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# Deeper dive on the rise of a China-centred Asia

Highlights from Access Ninety One 10 November 2020

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> Our key takeaways from both a fixed income and equities perspective on the rise of China are:

- Despite geopolitical issues such as rising trade tensions, China has been consistent in the opening up of its economy, the liberalisation of capital markets and state-owned enterprise reform (SOEs).
- In terms of US political leadership, there is bipartisan agreement that the future US-China relationship will continue to err towards rivalry rather than cooperation. Prior to the Trump era, the US Chamber of Commerce (representing the interests of the US corporate sector in China) was an active partner and an advocate of reform in China. During the Trump administration, this lobby has been forced to play a less vocal role and it will be interesting to see whether it can find its voice again.
- Rising household debt in China should be put into the context of low penetration while most debt is also secured. That's why the likes of Ant, Tencent and Alibaba have been so popular as the first companies to advance credit directly to consumers without collateral.

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- As new market sectors emerge with such vigorous growth, it makes sense that China manages this carefully and prevents moral hazard. Regulation has emerged in education, health care and fintech and tends to be incremental, rather than occurring in a single wave. This serves as a reminder for us as investors on the importance of diversification and to focus on fundamentals, rather than taking top-down allocation.
- In equities, our focus is on domestic drivers, which the government emphasised in its fifth plenum, such as areas of technological self-sufficiency. Increasing efforts in industrial automation is one way that Chinese companies are making strides forward.

- As more of the world trades with China, it will be more efficient to deal with China in its own currency, leading to greater renminbi adoption. China has large annual commitments in foreign currencies, particularly in oil. As it transitions away from a dependence on external commodities denominated in dollars, China's reliance on dollars will shift. We could eventually see the renminbi as a developed market benchmark currency within our lifetimes.

- Just over half of the US$1.5 trillion EM dollar-denominated investment grade debt market is in Asia. China's bond market is the largest market that is not yet fully open. Diversification, yield and strong credit quality is accessible and the risk premia will fall as the asset class attracts more investor interest (foreign investors only represent 2 to 3% of the market).
- Similarly, the institutionalisation and internationalisation of the A-share market will take time to change. Transaction activity remains short term and momentum-driven and more long-term capital needs to invest in this underrepresented market. This, however, leaves abundant alpha opportunities for investors.

**General risks.** The value of investments, and any income generated from them, can fall as well as rise. Where charges are taken from capital, this may constrain future growth. Past performance is not a reliable indicator of future results.

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CS_192 11/2020