What You Should Know This Week: CSOP's Weekly China Wrap Up

China's low-profile official makes rare public speech in front of CEOs of Apple, Google

Newly elected Politburo Standing Committee member Wang Huning made a rare public statement at the opening of the 4th World Internet Conference, hosted by China's internet regulatory body, Cyberspace Administration of China (CAC). At the conference, he iterated that while China will not close door to global internet, he emphasized the need for surveillance, particularly through multi-governmental cooperation. In response to this need, China announced an international Internet governance system with six other countries – Laos, Saudi Arabia, Serbia, Thailand, Turkey and the United Arab Emirates – for "multilateral, open and transparent" flow of digital information. Wang was joined at the conference by domestic and foreign technology industry leaders, including Apple's Tim Cook and Google's Sundar Pichai, marking yet another event attended by the industry's top American leadership.

Does this mean China Ready to open up its Internet doors?

"China stands ready to develop new rules and systems of internet governance to serve all parties and counteract current imbalances," stated Wang in his speech – but do not expect this to mean that China will be radically loosening its policies on cyber surveillance. While the announced multi-national governance system sounds promising, the participating countries are among some of the lowest ranking in terms of Internet freedom, according to advocacy group Freedom House. Regardless, the attendance of some of the top foreign technology industry leaders marked a continued demonstration of intent to open up the domestic market economically, if not in surveillance. Given less than two months have passed since President Xi met with Tim Cook, as well as Facebook's Mark Zuckerburg, the foreign leadership's presence at the conference was viewed as continued efforts by both China and foreign companies to establish a greater working relationship.

Canadian Prime Minister visits China to discuss further partnerships, potential trade agreement

Canadian Prime Minister Justin Trudeau met President Xi and Premier Li Keqiang in China, as part of his five day trip to the Asian nation. In the meetings, which Premier Li has heralded as the beginnings of a "golden era" of relations between the two countries, the head of states discussed several topics from energy cooperation to educational exchanges. Prime Minister Trudeau and President Xi also issued a joint statement on climate change and clean energy, which the former touted a foundation for closer cooperation. Despite the warm picture painted however, no news was announced of a bilateral free trade agreement, a highly anticipated development. President Xi stated through the state media that the two nations will need to build "political mutual trust" as a foundation for stable bilateral ties.

How likely is a bilateral trade agreement between the two countries?

A bilateral trade agreement was hotly anticipated, and the lack of news was a letdown to market watchers. Such an agreement would likely to be positive for both countries; Canada is in a position of renegotiating the North American Free Trade Agreement with the USA, its largest trade partner, while for China, it would mark the first bilateral trade agreement with a G7 nation. An agreement would also be politically symbolic for both countries, as China looks to build itself as a champion of free trade and globalization, while Canada also looks to be a more central player away from the USA. However, the two nations have long outstanding disagreements on topics like human rights and social ideologies, due to which a landmark bilateral trade agreement seems unlikely in the near future.

China backtracks on environmental protection pledge as harsh winter hits citizens first

The Ministry of Environmental Protection reportedly issued a "double urgent" letter to local governments to continue coal and other fuel usage to meet local needs, while power supply conversion to natural gas is ongoing. Many northern cities have been facing power shortages, with schools, hospitals and factories facing power supply cuts. The shortage is particularly aggravated by the extreme cold weather, with northern Chinese cities facing subzero temperatures as winter sets in.

What is the background of the pledge, and what's forcing the sudden U-turn?

As part of efforts to curb pollution and improve air quality, China's authorities have launched aggressive policies on environmental protection. Environmental protection was one of the key themes of President Xi's speech during the 19th National Congress as well, changing the dynamics of local government performance. Since the Congress, few initiatives were announced to increase investments into energy and infrastructure, particularly in rural areas. However, the reality is that infrastructure and domestic output is still nascent and lacking in China; the sudden backtrack in policy is a demonstration of this weakness. Nonetheless, it is an inevitable reaction to local outcries, with stories of children needing to run outside to avoid sitting in the cold classrooms and letters written by hospitals urging the government to allow for more fuel to save patients going viral domestically. Despite the recent developments, much more investments and time will be needed to build the infrastructure required to meet the needs of all of its population.

Index definition:

1. The FTSE China A50 Index is the benchmark for investors to access the China domestic market through A Shares – securities of companies incorporated in mainland China and traded by Chinese and institutional investors under the Qualified Foreign Institutional Investor and Renminbi Qualified Foreign Institutional Investor (QFII & RQFII) regulation. Note that one cannot invest directly in an index

2. The CHINEXT index is China's Nasdaq-like barometer of high-tech stocks. Note that one cannot invest directly in an index

3. The MSCI China Index captures large and mid-cap representation across China H shares, B shares, Red chips, P chips and foreign listings (e.g. ADRs). With 150 constituents, the index covers about 85% of this China equity universe. Note that one cannot invest directly in an index

4. Bloomberg's Global Aggregate + China Index combines the Global Aggregate Index with the treasury and policy bank component of the China Aggregate Index. The EM (Emerging Market) Local Currency Government + China Index combines the EM Local Currency Government Index and treasury component of the China Aggregate Index. Note that one cannot invest directly in an index

5. Citibank's World Government Bond Index (WGBI) measures the performance of fixed-rate, local currency, investment grade sovereign bonds. The JPMorgan Emerging Market Bond Index (EMBI) are a set of three bond indices that track bonds in emerging markets. Note that one cannot invest directly in an index

6. The Hang Seng China Enterprises Index is a free-float capitalization-weighted index comprised of H-Shares listed on the Hong Kong Stock Exchange and included in the Hang Seng Mainland Composite Index. Note that one cannot invest directly in an index

Institutions:

1. PBOC: People's Bank of China
2. SOE: State-owned enterprise
3. IMF: International Monetary Fund
4. CBRC: China Banking Regulatory Commission
5. CIRC: China Insurance Regulatory Commission
6. CSRC: China Securities Regulatory Commission
7. SAFE: State Administration for Foreign Exchange
8. ICBC: Industrial and Commercial Bank of China
9. EU: European Union
10. G20: An international forum for the governments and central bank governors from 20 major economies
11. G7: An international forum for the governments and central bank governors from 7 major economies
12. UAE: United Arab Emirates
13. SSE: Shanghai Stock Exchange
14. LSE: London Stock Exchange
15. AIIB: Asian Infrastructure Investment Bank
16. WTO: World Trade Organization

Currencies:

1. RMB: Renminbi, the national currency of China

2. USD: US Dollar, the national currency of the United States
3. GBP: Pound Sterling/Great British Pound, the national currency of the United Kingdom
4. JPY: Japanese Yen, the national currency of Japan
5. EUR: Euro, the official currency of the Eurozone
6. HKD: Hong Kong Dollar, the national currency of Hong Kong
7. USDCNH: Abbreviation for the US offshore Dollar/RMB currency pair

Others:

1. IPO: Initial public offering
2. SPO: Secondary Public Offering
3. MoM: month over month
4. YoY: Year over year
5. GDP: Gross Domestic Product
6. EM: Emerging Market
7. Bps: Basis points
8. FX: Foreign Exchange
8. OTC: Over-the-counter
9. GDP: Gross domestic product
10. ETF: Exchange-traded fund
11. FATCA: Foreign Account Tax Compliance Act
12. TPP: Trans-Pacific Partnership
13. SDR: Special Drawing Right, an international reserve asset
14. OBOR: One Belt, One Road
15. RCEP: Regional Comprehensive Economic Partnership