Asian Financial Forum 2018

China's Dreams – Investor Reality

Synopsis

As the rising superpower, China's regional and global influence has increased significantly, and political uncertainty in the US and Europe leaves room for China to fill the void in global leadership. The Belt and Road Initiative and the Guangdong-Hong Kong-Macao Bay Area are crucial in shaping China's rise, but how can we as investors be more prepared?

- Are the Belt and Road Initiative and Guangdong-Hong Kong-Macao Bay Area achievable?
- What opportunities lie ahead for the private investor?
- How might these mammoth ambitions disrupt and impact business?

Moderator

- **Mr Eric Tang**
  Executive Director, UBS Wealth Management

Speakers

- **Dr Yifan Hu**
  Regional Chief Investment Officer & Chief China Economist, UBS Wealth Management
- **Ms Wendy Yunting Luo**
  Senior Credit Analyst, APAC Credit, UBS Wealth Management Chief Investment Office

Yifan Hu pointed out that "China's Dreams" were proposed by President Xi in 2012. At the 19th National Congress of the CPC, they were given a more concrete goal: by 2035 China aims to achieve socialist modernization, and to develop into a modern socialist country that is prosperous, strong, democratic, culturally advanced, harmonious and beautiful by 2050. According to the report, the Belt and Road Initiative is part of the Chinese Dream, showcasing China's identity on the international stage.

Hu expects China's economic reforms to concentrate on quality and there will no longer be a concrete growth target. Based on the Made in China 2025 Initiative, automation, robotics, railways, high-end maritime facilities, smart cars, modern agriculture, medical devices and new materials will be the focus over the next three years. Green manufacturing, green energy and green finance will also drive GDP growth.

Hu expects China to tighten liquidity by cautious monetary policy. Interest rates will be raised and credit will be loosened. UBS forecast China's GDP growth to soften to 6.4 per cent in 2018 from 6.8 per cent in 2017, but higher quality growth is expected.

Wendy Luo said China's investment in Belt and Road Initiative countries is worth US$30 billion, or 10 per cent of China’s overall foreign investment. China's policy banks, which include the China Development Bank and the China Export-Import Bank, and commercial banks have leading positions in financing these projects. She expects a 15 per cent or US$270 billion growth in US bonds issued in Asia in 2018. As the bond supply in Asia increases, the cost of financing bonds will drop due to an improving sovereign credit rating.

Hu believes Southeast Asia will perform well over the next few years, because the Belt and Road Initiative and infrastructure development will boost the overall economy. The region will also benefit by picking up low-end, value-added manufacturing during China’s transformation. China’s development stabilises the regional economy and Thailand, Indonesia and the Philippines have relatively high potential.

Luo said Southeast Asian sovereign bonds give the best return, 8-10 per cent, of high yield bonds in Asia, but that debt-paying ability is a risk that investors should be aware of. Hu said as global interests rates are expected to increase, capital may not stay in the region.

Hu forecast global economic growth may reach 3.9 per cent in 2018. Key factors include the end of the easing policy, geopolitical tensions, technology and sustainable investment. He was optimistic about the equity market this year, but its performance may not be as good as last year. The European equity market is expected to perform well.

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