

Good MornING Asia - 11 April 2019

Keeping with their developed market counterparts, the balance of the central bank policy risks in Asia is shifting toward easing

In this bundle



Asia Morning Bites

ASEAN Morning Bytes

General market tone: Wait and see. Investors will likely stay defensive and monitor geopolitical developments ahead of China trade data later in the week



China

China's foreign investment law may end up hindering 5G tech development

The new Chinese foreign investment law has caught a lot of positive attention. But there is one clause that could turn international political risks into...



China

China: Relaxing residency restrictions positive for ageing economy

China has announced a new policy to relax some of the existing residency restrictions (hukou). In the long term, this will release a "new"...

ASEAN Morning Bytes

General market tone: Wait and see. Investors will likely stay defensive and monitor geopolitical developments ahead of China trade data later in the week



EM Space: Brexit deadline pushed back, trade talks continue

- **General Asia:** Keeping with their developed market counterparts, the balance of the central bank policy risks in Asia is shifting toward easing. The Fed minutes confirmed the shift to dovish policy bias and the US CPI data reinforced the same. The ECB President Draghi also maintained his dovish rhetoric, though the central bank had no details of new TLTRO. EU leaders offered an extension to the Brexit deadline to 31 October, though it could be potentially more destabilizing for the UK.
- **Malaysia:** February industrial production data is due today. A sharp fall in exports underlines our forecast of 1% YoY fall in IP as against the consensus of 2.2% growth (prior 3.2% growth). The combined January-February growth will have a good sense of 1Q19 GDP growth. Our forecast of a slowdown in GDP growth to 4.2% YoY in 1Q19 from 4.7% in 4Q18 remains on track. And so is our view of the Bank Negara Malaysia cutting its overnight policy rate by 25bp to 3.00% at the next meeting on 7 May.
- **Philippines:** The Philippines reports trade data for the month of February with market players expecting further struggles from the export side while imports are seen to have expanded at a moderate pace. The trade balance is also forecasted to remain in a

substantial deficit which should continue to validate our fundamental view for PHP weakening bias in the coming months.

What to look out for: China trade data

- Philippine trade (11 April)
- Malaysia industrial production (11 April)
- US PPI (11 April)
- Singapore GDP (12 April)
- China trade (12 April)
- US consumer sentiment (12 April)

China's foreign investment law may end up hindering 5G tech development

The new Chinese foreign investment law has caught a lot of positive attention. But there is one clause that could turn international political risks into...



Source: Shutterstock

The benefits of the foreign investment law

Last month, China passed a [new foreign investment law](#), which in principle means that foreign companies will receive the same treatment as their Chinese counterparts. The law will come into effect on 1 January 2020, and we think this is an attempt at appeasing the US during the ongoing trade negotiations.

So far, most media reports have focused on the benefits of the law which in theory should help foreign firms operating in China protect business secrets from 'forced' sharing requests from local governments. Another advantage is that foreign companies will have the same market entry, exit and operation standards as local Chinese companies.

However, there is a sector 'blacklist' for sectors that aren't open for foreign investment. For example, there is a complete ban on investing in fishing, gene research, religious education, news media, and television broadcasting. Additionally, only partial investment is allowed in oil and gas exploitation, nuclear power, airlines, airport operation, and public health, among other sectors.

But there is a clause that increases political risks

The law includes a clause that protects Chinese companies operating or investing in foreign countries. It says that if any country or region imposes discriminatory measures against China,

then China can take similar retaliatory actions. At first glance, this might seem irrelevant for foreign companies operating in China, but it really isn't.

For example, Huawei and ZTE are two of the biggest producers of 5G components in China and also export their products to the US and Europe. Both companies were sanctioned by the US during the trade talks. If Huawei's and ZTE's 5G products cannot be exported abroad, this could be interpreted as discrimination against Chinese products, and then China may retaliate.

Therefore, we see this political risk increasingly having the potential to turn into a business risk.

The trade war is really a tech war

The foreign investment law confirms our view that the trade war targets not only goods trade but also how China grows its technology sector and that this is really a technology war.

China and the US are now discussing cybersecurity and cloud computing in their trade negotiation and how these negotiations pan out will largely affect how Chinese firms will be treated when they sell high-tech products in the U.S.

As the US continues to advocate banning the use of China made 5G products, the enforcement of the foreign investment law could become a real risk to the progress of building a 5G network globally and to China's Made in China 2025 agenda.

China: Relaxing residency restrictions positive for ageing economy

China has announced a new policy to relax some of the existing residency restrictions (hukou). In the long term, this will release a "new"...



A busy road in Shanghai

New policy: Relaxing residency restrictions

Under China's residency system, citizens born in a rural city can only enjoy social benefits in that city alone. These benefits include education for children and family medical services. Even if citizens move to an urban city for work, the residency restrictions (hukou), in most cases, cannot be lifted, and hence these citizens can't enjoy the same social benefits.

