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Schroders
Virginie Maisonneuve's Global Insight November 2012

By Virginie Maisonneuve, Head of Global and International Equities

In the second of this monthly series Schroders' Virginie Maisonneuve comments on the once-in-a-decade leadership transition in China which is set to be unveiled at the party conference starting today, Thursday 8th November. Virginie explains that the implications for China and the global economy are significant and that it should bring relief to Chinese equity markets.

Why should global investors care about China's new leader?

"This leadership team could be the last of its kind. The new leader, Xi Jing Ping, is still in the vein of Deng Xiao Ping who led China towards a market economy in the eighties, but he could potentially be steering China towards a new leadership style.

"So far, Xi Jing Ping has kept a relatively low profile in the international community. He has also been quiet about his vision for the economic direction of the country. The son of a communist veteran, he has degrees in chemical engineering and political science and has held various roles in Fujian and Zhejiang provinces. He was given the delicate role of Shanghai Party chief after the fall out of Chen Liangyu after the social security fund scandal. He is known for his stance against corruption, his pragmatism and his diplomacy, which will be very much needed in the upcoming leadership team.

"The departing leadership team has been under pressure from the global financial crisis and the limited scope for substantial measures to support the economy. The new team under Xi Jing Ping will therefore have greater room to take decisive action to boost growth, most likely after March 2013 when the team officially takes over the country from an economic standpoint."

Policy implications

"The priorities post-transition will likely be continued financial reforms, pricing reforms – in areas such as gas, oil and power – state-owned sector reforms with a potential transfer of assets from companies in difficulty, and fiscal and tax reforms. The need for more housing and "acceptable" property prices may bring welcome land supply reforms which would impact developers and construction companies as well as commodities. Finally, a focus on urbanisation could continue to be a driver for growth for many years to come.

"Investors should not focus only on Chinese- or Hong Kong-listed securities to tap into Chinese economic growth, but look for streams of earnings in global and local companies, wherever they are listed. Although growth has slowed, and probably for the best, it still compares favourably to the rest of the world. Some of the best ways to play the on-going changes in Chinese society and growth opportunities are in the insurance, consumer and selected commodities areas."

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