Catch the wave

How to invest in China's globalization

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As we move into 2018, we're reflecting on the wave of reforms that have swept through China in the past year and how China's five-year plan will impact the future outlook for investors.

2017 was a landmark year where reforms continued apace and China became more closely integrated with global financial markets and set the stage to play an even more influential role in the global economy.

China's globalization picked up in 2017

The world remains underinvested in China, but that's about to change following landmark reforms in 2017 that mean China is very much 'open for business'.

The new Bond Connect program, coupled with an expanded stock connect program including Shenzhen, opened up new links for both foreign and domestic investors and signaled a major step forward for China's integration with global financial markets.

China's currency is about to move toward internationalization following a raft of domestic money market reforms, cross-border currency trading agreements, and the roll-out of 'Belt & Road,' and these will pave the way for increased international investment.

Moves to establish oil futures trading in Shanghai point to a much bigger role for China in the future. Setting oil contracts in RMB signals that China, the biggest oil importer globally, is pushing for global status for wider use of the Renminbi (RMB) globally and a greater push for it as a reserve currency.

Policy trends are creating opportunities

Deleveraging will remain a key theme for 2018, policies in line with this strategy have increased regulation of the financial system, tightened controls on the shadow banking sector and pushed up market rates, creating highly attractive fixed income yields. Chinese government bonds, which are currently at around 4%, offer compelling value compared to key rates across the world.

Elsewhere, the continued focus on deleveraging, combined with stringent application of environmental regulations is addressing excess capacity in China's industrial sector. Closure of inefficient, polluting factories, plus the forced closure of zombie companies is an essential step forward and frees up resources that can be channeled into developing China's new economy and rebalancing toward a consumer-and services-led economic model.

China's new economy is taking the lead

And with China's 13th Five Year plan guiding policy, administrative, financial, fiscal, and social reforms can now be implemented, and that's going to help create China's new economy.

Consumer demand will be in the forefront as reforms take hold, incomes rise and demand becomes ever-more sophisticated. Changing consumer trends will ripple through the economy and force companies to innovate and adapt their offerings to suit the market.

That's one of the reasons why advanced manufacturing will also be an investment hotspot. With China's Made in 2025 campaign at the forefront, there will be new opportunities in emerging industrial sectors, such as new energy vehicles and robotics, as well as via the ongoing upgrading of existing sectors, such as autos and electrical goods.

Boosted by China's ever-growing internet user base and the innovation of sector leaders, China's information technology sector is also a key sector to watch for the future. Covering fast-growing areas such as e-commerce, online games and fintech, top names in the tech sector will continue to perform well, and will increasingly make their presence felt overseas as they push ahead with international expansion.

In China's new economy, private companies are dominant, and they are an attractive investment prospect since they carry lower debt levels and offer attractive profitability compared with old economy sectors. Indeed, it's because of these factors that new economy sectors, in areas like IT, healthcare, and consumer, have performed consistently well against the old economy and SOE sectors over the long-term.

So, with new economy sectors coming to the fore, reforms creating opportunities, and China being emphatically 'open for business' to investors, we believe it's the right time for investors to catch the wave as China speeds up its integration with the global economy.

And that's where UBS Asset Management, with its years of experience in the China market, is ideally placed to help you capitalize on these trends. We have been investing in China since 1997 and have developed extensive local expertise with an outstanding team of experienced investment managers for traditional and alternative assets.

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