Good MornING Asia - 9 July 2021

Asian markets will likely edge lower on Friday as the focus has shifted back to growth concerns with the Delta variant threatening the global recovery

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Asia has recently made better progress on vaccinations as vaccines become more widely available. But there is still a long way to go

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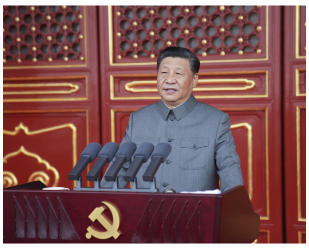

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China's centenary speech spells a long tech war ahead

The message from Xi Jinping's speech marking the 100th anniversary of the Chinese Communist Party is clear - he wants China to be a force to be...

ASEAN Morning Bytes

Asian markets likely to track pullback overnight

EM Space: Growth concerns return as Delta variant spreads

- **General Asia:** Asian markets will likely edge lower on Friday as the focus has shifted back to growth concerns with the Delta variant threatening the global recovery. Cases have been on the rise in most areas of the globe with some authorities mulling booster shots to improve efficacy against this particularly virulent strain of Covid. Data reports on Friday centre around China's inflation report while the Philippines releases data on May trade. Initial jobless claims were flat while the ECB release overnight gave scant new insights on ECB policy with investors likely to focus on Covid-19 developments in the near term.
- **Malaysia: L**ocal markets sold off yesterday as the dominant political ally in Prime Minister Muhyiddin Yassin's coalition withdrew its support for the government. However, the 1.4% fall of the KLSE Stock Index wasn't that bad a reaction in a broader emerging market risk-off environment yesterday, while the MYR's 0.5% depreciation also was muted. This may not signal the start of significant market re-pricing of political risk ahead, nor are political analysts predicting any snap polls imminently. However, it's fair to expect continued uncertainty in the months ahead weighing down the economy and markets. Without enough legislative support, the government will face greater difficulty in getting its key economic support policies underway, while the domestic Covid-19 situation continues to worsen (8,868 new cases yesterday were the second-highest and 135 deaths were the highest ever daily counts since the start of the pandemic). The BNM warned about continued downside growth risks ahead as it left monetary policy on hold yesterday. We

don't rule out a further upward revision to our end-2021 USD/MYR view of 4.22 even though we have just raised it from 4.12 (spot 4.18).

- **Philippines:** May trade data will be reported later on Friday with market participants expecting double-digit expansion for both imports and exports as base effects bloat growth rates. Exports are likely to pick up as shipments to both the US and China have been brisk due to improving economic conditions in those countries while inbound shipments are also expected to rise sharply as economic activity has picked up considerably from the pace in 2020 when most of the country was in hard lockdown. The trade balance is expected to slide deeper into deficit to roughly $2.7 bn, which may exert additional pressure on the PHP in the near term.
- **Indonesia:** Indonesia's consumer confidence hit 107.4 in June according to a central bank survey, the highest level since the pandemic. We however expect this recent improvement to reverse in the coming months as new Covid-19 infections continue to surge with Indonesia recording yet another new daily record for both infections and mortalities. The authorities have extended partial lockdown restrictions to the rest of the country while tightening restrictions further in areas of high infection. Surging cases and tighter lockdowns will likely weigh on consumer sentiment, overall economic activity and IDR in the near term.

What to look out for: China inflation and Covid-19 developments

- Philippines trade balance (9 July)
- China CPI inflation (9 July)
- US wholesale inventories (9 July)

Author

Nicholas Mapa
Senior Economist, Philippines
nicholas.antonio.mapa@asia.ing.com

Asia week ahead: 2Q21 report cards arrive

It's going to be an eventful week with the Asian economic calendar packed with 2Q GDP reports, lots of June activity data and central bank policy meetings

Source: Shutterstock

2Q GDP reporting begins

China and Singapore are among the first Asian countries to release their 2Q21 GDP reports next week (Vietnam was the very first to do so in late June). But remember, the year-on-year GDP growth rates will be distorted by what happened a year ago.

The post-Covid-19 recovery saw China's GDP growth accelerate to over 18% year-on-year in 1Q21 from a trough of -6.8% YoY in the same quarter a year ago. As such, ING's house view of a slowdown to 6.0% YoY in 2Q stems from the high base effect. In Singapore, the nadir came three months later than China and hence the peak in growth should come in 2Q this year (ING forecast 12.2% YoY vs. 1.3% in 1Q). However, these figures mask the Covid-19 spread recently.

