China is on the right track

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China has had a difficult last year – and this has impacted heavily on sharemarkets. But the future may look better. Tim Rocks, Head of Market Research and Strategy, recently toured China and believes there is much to be positive about.

I recently visited a range of cities in China, including Chengdu, Xian and Nanjing, and returned confident that China is on the right track. There are signs policy measures are starting to have an impact. I was also struck by the broadening range of investment opportunities provided by China. China is driving innovation in areas like clean energy and e-commerce, and there are substantial opportunities from the growth of new industries including tourism and healthcare.

Your correspondent driving a Chinese electric vehicle.

Some of the policy initiatives have included:

+ Hukou (residency permit) reforms which allow rural residents an urban Hukou if they buy an apartment. This means they have access to better healthcare, pensions and schools. It also benefits the Chinese economy by clearing unsold apartments.
+ Offering auto-financing in tier-3 cities for the first time. This has seen auto sales surge.*
+ The ban on local governments issuing bonds has been removed and resulted in a new wave of infrastructure spending on subways, universities, hospitals and water projects.

There are some indications policies are starting to work. Research from CLSA, an independent Asian brokerage and investment group, has shown property prices have lifted and this is starting to filter through to cement and steel sales. It could be a support for some time considering it takes around two years to build new apartment blocks!

Aside from policy initiatives, there are other positive developments for long term growth.

+ There is increasing demand for a new range of products and services across domestic tourism, sports goods and more extensive healthcare. One example is the excitement over the opening of Disneyland in Shanghai with around 91% of the population planning to visit – and nearly a million people have already visited the site, despite it not officially opening until 16 June (source: Shanghai Daily)
+ There are rapid improvements in healthcare, pensions and social security which will help reduce the need for consumers to build precautionary savings – meaning more money to spend.
+ There are new industries being created, such as electric vehicles, solar, healthcare and e-commerce.

There are still challenges – and domestic politics will be front of mind. Structural reform is on hold at the moment but could accelerate again in 2018 after the August 2017 Party Congress – where five of the seven-person Politburo Standing Committee will retire. Other potential financial stresses include issues like debt levels or the risk of capital flight (where Chinese store their money overseas rather than keeping within China).

I believe the Chinese economy will continue to recover through 2016. This will have a positive impact on investment markets, particularly sharemarkets, as investors become more confident and positive about China's outlook. Recovery in China will also support resources and commodities, given infrastructure and property developments. The situation may be more challenging from 2018 if reforms accelerate again, creating financial strain. There are still likely to be opportunities in China from this point, but the economy could weaken again.

*China's cities are ranked in tiers based on population size, development of services, infrastructure and cosmopolitan nature. Shanghai is considered a Tier-1 city, Chengdu a Tier-2 city while Wenzhou is a Tier 3 city.

For more information on the impact of China on your investments, please speak to your financial planner.