Economic Research
25 March 2019

Week Ahead Asia-Pacific Economic Preview

- **Industrial production updates for Japan, South Korea, Singapore, Vietnam and Taiwan**
- **US and UK GDP updates**
- **UK Brexit remains key FX wildcard**

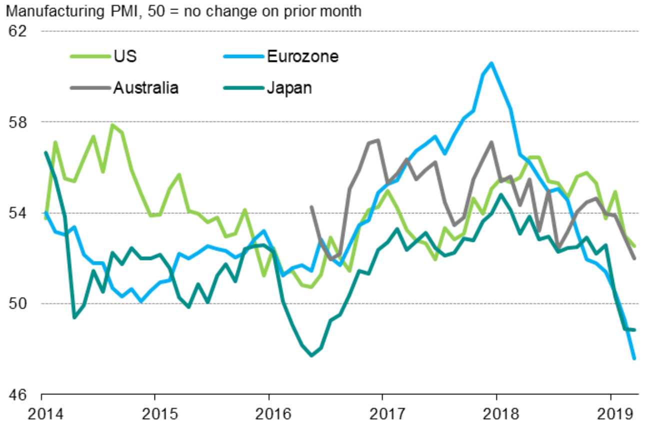
Markets will be looking for signs of support having been rattled by weaker than anticipated PMI surveys last week. The surveys showed accelerating manufacturing downturns in the US, Eurozone and Japan. The weak data suggest that trade wars worries, slower growth in China and rising political uncertainty continued to exert an increasingly heavy toll on business activity and global export volumes.

Key data releases which will add colour to the overall assessment of the health of the manufacturing sector include various industrial production and trade updates in Asia. Especially important will be releases on manufacturing output from Japan, South Korea, Singapore, Vietnam and Taiwan. The PMI surveys suggest all have the potential to disappoint, particularly given continued weakness in global electronics orders. International trade data for Vietnam, Hong Kong and the US will meanwhile add to the global trade picture.

Elsewhere, GDP updates will be scoured for further clues of growth in the US, UK, Spain, the Netherlands, and Vietnam. US fourth quarter GDP growth may be revised down very slightly from 2.6% to 2.5% according to consensus expectations. Other data releases for the US include house prices, housing starts and sales, as well as regional business surveys. The US data will be in particular focus after the Fed recently adopted a more dovish stance, taking rate hikes off the 'dot charts' for the rest of 2019.

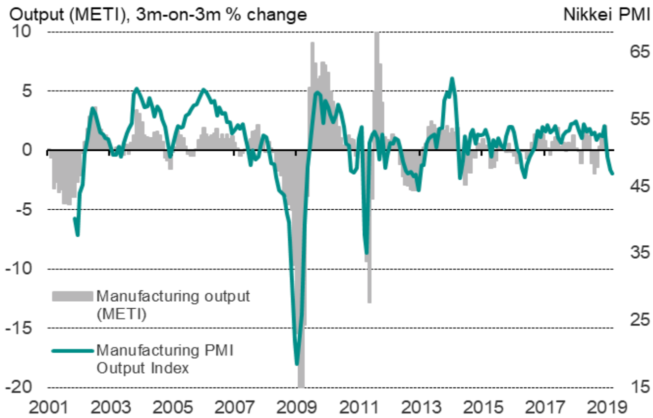
In currency markets, Brexit remains a major uncertainty for the British pound and the week could see further FX volatility. After a planned vote on the current UK-EU Withdrawal Agreement was blocked last week, the government will likely seek a third attempt at pushing the deal through in coming days. The vote is widely anticipated to once again fail, adding to speculation that the UK could leave without a deal or that new initiatives could be discussed, or even that Prime Minister Teresa May could resign. In other words, anything could happen.

Flash Manufacturing PMI



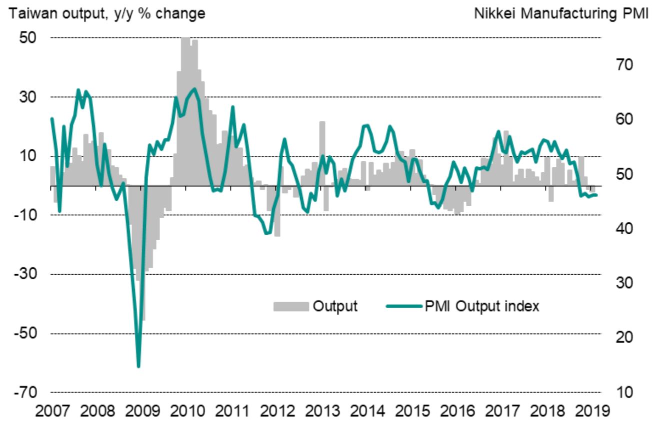
Sources: IHS Markit, JPMorgan, Caixin, Nikkei, Datastream.

