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International Consultants & Investments

***Geopolitical economy of a Biden Presidency and RCEP
Implications for the Asian Region***

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International and Independent China Strategist

A presentation to the Hong Kong EGN Founding Chairmen Group
11 December, 2020



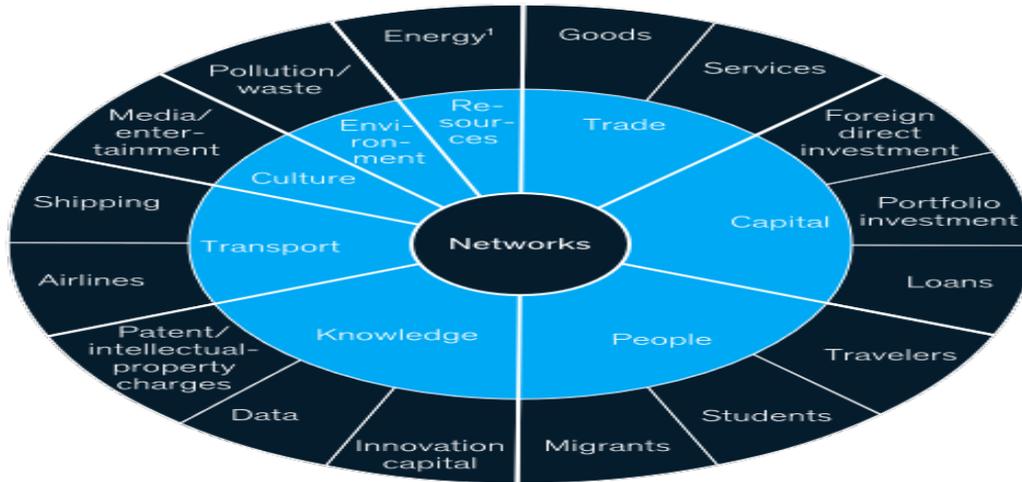
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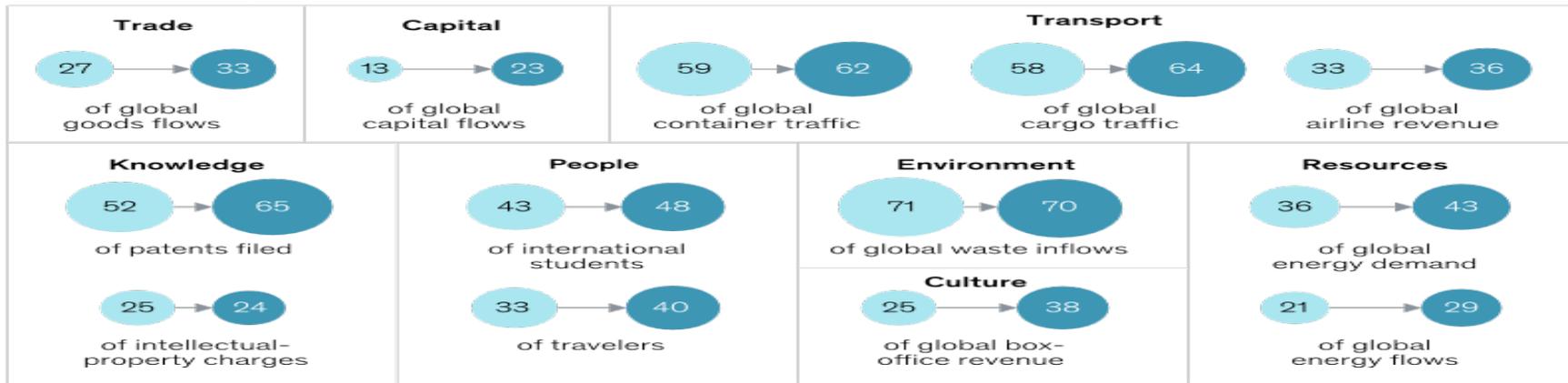
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China and rest of Asia largest beneficiary of globalization

Asia has gained scale on seven of eight types of flows over the past decade.



Asia's share of global flow, 2005–07 vs 2015–17,² %



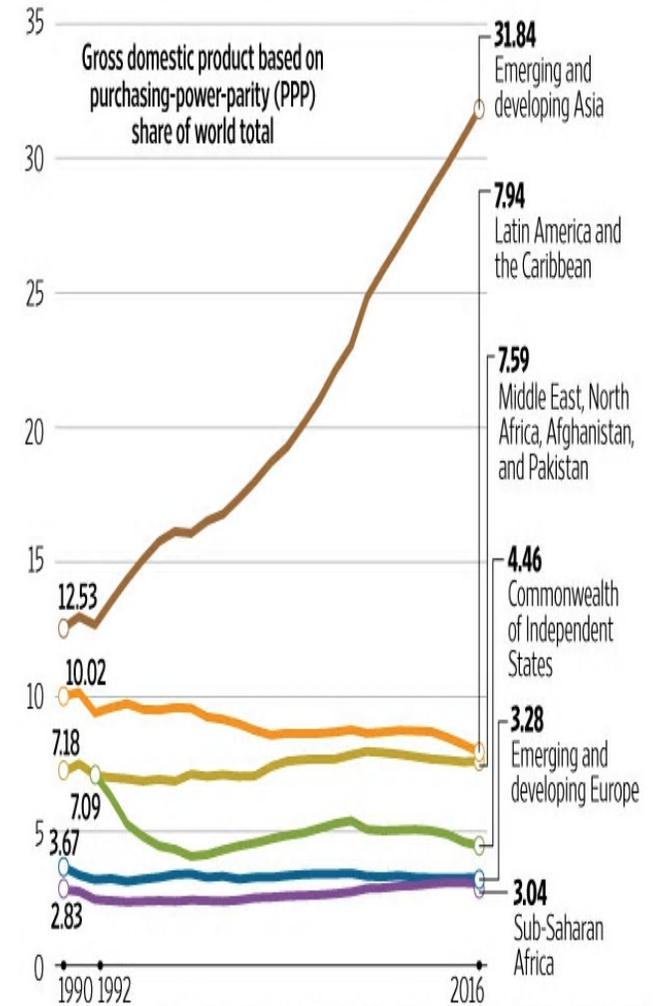
¹Includes both conventional and renewable energy sources.

²In some cases, used alternative periods because of data availability or volatility.

Source: International Monetary Fund; Organisation for Economic Co-operation and Development; UN Conference on Trade and Development; World Trade Organization; McKinsey analysis; McKinsey Global Institute analysis

MIXED PICTURE

The big gainer in world GDP share has been developing Asia

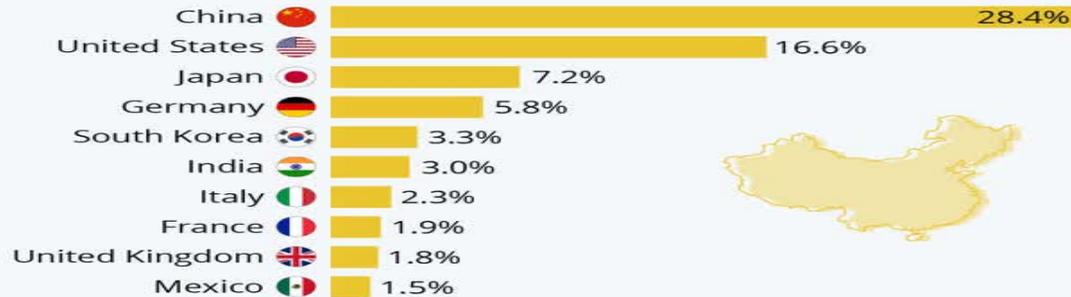


Source: International Monetary Fund, World Economic Outlook Database, October 2016