Although both China and Singapore remain Asian success stories in keeping the pandemic under control, the latest bouts of infection and tightening of restrictions likely held back the recovery of both these economies. As an added blow for Singapore, the key GDP drivers of exports and manufacturing both lost some vigour in recent months, suggesting that a quarter-on-quarter GDP contraction is more likely than not.

June data rampage

The calendar is also packed with a raft of June activity data from around the region, which will help to fine-tune the 2Q GDP estimates for reporting countries.

China's June releases on industrial production, retail sales, investment and home prices may be overshadowed by the GDP report given that all these figures arrive concurrently on 15 June. India's June data dump is also scheduled next week with the inflation report likely taking centre stage after it jumped above the central bank's 6% policy limit in May and continued to accelerate in June. Also look out for India's trade report, which should show high global oil prices driving fuel imports and the overall trade deficit higher – not good news for the beleaguered Indian rupee.

The data pipeline elsewhere including jobs reports in Australia and Korea, New Zealand's 2Q inflation, and Malaysia's industrial production will shed light on the state of these economies during the ongoing pandemic.

Central bank policy meetings

Three of the Asian central banks – the Bank of Japan, the Bank of Korea and the Reserve Bank of New Zealand -- are set to review their monetary policy settings next week. We expect all of them to leave policies on hold.

The latest production figures from Japan and Korea revealed that, aside from electronics and info comms, most production sectors in these economies are suffering from both supply disruptions as well as weak demand (see Rob Carnell's note on this, "North Asian production softens in May"). And as we noted in this space last week, the brief period of inflation is behind us. Against such a backdrop, the regional central banks are nowhere near mulling a withdrawal of policy accommodation, in our view.

Asia Economic Calendar

Country	Time	Data/event	ING	Survey	Prev.
		Monday 12 July			
	-	Jun M2 Money Supply (YoY)	8.2	8.2	8.3
India	1400	Jun CPI Inflation (YoY%)	6.6		6.3
	1400	May Industrial Output (YoY%)	35.0		134.4
Malaysia	0600	May Industrial Output (YoY%)	21.0		50.1
		Tuesday 13 July			
China	-	Jun Exports	26.1		27.9
	-	Jun Imports	35.9		51.1
	-	Jun Trade Balance	40.0		45.5
South Korea	0100	Jun Unemployment Rate	3.8		3.8
		Wednesday 14 July			
New Zealand	0400	1 Cash Rate	0.25		0.25
India	0830	Jun WPI Inflation (YoY%)	12.0		12.9
Singapore	0200	Q2 GDP Flash (QoQ/YoY%)	-3.8/12.2		3.1/1.3
		Thursday 15 July			
Australia	0330	Jun Unemployment Rate	4.9		5.1
	0330	Jun Reserve Assets Total	-		65138.0
New Zealand	0030	Jun Manufacturing PMI	60.1		58.6
	0045	Q2 CPI (QoQ/YoY%)	0.7/2.7		0.8/1.5
China	0400	Jun Industrial Output (YoY%)	8.6		8.8
	0400	Jun Retail Sales (YoY%)	10.8		12.4
	0400	Q2 GDP (YoY%)	6.0		18.3
India	1330	Jun Trade Deficit Government - USD	9.4		9.4
	1330	Jun Imports - USD	96.0		41.9
	1330	Jun Exports - USD	47.0		32.5
Indonesia	0600	Jun Consumer Confidence Index	103.2		104.4
	0600	Jun Trade Balance (Bln of $)	2.7		2.4
	0600	Jun Exports Growth (YoY%)	46.9		58.8
	0600	Jun Imports Growth (YoY%)	38.6		68.7
South Korea	0300	Jul Bank of Korea Base Rate	0.5		0.5
		Friday 16 July			
Japan	-	1 JP BOJ Rate Decision	-0.1		-0.1
Singapore	0230	Jun Non-oil domestic exports (MoM/YoY%)	3.2/11.6		-0.1/8.8

