Quilter

Between the lines | *Week* 24

China's Hong Kong gambit could draw UK into 'cold war 2.0'

Chinese policymakers in Beijing have seized on the disruption of the coronavirus (covid-19) outbreak to approve new national security laws for Hong Kong, tempting further censure from the US and a return of the bitter public protests that rocked Hong Kong a year ago.

The law, which will ban 'sedition, secession and subversion against Beijing' is still being drafted but, when implemented, it will bypass the city's legislature ending the dream of 'one country, two systems'. The CEOs of both HSBC and Standard Chartered garnered rebuke when they came out in support of the move which has re-ignited the smouldering power struggle between the US and China.

Trouble brewing

Following the news, President Trump was quick to announce the revocation of its special trading status – something which until now has protected Hong Kong from US trade tariffs.

Mr Trump kicked off this latest round of China/US brinkmanship after his administration's handling of the US outbreak was found wanting and he began blaming China for the pandemic. It's since escalated beyond all expectations. In recent weeks the US has issued investment bans, human rights legislation and mounting trade restrictions. It's also renewed its war with China's technology flag carrier, Huawei.

The US has now banned Huawei from using any chips that contain American intellectual property, which could put Huawei out of business. The battle lines have also changed thanks to the polarising nature of China's latest gambit.

Whereas Boris Johnson recently allowed Huawei up to a 35% stake in the UK's 5G infrastructure, this is now off the table. Meanwhile, the UK's prime minister has promised to grant a route to UK citizenship to as many as three million eligible Hong Kong residents should China fail to relent.

OECD: Worst recession for a century

Credit: rte.ie

The global economy is likely to shrink 6% in 2020 as a result of the coronavirus pandemic, the largest recession outside of wartime in 100 years, but the hit could be even higher if the coronavirus does not remain under control, warns the Organisation for Economic Co-operation and Development (OECD).

In its updated *Economic Outlook* it warned the uncertainty of when a vaccine might be available and the effectiveness of tracking, tracing and testing, means there are two equally likely scenarios for global growth.

If the virus remains under control, a sharp 6% fall in 2020 could be followed by 5.2% growth next year, but a second outbreak would see the global economy shrink by 7.6%, with a much slower 2.8% growth in 2021.

Both scenarios were described as "sobering", leaving "long-lasting scars of high unemployment and weak investment". Policymakers were also warned that "extraordinary policies" would be required to "walk the tightrope towards recovery."

Quilter Market Explainer: Responsible investing in the new normal

In response to the severe market volatility that has accompanied the outbreak of the global coronavirus pandemic, Quilter has launched the Quilter Market Explainer, a special fortnightly webcast for advisers and clients.

All our previous broadcasts in this series are available on demand, to listen please click on the play button.

The most recent *Explainer* aired at midday today (12 Jun), and featured Gemma Woodward from Quilter Cheviot and Rasmus Soegaard from Quilter Investors, discussing how the coronavirus has affected investors focused on responsible investment.

Among other things, the lockdown has resulted in a reduction in air pollution, affording us a glimpse of a cleaner world. This prompted our experts to look at the role the investment world is beginning to play in this important issue.

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