China has become centre of global supply and value chain

China Is the World's Manufacturing Superpower

Top 10 countries by share of global manufacturing output in 2018*



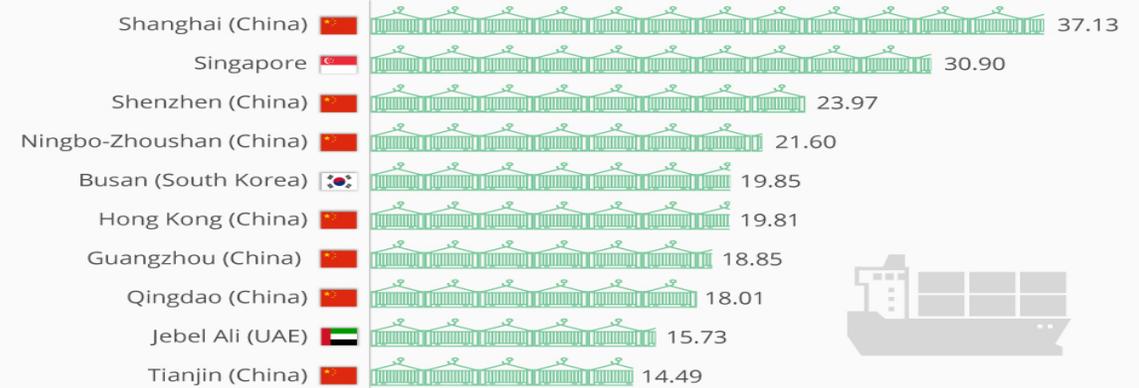
* output measured on a value-added basis in current U.S. dollars
Source: United Nations Statistics Division



statista

7 of the world's 10 busiest container ports are in China

Busiest container ports in the world as of 2016, based on shipping volume (in million TEU*)



* Twenty-foot Equivalent Unit or standard 6.1 meter long shipping container.

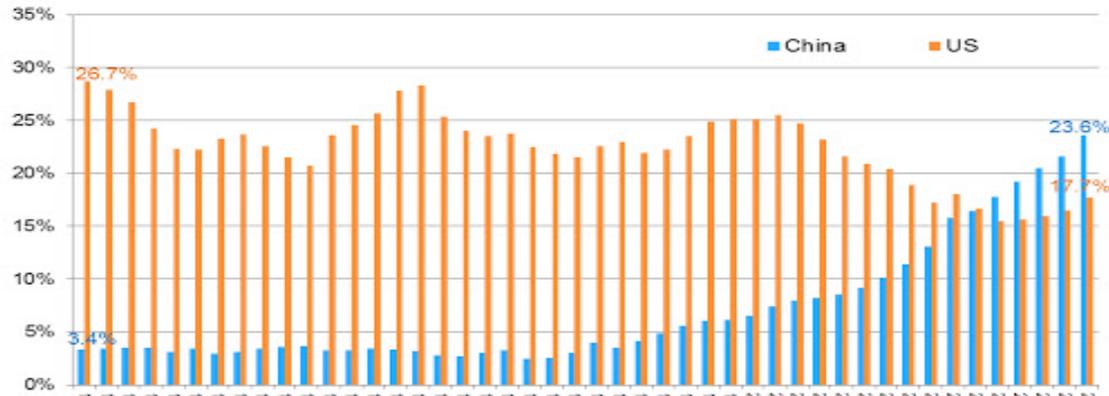
@StatistaCharts

Source: World Shipping Council

statista

Shares of US and China in Global Industry Value-Added

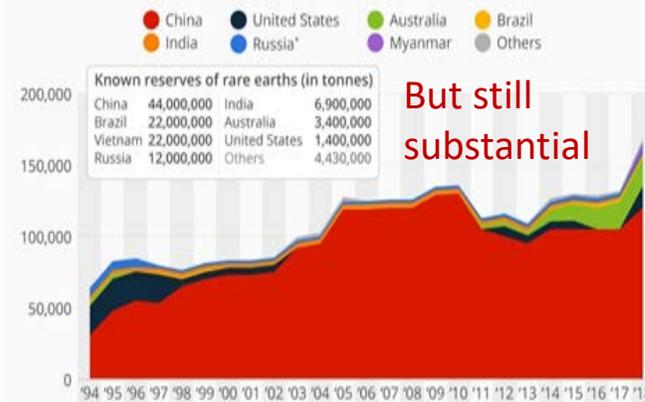
Share of global industry value-added (current prices)



Source: National Accounts Database, United Nations

China's Rare Earth Monopoly is Diminishing

Global mine production of rare earths (in tonnes)