Source: Refinitiv, ING, *GMT

Author

Olivia Grace
Editor
olivia.grace@ing.com

Julian Geib
Junior Economist, Global Trade
julian.geib@ing.de

Zoltán Homolya
Economic research trainee
zoltan.homolya@ing.com

Amrita Naik Nimbalkar
Junior Economist, Global Macro
amrita.naik.nimbalkar@ing.com

Mateusz Sutowicz
Senior Economist, Poland
mateusz.sutowicz@ing.pl

Alissa Lefebre
Economist
alissa.lefebre@ing.com

Deepali Bhargava
Regional Head of Research, Asia-Pacific
Deepali.Bhargava@ing.com

Ruben Dewitte
Economist
+32495364780
ruben.dewitte@ing.com

Kinga Havasi
Economic research trainee
kinga.havasi@ing.com

Marten van Garderen
Consumer Economist, Netherlands
marten.van.garderen@ing.com

David Havrlant
Chief Economist, Czech Republic
420 770 321 486
david.havrlant@ing.com

Sander Burgers
Senior Economist, Dutch Housing
sander.burgers@ing.com

Lynn Song
Chief Economist, Greater China
lynn.song@ing.com

Michiel Tukker
Senior UK & Eurozone Rates Strategist
michiel.tukker@ing.com

Michal Rubaszek
Senior Economist, Poland
michal.rubaszek@ing.pl

This is a test author

Stefan Posea
Economist, Romania
tiberiu-stefan.posea@ing.com

Marine Leleux
Sector Strategist, Financials
marine.leleux2@ing.com

Jesse Norcross
Senior Sector Strategist, Real Estate
jesse.norcross@ing.com

Teise Stellema
Research Assistant, Energy Transition
teise.stellema@ing.com

Diederik Stadig
Senior Economist, Healthcare & Technology
diederik.stadig@ing.com

Diogo Gouveia
Sector Economist
diogo.duarte.vieira.de.gouveia@ing.com

Marine Leleux
Sector Strategist, Financials
marine.leleux2@ing.com

Ewa Manthey
Commodities Strategist
ewa.manthey@ing.com

ING Analysts

James Wilson
EM Sovereign Strategist
James.wilson@ing.com

Sophie Smith
Digital Editor
sophie.smith@ing.com

Frantisek Taborsky
EMEA FX & FI Strategist
frantisek.taborsky@ing.com

Adam Antoniak

Senior Economist, Poland
adam.antoniak@ing.pl

Min Joo Kang
Senior Economist, South Korea and Japan
min.joo.kang@ing.com

Coco Zhang
ESG Research
coco.zhang@ing.com

Jan Frederik Slijkerman
Senior Sector Strategist, TMT
jan.frederik.slijkerman@ing.com

Katinka Jongkind
Senior Economist, Services and Leisure
Katinka.Jongkind@ing.com

Marina Le Blanc
Sector Strategist, Financials
Marina.Le.Blanc@ing.com

Samuel Abettan
Junior Economist
samuel.abettan@ing.com

Franziska Biehl
Senior Economist, Germany
Franziska.Marie.Biehl@ing.de

Rebecca Byrne
Deputy Global Head of Editorial and Supervisory Analyst
rebecca.byrne@ing.com

Mirjam Bani
Sector Economist, Commercial Real Estate & Public Sector (Netherlands)
mirjam.bani@ing.com

Timothy Rahill
Credit Strategist
timothy.rahill@ing.com

Leszek Kasek
Senior Economist, Poland
leszek.kasek@ing.pl

Antoine Bouvet

Head of European Rates Strategy
antoine.bouvet@ing.com

Jeroen van den Broek
Global Head of Sector Research
jeroen.van.den.broek@ing.com

Edse Dantuma
Senior Sector Economist, Industry and Healthcare
edse.dantuma@ing.com

