Trump making China great again

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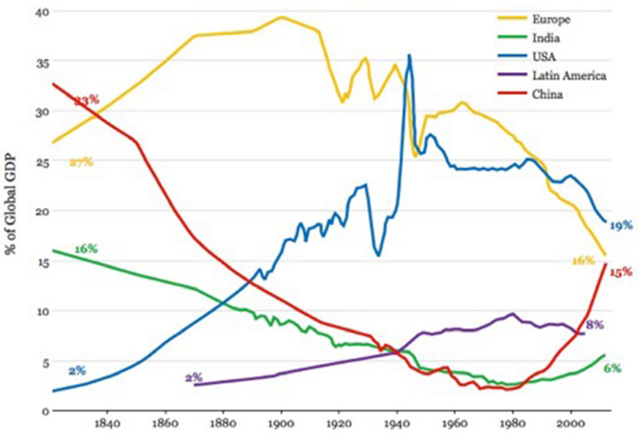
With each passing day, the US President seems determined to add to his growing list of political faux pas. Some commentators view this as deliberate, a strategy based on chaos rather than incompetence. Either way, China would be pleased.

Since November last year, the US has been disengaging from the world, withdrawing from the Paris climate accord and the Transpacific Trade Partnership (TPP). That left a global leadership hole into which China, the world's second largest economy, has quickly stepped.

In 1820, China was the world's largest economy, accounting for more than a third of global GDP. It is now returning to what many Chinese view as their rightful place at the top of the economic tree. The US retreat from global leadership is hastening this inevitability. It is China that is being made great again, not America. And this has big implications for Australian investors.

Percent of Global GDP: 1820 - 2012



Source: Angus Maddison, University of Groningen, OECD; GDP adjusted for PPP

Jin Yi'nan, a People's Liberation Army general, said in January that, "Trump has given us a grand gift, though he does not know it".[1] That gift is an open door into which China is pushing its Belt and Road initiative (BRI).

First proposed in 2013, BRI is President Xi's signature foreign policy, re-introduced with great fanfare at the New Silk Road summit in Beijing earlier this year. The BRI aims to connect the countries of Asia, Europe and Africa to each other through huge infrastructure projects, funded either in part or entirely by China.

Post-war US planners would be familiar with the objectives. In 1948, the US passed the Foreign Assistance Act, which became known as the Marshall Plan, a US$130bn program (in 2016 dollars) designed to help Europe rebuild after the war. It helped deliver political stability and a huge market for US export products.

China's program has similar ambitions. The BRI is a US$1 trillion investment in infrastructure projects to boost trade and improve transport logistics. Think of it as China's stamp on world leadership, an offer to countries that want to connect through trade and partnerships.

In today's money, the BRI is about seven times bigger than the Marshall Plan, giving substance to President Xi's claim in his Davos speech at the World Economic Forum earlier this year that China was now the champion of globalisation. For the Chinese, this is a multi-pronged strategy. As the US withdraws, China is pushing for more regional and bilateral trade agreements.

There is a concerted effort by the remaining 11 nations to push ahead with the Trans-Pacific Partnership (TPP) without the US. The TPP was President Obama's signature free trade deal for the Asia Pacific region. Now China, eager to cast itself as a defender of global free trade, is pushing ahead with the Regional Comprehensive Economic Partnership (RCEP), touted as an ex-US version of the TPP.

These moves point to a bigger fact. This will be Asia's century. With 4.5 billion people (60% of the world's population) the region will be the major driving force of global economic growth in coming years. With a rapidly expanding middle class, Asia's share of global consumption is growing quickly. According to a report by IHS Global Insight[2], intra-Asian trade is likely to grow at a faster pace than any other region.

The Chinese media have called it "globalisation 2.0"[3], the emergence of a new global economic world order that is pulling the locus of global power eastwards, away from Washington and towards Asia. For real estate portfolio managers like me, this is good news. More economic activity drives more demand for real estate, which is what China's BRI will achieve.

Unfortunately, Australian investors haven't got their heads around this scenario just yet. The 2017 ASX Australian Investor Survey4 shows that three quarters of share owners hold only Australian shares and only about 8% own shares purchased on an overseas exchange.

In the coming years I'd expect that figure to increase. Asia's huge population and rapidly growing wealth will make it an attractive destination for Australian investors.

So how can Australian investors take advantage of the US retreat from global leadership and the emergence of the Asian century?

One way is to adopt a low-risk strategy similar to that employed by APN's Asian REIT Fund. Our portfolio is focused on Asia's gateway cities of Hong Kong, Tokyo and Singapore, each of which appears in the top five in the Global Financial Centres Index, according to research firm Z/Yen. The income focus of the Fund also means it's currently delivering an attractive 6.57%[5] yield that is paid monthly. The Fund can even be purchased like a share on the ASX (via the mFund strategy).

The global shift in wealth to the east has meant that the land-locked hubs of Singapore and Hong Kong have office rents that are higher than Sydney or Melbourne, as well as some of the world's leading shopping centres. Tokyo, meanwhile, home to the world's biggest office market, enjoys a growing economy and is in the midst of a tourism boom. These cities are primed to benefit from Asia's resurgence (see Why we launched an Asian REIT Fund).

1. https://www.ft.com/content/d34d324c-03d8-11e7-ace0-1ce02ef0def9
2. http://www.globaltrademag.com/global-trade-daily/news/booming-ecommerce-sales-to-drive-intra-asia-trade-shipping-and-logistics-development
3. http://news.xinhuanet.com/english/2017-03/26/c_136158971.htm
4. http://www.asx.com.au/documents/resources/2017-asx-investor-study.pdf
5. As at 14 August 17 . Current running yield is calculated daily by dividing the annualised distribution rate by the latest entry unit price. Distributions may include a capital gains component. Distributions are not guaranteed and past performance is not an indicator of future returns.

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