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Investment

China's comeback story has three core themes: Matt Asia

BY MATTHEW WAI | FRIDAY, 16 OCT 2026 12:37PM

After a few sluggish years, the Chinese government has identified several growth areas to turn its economy around, relying upon innov sectors, according to Matthews Asia.

Speaking to *Financial Standard*, Matthews Asia portfolio manager Tiffany Hsiao said China is facing "structural" challenges, but also presenting er investment opportunities, across the themes of the ageing population, healthcare, and geopolitics.

Hsiao believes the next wave of opportunities will emerge from innovation to solve these challenges, and there are signs where authority is alread more capital into those areas to revitalise its economy and to better steer its future.

GDP at risk

China, like many other economies including Australia, has an ageing population. In line with the trend, the government worries it will slow producti turn, reducing its gross domestic production (GDP).

Hsiao said this is also partly due to a poor immigration policy, and if no productivity enhancements are implemented sooner, the ageing workforce drastic decline in GDP.

In fact, China's GDP is projected to be 4.5% for 2026, down from 5% from the previous year.

Hsiao said the metric can be improved with innovation implemented in productivity. On the physical front, automation and robotics will be vital and remains "very supportive" of entrepreneurs in those areas.

Meanwhile, the other part is the intellectual property of the human brain, and to enhance productivity in this area, Hsiao said artificial intelligence (

"[The solution] used to be software, but in China, that industry never took off because all the best software engineering talents went to e-commerc she explained.

"But now... e-commerce is already a mature industry. So, the government is directing traffic and pointing people where it wants talent to go, and ul of these industries are successful because China has an immense amount of sheer talent.

"So ageing population opportunities are for AI for intellectual property productivity, as well as robotics and automation for physical productivity."

Keeping the vitals in check

Meanwhile, healthcare is significantly tied to the thematics playing out in ageing dynamics. Hsiao said healthcare is an "acute" problem because th operates in a 'single payer' system, meaning that the government pays for everyone's healthcare.

"The government debt levels are already very high, they really can't afford for everyone to get sick at the same time and have the hospital and me [blown out of proportion]," she said.

"What they need is, again, innovation. Instead of providing more drugs, the authority needs more effective prescriptions... they will adopt things lik labs to develop next generation molecules, AI drug discovery.

"The healthcare workers are also ageing, so China will have a shortage of surgeons, doctors and nursing staff. A lot of the robotics, like surgical ro development in China, is really world class and these are areas that we see a lot of opportunity.

"If you look at global first-in-class drugs, meaning not copycats, and first in the world, China went from less than 10% global market share just five procuring almost a third of the global brand new first-in-class drugs now."

Taming sticky macro issues

Separately, China also faces immense economic shocks and geopolitics issues, but the portfolio manager said the opportunity is now for those tha meaningful solutions against those elements.

These include the recent Middle East conflict, reflecting the important need to become more "self-sufficient" at times where commodities may not l

"In the sense that whether a country, a company, or an individual, will constantly want to be more self-sufficient whenever those a geopolitical ever never linear," she said.

"You want to have a good, solid 'plan B' during those times."

Hsiao said the allocation to 'problem-solving' companies will be the winner in this segment.

The lesson from property, consumption

Additionally, Hsiao noted the Chinese government is actively avoiding repeating the mistake they previously made with the property market.

In a recent visit to China, Hsiao assessed the city of Wuxi, located in southern Jiangsu, China. Although Wuxi possesses an abundant of biotech a semiconductor companies, the city itself lacks traffic and residents, presenting an oversupplied property market, and it's a phenomenon emerging places, she said.

"[The Chinese government is] moving capital away from industries that are being oversupplied, because they don't want the same thing that's hap property to repeat in other industries," Hsiao said.

"We continue to see doom and gloom in property and consumption... they've overbuilt [in some areas]... On the consumption side, the patterns are people do not want many physical goods, but China has a lot of local consumption that is based around retail, so there's a mismatch there."

"Overall, consumers are quite weak, but I do think the government is focused on the right things because you need to make people feel confident own income growth. You can't force people to spend money - you must give them confidence and if you pivot to the right sectors that are growing, income growth.

"The government is trying hard to kind of point people to which sectors they think may have more growth over the longer run."

Matthews Asia's products with exposure to China continue to perform strongly. For example, Matthews China Innovators Fund returned 19.33% in months to September 30, outperforming its benchmark - the MSCI China All Shares Index (-11.46%) - over the same period.

Meanwhile, its flagship Matthews Pacific Tiger Fund, which invests into multiple Asian jurisdictions including China, returned 28.9%.

However, echoing Hsiao's statement above, Matthews China Fund, which seeks companies benefiting from China's domestic consumption, faced year, returning -7.78% in the year to September end.

Hsiao is the portfolio manager of the Matthews Asia Innovators Fund and the Matthews China Innovators Fund.