

Fidelity Asia and Emerging Market Summit – October 2019

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The conference started by focusing on a quote from Warren Buffett which stated that the 19th century belonged to the UK, 20th century to the US and the 21st will belong to China. However, so far, the US has really dominated the 21st century.

Many of the issues are around perceptions. There appears to be a large trust issue with Asian economies. There is a feeling that innovation is coming from the US, and Asia, including China, are behind the curve. Also that there is no independence from the rest of the global economy.

However, it seems these are outdated views. There are considerable improvements in disclosure and although there are still related party transactions and questionable accounting, this is changing quickly. Corporate reporting levels have increased from 45% to over 70% since 2011 and are now on par with many developed economies. Companies are becoming more attractive, and dividend payers and the minority shareholders are being noticed.

In terms of the environment countries, like China are seeing significant improvement with a top down focus on air quality and the environment.

In terms of the market, Asia is about 20% of the global index but contributes 46% to the global markets. China A is the second largest stock market in the world and has twice the liquidity of Japan. It is now becoming too big an allocation to ignore. In terms of economies to watch, India is an underlying medium to long term growth story, at the same place that China was about 10 years ago.

In terms of China, it clearly had been built on borrowed technology, but this has changed, and they are now taking the lead in innovation. AI, as an example, is used for facial recognition in rural areas to insure pigs. Ant Financial, which is part of Alibaba, uses the data they build up to understand habits. For example, they could see a correlation between young women buying skinny jeans and mobile phone screens getting broken. Understanding this they have been able to sell mobile phone insurance. The use of this type of intelligence is being embedded into society.

Another example is the use of QR codes by street sellers, not only in selling goods, but also understanding customer habits. China is fast becoming a self-sustaining economy, moving away from export to domestic, and therefore the key to China is playing the consumer trend.

In terms of the trade war, this will have an impact on both economies, but the reality is that it will be a much smaller impact than many expect.

The independency of the currency, investment in one belt one road, and the move in consumers up the value trade, is all benefiting the Chinese economy. Old China saw 4 trillion yen invested in infrastructure in 2008. Now it is all about consumption which is only 40% of GDP, significantly lower than the Western World.

People are getting better paid. In 2015 10% of the population were earning more than \$10,000. In ten years, this is expected to be 33%. Urbanisation is changing things. It is expected that about 80% of the population will live in the cities in line with the Western World. This means lifestyle choices change, the housing market changes, the job market changes and how people consume changes.

Unlike the Western World there is a move to trade up. In the UK we are trading down, going from premium brands to low cost brands. Companies like Li-Ning, who are China's premier sports brand, and JNBY, who design, make and market clothes in China, are beneficiaries of this change. In terms of car sales those priced above \$35,000 have seen increased sales, those below have seen them fall.

Chinese consumers are becoming more confident in Chinese brands. As they fill their houses with new goods they move to experiences, travel, education and sports. There has been a significant increase in online education. In terms of travel 150 million people travelled abroad, however, 5.5 billion travelled internally. This will change. Technology is being used in the travel industry and Beijing airport is expected to be the largest airport in the world, driven by technology including paperless luggage check in, facial immigration recognition etc.

Mobile payment is becoming a powerful tool online and offline. Tencent and Alibaba control 90% of the market and very little is done with cash. The growth of online groceries is interesting with real time deliveries responding to a changing consumer.

In summary, China is a major part of the global economy, as is Asia, and yet it represents a small part of the Global Index. This will likely change. In terms of innovation this is changing and although technology was borrowed in the past this is no longer the case.