US-China Trade War **Yew Boon Chia**

The US-China trade war may reach a temporary truce, but there remains the clear and present danger of a new Cold War, with the risk that this leads to a bipolar world, highly polarised on economic, technological and military/security fronts.

It is likely that Chinese companies' access to US capital markets would be hampered, as would be their ability to acquire companies and technologies there. Europe appears to have also become less welcoming towards Chinese takeovers of home-grown industrial and technology companies.

Closer to China, the unrest in Hong Kong may be slowly calming down, in terms of there being less protests in the streets, which had in the past few months deteriorated into violence, anarchic arson and vandalism or sabotage of public transport infrastructure and commercial establishments. However, the underlying socio-economic problems remain unresolved. The key issues include the increasingly unaffordable and insufficient housing, declining job prospects and upward social mobility, and an identity crisis with many younger Hong Kongers not regarding themselves as being citizens of China. The deep schisms in Hong Kong society between native Hong Kongers and mainland Chinese is unfortunately being manifested in xenophobia and even outright hostility, with many reported instances of abuse. Anecdotal evidence indicates the beginning of a brain drain out of Hong Kong, involving expatriates, mainland Chinese as well as native Hong Kongers. It will take time for Hong Kong to recover from the steep 40% fall in the number of visitors, but it isn't just tourist numbers that have been hit. Business visitors have also reduced the frequency of their trips there, or have moved the meetings to a alternative cities elsewhere in the region. Many trade exhibitions and conventions have also been cancelled.

In the short term, Hong Kong's capital markets activity appears unperturbed, symbolised by Alibaba's recent successful IPO there. However, the transactions now being announced had already been in the pipeline. There is a risk that the number and size of capital-raising transactions in Hong Kong will slowly decline, and this is likely to affect Chinese companies. In the short term, neither Shanghai, Singapore, Tokyo, Sydney nor London can fill the gap.

The prospects of reduced overseas capital access for Chinese companies via Hong Kong and US financial markets could have broader negative implications for China's economy. It could delay much needed structural economic reforms, as Chinese private enterprises have to continue depending on domestic capital. Misallocation of capital in the domestic Chinese economy could still persist as bank loans are given more readily and on more favourable terms to Chinese state-owned enterprises than to private enterprises; the former are on the whole less efficient and often erode rather than create economic value-added.

Another impact of the US-China trade war is the relocation of manufacturing away from China. South-East Asia as a whole is benefitting, in particular, Vietnam, Cambodia, Thailand and Malaysia, with Indonesia as a relative laggard. Jokowi's renewed mandate enhances his ability to push through more economic reforms, notably in the labour market, and in infrastructure investment, but the pace would need to accelerate in order for Indonesia to catch this wave of relocation.

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Yew Boon Chia's career spans government, private sector corporate management, equity research, private equity and venture capital investment management. He was Senior Vice President at GIC Special Investments, the private equity and venture capital subsidiary of one of the world's largest sovereign wealth funds.