Documented production only, some estimations
* Includes CIS

@StatistaCharts

Source: United States Geological Survey

statista

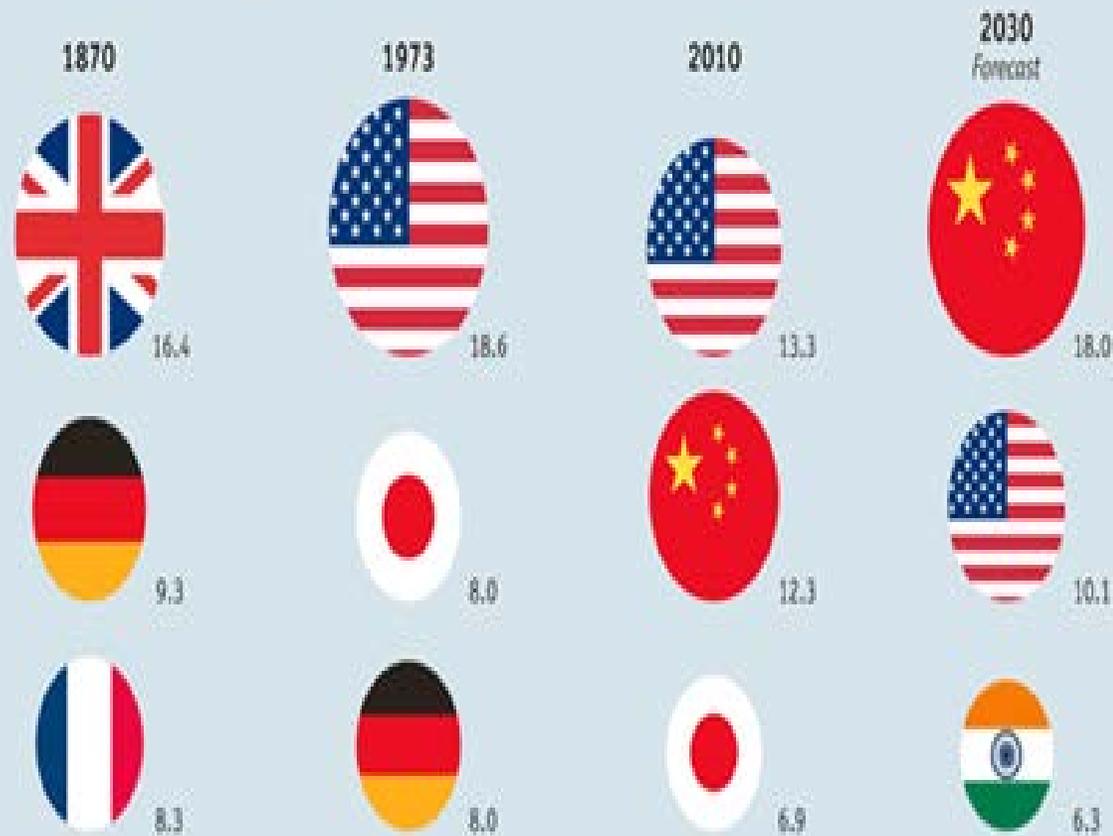


EXPOSING THE RISKS OF AMERICA'S DEPENDENCE ON CHINA FOR MEDICINE

Global growth gravitating towards China-centric Asian Century

Top three countries by economic dominance

% share* of global economic power



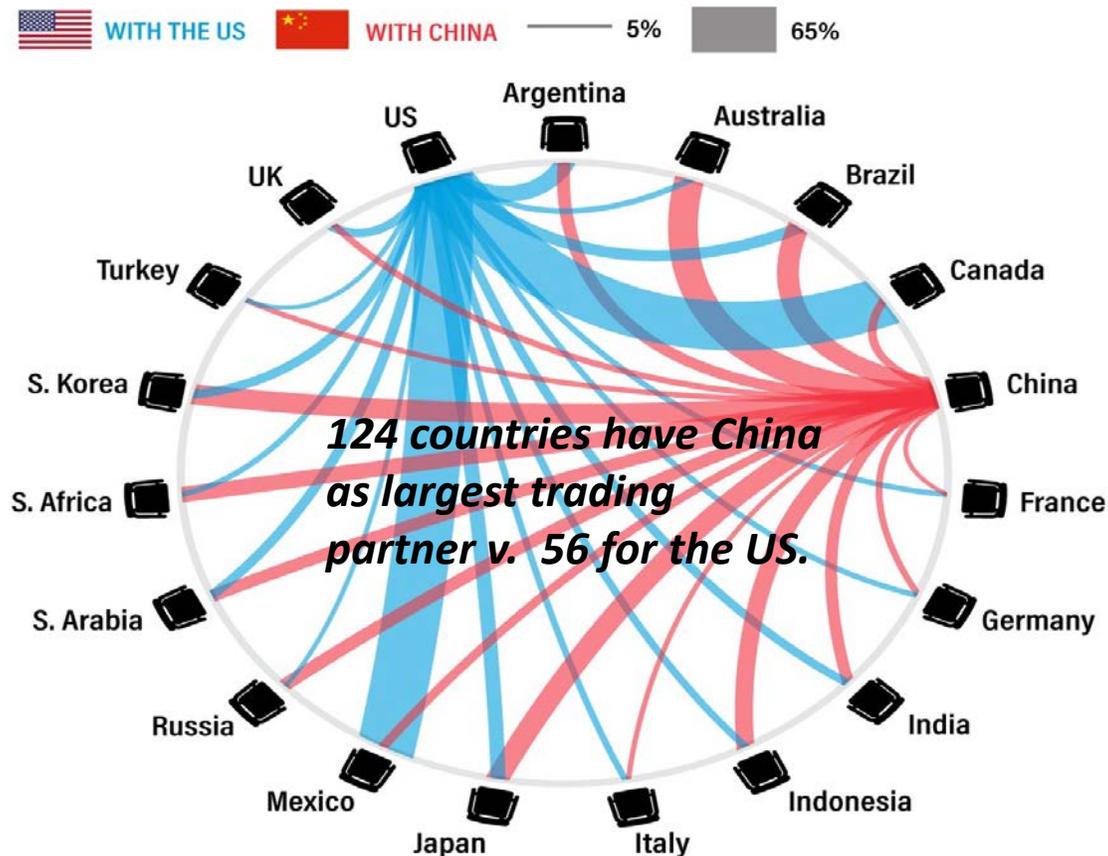
Source: Arvind Subramanian

*Weighted by share of world GDP, trade and net capital exports



THE G20'S BIG TWO

G20 members' trade with the US and China (as % of their total trade)

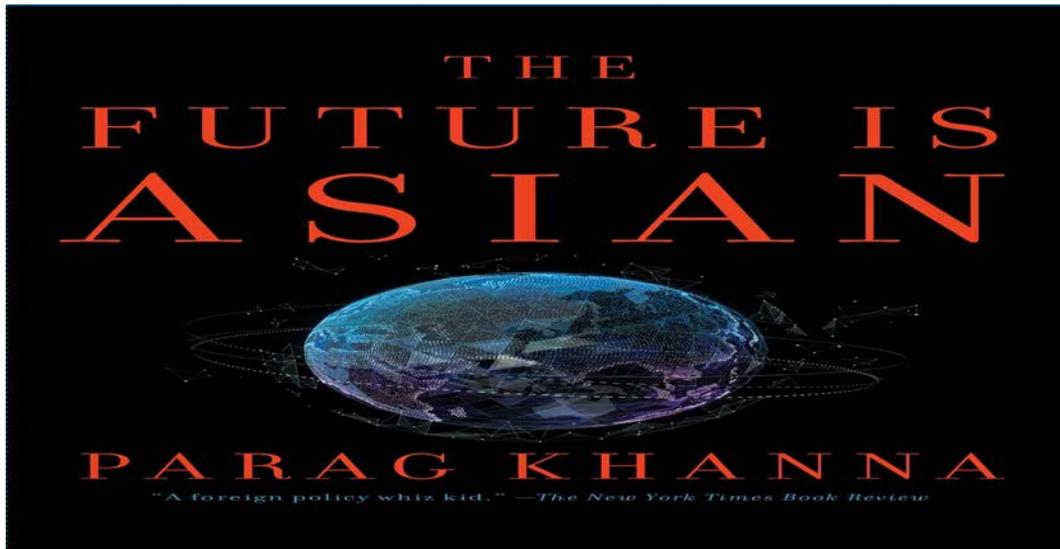


Subscribe at gzeromedia.com

Note: Trade measured in value, data based on 2017 trade levels
Source: Bloomberg

SIGNAL

An Asian Future looms



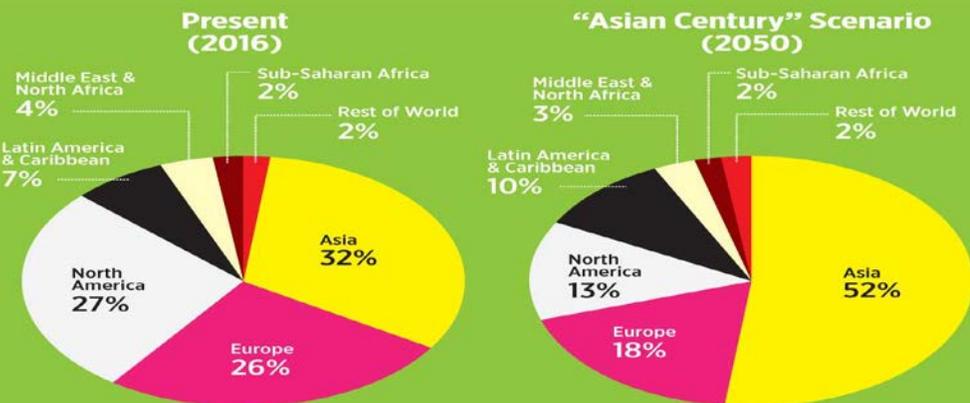
Latest World Economic Outlook Growth Projections

(real GDP, annual percent change)	PROJECTIONS		
	2019	2020	2021
World Output	2.8	-4.4	5.2
Advanced Economies	1.7	-5.8	3.9
United States	2.2	-4.3	3.1
Euro Area	1.3	-8.3	5.2
Germany	0.6	-6.0	4.2
France	1.5	-9.8	6.0
Italy	0.3	-10.6	5.2
Spain	2.0	-12.8	7.2
Japan	0.7	-5.3	2.3
United Kingdom	1.5	-9.8	5.9
Canada	1.7	-7.1	5.2
Other Advanced Economies	1.7	-3.8	3.6
Emerging Markets and Developing Economies	3.7	-3.3	6.0
Emerging and Developing Asia	5.5	-1.7	8.0
China	6.1	1.9	8.2
India	4.2	-10.3	8.8
ASEAN-5	4.9	-3.4	6.2
Emerging and Developing Europe	2.1	-4.6	3.9
Russia	1.3	-4.1	2.8
Latin America and the Caribbean	0.0	-8.1	3.6
Brazil	1.1	-5.8	2.8
Mexico	-0.3	-9.0	3.5
Middle East and Central Asia	1.4	-4.1	3.0
Saudi Arabia	0.3	-5.4	3.1
Sub-Saharan Africa	3.2	-3.0	3.1
Nigeria	2.2	-4.3	1.7
South Africa	0.2	-8.0	3.0
Low-Income Developing Countries	5.3	-1.2	4.9

Source: IMF, *World Economic Outlook*, October 2020

For India, data and forecasts are presented on a fiscal year basis, with FY 2020/21 starting in April 2020. India's growth is -8.6 percent in 2020 and 6.8 percent in 2021 based on the calendar year.