Japan manufacturing output



Sources: IHS Markit, Nikkei, METI.

Taiwan manufacturing output



Sources: IHS Markit, Nikkei, Datastream.

Key diary events

Monday 25 March

Singapore inflation (Feb)

Taiwan industrial production, retail sales (Feb)

Germany IFO surveys (Mar)

US Chicago Fed national activity index (Feb), Dallas Fed manufacturing index (Mar)

Tuesday 26 March

Thailand manufacturing production (Feb)

BoJ Summary of Opinions (14-15 Mar)

Singapore industrial output (Feb)

Hong Kong trade (Feb)

Germany consumer confidence (Apr)

Netherlands GDP (final, Q4)

France GDP (final Q4)

UK finance mortgage approvals (Feb)

US house price index, Case-Shiller home price (Jan), housing starts, building permits (Feb), Richmond Fed (Mar)

Wednesday 27 March

China industrial profits (YTD, Jan-Feb)

US trade (Jan), current account (Q4)

Canada trade (Jan)

Mexico trade (Jan)

Thursday 28 March

UK nationwide house prices (Mar)

Germany inflation (prelim, Mar)

Spain inflation (prelim, Mar)

Euro area business confidence, consumer confidence (Mar)

Eurozone money supply and loan growth (Feb)

Mexico policy rate decision

US GDP. PCE prices (final, Q4)

US pending home sales (Feb)

Friday 29 March

South Korea manufacturing production, retail sales (Feb)

Japan jobless rate, retail sales (Feb), industrial output (prelim, Feb)

Australia private sector credit (Feb)

UK consumer confidence (Mar)

Vietnam GDP (Q1), industrial output, trade, inflation (Mar)

Japan construction orders, housing starts (Feb)

Thailand current account, private consumption and investment (Feb)

Germany retail sales (Feb), unemployment rate (Mar)

France inflation (prelim, Mar)

Spain GDP (final, Q4)

UK GDP, business investment (final, Q4), mortgage lending and approval (Feb)

US personal spending (Jan), personal income (Feb)

US PCE price index (Jan, Feb), new home sales (Feb), Chicago PMI (Mar)

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ASIA
Special Focus

China's New Foreign Investment Law: Assessing the Economic Impact

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On 15th March 2019, China's National People's Congress passed a new foreign investment law to improve the business climate for foreign firms. The new law will help to strengthen protection of intellectual property rights for foreign firms in China, banning forced technology transfers as well as improving market access for foreign firms to bid for Chinese government procurement tenders. The new law will take effect from 1st January 2020.

Accelerated Legislative Process

Although there have been proposals for new legislation relating to the foreign investment that have been under discussion for several years, these previous initiatives had met with hurdles. However, the latest process of legislating this new foreign investment law has been relatively rapid, taking place within just a few months. This rapid timeframe likely reflects the objective of passing these new regulations as part of broader reforms to improve market access against the backdrop of US-China bilateral trade negotiations to end their bilateral trade war.

While the new legislation is relatively general in terms of its contents, it is expected to provide a roadmap for more detailed reforms that will be rolled out through various Chinese government directives over the remainder of 2019 ahead of the new law coming into force. Following the passage of the new legislation, Premier Li Keqiang has stated in a press conference that the State Council will introduce a series of matching regulations and directives to protect the rights and interests of foreign investors, such as on working mechanisms for handling complaints filed by foreign-invested enterprises.

A negative list of sectors will also be defined where such a level playing field treatment for foreign firms will not be offered.

The new legislation will replace three previous laws, namely the Wholly Foreign-Owned Foreign Enterprises Law, the Sino-Foreign Contractual Joint Ventures Law and the Sino Foreign Equity Joint Ventures Law.

