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

Top advisor to Xi pays a visit to the US amidst rising tensions

With rising tensions between the US and China on talks of a trade war, Liu He, the Harvard-educated economist and top adviser to President Xi, paid a visit to Washington, the second of such a visit by a top Chinese official in two months. Speaking to US Treasury Secretary Steven Mnuchin and National Economic Council director Gary Cohn, Liu emphasized the need to approach trade from a cooperative angle. Meanwhile, the US is looking to impose tariffs on aluminum imports from mainland China and Hong Kong, with Hong Kong's Secretary for Commerce and Economic Development Edward Yau Tang-wah publically slamming the proposed 23.6% tariffs targeting the region.

What are the implications?

A controversial topic both domestically and internationally, Trump's "easy to win" trade war has triggered protests from both foreign ministers to members of the White House. National Economic Council director Gary Cohn suggested he will resign if the tariff is passed, while many domestic advisors have argued that a tariff will likely hurt US exports more than foreign imports. Meanwhile, China emphasized its stance that while it is against a trade war, it will not be passive in protecting its interests. In the case of a full-blown trade war, China could impose restrictions or even bans on many large multi-national companies based in the US. With China one of the largest, if not the largest, market for many American companies, an aggressive move may hurt American interests before it can hurt others.

Hong Kong makes HKD 50 billion investment into technology and innovation in the city

Financial Secretary Paul Chan Mo-po signed off on a bill providing HKD 50 billion to support innovation and technology development this fiscal year. The Hong Kong Science Park received a large chunk of this budget – USD 5.1 billion – to develop innovations in the technology industry in Hong Kong, subject to a plan for fund allocation and strategy.

Currently more than 600 "start-up" firms are located in the park. However, to play a significant role in the global arena of high-tech and research, Hong Kong has to catch up and develop their ecosystem. Shenzhen is reportedly close to taking over Hong Kong in terms of GDP, with the neighboring Chinese city rapidly cementing itself as a hub for technology and innovation in China. Other regional cities such as Singapore and Tokyo are also in the race to lead the pack in the Asian region.

What are the implications?

By allocating more funds to the park, Hong Kong is striving to attract and keep talent in Hong Kong. Hong Kong is no longer the typical entry point to the mainland markets anymore, as more foreigners go directly to Mainland China to find partners. The investment comes as an opportunity for Hong Kong to influence more overseas talent to the island-city. Some critics argue however that investments are not enough – to succeed, the city must be more aggressive in their strategies, by reaching out to top research institutes to set up labs and providing competitive incentives. Having a community of research institutes will naturally attract investors and startups, creating a strong innovative eco-system for Hong Kong.

China's cyber laws scaring foreign firms, potentially into the arms of regional rivals

The American Chamber of Commerce in South China announced as part of their recent survey, that cyber security laws were one of the most concerning issues for foreign firms located in China. China introduced new cyber laws in June 2017, that require firms located in China to store their data in China and to provide full access to all business data to the government. Companies were instructed to provide technical support to security agencies to pass national security reviews. While the government has framed the initiative to put in best practices for cybersecurity, concerns from foreign firms have not been appeased. With foreign companies located in China making up 22% of China's GDP and 27% of employment in 2017, expect continued noise in the space.

What are the implications?

Some industry experts are calling for further opening and accommodation of foreign interests if China wants to maintain the investments. The rules have been very costly and have impacted how foreign firms execute business in China. According to Harley Seyedin, president of American Chamber of Commerce in South China, the new cyber laws have "created uncertainties within the investment community and its resulting in, at the minimum, postponement of some {research and development} investment". Furthermore, there is minimal guidance on how to adhere to the new laws, creating apprehension amongst foreign firms. With many Southeast Asian countries looking to attract foreign investments by providing more accommodating incentives, China is at risk of losing business from foreign firms.

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) is 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