'ASIAN CENTURY' SCENARIO (Global GDP composition)



Asia's GDP: \$24 trillion (market FX rate)
Asia's per capita GDP: \$12,000 (PPP)

Asia's GDP: \$174 trillion (market FX rate)
Asia's per capita GDP: \$40,800 (PPP)

SOURCE: ASIA 2050 STUDY COMMISSIONED IN 2011 BY ASIAN DEVELOPMENT BANK. BUSINESSWORLD GRAPHICS. BONG H. LEE/FT

Trump's last-minute preparations for a come-back leveraging a divided and angry country

US middle class from 70% in 80's to < 50% now



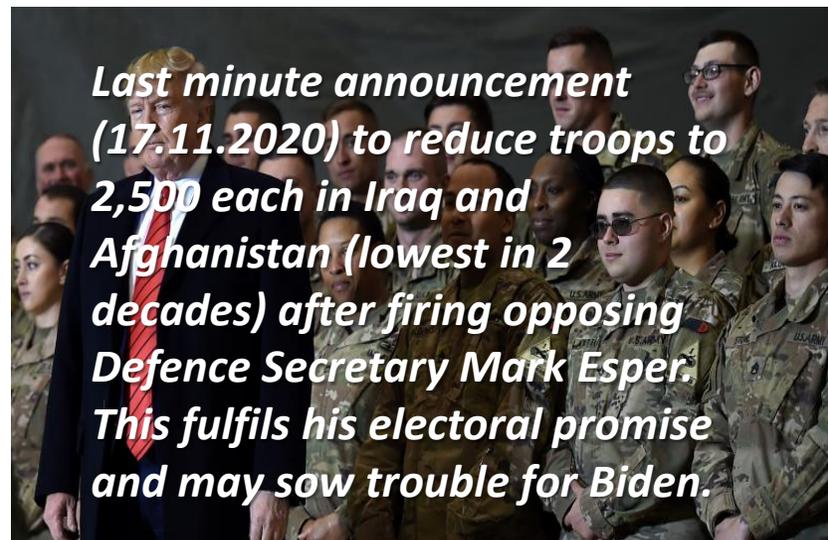
Trump scored > 70 million votes, a historic high for the GOP



Last minute announcement (17.11.2020) on new Indo-Pacific Fleet based in Singapore (Malacca choke point) to anchor his anti-China policy.



Trump fundraising for new 'Save America' PAC while still contesting election results to cement doubts of stolen election



Last minute announcement (17.11.2020) to reduce troops to 2,500 each in Iraq and Afghanistan (lowest in 2 decades) after firing opposing Defence Secretary Mark Esper. This fulfils his electoral promise and may sow trouble for Biden.

Trump will –

- **Continue to Twit** – massive followers – to sustain his political capital
- Continue to **mobilize or cheerlead Republican Party influencers**
- **Cause maximum problems for Biden Presidency**
- **Actively prepare for his 2024 bid** to recapture the Whitehouse

US-China Economic and Security Review Commission 2020 Report to Congress



2020
REPORT TO CONGRESS
of the
**U.S.-CHINA ECONOMIC AND
SECURITY REVIEW COMMISSION**
**ONE HUNDRED SIXTEENTH CONGRESS
SECOND SESSION**
DECEMBER 2020
Printed for the use of the
U.S.-China Economic and Security Review Commission
Available online at: <https://www.uscc.gov>

- **600-page bi-partisan report** claims to analyse China's strategic competition with the United States.
- In fact, a catalogue of views of **China as an enemy in areas including economy, trade, security, international arena, finance, Africa, Taiwan, Hong Kong**
- Paints a forceful picture that **Beijing harbors the ambition to displace the United States** as the global leader; that it is **trying to change the Western-led world order** to suit its own rhetoric; that it has been **doing this for years** through advances in economic, military, trade, technology, academic exchanges and international organizations; and that its **perceived transgressions in human rights, democracy, trade, investments, as well as its alleged machinations in the United Nations** must be thwarted across the board with all the United States has at its disposal.
- **Recommendations (non-binding) for a more aggressive China policy** in the face of what it considered an increasingly assertive Beijing.

Impact of a Biden Presidency

Expectations of Biden's Policy on China



Re-evaluation of phase 1 trade deal with China



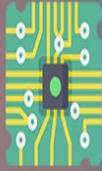
Taking the initiative to scrap tariffs is not expected



Cooperation on COVID-19 vaccines



Cooperation on climate change



Continuing crackdown on China's high-tech



HUAWEI
No big change regarding Huawei ban

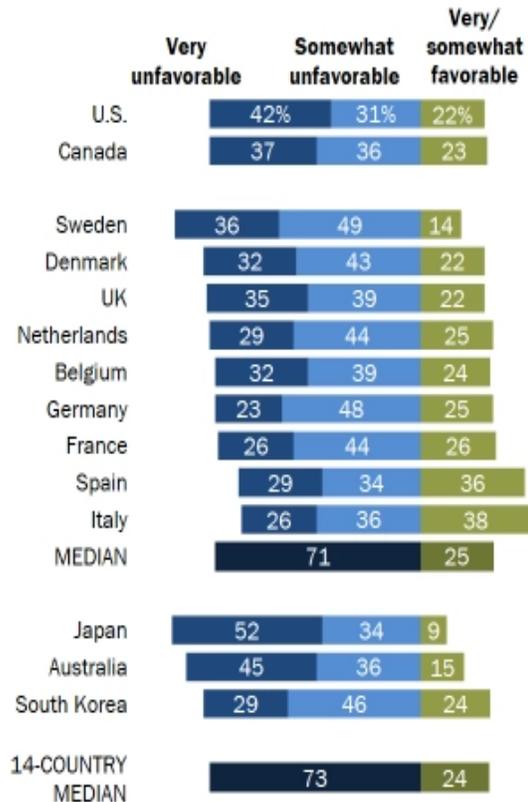
GLOBAL TIMES Graphic: Wu Tiantong/GT Source: Global Times

- **Bipartisan Get-Tough Policy on China a New Normal** – pressuring China on *IP, market access, SOE subsidies, level-playing field, 5G* and other cutting-edged technologies, *national security, South China Sea, Taiwan, human rights - Xinjiang, HK* (measured, targeted); *tariffs* may continue as bargaining chips; selective but not indiscriminate *decoupling*.
- **Less capricious, less arbitrary, more principled and consistent, less maximalist** - Greater store on *allies* (e.g. NATO), *Multilateralism, Values, Norms, Principled* engagement; perhaps less paranoiac about *academic exchanges*.
- **Anti-BJ “Alliance of Democracies”**; a “Summit of Democracies” during 1st Year (Possibly portraying Jimmy Lai as a “martyr”)
- **QUAD + Five Eyes to double down on West Pacific** – probable US/Japan/Australia/India *joint naval operations, HMS Queen Elizabeth*
- **Resume greater, more rational global leadership** - cooperate with *Beijing* in defined areas: Climate Change, N Korea; *Taiwan* - more arms sales possible without deliberately testing Beijing’s bottom-line; re-join *Paris Agreement* and *WHO*; may seek reform of *WTO* ; may re-join *TPP* or *CPTPP*; may explore *FTAAP* ; greater interest in *SE Asia* as dynamic growth area
- Not quite the old *Cold War* but still a **Giant’s joust against perceived challenger**.
- **More attention to putting own house in order** - (a) *Win the pandemic battle* (b) **“Build Back Better”** – rebuilding America competitiveness - Green infrastructure, R & D, STEM, healthcare, social insurance (c) *US-China mindset* (c) *Divisive Trump faction* (73 million votes, 2nd largest in history), control of Senate (d) *Climate Change* (e) *Systemic racism*
- **Repairing Yesterday or Back to the Future** - “improbable architect for a *Brave New World*”?