The hukou policy has been relaxed slightly for a few years but there has been no significant reform. That's about to change.

On 8 April 2019, the government announced [a new policy](#) to remove the hukou restrictions in some cities.

No flood of labour in mega cities

[The policy](#) will remove residency restrictions completely for cities with a population of between one to three million (including citizens moved from rural cities). It will also relax some residency

restrictions for cities with a population of three to five million.

Following the [definition](#) set by the government, cities with a population of one to five million are considered "big", five to 10 million "very big" and over 10 million are "mega" cities.

With these population sizes in mind, we note that these cities are not the first-tier cities (i.e. not Beijing, Shanghai, Guangzhou and Shenzhen) and aren't even the second-tier cities. As a reference, Shanghai's population is 24 million. A city with a population of three million would be Qinhuangdao City, located in Hebei province.

The big cities have common characteristics; they are either manufacturing hubs with factories or are famous for cultural and scenic tourism. These characteristics make them potentially attractive to workers from rural areas.

The idea is to give social benefits to people in the cities where they work without flooding first-tier mega cities with extra workers.

A new workforce for mid-size cities

We believe that with this new policy, there will be more rural citizens moving to the big cities where they can enjoy more social benefits. This could create a new workforce for the manufacturing and tourism industry.

It's also positive for the ageing population. With better social benefits, younger people from rural cities can raise children in the places they live and work. This could encourage younger couples to raise more than one child, as living costs will fall.

"On 8 April 2019, the government announced a new policy to remove the 'hukou' restrictions in some cities....This is positive for the ageing population. "

This will lead to an upgrade of mega-cities

The policy could also encourage rural labour currently working in mega-cities to move to the big cities where they can get social benefits. Factories could then potentially relocate to chase the labour supply. This happened around 10 years ago when some factories in Shenzhen (then a low-end factory hub) moved to the inner area of the Mainland, and some moved to south-east Asia.

We believe that this policy is an attempt to repeat the Shenzhen story by relocating low- to mid-end factories in larger cities to mid-size cities. This would free up land in the larger cities to cater to higher value-add companies.

Short-term challenges

There are at least two short-term challenges.

1. The success of the policy relies on how many jobs are immediately available in the big cities that remove the residency restrictions. If factory relocations from larger cities to mid-size

- cities are slow then the policy impact will also be slow.
2. Housing prices and rentals in those cities will rise when more citizens move from the rural areas to the cities. The higher rental costs will offset some of the benefits created by the policy, making the policy less attractive.

Residency reform to continue

We recognise that this is a meaningful milestone in reforming the residency restriction (hukou) system. If successful, the policy will bring the rural workforce to manufacturing and tourism industries in the big cities, which goes some way to addressing the ageing workforce. But the reform progress is slow, this policy only relaxes residency requirements for cities with a population of between one to five million. There is still a long way to go before the hukou system is removed nationwide allowing full labour mobility within the country.

Disclaimer

This publication has been prepared by the Economic and Financial Analysis Division of ING Bank N.V. ("ING") solely for information purposes without regard to any particular user's investment objectives, financial situation, or means. *ING forms part of ING Group (being for this purpose ING Group N.V. and its subsidiary and affiliated companies).* The information in the publication is not an investment recommendation and it is not investment, legal or tax advice or an offer or solicitation to purchase or sell any financial instrument. Reasonable care has been taken to ensure that this publication is not untrue or misleading when published, but ING does not represent that it is accurate or complete. ING does not accept any liability for any direct, indirect or consequential loss arising from any use of this publication. Unless otherwise stated, any views, forecasts, or estimates are solely those of the author(s), as of the date of the publication and are subject to change without notice.

The distribution of this publication may be restricted by law or regulation in different jurisdictions and persons into whose possession this publication comes should inform themselves about, and observe, such restrictions.

Copyright and database rights protection exists in this report and it may not be reproduced, distributed or published by any person for any purpose without the prior express consent of ING. All rights are reserved. ING Bank N.V. is authorised by the Dutch Central Bank and supervised by the European Central Bank (ECB), the Dutch Central Bank (DNB) and the Dutch Authority for the Financial Markets (AFM). ING Bank N.V. is incorporated in the Netherlands (Trade Register no. 33031431 Amsterdam). In the United Kingdom this information is approved and/or communicated by ING Bank N.V., London Branch. ING Bank N.V., London Branch is authorised by the Prudential Regulation Authority and is subject to regulation by the Financial Conduct Authority and limited regulation by the Prudential Regulation Authority. ING Bank N.V., London branch is registered in England (Registration number BR000341) at 8-10 Moorgate, London EC2 6DA. For US Investors: Any person wishing to discuss this report or effect transactions in any security discussed herein should contact ING Financial Markets LLC, which is a member of the NYSE, FINRA and SIPC and part of ING, and which has accepted responsibility for the distribution of this report in the United States under applicable requirements.

Additional information is available on request. For more information about ING Group, please visit <http://www.ing.com>.