UOB Asset Management
大華資產管理

Equity Market Commentary

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CHINA'S 12TH FIVE-YEAR PLAN

Summary

On 18th October, the Chinese Communist Party leaders concluded their annual four-day meeting in Beijing and issued a set of guidelines for China's 12th five-year plan over 2011-2015.

This is an important document since it sets out the economic and social targets for the country. Under the previous 11th five-year plan, the government had over-achieved on gross domestic product (GDP) growth, but underperformed on the social goals. For this reason, the new plan places renewed emphasis on the targets that were missed, as well as new goals to raise China's competitiveness and make it less vulnerable to external environment.

Positioning for sustainable growth

It is true that China may have achieved close to 10 per cent economic growth over the last decade thanks to its export-oriented and labour-intensive economic model. However, that model is clearly unsustainable since it has strained resources, resulted in environment pollution and created economic and social imbalances. For this reason, China will likely "de-emphasize" high economic growth, and instead raise focus on social goals over the next five years. Although there are concerns that the stock markets will react negatively to slower economic growth, we are more bullish on its prospects as the plan paves the way for balanced and sustainable growth. With the steps taken in the 12th five-year plan, China is also likely to emerge stronger and more competitive in the new global environment.

The new goals that China will embark on in the 12th five-year plan include:

1. Improving the social welfare and livelihood of the people.
2. Boost domestic consumption to accelerate the economic restructuring away from its traditional export oriented focus to one driven more by domestic demand.
3. Narrowing the differences between the western and coastal parts of China.
4. Improving energy efficiency and environmental protection.
5. Develop seven strategic key industries, and aim to increase their contribution to GDP from 2 per cent of GDP now to 8 per cent by 2015 and 15 per cent by 2020.

Opportunities and Strategy

The focus areas of China's 12th five-year plan will present a wide range of rewarding investment opportunities and we plan to position our funds accordingly.

We continue to be positive on the consumer sector, which will continue to see strong tailwinds from supportive government policies, minimum wages increases, and improved social welfare.

We also see good investment opportunities in the cement and infrastructure sector that will benefit from the accelerated development of the Western provinces and inland cities.

Low cost social housing has become a political priority. It is looked upon as a key solution to cooling off soaring property prices in tier-one cities that has become a potential economic and social time-bomb. Hence, we also seek to invest in selected material and construction companies that will benefit from the accelerated roll out of social housing projects.

With unfavourable demographics going forward, it has become even more pressing for China to raise productivity, develop home-grown technology and move up the value chain. In this regard, the State council has identified seven emerging strategic industries where China can be a potential global leader. The government said it will be pouring resources into them, and aims to increase their contribution to GDP from about 2 per cent of GDP now to 8 per cent by 2015 and 15 per cent by 2020.

1. New Energy – involves development of clean/alternative energy from Nuclear, Wind, Solar, and bio-fuel sources.
2. Energy conservation and environmental protection.
3. New materials – rare earth, alloys, membranes, and high-end semiconductors materials.
4. Biotechnology – drug/vaccine development, advanced medical equipment, promotion of biomedical research and development.
5. New generation of Information Technology – Build-out of broadband and mobile communication networks, internet security infrastructure, and artificial intelligence.
6. High-end equipment manufacturing – Aerospace, telecom and railway equipment, and marine equipment.
7. New Energy vehicles – Electric cars and plug-in hybrid cars.

We seek to invest in selected companies within these key industries.

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