A Biden Presidency may give China 4 years to become a more likeable power

Unfavorable views of China prevail

% who have a ___ view of China



Note: Those who did not answer are not shown.
Source: Summer 2020 Global Attitudes survey. Q8b.
"Unfavorable Views of China Reach Historic Highs in Many Countries"

PEW RESEARCH CENTER

Publics losing faith in President Xi

% who have **no confidence** in Chinese President Xi Jinping to do the right thing regarding world affairs

	2019	2020	'19-'20 Change
	%	%	
U.S.	50	77	▲27
Australia	54	79	▲25
Italy	54	75	▲21
Germany	61	78	▲17
Netherlands	53	70	▲17
UK	60	76	▲16
Sweden	67	82	▲15
Canada	60	74	▲14
France	69	80	▲11
South Korea	74	83	▲9
Spain	66	75	▲9
Japan	81	84	+3
Belgium	-	73	-
Denmark	-	82	-

Note: Statistically significant differences in **bold**. In Italy, 2020 data from telephone surveys; prior data from face-to-face surveys.
Source: Summer 2020 Global Attitudes survey. Q15b.
"Unfavorable Views of China Reach Historic Highs in Many Countries"

PEW RESEARCH CENTER



- Reaffirm – **unable and unwilling to displace US**
- Refine **Wolf-Warrior rhetoric** (x bragging, rational riposte)
- Work with US and WHO on **Covid-19 cooperation**
- Work with US on **Climate Change & Paris Agreement**
- **Joint patrol with US Navy** in SCS while managing FONOP
- **Joint management of South China Sea resources with neighbours**, setting aside disputes
- Embrace **free and fair trade** – RCEP (incentivize India) + CPTPP
- **Turn North Korea into an economically-vibrant Vietnam**
- **Reform the BRI**
- With or outside 14th FYP, real progress on **market reciprocity, state-owned enterprise subsidies, transparency, rule of law, human rights** and goals including **technological self-reliance and quality growth**.

Biden's probable Whitehouse team – safe, sure, and inclusive



**Antony Blinken,
Secretary of
State,**

Deputy secretary of state during Obama's 2nd term. National security adviser to former VP Biden.

Influential family as largest Democratic Party donor



**Janet Yellen,
Secretary of
the Treasury**

First woman Fed Chairperson, professor emeritus at the University of California at Berkeley.



**Ron Klain,
Chief of
Staff,
Chief of
Staff to
former VP
Al Gore
and former
VP Joe
Biden**



**Lloyd Austin,
Defense
Secretary**
, retired 4-star general who worked with VP Biden in Iraq



**Jake Sullivan,
National
Security
Adviser**

Former national security adviser to VP Biden.

Former director of policy planning, **key role in Iranian nuclear deal**



**Avril Haines,
Director of
National
Intelligence**

- Deputy national security adviser under Obama.

Worked with VP Biden on Foreign Relations Committee



**Jeffrey Prescott,
Probable
"Asia &
China Czar"**
VP Biden's deputy National Security Advisor **and human rights professor. Cool, calm, collected.**

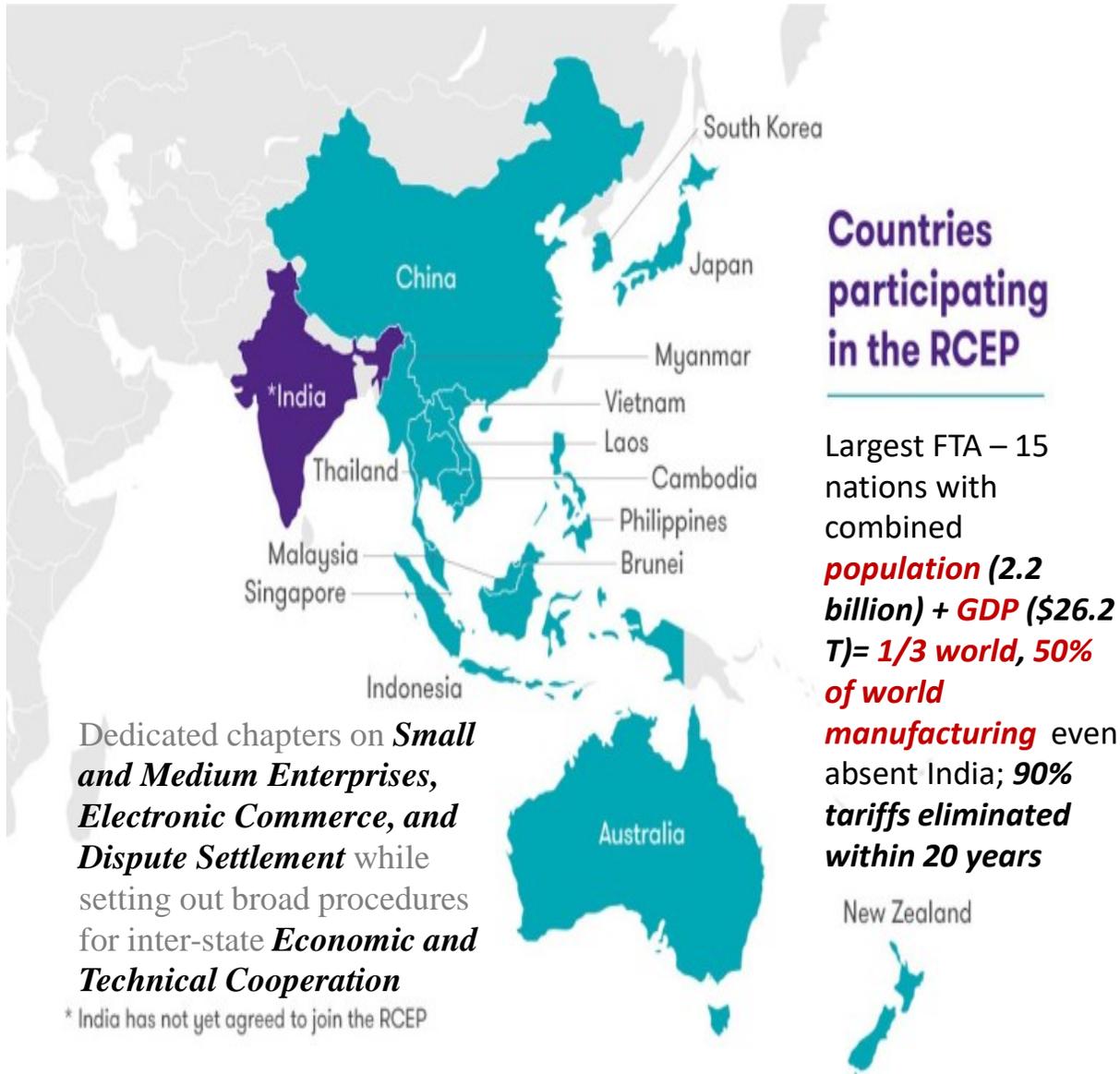


Katherine Tai, US Trade Representative, 1st US Trade Negotiator of Chinese descent



**John Kerry,
envoy for
climate change.
Democratic nominee for President 2004. Secretary of State under Obama**

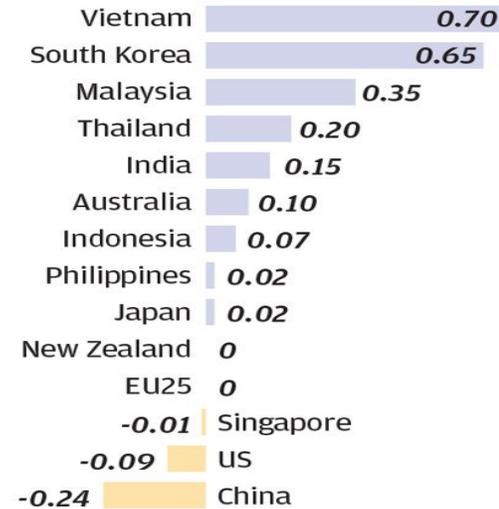
Regional Comprehensive Economic Partnership (RCEP)



Who benefits from regionalism?