Francesco Pesole
FX Strategist
francesco.pesole@ing.com

Rico Luman
Senior Sector Economist, Transport and Logistics
Rico.Luman@ing.com

Jurjen Witteveen
Sector Economist
jurjen.witteveen@ing.com

Dmitry Dolgin
Chief Economist, CIS
dmitry.dolgin@ing.de

Nicholas Mapa
Senior Economist, Philippines
nicholas.antonio.mapa@asia.ing.com

Egor Fedorov
Senior Credit Analyst
egor.fedorov@ing.com

Sebastian Franke
Consumer Economist
sebastian.franke@ing.de

Gerben Hieminga
Senior Sector Economist, Energy
gerben.hieminga@ing.com

Nadège Tillier
Head of Corporate Sector Strategy
nadege.tillier@ing.com

Charlotte de Montpellier

Senior Economist, France and Switzerland
charlotte.de.montpellier@ing.com

Laura Straeter
Behavioural Scientist
+31(0)611172684
laura.Straeter@ing.com

Valentin Tataru
Chief Economist, Romania
valentin.tataru@ing.com

James Smith
Developed Markets Economist, UK
james.smith@ing.com

Suvi Platerink Kosonen
Senior Sector Strategist, Financials
suvi.platerink-kosonen@ing.com

Thijs Geijer
Senior Sector Economist, Food & Agri
thijs.geijer@ing.com

Maurice van Sante
Senior Economist Construction & Team Lead Sectors
maurice.van.sante@ing.com

Marcel Klok
Senior Economist, Netherlands
marcel.klok@ing.com

Paolo Pizzoli
Senior Economist, Italy, Greece
paolo.pizzoli@ing.com

Marieke Blom
Chief Economist and Global Head of Research
marieke.blom@ing.com

Raoul Leering
Senior Macro Economist
raoul.leering@ing.com

Maarten Leen
Head of Global IFRS9 ME Scenarios
maarten.leen@ing.com

Maureen Schuller
Head of Financials Sector Strategy
Maureen.Schuller@ing.com

Warren Patterson
Head of Commodities Strategy
Warren.Patterson@ing.com

Rafal Benecki
Chief Economist, Poland
rafal.benecki@ing.pl

Philippe Ledent
Senior Economist, Belgium, Luxembourg
philippe.ledent@ing.com

Peter Virovacz
Senior Economist, Hungary
peter.virovacz@ing.com

Inga Fechner
Senior Economist, Global Trade
inga.fechner@ing.de

Dimitry Fleming
Senior Data Analyst, Netherlands
Dimitry.Fleming@ing.com

Ciprian Dascalu
Chief Economist, Romania
+40 31 406 8990
ciprian.dascalu@ing.com

Muhammet Mercan
Chief Economist, Turkey
muhammet.mercan@ingbank.com.tr

Iris Pang
Chief Economist, Greater China
iris.pang@asia.ing.com

Sophie Freeman
Writer, Group Research
+44 20 7767 6209
Sophie.Freeman@uk.ing.com

Padhraic Garvey, CFA
Regional Head of Research, Americas

padhraic.garvey@ing.com

James Knightley
Chief International Economist, US
james.knightley@ing.com

Tim Condon
Asia Chief Economist
+65 6232-6020

Martin van Vliet
Senior Interest Rate Strategist
+31 20 563 8801
martin.van.vliet@ing.com

Karol Pogorzelski
Senior Economist, Poland
Karol.Pogorzelski@ing.pl

Carsten Brzeski
Global Head of Macro
carsten.brzeski@ing.de

Viraj Patel
Foreign Exchange Strategist
+44 20 7767 6405
viraj.patel@ing.com

Owen Thomas
Global Head of Editorial Content
+44 (0) 207 767 5331
owen.thomas@ing.com

Bert Colijn
Chief Economist, Netherlands
bert.colijn@ing.com

Peter Vanden Houte
Chief Economist, Belgium, Luxembourg, Eurozone
peter.vandenhoute@ing.com

Benjamin Schroeder
Senior Rates Strategist
benjamin.schroder@ing.com

Chris Turner
Global Head of Markets and Regional Head of Research for UK & CEE
chris.turner@ing.com

