INVESTMENT

CREDIT SUISSE 'CAUTIOUS' AMID CHINA REOPENING

Zurich bank overweight on mainland stocks and upbeat on outlook for investment performance although surges in Covid cases pose challenges

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Mainland investors are backing Beijing's reopening playbook even if their foreign counterparts appear to be unsure, according to Credit Suisse.

The Zurich-headquartered lender is overweight on mainland equities and believes this year's performance for investors should be better "relative to last year" and there are still plenty of pockets of opportunity.

"The overall message this year is one of cautious optimism," said John Woods, Asia-Pacific chief investment officer at the Swiss bank.

China is a staple market for the bank's Asia-Pacific clients, with pharmaceuticals, tourism and the internet sector among their top picks. High-yield bonds and investment-grade credit were among the bank's themes for the first half, Credit Suisse said.

As of September, the bank had 249 billion Swiss francs (HK$2.1 trillion) in assets under management in the Asia-Pacific, representing 17 per cent of its global portfolio of 1.4 trillion francs. Its Asia portfolio has grown from 221.3 billion francs at the end of 2020.

But foreign investors had yet to buy into China's reopening story owing to concerns about the impact of rapidly rising infection numbers on companies' growth and earnings, Woods said.

The mainland reopened its border with Hong Kong and the world on January 8 after almost three years, dropping strict quarantine requirements.

"While there's no right playbook to have effectively managed a Covid-19 outbreak, China's reopening was too chaotic," Woods said.

Credit Suisse believes it will take at least one quarter for business activity to normalise.

That said, China was the only major economy to expand this year and it was going to attract inflows from investors, Woods said.

Credit Suisse has forecast China's economy will grow by 4.5 per cent in 2023. This will be far greater than the United States and Europe, which will be hindered by a possible recession and higher inflation.

> **The reopening ... will have a positive effect on the city's economy and corporate earnings**
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> JOHN WOODS, CREDIT SUISSE

And while China's reopening was going to be a "no-brainer" for some investors, there would be challenges as authorities responded to surges in infections and reinfections, Woods said.

"China opening up will have a positive impact on tourism, travel, hospitality and entertainment, which will have a positive halo effect around other parts of Asia," he added.

In Hong Kong, for instance, the Hang Seng Index rallied to a six-month high on Monday as global funds picked up mainland stocks at their fastest pace in at least four years, signalling investors were betting on long-term gains in China.

According to Goldman Sachs, global fund managers bought 60.3 billion yuan (HK$70 billion) worth of onshore shares through the Stock Connect in the first two weeks of the new year, their biggest net buying since at least 2018.

Since Beijing abandoned its zero-Covid policy, some US$800 billion in market capitalisation has been added to stocks in Hong Kong and on the mainland, according to Bloomberg.

"The reopening will mean millions of tourists and visitors can enter Hong Kong, which will have a positive effect on the city's economy and corporate earnings," Woods said, adding investors were rallying behind big-name stocks.

Meanwhile, the pandemic led to a number of family offices relocating to Singapore. The city state ranks among the top five countries for wealthy investors, according to a report published by Henley & Partners last month.

The study shows the widening gap between Hong Kong and Singapore in their role as Asia's hub of choice for family offices.

But Woods said the movement of business between Hong Kong and Singapore had always occurred in cycles and investors would return. People might move to Singapore but they often came back and "oscillations between the two centres" would continue.

Hong Kong would "remain a gateway to China's markets", Woods said.

"As long as the renminbi remains non-convertible and Hong Kong has a convertible hard currency in the Hong Kong dollar, the city will have a very profound and robust future," he said.

John Woods believes China is the only major economy to expand this year. Photo: Jonathan Wong

ECONOMY

Workers at the Vinfast electric-car factory in Vietnam, which has been taking industrial development cues from China. Photo: Getty Images

Vietnam learns from Chinese growth

Nation takes note of neighbour's experience in industrialisation push

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Vietnam has been seen as one of the major beneficiaries of the US-China trade war with firms seeking alternative locations for their factories to avoid costly tariffs.

At a garment factory in Tay Ninh city, each step of the manufacturing process is manned by a group of young Vietnamese workers and a middle-aged Chinese supervisor.

The Vietnamese in their 20s are new to the craft and trained by the Chinese workers, who have about three decades of experience with heavy machinery at the same company's factory in Jiangxi.

The factory in Tay Ninh is owned by a Hong Kong company that requested anonymity, which has had two plants on the mainland since the 1980s and opened another in Vietnam in 2019 after the US-China trade war. Since then, a number of experienced Chinese workers from mainland factories have been stationed in Vietnam to train local workers.

