

# A New Investment Landscape

China's pledge to further open its economy is set to bring more opportunities to foreign investors **By Yu Shujun**

The door to the world will be opened ever wider, with broadened market access, an improved investment environment, better protection of intellectual property rights, lower tariffs and expanded imports. The message sent by President Xi Jinping at the Boao Forum for Asia Annual Conference 2018 held in south China's Hainan Province from April 8 to 11 has reaffirmed global investors' confidence in China.

Despite rising protectionism, "globalization won't stop in China," said Albert Ng, professional services provider EY's Regional Managing Partner for Greater China, during a panel discussion on investment at the Penn Wharton China Summit 2018 held in the U.S. state of Pennsylvania in mid-April. "China will continue to play a key role in globalization," Ng said.

What cannot be overlooked is that foreign direct investment (FDI) in China has

stayed at a high level although its growth rates in recent years have been outshined by those of China's outward investment, Ng said.

FDI inflows into China reached a record high of \$144 billion in 2017, making it the world's second largest recipient of FDI after the U.S., according to a report released by the UN Conference on Trade and Development in January.

Meanwhile, the investment landscape in China is being reshaped while the primary engine of economic growth is shifting from exports and investment to consumption and innovation.

"China's global role has evolved from a low-cost manufacturer in 2000, to the world's growth engine in 2009 and now also an arguably global innovation engine," said Geoffrey Garrett, Dean of the Wharton School of the University of Pennsylvania, in his speech at the opening ceremony of the summit.

Innovation in China will leap forward and become the key driver over the coming years, said Ng. "The speed of innovation and of technological advancement in China will be something that might scare a lot of countries," he added. According to Ng, technological innovation is a key area for investment.

## Alluring market

China's previous focus was on agricultural industries before being known as the "world's factory," but according to Ng, in the future, everyone will have to look at China as being the "world's market," which means opportunities for both Chinese companies and foreign investors.

In the past, foreign companies manufactured in China and then exported all over the world. Today, it is different. Many foreign companies want to sell in China after manufacturing, Ng said. China has become "the world's largest market that nobody can omit."

In November, the China International Import Expo will be held in Shanghai with companies from all over the world invited to attend.

"Its first ever import expo is a key indication that the Chinese Government is confident that they will be able to attract a lot of foreign companies and that they really want to open up further to the outside world," Ng said.

China boasts the biggest market for electric vehicles, robotics, smartphones, mobile payments, outbound tourism, movie box office sales and online retail, as well as having the largest high-speed rail network, Yup S. Kim, Senior Portfolio Manager of Global Private Equity and Special Opportunities at the Alaska Permanent Fund Corp., said. "This is an incredibly important part of consumption around the world and is important as an investment destination."

Garrett described how China accounted for around 40 percent of worldwide investment in renewable energy in 2017. In the same year, more electric vehicles were sold in China than the rest of the world combined, and although having been in the high-speed rail business for only 10 years, there are more high-speed railways in the country than the rest of the world put together. Garrett predicted that artificial intelligence (AI) investment in China will be much higher than that in the U.S. over the next five years.

## Supportive government

Pete Walker, former Senior Partner at McKinsey, pointed out during a speech at the closing ceremony of the summit that the notion at the core of the Chinese model is a strong central government designed to serve the people. While talking about the government's role in the economy, Walker described the Chinese model as a classic example of the U.S. corporate structure: It has a chief executive and a board of directors, with highly talented people who rise through meritocratic processes, deploying five-year plans to get everybody onboard.

Ng said China is not looking at quantity but rather the quality and sustainability of its economic growth. Double digit growth figures will not be the target for many years to come. Stability and employment as well as the improvement of people's living standards are more important to the government.

Kim said in a world of increasing political division with volatility in Western and Latin American countries, among others, "having a unified party and a vision for the

next 10 to 20 years is a unique competitive advantage and means opportunities for private enterprises in China."

Kim believes that disruptive technologies such as AI, flying cars, autonomous vehicles, robotics and virtual reality require the government to have an innovative and supportive approach. "This is a critical factor to the attractiveness of the Chinese market today," Kim said.

China is now in a much better position to be able to cultivate and develop those innovative technologies, said Kim, explaining that in China, it takes around four years for a unicorn company—a private startup valued at \$1 billion or more—to emerge, compare to seven years in the U.S.

Ng also noted that entrepreneurship is being promoted by the Chinese Government, which will encourage more private investors. He said the local Chinese governments he has talked to at provincial and city-levels are all looking for ways to attract FDI, improve the investment environment and help foreign investors penetrate the Chinese market. "It is still the top agenda of many governments," Ng said.

