

Investment Idea

China's Technological Turning Point – Investing in Innovative Growth Areas in Emerging Economies

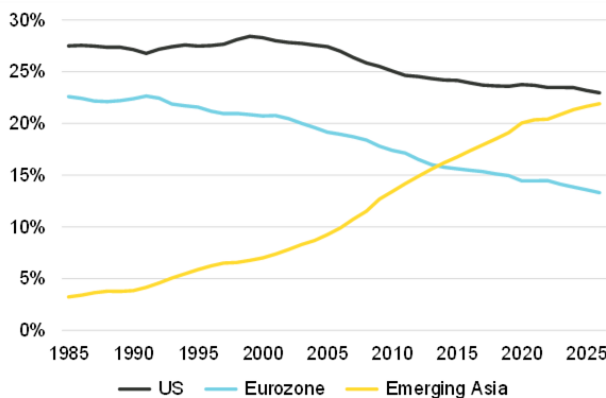
Summary

- Emerging Asia, led by China, is shifting the global economic order, overtaking the eurozone in terms of GDP share and closing in on the US in terms of innovation and growth.
- Massive R&D investments and government programs are strengthening China's technological independence, reducing its dependence on the US, and accelerating its rise in key technologies such as AI.
- The focus on the domestic market and political support is creating significant investment opportunities, particularly in China's technology and innovation ecosystem.
- Our solution focuses on the most relevant sub-themes and identifies the key beneficiaries in the China-dominated technology ecosystem.

A disruptor reshaping the global economic landscape

Asia is currently at the center of a profound global transformation. Over the past 30 years, emerging markets have become a mainstay of the global economy, with emerging Asia in particular gaining significantly in importance.

Figure 1: Global GDP of the US, Eurozone, and Emerging Asia



Source: Vontobel

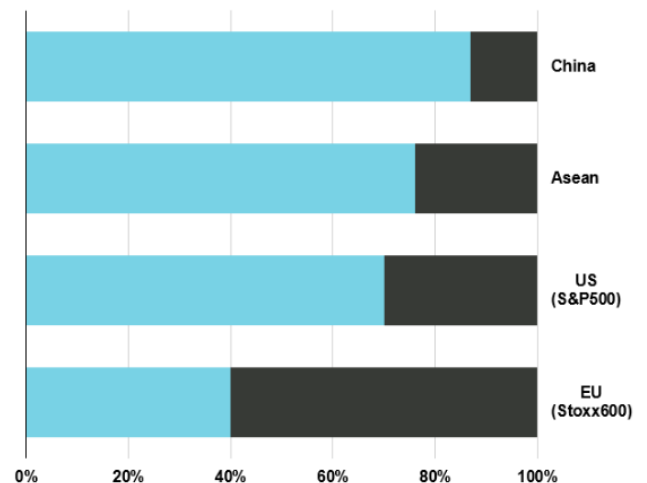
Asia's share of global gross domestic product now exceeds that of the eurozone and is increasingly approaching the level of the US. According to forecasts by the International Monetary Fund, the region's economic output is expected to rise to around USD 38 trillion by 2030—almost twice as much as a decade ago. China plays a key role in this: Asian companies account for over 80 percent of the MSCI Emerging Market Index, led by China, India, Taiwan, and South Korea. These

countries are driving technological innovation, digital services, and modern industries. Asia has long been more than just an emerging region—it is developing into a key disruptor of the global economic order.

China's rise: new trade flows and technological independence

China's trading power has grown rapidly in less than 20 years, making the country a key global economic partner. At the same time, China is increasingly shifting its role as a supplier to other emerging markets and gradually moving away from developed markets such as the US. Driven by government strategies for economic independence, technological leadership, and strengthening key industries, China is building its own value chains. External pressures—such as US efforts to reduce strategic dependencies and restrictions on key technologies such as artificial intelligence (AI)—are accelerating this change. At the same time, China is strengthening its domestic market, with domestic transactions dominating the economy. This profound transformation is creating new investment opportunities in China's domestic industries and markets.

Chart 2: Domestic vs. foreign revenue exposure of various indices



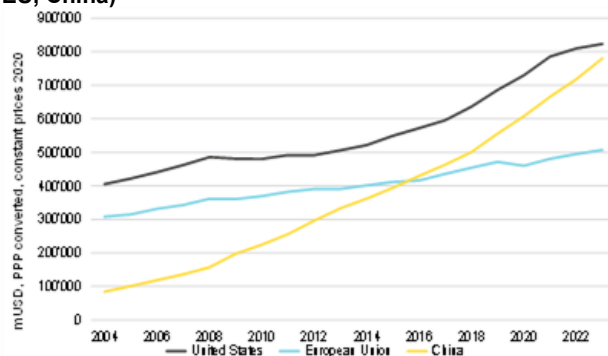
Source: Vontobel

Positioning as an innovation hub in the technology landscape

China is increasingly developing into an independent innovation hub within the global technology landscape. The aim is to take a leading role among emerging markets in key future technologies, thereby creating an alternative to the dominant US technology companies. This strategic orientation opens up additional diversification opportunities for investors in the technology sector.

The change is being supported by targeted political measures. The 15th Five-Year Plan marks the transition from an export-oriented production location to an innovation-driven economic model. The focus is on technological sovereignty, extensive investment in research and development, and the development of long-term competitiveness.