According to factory manager Max Lee, the young Vietnamese workers' enthusiasm to absorb the expertise of the older Chinese colleagues has even made the language barrier between the two groups a non-issue.

"It's not that we teach the Vietnamese workers Chinese. They study it themselves so that they can learn better from the Chinese workers," Lee said.

Vietnam is taking note of China's successes and failures over the past five decades as it accelerates its own industrialisation and positions itself to take advantage of multinationals looking to diversify from the mainland.

While the Southeast Asian country has been taking industrial development cues from China, a critical ace up Vietnam's sleeve is its young workforce. Many foreign businesses are impressed by the ambition of the young Vietnamese population.

"The common question we get asked from potential employees in Vietnam is 'What can your company offer me for my personal development?' You will never hear this kind of question in Germany," said Marko Walde, head of the German Chamber of Commerce in Vietnam.

Still, improving workers' productivity and boosting innovation prowess will be crucial as the country looks to drive economic growth with hi-tech and greener development.

Quyen Nguyen, co-founder of the Vietnam Supply Chain Association, emphasised the importance of investing more to cultivate a skilled workforce.

"Innovation is everything. It starts with education as the future will need more engineers who can create new things than workers," Nguyen said.

"Then support programmes to incentivise companies to increase productivity with digital solutions will be needed."

Compared to China, Vietnam's population is just a tenth of the size, but it is younger.

In 2021, half of Vietnamese were under 35 years old. In China, 42 per cent of the population was under 35 in 2020. By 2040, 28 per cent of China's population will be aged 60 years or older, a looming ageing crisis that threatens to weigh on economic productivity.

The fertility rate in Vietnam was two births per woman in 2020, higher than 1.3 in China, according to the World Bank. In 2022, China's population declined for the first time in six decades and the birth rate fell to a record low.

China's elderly population will overtake its working-age population around 2080, according to researchers at the Shanghai Academy of Social Science. Decreases in the number of working-age people will lead to much lower economic growth and higher labour costs as the burden of elderly care grows.

But elsewhere, Vietnam and China are similar in terms of industrial development strategies, including the use of preferential tax systems and setting aside industrial zones to attract investors.

> **400**
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> **Number of industrial zones in Vietnam, compared with the more than 15,000 in China, which played a big role in the nation's economic success**

Industrial zones played a big role in the early stages of China's economic take-off, and the country has more than 15,000 industrial estates, which contribute more than half of the country's industrial output by value.

China's industrialisation model through industrial estates has been recognised as a success by the United Nations Industrial Development Organisation and its experience was consolidated into a comprehensive study in 2020 to be used as a guidebook for developing countries.

Like its bigger neighbour, Vietnam has used industrial zones to lure investment, especially in the hi-tech sectors of the economy. There are about 400 industrial estates concentrated in the north, central and south economic zones of the country.

But Vietnam is taking a greener and more balanced approach to growth and sustainability than China.

Many observers say Vietnam's emphasis on sustainable development is key to its long-term success, not only because it is good for the environment, but because meeting environmental, social and corporate governance standards is now critical for global firms.

"Things like green energy are not just a nice mindset. These are really necessary so that Vietnam remains an attractive investment location," Walde said.

"Vietnam signed some commitments in the free-trade agreement with the European Union regarding environmental protection, human rights and labour protection law. So in this regard, Vietnam is already in a better position than its neighbouring countries."

The Vietnamese government provides various incentives, such as exemptions on import duties and tax breaks on corporate income tax and land use, to investors that satisfy environmental protection regulations.

With China still grappling with the consequences of decades of breakneck development that left cities shrouded in smog and waterways polluted, some observers say it is important that Vietnam takes the right lessons from its neighbour.

"China suffered from the extravagance and the consequences of becoming a manufacturing unit of the world. Vietnam should be smart and select carefully whom they want to invest in their country," said Bruno Jaspaert, chief executive of one of Vietnam's biggest industrial estates, Deep C.

COMMENTARY - ZHU YUTING

Firms should adopt algorithms from system-level perspective

Algorithms are changing and shaping today's marketing activities. If you type "marketing" in Crunchbase, you will find that most marketing-focused start-ups include some algorithm components in their products or services.

Referring to any models or methods related to data processing, algorithms form the basis of artificial intelligence (AI). Companies have been working to adopt marketing algorithms and make data-driven marketing decisions for years.

According to NewVantage Partners' 2022 survey on data and AI leadership, though companies have made progress in adopting algorithms throughout the years, there are still widespread struggles in becoming a data-driven decision-making firm.

Many reasons, such as organisational culture or a lack of incentives, can contribute to this. People are creatures of habit, and it is much easier to stick with the status quo than adopt new ways of working. Another lesser-known reason is we treat, design and analyse algorithms at a task-level and not a system-level technology.

