends you've noticed through your meetings during this trip?

A clear trend which has become apparent is import substitution, as product demand shifts from international suppliers to domestic products and services. These dynamics are creating new opportunities for investors, but the drivers of this substitution are not uniform in nature. For example, within healthcare, companies that are winning business are doing so by offering superior and world leading technology at premium prices, while others are taking market share by simply offering lower prices. Additionally, when meeting an industrial automation player, they highlighted that they see customisation and speed of delivery as key differentiators from their developed market competitors.

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### A frequent theme in the papers is new regulation, what is the feeling on the ground?

As may be surprising to global investors, most companies I met with consider the current regulatory environment in China to be constructive. In the healthcare industry, the most recent round of volume-based pricing cuts has proved less aggressive than in previous iterations. Despite recent newsflow, in the gaming sector, internet companies believe the regulatory environment has normalised and expect this to remain “supportive” of the industry. Furthermore, a company in the solar power supply chain has welcomed new regulation which they believe is helping to reduce the pricing volatility for some of their products.

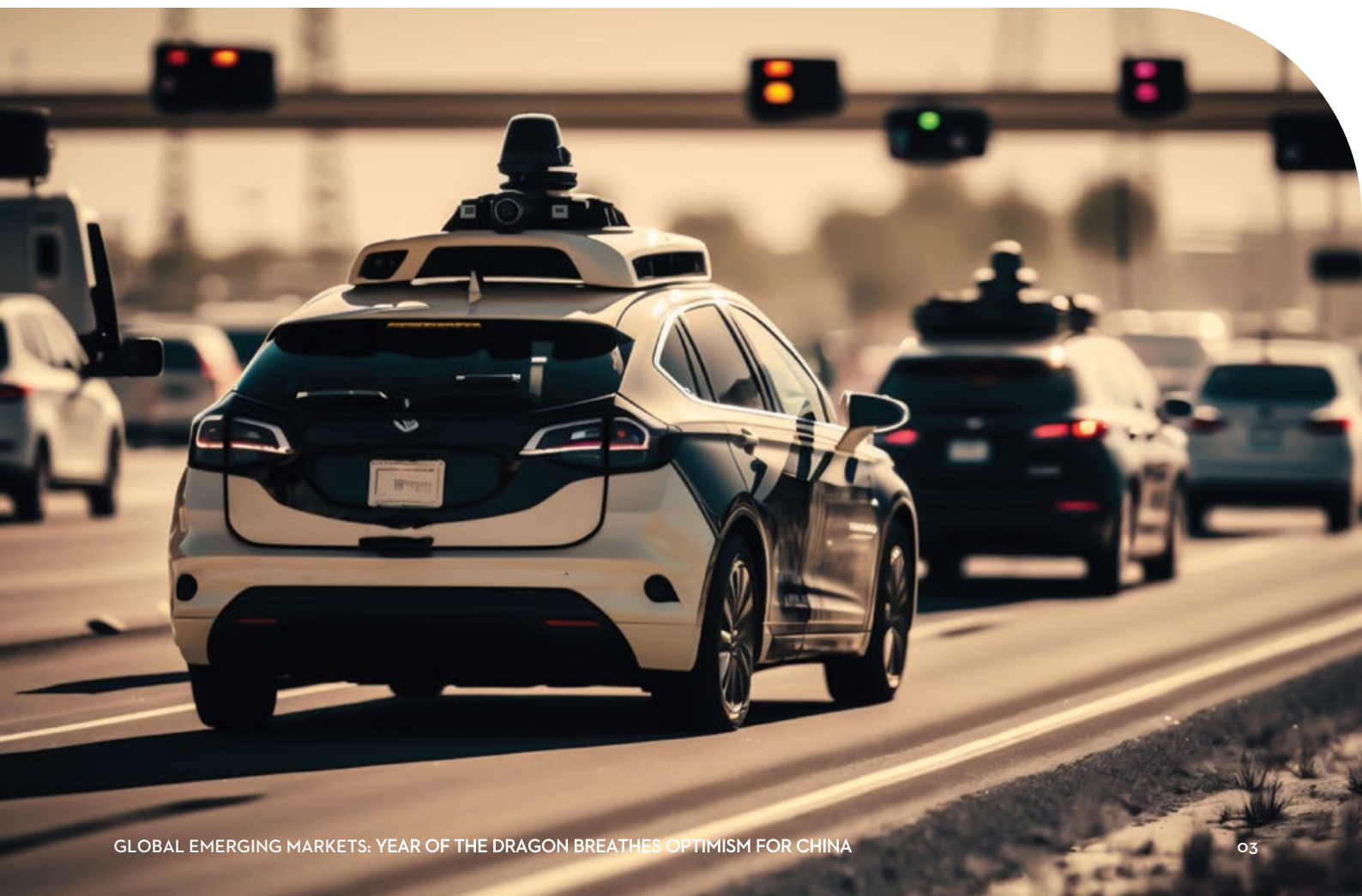
### What about geopolitics, another media favourite? How is that impacting company behaviour and overseas activity?

A clear theme was that Chinese companies overseas ambitions have not been dampened by the widely reported trade disputes. One industrial manufacturer talked of their target to eventually generate 75% of their revenues from overseas. Other companies have accelerated their build out of overseas distribution and in some cases offshore production.

### What would you say was a highlight of your trip?

Outside of gathering rich insights on investee and other companies, I also took a number of trips in robotaxis. This was not only good fun but quite enlightening given the different driving styles exhibited by competing service providers. I actually preferred the more aggressive one as it felt more like a real driver!

**It is clear from Colin’s visit that the feeling on the ground is much more positive than you might expect, given the negative sentiment surrounding Chinese equities, particularly in 2023. China remains a key part of the emerging market asset class and is rich in long-term investment opportunities. The short-term headwinds have been challenging but our conversations with companies provide a more constructive and positive outlook. We are optimistic about what the future holds.**



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