Gustavo Rangel
Chief Economist, LATAM
+1 646 424 6464
gustavo.rangel@ing.com

Carlo Cocuzzo
Economist, Digital Finance
+44 20 7767 5306
carlo.cocuzzo@ing.com

Article | 8 July 2021

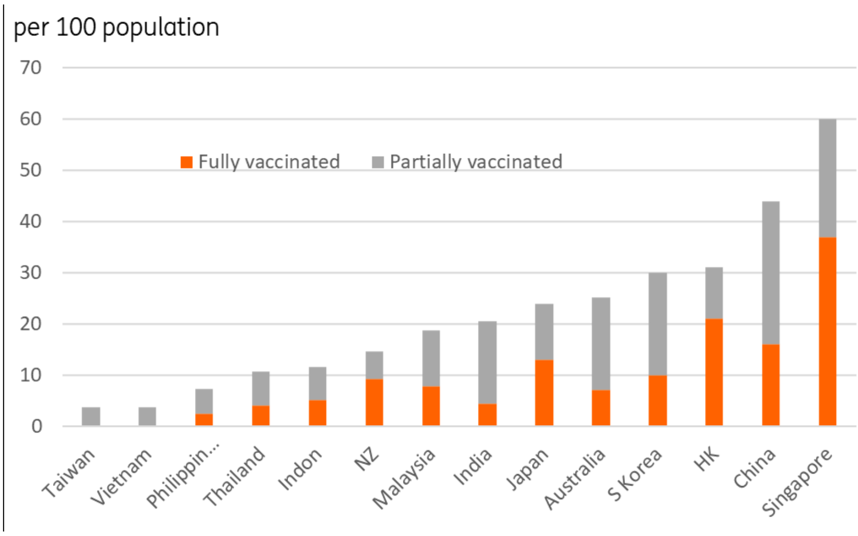
Asia: The race to vaccinate

Asia has recently made better progress on vaccinations as vaccines become more widely available. But there is still a long way to go

Source: Shutterstock

Newly arranged beds lie inside a Covid-19 treatment centre set up for emergencies in the wake of spike in the numbers of positive coronavirus cases in Mumbai, India

Asia vaccinations by dose (as of 4 July, 2021)



Source: Our World in Data

A month is a long time in epidemiology

Asia's slow vaccine rollout has been a constant refrain in these notes since the beginning of the year, but in the last month, there has been some improvement. Whether this is the result of a change in heart of governments, some of which were initially very particular about which vaccines they were willing to administer to their populations, or to greater physical access to scarce vaccines, or more likely, a bit of both, the numbers are beginning to look more encouraging.

One of the biggest improvements has been in China, which is relevant for the rest of the region since it is the largest market for exports locally. A more widely vaccinated China equates to a less risky Asian export outlook, which should be good news across the whole region.

But we have also seen some pick-up in the pace of some of the early laggards on vaccination. South Korea has now fully or partially vaccinated about 30% of its population, though that is still a weak outcome compared to 60% for Singapore and 44% for China (figures accurate as of 4 July). It looks weaker still compared to equivalent figures for the US (54.5%) or the UK (66.5%) or Germany (55.2%).

And though we have seen the pace of vaccination picking up, the numbers are still fairly unimpressive. Australia comes in the top half of the APAC league table, with only 25% of its population "jabbed" - and most of these only once. As we now know, one jab of most of the widely administered vaccines provides much less protection to some of these new variants, so there is a very long way to go, and herd immunity remains a distant goal. Australia, for example, is still prone to regional movement restrictions as cases sporadically flare up.

There is also still a large and unimpressive tail in this distribution with quite a few economies in the region still showing only about 10% or lower vaccination rates. Even India has only partially or fully vaccinated about 20% of its population, in spite of (or perhaps because of) its recent problems. And it is in this long tail, including Indonesia, Malaysia, the Philippines and Thailand that, unsurprisingly, we see most of the problems with Covid in Asia, which will weigh on the prospects for growth in the region.

As the sharp pick up in the relatively well-vaccinated UK demonstrates, no economy in Asia will be able to safely reopen, and growth will remain at risk until vaccination rates rise a lot higher.

Author

Olivia Grace
Editor
olivia.grace@ing.com

Julian Geib
Junior Economist, Global Trade
julian.geib@ing.de

Zoltán Homolya
Economic research trainee
zoltan.homolya@ing.com

Amrita Naik Nimbalkar
Junior Economist, Global Macro
amrita.naik.nimbalkar@ing.com

Mateusz Sutowicz
Senior Economist, Poland
mateusz.sutowicz@ing.pl

Alissa Lefebre
Economist
alissa.lefebre@ing.com

Deepali Bhargava
Regional Head of Research, Asia-Pacific
Deepali.Bhargava@ing.com