Figure 3: Expenditure on research and development (US, EU, China)



Source: OECD, ITIF, Stanford University, Vontobel.

Unlike the US, which often focuses on so-called "moonshot" projects, China takes a more pragmatic approach. The focus is on innovations with immediate economic benefits, the development of fully integrated technology ecosystems, and the strengthening of domestic demand. Continuously rising R&D spending is narrowing the technological gap with the US, while high investment in key technologies and energy infrastructure is further supporting structural change.

External constraints, particularly US restrictions in areas such as semiconductors and AI, are acting as accelerators. They are promoting the development of independent, integrated value chains and strengthening China's technological ecosystem in the long term. Overall, China is thus undergoing a structural transformation from a global manufacturing center to an innovation-based economic power.

China's own path in the AI race

China is taking a different approach to the global AI race than the US. While the US is primarily driving technological breakthroughs and so-called frontier models, China's focus is on the rapid operationalization and scaling of existing AI technologies. Innovations often originate in the US, but China's ability to implement them efficiently and make them widely available is increasingly shaping their practical application.

This approach is supported by structural conditions. A state-coordinated, regulated environment enables central data availability, promotes large-scale implementation, and accelerates the technological catch-up process. At the same time,

restrictions in chip supply act as efficiency drivers and favor pragmatic, application-oriented innovations.

Overall, an AI ecosystem is emerging that is less focused on technological excellence and more on broad use and economic integration. As a result, China is playing a central role in the global application of AI and is significantly influencing how it is used in everyday life and in the real economy.

Chinese technology as a strategic investment theme

Chinese technology offers investors attractive access to structural growth in a global technology landscape that is undergoing realignment. The realignment of international trade and supply chains, as well as US restrictions in key areas such as semiconductors and AI, are acting as innovation accelerators in China and promoting the development of an independent, highly efficient technology ecosystem.

At the same time, "China tech" offers an important diversification advantage. Given high valuations and a strong concentration of large-cap US hyperscalers, the Chinese technology universe provides access to alternative innovation paths with less dependence on Western market leaders.

In addition, the Chinese tech value chain offers a pool of opportunities that has been largely untapped to date. State-coordinated development reduces cannibalization, while political guidelines create planning security and support long-term investment and sustainable growth.

Conclusion

Emerging economies—particularly those in Asia, led by China—are shifting the global economic balance of power and increasingly catching up with the US in terms of innovation and growth. Extensive government R&D investment is strengthening Asia's technological independence and reducing its dependence on the US. At the same time, countries such as China are leveraging their centralized data structures and ability to implement quickly and at scale to take a leading role in AI. The investment solution invests in the most important sub-themes and identifies those companies that are likely to benefit most from this profound structural change.

Vontobel Rising Economies Disruptor Index

For investors who want to participate in this structural trend, the Vontobel Rising Economies Disruptor Index offers attractive long-term access. The strategy is based on four focus themes:

1. Fundamental technology (AI computing components)—40 percent

Fundamental technology is the essential component of an integrated technology cluster. This includes all technologies required for high-performance computing and AI—and which an independent China must develop in order to serve the rest of the value chain.

2. Intelligent automation (autonomous robotics) —15 percent

Intelligent automation refers to industrial applications in which China is already catching up with or surpassing Western technologies. The spectrum ranges from automation and key technologies such as batteries to autonomous systems.

3. Health technology (biotech, gene editing, digital health)—15 percent

Driven by an aging population, China is developing into a global biotech and pharmaceutical hub. AI-supported drug discovery and modern diagnostics have the potential to bring about lasting change in global healthcare.

4. Domestic consumers (fintech, AI assistance, XR and AI media)—30 percent

China is one of the leading countries in smart consumer technologies. Applications range from smart home solutions and VR to innovative financial technologies.

The index sponsor's selection process begins with a universe of around 4,000 liquid companies from emerging markets. Companies that can be clearly assigned to one of the four central investment themes—fundamental technology, intelligent automation, health technology, and domestic consumers—are then filtered out. This thematic classification is carried out using machine learning and sales analysis, reducing the universe to around 900 stocks. A quantitative screening process identifies the most attractive stocks, which are reviewed by the index sponsor and, if necessary, supplemented or adjusted on a discretionary basis. Finally, an index comprising up to 50 stocks is constructed, with weightings optimized and diversified across the four themes.

The index strategy covers around 18 percent of the MSCI Emerging Markets, but accounts for less than one percent of the MSCI World, thus offering access to companies that are hardly represented in traditional global indices. The focus is clearly on China, which accounts for the majority of the universe, followed by selected Asian markets. In terms of sectors, communications services, consumer technologies, industry, and healthcare dominate. These companies are key drivers of technological disruption in emerging economies—developments that are generally less relevant for traditional or broad emerging market indices. The four focus themes of the index strategy specifically capture the spread of digital and AI-based technologies and identify companies that can benefit early on from this transformation in their industries.

The index calculation agent is advised by the index sponsor on the composition of the index. The index sponsor is Vontobel Asset Management AG.

ISINs for Swiss Investors

CH1511986908 (CHF); CH1511986916 (EUR); CH1511986924 (USD); CH1511986932 (CNY)

ISINs for European Investors

DE000VJ1W2V6 (EUR); DE000VJ1W2W4 (USD)

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