ASIA PERSPECTIVE

Asia Perspective Economic Update Report

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China's Gross Domestic Product (GDP) grows at 6.8% in Q1.

The Chinese economy has displayed a solid start in the first quarter of 2018, with the Gross Domestic Product (GDP) reaching 19,878.3 billion CNY, according to data released by the National Bureau of Statistics of China. The economic growth was 6.8 % in the first quarter, showing a slight decline compared to the growth of 6.9 % in 2017. While the GDP growth rate slightly declined from last year, the performance in the first quarter is still better than the target set by the government at 6.5 % GDP growth annually. The Chinese GDP growth rate has kept a strong and stable pace within the range of 6.7 % to 6.9 % for eleven consecutive quarters.

The industrial production in the first quarter displayed stable figures where the total profits made by industrial enterprises reached 968.9 billion CNY, up by 16.1 % by year on year comparison.

The Chinese service industry continued to grow where the Index of Services Production increased by 8.1 % by year on year comparison. In particular, information transmission, software and information technology services, rental and business services displayed high growth rates in the first quarter.

The trade surplus narrowed substantially where official data shows the total value of exports was 3,538.9 billion CNY in Q1, up by 7.4 % and the total value of imports was 3,212.7 billion CNY, an increase of 11.7 %. The trade balance was 326.2 billion CNY in surplus with a decline of 21.8 % compared to the same period last year.

Due to the trade protectionism measures from the U.S. earlier this year, including threats of further tariffs against Chinese goods, some analysts addressed concerns of the Chinese economy cooling, particularly in regards of exporting.

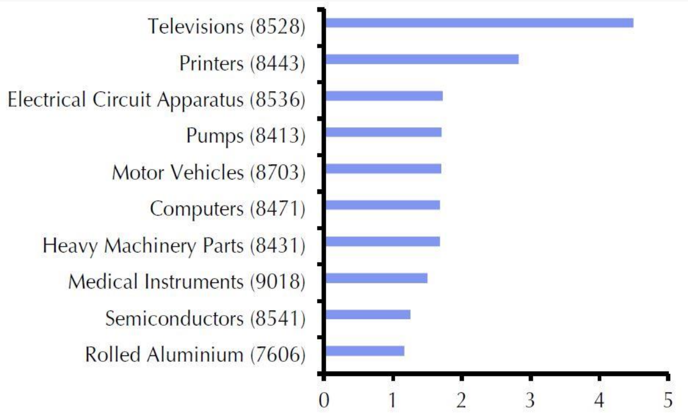
The Trade War Between China and the U.S.

In the economic world, one of the most eye-catching news occurred in March this year, when the potential of a trade battle between the world's two largest economies following years of trade tension, entered a perfervid stage.

On the 22nd of March, the president of the United States, Donald Trump, announced a plan to impose tariffs on Chinese products worth up to $60 billion. China immediately responded by imposing tariffs of $3 billion worth of American goods.

Given the globalized supply chains, the effect of a trade war of this scale would be distinctly felt by businesses globally, not to mention the unintended consequences on consumers. The stock market plunged in response of the potential trade war and experts claimed that the consequences of this battle would be increased import prices of Chinese goods, leading to higher living costs in the U.S.

The chart shows the value of the goods the U.S. imports from China subject to proposed tariffs (billion dollars, 2017).



Source: Capital Economics.

The imposed tariffs on China includes a wide range of imported goods from clothing and shoes to technology products. Many experts were of the opinion that China would actually suffer less than the U.S. Nevertheless, China expressed that the country is not willing to see a potential trade war develop between the two countries. However, China would meet a potential trade war with both "courage and confidence" if it was to occur. Besides from the tariff list proposed by the U.S., the U.S. further announced a ban on selling technology components to ZTE, one of the world's largest telecom equipment manufacturers.

Other countries influenced greatly by a potential U.S.-China trade war would be Mexico and Canada. Thailand, Taiwan, and Switzerland would also be among the nations severely damaged by a potential trade war.

The Former Treasury Secretary Henry Paulson publicly claimed that Trade War is in no one's interest and the World Trade Organization head also said the trade war between China and the US would have "a severe impact on the global economy".

China to open up its financial market

In April, China reaffirmed its commitment of continuing to opening up its financial market, in line with the set out long-term development goal. The latest reform policy aims at removing the current foreign ownership limits regarding the domestic banks.

At the Boao Forum for Asia held in Hainan Province of China earlier this year, the newly appointed officer of People's Bank of China, Yi Gang, unveiled a few of the upcoming measures of increasing the potential foreign equity stake in fund management and brokerage firms to a maximum of 51%.

At present, China has the world's second largest financial market, worth up to 33 trillion dollars in assets, undoubtedly attracting foreign investors.

However, since only minority shareholdings have been allowed for foreign firms, the influence on decisions has been limited. Thus, the restrictions of ownership in the financial sector have consistently been a barrier for foreign companies to invest in China during recent decades.

Boao Forum in Hainan Province of China

According to Yi Gang's speech delivered at the forum, there will be three major principles to follow.

The first is a "pre-establishment national treatment" principle, consisting of actions of preferable treatment for domestic firms, along with a negative list management. The negative list includes prohibited items of foreign firms set by the Chinese government according to the determined subject, scope and industry.

The second is to align the processes of opening up with the reform of the exchange-rate mechanism and capital account convertibility. The third is to prevent financial risks.

Through this new policy, foreign stakeholders will see wider market access and be able to have more opportunities to increase their presence in China, as the country increase its pace to liberalize the capital account and relieve burden of tax for businesses.

The continuing opening up of the financial sector is believed to assist in validating China's financial market and speeding up Chinese banks' global paths, despite an estimated increase in competition.

ASIA PERSPECTIVE

About Asia Perspective

Asia Perspective is an Independent Management Consultancy with global presence and local knowledge. We assist our clients with business advisory regarding Analysis, Strategy and Implementation. Our mission is to turn our clients' Asia business vision into reality and add significant value to your business.

We offer specialist services covering Supply Chain Management, Purchasing, Market Entry, and Financial Advisory. This includes market entry research and strategy sourcing and pricing strategy, M&A advisory, risk management, operational improvements etc.

What differentiates us from our competitors is the knowledge and expertise we have gained after several years in the Asian market. We have experience from a variety of industries and clients including leading international companies from Europe, the US and Asia.

With a highly collaborative team of problem solvers and a passion for excellence we will add value to your business. We work closely with our clients to create and deliver insight, advantage and real impact.

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