Ruben Dewitte
Economist
+32495364780
ruben.dewitte@ing.com

Kinga Havasi
Economic research trainee
kinga.havasi@ing.com

Marten van Garderen
Consumer Economist, Netherlands
marten.van.garderen@ing.com

David Havrlant
Chief Economist, Czech Republic
420 770 321 486
david.havrlant@ing.com

Sander Burgers
Senior Economist, Dutch Housing
sander.burgers@ing.com

Lynn Song
Chief Economist, Greater China
lynn.song@ing.com

Michiel Tukker
Senior UK & Eurozone Rates Strategist
michiel.tukker@ing.com

Michal Rubaszek
Senior Economist, Poland

michal.rubaszek@ing.pl

This is a test author

Stefan Posea
Economist, Romania
tiberiu-stefan.posea@ing.com

Marine Leleux
Sector Strategist, Financials
marine.leleux2@ing.com

Jesse Norcross
Senior Sector Strategist, Real Estate
jesse.norcross@ing.com

Teise Stellema
Research Assistant, Energy Transition
teise.stellema@ing.com

Diederik Stadig
Senior Economist, Healthcare & Technology
diederik.stadig@ing.com

Diogo Gouveia
Sector Economist
diogo.duarte.vieira.de.gouveia@ing.com

Marine Leleux
Sector Strategist, Financials
marine.leleux2@ing.com

Ewa Manthey
Commodities Strategist
ewa.manthey@ing.com

ING Analysts

James Wilson
EM Sovereign Strategist
James.wilson@ing.com

Sophie Smith
Digital Editor
sophie.smith@ing.com

Frantisek Taborsky
EMEA FX & FI Strategist
frantisek.taborsky@ing.com

Adam Antoniak
Senior Economist, Poland
adam.antoniak@ing.pl

Min Joo Kang
Senior Economist, South Korea and Japan
min.joo.kang@ing.com

Coco Zhang
ESG Research
coco.zhang@ing.com

Jan Frederik Slijkerman
Senior Sector Strategist, TMT
jan.frederik.slijkerman@ing.com

Katinka Jongkind
Senior Economist, Services and Leisure
Katinka.Jongkind@ing.com

Marina Le Blanc
Sector Strategist, Financials
Marina.Le.Blanc@ing.com

Samuel Abettan
Junior Economist
samuel.abettan@ing.com

Franziska Biehl
Senior Economist, Germany
Franziska.Marie.Biehl@ing.de

Rebecca Byrne
Deputy Global Head of Editorial and Supervisory Analyst
rebecca.byrne@ing.com

Mirjam Bani
Sector Economist, Commercial Real Estate & Public Sector (Netherlands)
mirjam.bani@ing.com

Timothy Rahill
Credit Strategist
timothy.rahill@ing.com

Leszek Kasek
Senior Economist, Poland
leszek.kasek@ing.pl

Antoine Bouvet
Head of European Rates Strategy
antoine.bouvet@ing.com

Jeroen van den Broek
Global Head of Sector Research
jeroen.van.den.broek@ing.com

Edse Dantuma
Senior Sector Economist, Industry and Healthcare
edse.dantuma@ing.com

Francesco Pesole
FX Strategist
francesco.pesole@ing.com

Rico Luman
Senior Sector Economist, Transport and Logistics
Rico.Luman@ing.com

Jurjen Witteveen
Sector Economist
jurjen.witteveen@ing.com

Dmitry Dolgin
Chief Economist, CIS
dmitry.dolgin@ing.de

Nicholas Mapa
Senior Economist, Philippines
nicholas.antonio.mapa@asia.ing.com

Egor Fedorov
Senior Credit Analyst
egor.fedorov@ing.com

Sebastian Franke
Consumer Economist
sebastian.franke@ing.de

Gerben Hieminga
Senior Sector Economist, Energy
gerben.hieminga@ing.com

Nadège Tillier
Head of Corporate Sector Strategy
nadege.tillier@ing.com

Charlotte de Montpellier
Senior Economist, France and Switzerland
charlotte.de.montpellier@ing.com

Laura Straeter
Behavioural Scientist
+31(0)611172684
laura.Straeter@ing.com

Valentin Tataru
Chief Economist, Romania
valentin.tataru@ing.com

James Smith
Developed Markets Economist, UK
james.smith@ing.com

Suvi Platerink Kosonen
Senior Sector Strategist, Financials
suvi.platerink-kosonen@ing.com