Take the sales and marketing departments, for example. You may see them at loggerheads, with the sales team complaining of the high prices set by the marketing team or marketers' little understanding of customer needs. On the other side, marketers may accuse salespeople of not working hard enough to clinch sales or focusing too much on short-term deals.

Perhaps because of the poor relations between marketing and sales, current commercial software usually separates the algorithmic function of each team. For example, the targeted email campaign algorithm designed for the marketing team may fail to consider implications for the sales team. On the other hand, algorithms designed to achieve quick sales may incorporate only data from the sales department instead of both sales and marketing data. In theory, the two teams can pursue joint objectives using rich data and powerful algorithms, but this must be done from a system-level perspective.

Researchers have realised this issue and are working towards a better understanding of system-level marketing algorithms. They can develop models and frameworks to analyse how various departments and customers interact with one another. With these insights, firms can better design their structure to facilitate AI adoption.

> **Though companies have made progress in adopting algorithms, there are still widespread struggles**

Above all, firms should ensure their technology push will not inadvertently discriminate against any group of people. Marketing algorithms offer personalisation, and there is the potential for algorithms to be unfair to certain groups. Sometimes, the bias can start from the data set the machine-learning model is fed.

In avoiding a community backlash on the unethical use of algorithms, leaders should consider the interests of their various stakeholders. Again, this requires an overall view of how different departments use and process information.

Algorithms are alluring, even more so when the firm as a system uses them well.

Zhu Yuting is assistant professor of marketing at the National University of Singapore Business School

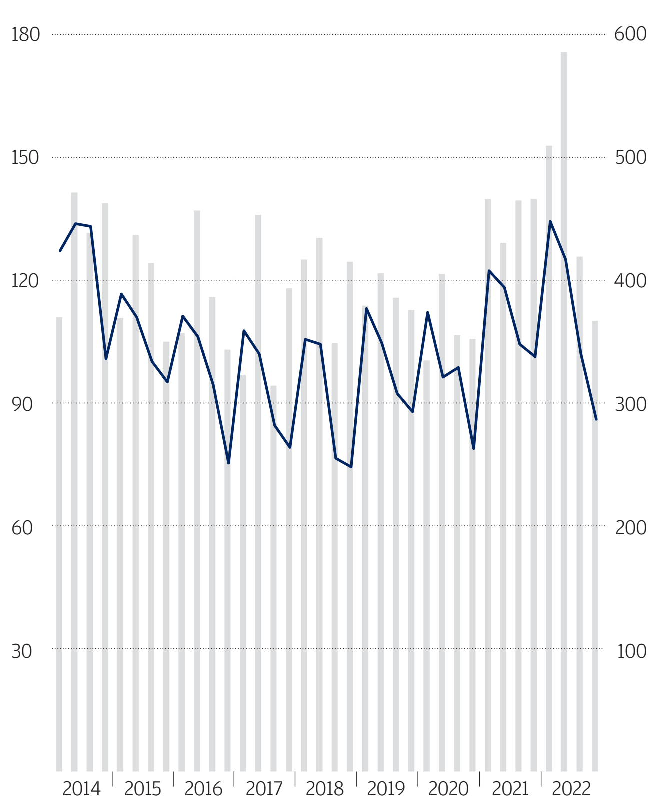
Loan Watch

Asia-Pacific, excluding Japan, mandated loan arrangers for 2022

Rank	Mandated arranger	(US$b)	Deals	Market share (%)
1	Bank of China	117.67	623	20.8
2	ANZ	20.57	159	3.6
3	HSBC	18.96	168	3.4
4	Bank of Taiwan	18.06	55	3.2
5	DBS Bank	18.06	164	3.2
6	Industrial and Commercial Bank of China	17.65	116	3.1
7	Sumitomo Mitsui Banking	15.69	163	2.8
8	China Construction Bank	14.94	127	2.7
9	MUFG Bank	14.13	126	2.5
10	Mizuho Bank	13.95	153	2.5
11	China Citic Bank	13.57	117	2.4
12	Bank of Communications	12.92	105	2.3
13	OCBC Bank	12.06	118	2.1
14	Standard Chartered Bank	10.8	106	1.9
15	Commonwealth Bank of Australia	10.74	97	1.9

All international currency, yuan and NT$ syndicated and club loans (including Australasia and excluding Japan) closing at the end of 2022

Loans in Asia-Pacific, excluding Japan



Note: Loan volume reached US$564.7 billion in 1,492 deals by the end of December 2022

Source: Refinitiv

Loan Watch appears every month

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