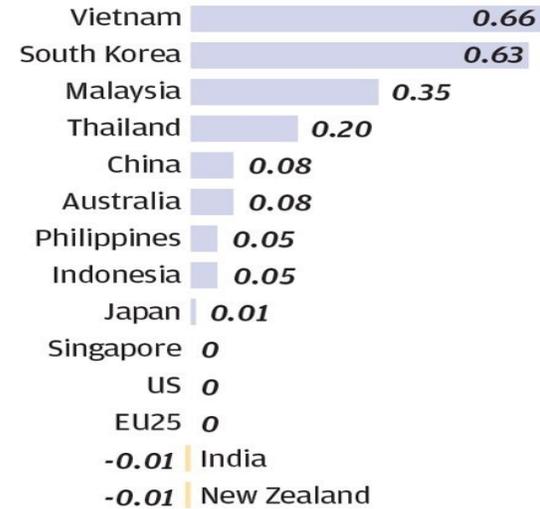
Scenario 1

16-country RCEP + US-China trade war
% impact on GDP growth in 2030



Scenario 2

RCEP without India
% impact on GDP growth in 2030



Source: Renuka Mahadevan and Anda Nugruho, World Economy Journal, published August 2019

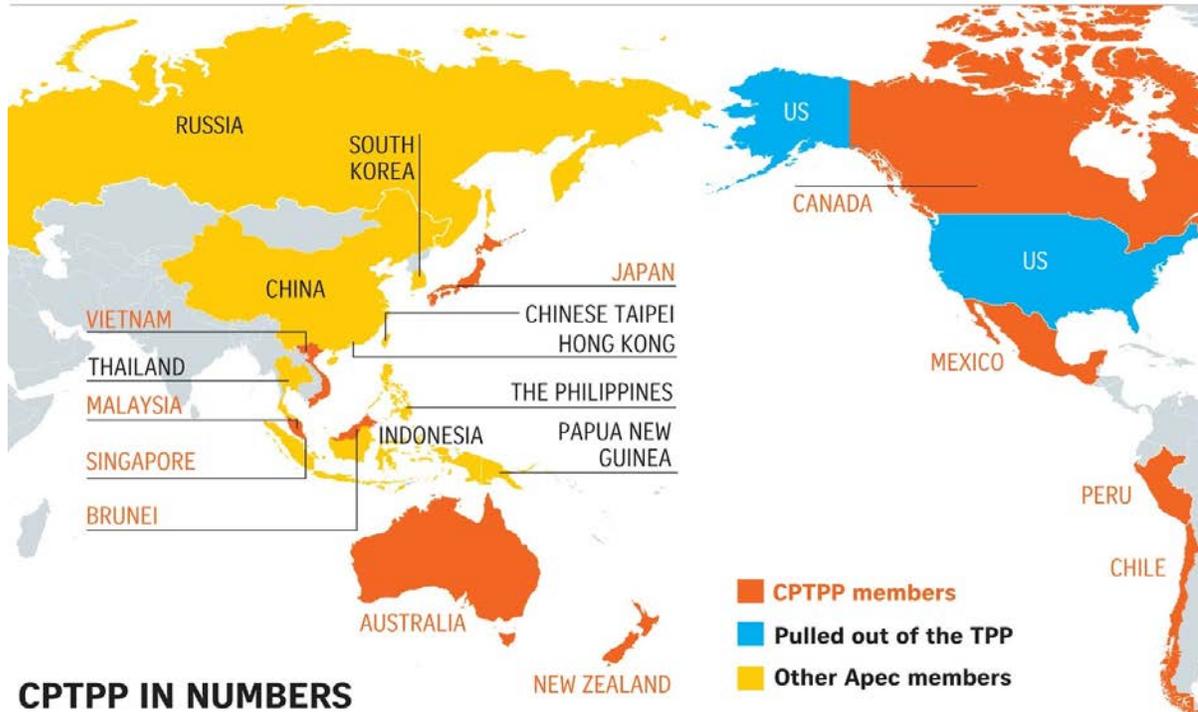
SCMP

- **Not so much direct economic gain for China:** PIIE – adds 0.4% to China’s GDP by 2030 v Trade War -1.1%; Univ of Queensland – adds only 0.08% to GDP v Trade War – 0.32%; Beijing’s CASS – adds 0.22% to GDP and 11.4% to China’s exports **China’s main gain is enhanced economic/trade connectivity and centrality**
- RCEP strengthens region’s **sense of Asian cohesiveness, solidarity, multipolarity and rethinking of US role in Asia** at a time of weakening Western influence

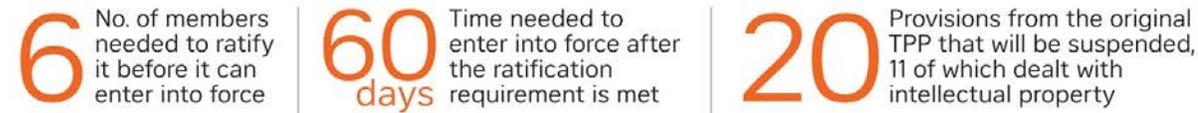
RCEP v CPTPP

TPP-11 to move forward on trade deal

The 11 remaining members of the Trans-Pacific Partnership (TPP), all of them in Apec, will push ahead on their free trade deal without the United States. They have renamed it the Comprehensive and Progressive Agreement for the TPP (CPTPP).



CPTPP IN NUMBERS



SUNDAY TIMES GRAPHICS

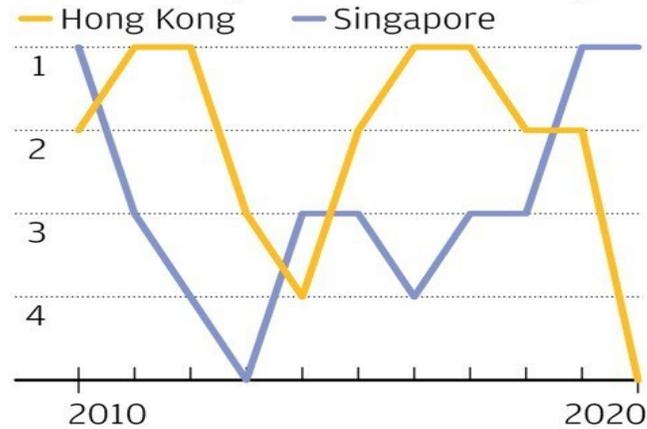
- *Virtually all Asian nations don't want to be forced to choose* between China and US – all hedging and wanting to have best of both worlds
- *China stands to gain from RCEP as largest exporter and consumer* and most influential member of RCEP (though GDP gains limited)
- Expanded trade integration and tariff reduction *accelerates re-shuffling and re-alignment of regional supply and value chains* following US-China trade and technology war, decoupling due to national security etc.
- *China to benefit from closer relationships with dual CPTPP partners*, paving the way to eventual CPTPP membership in embracing higher standards
- *Taiwan increasingly marginalized and hollowed out, leading to investment outflow and gradual impoverishment, weakening resistance to unification*
- *11-nation* higher-standard Comprehensive and Progressive Agreement for Trans-Pacific Partnership (**CPTPP**) - Australia, Brunei Darussalam, Canada, Chile, Japan, Malaysia, Mexico, New Zealand, Peru, Singapore, and Vietnam. 7 have ratified.
- *Combined population of 500 million people* and combined GDP of \$13.5 trillion, or *13.5% of global GDP*.
- *7 countries (Japan, Australia, New Zealand, Brunei, Malaysia, Singapore, and Vietnam) are party to both CPTPP and RCEP*, there is strong basis for an orderly convergence between CPTPP and RCEP
- *Vietnam, Malaysia, and Australia benefit mostly* from CPTPP and are also set to gain more from RCEP, the developing partners from decoupling from China and Australia from expanded exports
- *Biden Presidency may "re-join" CPTPP* to counter China