Thijs Geijer
Senior Sector Economist, Food & Agri
thijs.geijer@ing.com

Maurice van Sante
Senior Economist Construction & Team Lead Sectors
maurice.van.sante@ing.com

Marcel Klok
Senior Economist, Netherlands
marcel.klok@ing.com

Paolo Pizzoli
Senior Economist, Italy, Greece
paolo.pizzoli@ing.com

Marieke Blom
Chief Economist and Global Head of Research
marieke.blom@ing.com

Raoul Leering
Senior Macro Economist
raoul.leering@ing.com

Maarten Leen
Head of Global IFRS9 ME Scenarios
maarten.leen@ing.com

Maureen Schuller
Head of Financials Sector Strategy
Maureen.Schuller@ing.com

Warren Patterson
Head of Commodities Strategy
Warren.Patterson@ing.com

Rafal Benecki
Chief Economist, Poland
rafal.benecki@ing.pl

Philippe Ledent
Senior Economist, Belgium, Luxembourg
philippe.ledent@ing.com

Peter Virovacz
Senior Economist, Hungary
peter.virovacz@ing.com

Inga Fechner
Senior Economist, Global Trade
inga.fechner@ing.de

Dimitry Fleming
Senior Data Analyst, Netherlands
Dimitry.Fleming@ing.com

Ciprian Dascalu
Chief Economist, Romania
+40 31 406 8990
ciprian.dascalu@ing.com

Muhammet Mercan
Chief Economist, Turkey
muhammet.mercan@ingbank.com.tr

Iris Pang
Chief Economist, Greater China
iris.pang@asia.ing.com

Sophie Freeman
Writer, Group Research
+44 20 7767 6209

Sophie.Freeman@uk.ing.com

Padhraic Garvey, CFA
Regional Head of Research, Americas
padhraic.garvey@ing.com

James Knightley
Chief International Economist, US
james.knightley@ing.com

Tim Condon
Asia Chief Economist
+65 6232-6020

Martin van Vliet
Senior Interest Rate Strategist
+31 20 563 8801
martin.van.vliet@ing.com

Karol Pogorzelski
Senior Economist, Poland
Karol.Pogorzelski@ing.pl

Carsten Brzeski
Global Head of Macro
carsten.brzeski@ing.de

Viraj Patel
Foreign Exchange Strategist
+44 20 7767 6405
viraj.patel@ing.com

Owen Thomas
Global Head of Editorial Content
+44 (0) 207 767 5331
owen.thomas@ing.com

Bert Colijn
Chief Economist, Netherlands
bert.colijn@ing.com

Peter Vanden Houte
Chief Economist, Belgium, Luxembourg, Eurozone
peter.vandenhoute@ing.com

Benjamin Schroeder
Senior Rates Strategist
benjamin.schroder@ing.com

Chris Turner
Global Head of Markets and Regional Head of Research for UK & CEE
chris.turner@ing.com

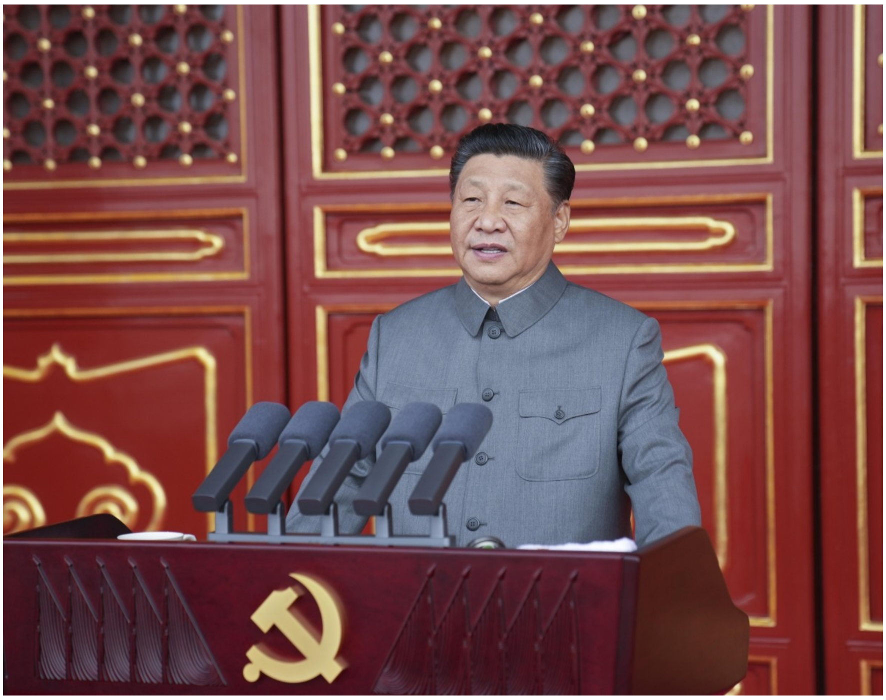
Gustavo Rangel
Chief Economist, LATAM
+1 646 424 6464
gustavo.rangel@ing.com

