This Is An Opportunity In China You Can Seize

Escalating tensions between China and the US provide another opportunity for entry to China's investment market.

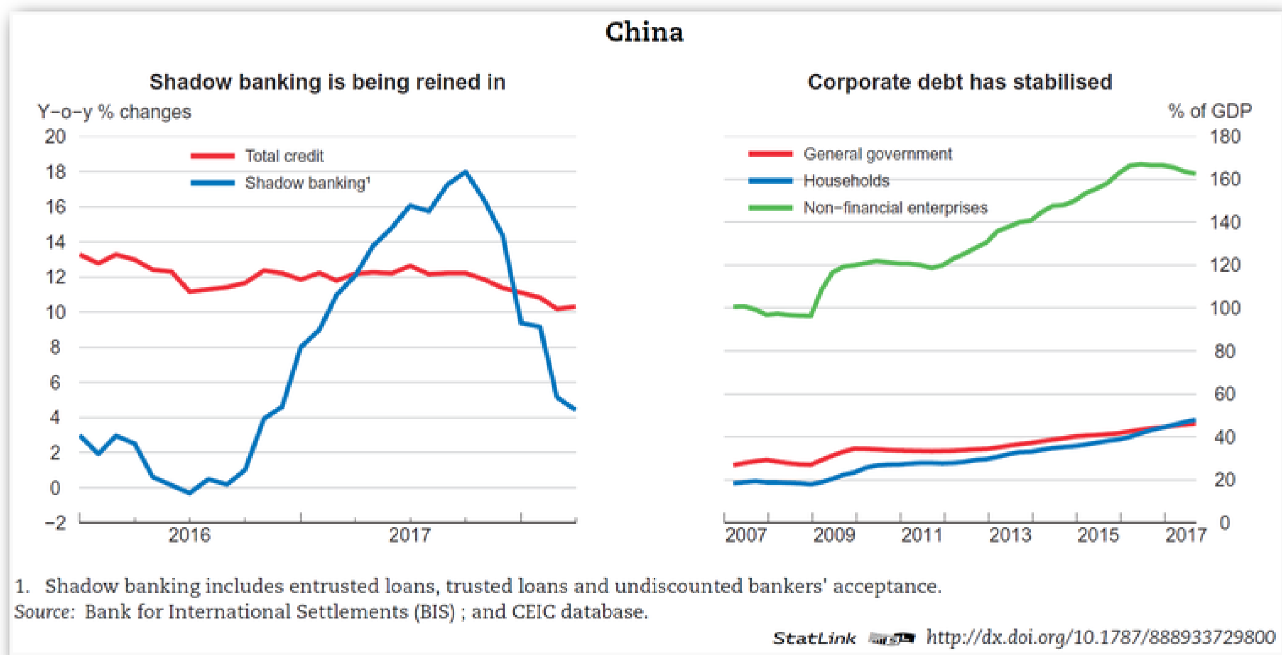
Can We Call It A Trade War Yet?

We've heard rhetoric, we've seen actions, reactions and escalations; Can we call it a trade war yet? Despite the fear and the chance of disrupted global trade, China remains a great investment, if you can handle the risk. China is on track to grow at a pace above the global average for at least the next three decades. The near term outlook is cloudy, impacted by data and trade concerns, the longer-term outlook remains bright.

The latest data shows Chinese GDP is growing as expected at a pace of 6.7%. This is down a tenth from the previous quarter but still quite strong, more than double the US last read on gross domestic product, and not expected to slow significantly for many years.

Based on estimates from the OECD, the IMF, the World Bank and United Nations, China is expected to grow at a rate between 5.5% and 6.5% over the next 3 years, and then average 4% for at least the next ten. The takeaway for investors is growth in China, while slowing, is still robust and expected to remain so for many years.

Growth in China is slowing for two primary reasons; shadow banking and corporate investment. What I mean is this; shadow banking and wildly growing corporate debt helped fuel China's growth over the past 30 years (unsustainably) and those factors are being reigned in by the PBOC. Monetary conditions, policy and a bias toward fiscal tightening has helped alleviate both of the problems and paved the way to a sustainable financial future.



1. Shadow banking includes entrusted loans, trusted loans and undiscounted bankers' acceptance.
Source: Bank for International Settlements (BIS) ; and CEIC database.
StatLink http://dx.doi.org/10.1787/888933729800

Trade War, What Comes Next

The next phase of the trade war is happening now. The Trump administration has issued plans to enact tariffs on another $200 billion in Chinese goods. The new tariffs are expected to come into force late August, if not later, after a government hearing and review process. The process is supposed to be performed by CFIUS, the Committee on Foreign Investment in the United States, but there is little doubt Trump or his administration will have a prominent role (if only in the headlines).

In the meantime Chinese and Asian markets have been depressed by trade tensions and the uncertainty of future trade relations. The mainland China Shang Hai Composite, where all of China's A and B shares are listed (companies headquartered within China), is trading at a 2.5 year low. This low coincides with the 2016 Chinese market crash (associated with rampant shadow banking and out-of-control corporate debt) and is offering a discounted entry to this maturing market.

Fund managers at ValuePartners Asia-Pacific Fund Inc. view US trade policy as an entry point for longer-term investment in China. For them, trade-driven weakness in Chinese markets are an opportunity to be seized. While trade will be a concern over the next few years the dispute is expected to result in expanded trade opportunities for everyone involved.

"Looking ahead, we maintain our view that US trade policy will present a drag on market sentiment in the near term, but we expect future rounds of negotiations to provide more clarity on the US-China trade dispute and to ease pressure on the market. . . The valuations of the China market have become more attractive after the mild retreats in recent months . . . We continue to see the prevailing volatility as buy-on-dip opportunities for long-term investors."

The Asia-Pacific Fund, Inc. is a closed-end fund focused on the Asia-China economic region, ex-Japan, and trades on the New York Stock Exchange. It is managed by ValuePartners, Asia's leading money management firm. The fund is focused on small and medium sized businesses that have solid balance sheets and growing business. The current holdings are tilted toward Hong Kong listed (35%) Industrials (17%), Consumer Discretionary (17%) and Real Estate (18%) equities but exposure is well