China is Back: What Its Reopening Means for the World

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What the world economy, businesses and investors could expect from China's return to the fray.

From zero-Covid to zero restrictions, the speed of China's return to normalcy took the world by surprise. Two months after the world's second-largest economy signalled that it would end its self-imposed isolation, manufacturing and services have **rebounded** from pandemic-induced slumber, travel is **resurgent**, and hope is that **"revenge spending"** will turbocharge the country's growth this year.

INSEAD professors weigh in on what the reopening could mean for businesses, supply chains and investors, as well as what lies ahead for China.

China needs to rebuild investor confidence
Lily Fang, Dean of Research, Professor of Finance and the AXA Chaired Professor in Financial Market Risk

China's reopening will impact commodities prices. This would give oil prices some support, though I won't necessarily predict a price surge because too many other factors, including on the supply side, affect oil prices. Intermediate input prices such as transportation and shipping could be affected as supply chain reopens.

I expect Singapore to be a big beneficiary of China's reopening due to the freedom of capital and human movement. If China wants to slow or reverse the investment outflow, it has to rebuild global investor confidence. The signals that the government sent recently in **easing the crackdown on Big Tech** are much more important than the country's reopening.

Less clout in global supply chains

Chengyi Lin, Affiliate Professor of Strategy

Going forward, companies are paying increasing attention to their supply chain resilience. China re-entering the global economy gives companies opportunities to leverage the country's manufacturing capabilities, logistic infrastructure and labour force. Nonetheless, executives are cautious about the increasing geopolitical tension between the United States and China.

Over the past couple of years, many companies and industries have built or rewired their supply chains in different ways as a response to the supply chain challenges that they encountered during Covid-19.

Three chief executives of large global manufacturing companies told me recently that 70 to 90 percent of their supply chains were based in China before the pandemic. Now, that figure is around 40 to 60 percent as regional supply chains in Europe and Latin Americans have picked up the slack. Such companies may be less willing to go back to the old way of doing things as regional supply chains can offer more resilience despite the costs.

Still, China continues to boast lower costs, better infrastructure, more advanced digitalisation and more skilled workers. It also remains one of the largest potential markets that can spur companies' growth.

Important to re-stimulate domestic demand

Guoli Chen, Professor of Strategy

Beijing is shifting its focus from managing the pandemic to reviving the economy. However, there is a lack of trust between China and the United States and between private-owned enterprises and the Chinese government.

The former is going to take some time to rebuild; there is no clear signal that the relationship will get better soon. To me, the more important thing for Beijing for now is to motivate and encourage entrepreneurship and re-stimulate domestic demand.

Sizeable investment opportunities

Xiaowei Rose Luo, Professor of Entrepreneurship and Family Enterprise

China's reopening policy suggests that the country is prioritising economic growth, and this will lead to sizeable economic growth and investment opportunities. In the past weeks, Morgan Stanley analysts, for example, have been predicting a 5.7 percent GDP growth this year. Chinese Vice-Premier **Liu He's speech** at the recent World Economic Forum annual meeting in Davos also suggests that government policies will be adjusted to encourage growth.

More positive surprises in store?

Bart Zhou Yueshen, Assistant Professor of Finance

There is room for the Chinese economy to revert, at least in part, to its normal trajectory this year, now that the restrictive measures are all removed. Whether this translates to a "buy" in the stock market now is a more nuanced question.

I do not see any particular reason why the competitive market would have left out any profitable investment opportunities – overall the market is quite efficient. The MSCI China index has risen significantly since the low in November 2022, and it is likely that the market has already factored in the expectation of a better economic outlook for China.

As such, to justify a particular bet in China (relative to alternatives), one would need to come up with an argument for what positive surprises might materialise. For example, might the government relent further in its crackdown on tech industries? Might the central bank stimulate the market with extraordinary measures? These are much harder to speculate at this stage.

China at inflection point

Antonio Fatás, Professor of Economics

There is no doubt that the removal of Covid-related restrictions is good news for the Chinese economy but it is unclear how much of a rebound we will see.

First, unlike other countries (say the US) China has not accumulated large savings during the last year. There is no obvious boom in consumption expected with the reopening. Second, the slow movement of companies away from China to diversify geopolitical risk will continue. While this does not mean a large change to the status quo, it does affect growth prospects.

Third, the Chinese government seems to have run out of ideas to rebalance the economy from investment to consumption. This is a fundamental structural issue that needs to be addressed. And, finally, the reforms that the Chinese economy needs have not happened. If anything, we have seen a reversal of some of them.

Without reforms, China cannot become a rich economy. This is not just about 2023, this is about the potential long-term growth for China. Without growth we will see increasing social discontent. The Chinese political system has been stable in a scenario where growth instead of votes validated policy choices. Without growth the system will start showing its weaknesses.

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