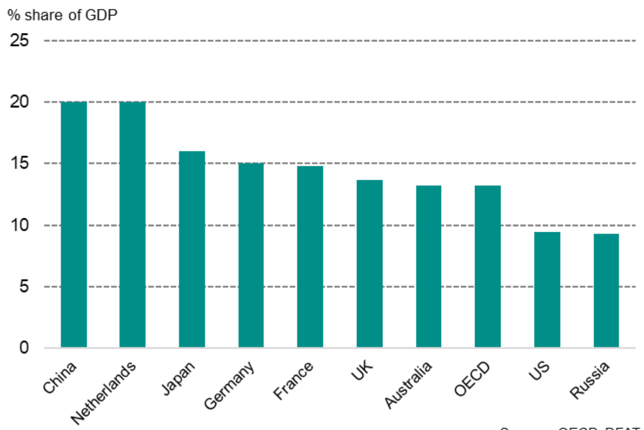
Levelling the Playing Field

A key objective of the new legislation is to address criticism of the existing Chinese regulatory environment by foreign multinationals operating in China. Important concerns among foreign firms operating in China, particularly through joint ventures with local partners, had been relating to inadequate legal protection of intellectual property rights as well as forced technology transfer.

Forced technology transfer imposed on foreign firms operating in China was a key aspect highlighted by the United States Trade Representative's (USTR) investigation into China's Acts, Policies, and Practices related to Technology Transfer, Intellectual Property, and Innovation under Section 301 of the Trade Act of 1974. The results of the USTR investigation were published in March 2018, with the US having imposed tariffs on USD 250 billion of Chinese imports during 2018 with the goal of obtaining elimination of the practices related to technology transfer and intellectual property rights that the US considers harmful.

The new Chinese Foreign Investment Law also provides foreign firms with better legal treatment in bidding for government procurement contracts. The government procurement market in the Chinese economy is very large, and this opens up significant new opportunities for foreign firms operating in China to sell their products that are manufactured in China into the Chinese government procurement market. Estimates vary as to the total size of China's government procurement market, but one recent estimate puts the sector at around 20% of GDP, which amounts to an estimated USD 2.9 trillion in 2019.

Government Procurement Markets



Sources: OECD, DFAT.

The enhanced market access to the Chinese government procurement market for foreign firms also could create new opportunities for foreign firms to bid for Belt and Road Initiative infrastructure projects, since many such projects have Chinese state-owned enterprises as their primary contractors

The new legislation also provides some improvement in the protection afforded to foreign firms in relation to expropriation by the Chinese government. China applied to join the WTO Government Procurement Agreement (GPA) in 2007, with its application still under negotiation, and this new law may significantly strengthen its application to join the GPA.

Provision for Retaliatory Measures

However foreign firms will continue to have concerns about other factors that create an uneven playing field in the Chinese domestic market, such as provision of state subsidies to certain domestic companies in some industry sectors.

The new legislation also contains an important clause that will create concerns among China's trade partners, as this clause states that China could potentially take retaliatory measures against nations that assessed to be discriminating against Chinese companies.

This comes against a backdrop of heightened concerns and uncertainty in Australia in recent weeks about whether customs delays for Australian coal shipments to certain northern Chinese ports, including Dalian, are due to retaliatory measures.

Similarly, Canada has faced a ban on its canola exports to China implemented in early March, at a time when bilateral relations between the two nations have become strained by the detention of a senior Chinese corporate executive in Canada.

Outlook

The new Foreign Investment Law represents a major step forward in the way that foreign firms will be treated in the Chinese market, with substantial efforts to create a more level playing field for foreign firms that have operations in China. Significantly strengthened legislation regarding protection of intellectual property rights of foreign firms as well as rules prohibiting forced technology transfer are important highlights of the new regulations.

The broad objective of the Chinese government is to improve the business climate for foreign firms and to improve market access as well as strengthen intellectual property protection. The new law also helps to increase competition in the domestic Chinese market, which is an important part of the long-term economic reform agenda of the Chinese government.

The protection of intellectual property rights for US companies operating in China has been a key focus of US-China trade tensions and central to the US-China trade talks underway in order to address a wide range of US concerns relating to bilateral trade and investment. This new Law provides substantial new measures to help to address some of these issues, notably relating to protection of intellectual property rights and improved access to the Chinese government procurement market.

The new Foreign Investment Law not only helps to level the playing field for US firms operating in China, but also helps European and other large multinationals to gain enhanced access to the Chinese domestic market. From China's perspective, the improved market access in relation to government procurement also likely accelerates the process for China to join the WTO Government Procurement Agreement

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