Hong Kong's Challenges

- **Want of effective leadership** in battle against Covid-19
- **Hobbled political system** – paralyzing politics, divided society, lack of politically astute talent in Government
- **Economy loaded in favor of property and finance** – lack of affordable housing and upward mobility
- **Youth resistant or hostile to Country** – loss of whole generation in sense of nationhood
- **Lack of competitive capacity** – knowledge and understanding of Mainland including GBA; language and cultural skills
- **Lack of innovation infrastructure** – e.g. Lok Ma Chau Loop
- **Falling behind Singapore** in competitiveness and **Shenzhen** in innovation, technology, start-ups e.g. Huawei, Tencent, DJI Innovations
- **Lack of access to GBA social and public health infrastructure**
- **Lack of citizen vision - emigration** – Western powers attempt to lure HK's better-off talents

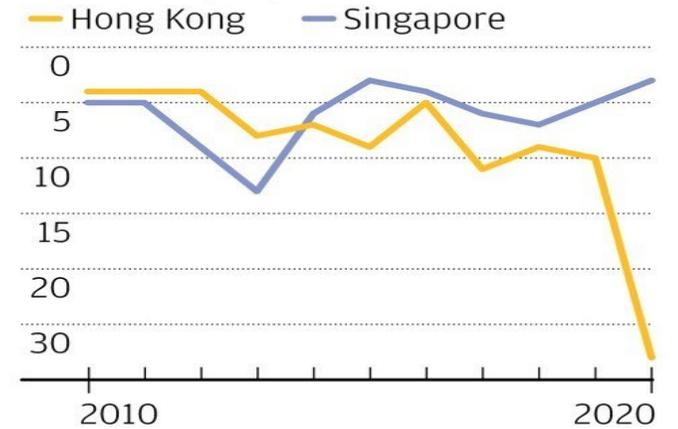
A tale of two cities

Overall competitiveness ranking



Source: IMD World Competitiveness Center

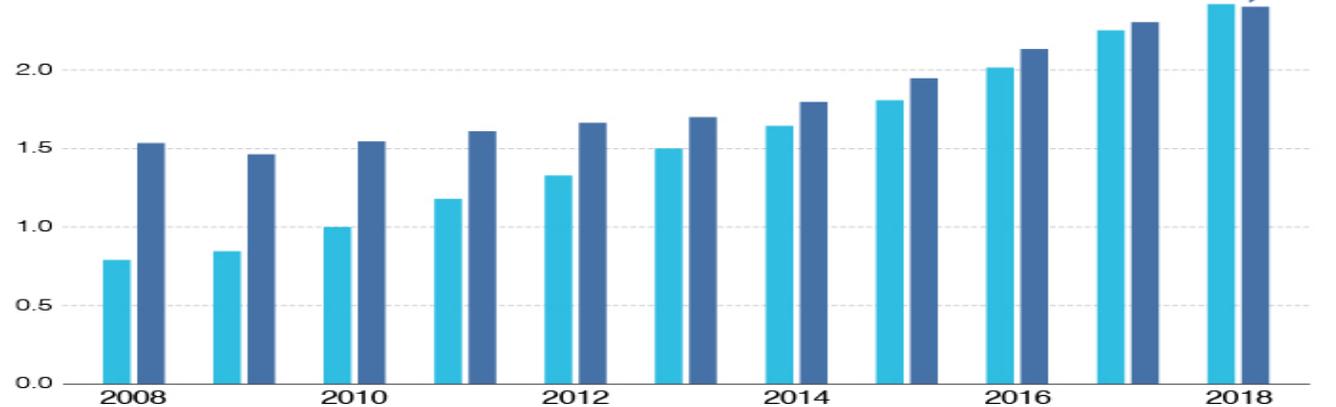
Economic performance



SCMP

Shenzhen Eclipses Hong Kong in GDP

Shenzhen GDP (light blue), Hong Kong GDP (dark blue)
2.5 trillion yuan



Sources: National Bureau of Statistics of China, Census and Statistics Department of Hong Kong

Caixin

HK – “second return to motherland”; era of uncertainty and opportunity

Law and Order restored; Government camp more powerful

DETAILS OF “NATIONAL SECURITY LAW” RELEASED EFFECTIVE ON JULY 7TH

- ★ POLICE CAN ENTER PREMISES AND COLLECT EVIDENCE **WITHOUT WARRANT**
- ★ PERSONS UNDER INVESTIGATION MAY HAVE TO SURRENDER TRAVEL DOCUMENTS SO THEY **CANNOT LEAVE HONG KONG**
- ★ SECURITY BUREAU MAY **FREEZE ASSETS**, SECRETARY FOR JUSTICE MAY **CONFISCATE ASSETS**
- ★ ANY FUNDS SUSPECTED TO BE ENDANGERING NATIONAL SECURITY MUST BE REPORTED TO THE POLICE
- ★ AUTHORITIES MAY **CONFISCATE ELECTRONIC DEVICES** AND REMOVE MESSAGES, AND REQUEST VENDOR TO **DISCLOSE IDENTITIES, CHAT RECORDS AND DECRYPTION**
- ★ AUTHORITIES MAY **REQUEST INFORMATION FROM FOREIGN AND TAIWANESE POLITICAL ORGANIZATIONS**
- ★ CHIEF EXECUTIVE MAY AUTHORIZE **INTERCEPTION AND SURVEILLANCE ON COMMUNICATIONS**
- ★ **SECRET SURVEILLANCE WITH “LOW INTERRUPTION LEVEL”** CAN BE **AUTHORIZED BY CHIEF COMMISSIONER**
- ★ AUTHORITIES MAY REQUEST ANY PERSON TO **PROVIDE INFORMATION WITHIN A TIME LIMIT**



*Judicial Reform and
definition of allegiance
(Basic Law Article 104)
for legislators and
judges*



Integration with GBA

GD/HK Cooperation Framework

TRANSPORT –

- HK/ZH/Macao Bridge, GZ/SZ/HK Express Rail Link, Liantang/Heung Yuen Wai Boundary Control Point
- GBA inland flow of HK private cars

INNOVATION & TECHNOLOGY

- AI, 5/6 G, IoT, advanced IC design, life sciences, neurosciences, biotech, aeronautics, deep-sea sciences
- GD/HK Technology Cooperation Funding Scheme (ended Oct, 2020)
- R & D
- Start-ups
- Lok Ma Chau Loop – proposed “HK-Shenzhen Innovation Technology Park”

SERVICES

• Finance

- o IPOs (mainland enterprises e.g. Alibaba, ANT, etc v New York)
- o M & As (Mainland enterprises – supported by BJ after 2019 riots); GBA projects
- o Fintech - Digital payments (China – 776 mobile payment users – US\$ 30T v. \$100b in US); virtual banking, online wealth and risk management (HK >1/2 m HK\$ millionaires), insurance services and security trading (1.6 billion smart phones in China + rising middle class in GBA)