Carlo Cocuzzo
Economist, Digital Finance
+44 20 7767 5306
carlo.cocuzzo@ing.com

Article | 8 July 2021 **China**

China’s centenary speech spells a long tech war ahead

The message from Xi Jinping's speech marking the 100th anniversary of the Chinese Communist Party is clear - he wants China to be a force to be reckoned with, and we think this paves the way for a long and arduous tech war



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China Beijing Cpc Centenary Grand Gathering Xi Jinping Speech

Xi's message to the world

China's President Xi Jinping's hour-long speech marking the centenary of the ruling Communist Party last week was remarkable in many ways.

His comments against foreign rivals and the fact that Beijing would not allow "sanctimonious preaching" suggest China's stance is unlikely to soften when pressured by the US and its allies. Xi's comments seem to be directed both at Chinese nationals and foreign economies.

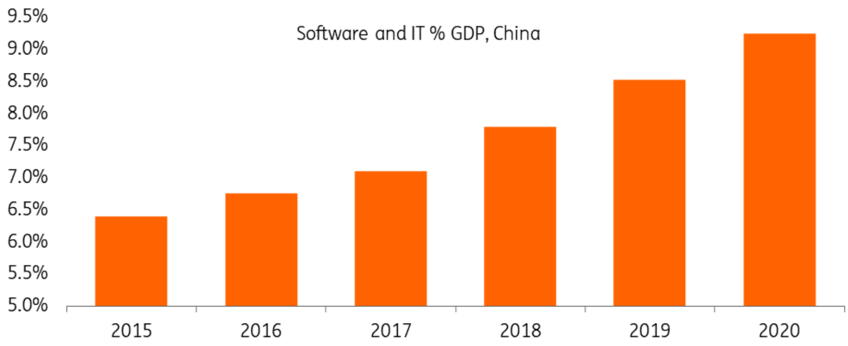
The tech war just became a lot more serious

Although the speech contained little information on new initiatives and policy objectives, it is worth noting that just before the speech, Liu He, Xi's economic czar was appointed to lead the development of chip technology. Liu was also the lead in the China-US trade negotiations in 2018 and has developed a reputation as a man for dealing with difficult tasks.

Alongside that, in early June, China also passed the Anti-Foreign Sanctions Law which allows the country to impose reciprocal sanctions on countries, companies or individuals in foreign countries. But so far, these sanctions have been limited to technology and its military use.

Putting all of this together, it would be rational to conclude that China is determined to wage a serious technology war against the US and its allies.

IT as a percentage of GDP in China



Source: CEIC, ING

Policy implications

Cleaning up industry is only the start. The most eye-catching policies so far include spinning off fintechs from technology giants' basic apps (be it a shopping app or a messaging app) and focusing on data privacy.

The first policy is to prevent a financial crisis while the second has policy implications for foreign companies operating in China. By compelling local companies to comply with data privacy rules, foreign companies in China will have to do the same.

Going forward, we expect to see more policies to support the development of advanced technology in all areas, including semiconductor chips, big data centres, ESG and artificial intelligence. All of this needs money and Liu's appointment means there should be plenty of it. Some projects may attract foreign investment, which means capital inflows and technical support for Chinese companies. In turn, China will offer its gargantuan market.

The final question is speed. With other countries advancing their own technology, it's not clear when or even if China will win the tech race. What we do know is that this investment will count towards GDP, providing the economy with the much needed extra support.

Author

Iris Pang
Chief Economist, Greater China
iris.pang@asia.ing.com

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