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Investment Insights

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China: the next five years

We see three key areas to watch in the wake of China's once-in-five-years Communist Party Congress, which convened in Beijing in October. China needs to deleverage its swelling debt load, ensure the sustainable development of its systemically important property market and overhaul its industrial structure as it moves up the value chain.

Q1: Can we expect any change on the China bond market?

Diligently tackling debt and deleveraging is one of the biggest challenges that China faces over the medium and long term. China has taken a number of proactive measures to manage these risks, including the development and deepening of domestic capital markets to improve the cost and allocation of capital. Systemic risk is further reduced by significant government involvement, as the state serves as ultimate borrower in many cases. And while deleveraging can impact growth, it typically represents ideal conditions for fixed income and credit investing.

Q2: What is the biggest challenge for China over the next five years?

For equity investors, China's real estate market takes on outsized importance to the economy because it is a key indicator of broader industrial and construction activity. Housing prices are also tied to consumer sentiment because Chinese households tend to have a disproportionately high amount of their savings invested in real estate.

The biggest risk over the next five years for China is the direction of the property segment and associated policies, be it tightening or loosening. Important policy developments here would include any measures aimed at smoothing the property cycle, such stabilising tools could include tax mechanisms or long-term rental programmes.

Q3: How about the key growth driver in China?

China's leadership is seeking to transition the economy away from debt-fuelled growth and instead to lift domestic consumer demand as a key growth driver. Part of this effort calls for companies to move up the value chain.

We are already seeing signs that this is happening, and the pace of industrial transformation is likely to accelerate in the next five years.

New national policies such as the "Made in China 2025" strategy, which seeks to reposition and upgrade China's massive manufacturing sector, have been released. At the same time, Chinese companies are copying less and investing more in their own research and development.

Investing in China is not a binary choice, and the complex and cyclical nature of the economy offers a broadening array of potential avenues for investment. As we are living in Hong Kong, we are all exposed to China either directly or indirectly. As investors, we are spoilt for choice in ways to express a view in China, from government bonds to small cap stocks offering growth not available in the rest of the world.

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