• Professions

• Culture

• Tourism – GBA and international

EDUCATION, MANPOWER, YOUTH

INTERNATIONAL BUSINESS MANAGEMENT

QUALITY OF LIFE – investments, properties, products and services for the upper middle-class in GBA

BRI

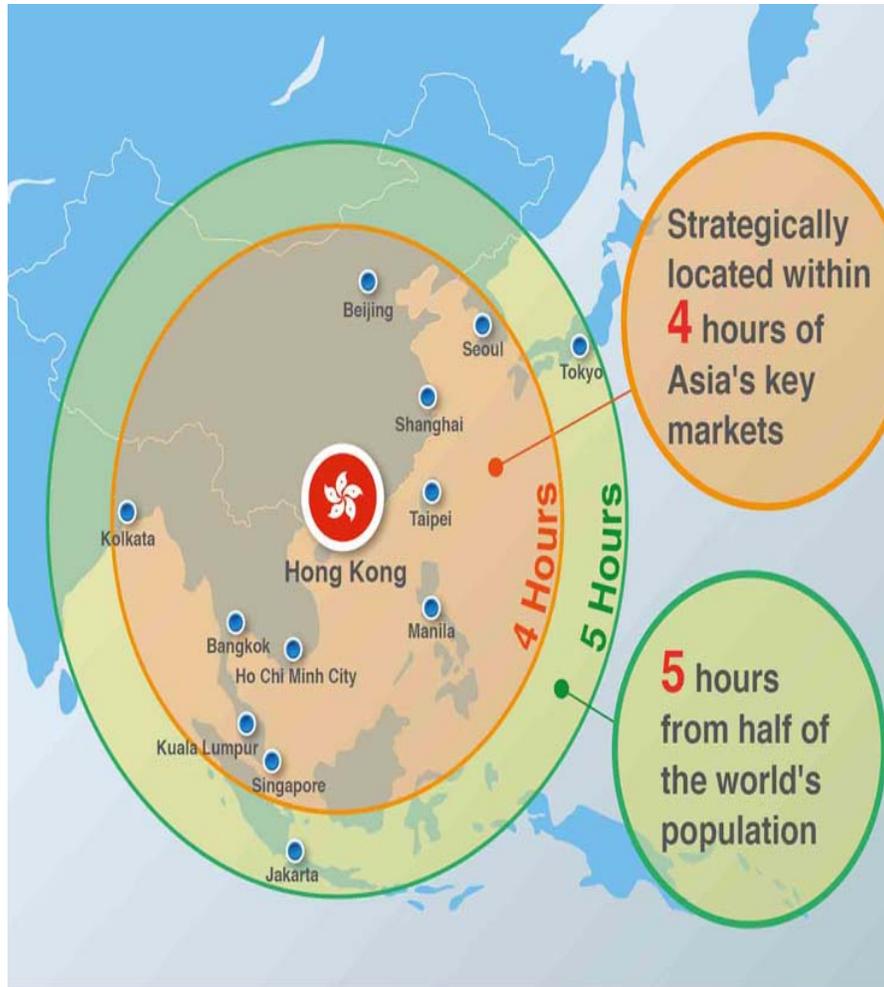
China's Greater Bay Area

GDP of cities, Hong Kong and Macau



Source: HSBC Research

B&R to leverage HK in internationalizing China's pivotal role in RCEP



Strategically located within **4** hours of Asia's key markets

5 hours from half of the world's population

Industry:

Set up a B&R **intelligence industrial park**, develop **engineering insurance and reinsurance services**, optimize the policies on **captive insurance companies**, and expand **shipping-related businesses** to leverage and strengthen Hong Kong's roles in the engineering and infrastructure construction areas.

Institutional environment:

Leverage institutional advantages, further improve the **finance and taxation environment**, set up a **B&R legal service center**, and make use of **Hong Kong's sound regulatory system** to facilitate the implementation of the B&R initiative.

EY's blueprint



Talent and culture:

Further improve **talent attraction and retention policies**, develop a **talent development plan** for the B&R initiative, drive the **coordination of global human resources**, and develop **diversified cultural industries**.

Finance:

Establish a **special B&R Board** to facilitate fund raising, develop the **infrastructure bond market and green finance**, further consolidate Hong Kong's position as a regional **asset management center** and global **offshore RMB business center**, and transform Hong Kong into a leading global **center for infrastructure fundraising and financing and green finance**.

Government support:

Introduce a **top-down coordination plan** by the government to seek synergies between the B&R initiative and policy implementation, **promote Hong Kong's value proposition and advantages**, and enhance communication and cooperation with mainland China and the B&R countries to bring win-win results among all.

Hong Kong – Belt & Road super–connector

Hong Kong's future and Carrie Lam's chances

HK is set to become –

- **World-class financial centre in region**
- **Mainland IPOs, M & A, financial market, arbitration**
- **World leading offshore RMB market**
- **Global State-backed digital currency laboratory**
- **East-Meets-West cultural and lifestyle hub**

HK's role in 14th FYP – Dual Circular Economy

- **Regional trade hub – RCEP** – 15 countries - 32% of world economy – dependency on China for trade, investments, and intermediary products and services including logistics – 7/10 world's top container ports
- **Springboard for Mainland middle-class international consumption** – foreign brands regional HQs

Carrie Lam now has **relatively better chance for Second Term**

- **US sanctions** add to poisoned chalice **discouraging BJ-acceptable, well-off contenders** (e.g. Henry Tang)
- **No other “safe” substitute** in sight before 2022;
- Current politics **unfavourable to “safe” universal suffrage**
- Carrie remains **most experienced and willing**



Thank you

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Prominent international and independent China Strategist. Over 40 years' experience in senior Hong Kong Government positions. China Futures Fellow, Massachusetts Berkshire Publishing Group; Brain Trust Member, IMD Lausanne Evian Group; Gerson Lehrman Group Council Member; Thomas Reuters Expert; Senior Analyst with Wikistrat. Elected Member, Royal Society for Asian Affairs. Advisory Board Member, e-Centre, European Centre for e-Commerce and Internet Law. Think-tank Research Fellow, Beijing Normal University, Zhuhai Campus. Visiting Professor, London Metropolitan University Business School. Honorary President, China Hong Kong Economic and Trading International Association. Formerly Governing Council Member, King's College London; Advisory Board Member, China Policy Institute of Nottingham University; Visiting Professor, Sun Yat-sen University Business School (2005-10). In the 1980s, oversaw Hong Kong's industrial transmigration into Mainland China and helped launch Quality Campaign and Technology Centre. Invited by US government to month-long visit to brief Fortune 50 CEOs personally, including one-on-one with Steve Forbes of Forbes Magazine, on China post-1989. In 2002, invited by Prince Andrew for a private briefing leading to HRH's first visit to China as UK's Ambassador for Trade and Investment. Advised on cross-cultural management in Lenovo's take-over of IBM Computers. Invited as Editor-at-large for an international consultancy on China's energies. Regular contributor, commentator, and speaker on China at conferences and on live television with dozens of media channels worldwide. He also spoke at St. George's House, Windsor Castle, and featured in a National Geographic TV documentary. Topics include trade, finance, economics, energies, geopolitics, international relations, science and technology, sustainable industrial development, and green cities. Graduate qualifications from University of London, postgraduate qualifications from Cambridge University, PMD from the Harvard Business School, and solicitors' qualifying examination certificate from the Law Society, London. Included in UK's Who's Who since 2002. Awarded Silver Bauhinia Star (SBS) in July 2005 Hong Kong Honors List.