## Manageable risks

Investing in China is not without its risks, said Kim. From a macroeconomic standpoint, existing over-leverage in the economic system, excess capacity in old industries and renminbi volatility in 2015 in the wake of an exchange rate regime revamp are among foreign investors' main concerns.

Moreover, increased competition from domestic Internet corporations such as the BAT (Baidu, Alibaba and Tencent), local renminbi funds, which represented over 90 percent of fundraising in the initial public offering (IPO) market last year, and foreign investors having a lot of funds have been driving the valuation of companies, which makes it difficult to make money at the point of entry.

The lack of a reliable exit path can also frustrate institutional investors. IPO is certainly one of the ways to exit, but there are currently large IPO backlogs.

Despite all these risks, as a long-term investor "we are still excited about investing in China in the next 10 to 30 years," Kim said. ■

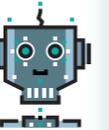


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## Investment Opportunities in China

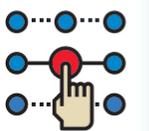
### Technological innovation

- Industrial robots
- Intelligent economy and AI industry
- Big data, cloud computing
- 5G



### Consumption upgrading

- Unstaffed retail
- Healthcare
- Education
- Leisure
- New energy



### Infrastructure

- Inter-city transportation
- High-speed railways
- Airports and communications hubs
- New economic zones



### Urbanization

- Infrastructure building
- Rural medical services and healthcare
- Financing and insurance
- Educational equality



### Manufacturing upgrading

- Made in China 2025 plan
- Process transformation, automation and informatization
- Shaking off labels of "copycat, cheap and low-end"
- Improving labor productivity

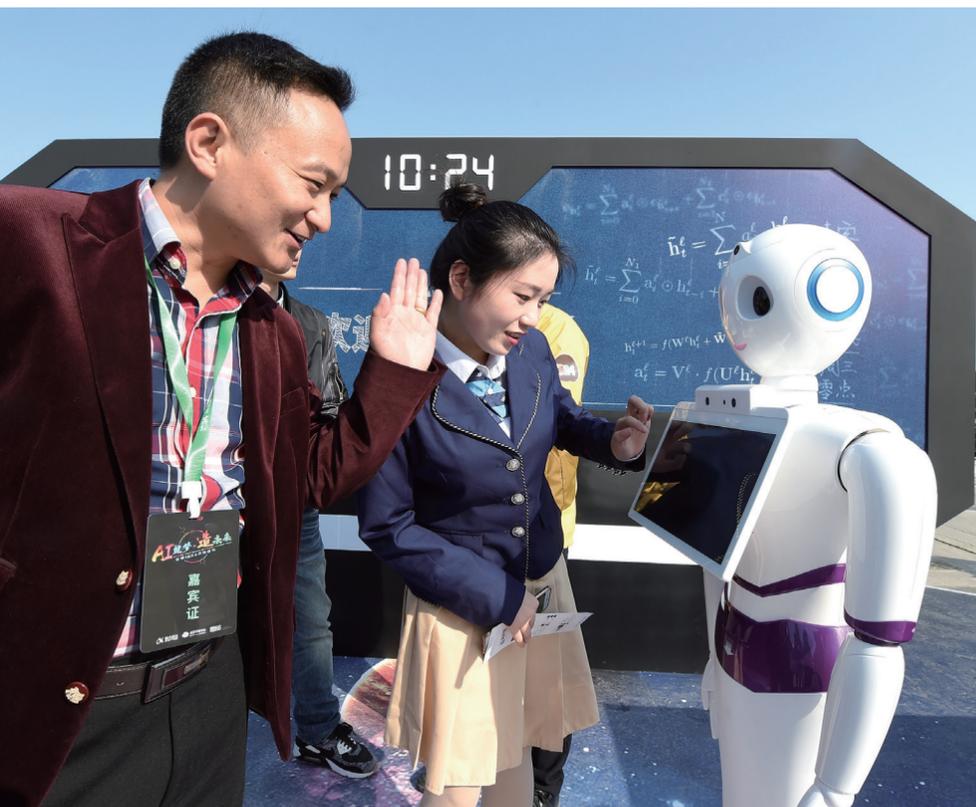


### Environmental protection

- Environmental science and technology
- Air, water and soil protection
- Nationwide carbon market



(Source: EY China; designed by Pamela Tobey)



Visitors interact with a robot at an exhibition in Hefei, Anhui Province, on October 24, 2017