

TOO MUCH PESSIMISM ABOUT CHINA-US TALKS

Nearly every expert seems to be pessimistic about any progress being made during the US-China talks this week, citing the “low level delegations” attending, but there are many signs from both sides of an incipient deal, not to mention the obvious economic and political incentives to achieve such. Famous Presidents in any country very rarely oversee a significant economic decline; rather, many Presidents often do not maintain power in such a decline. Widespread pessimism among experts is also due, like a Pavlovian response, to the long-standing stubborn stances of Xi and Trump, continually fed via leaks of tough negotiating rhetoric in the media and “insider” talking points that these experts depend upon for their livelihood. Lastly, many experts are patriotic and just cannot imagine their side compromising to the benefit of the “enemy.”

The 2025 Problem

While China is now opening many economic sectors to foreign competition in a similar way that foreign pressure did for Japan in the 1980s, China has said it won't even negotiate on the key issue: government support for dominating key tech industries, called the Made in China 2025 plan; yet it says it is not to blame for the trade ructions. So in the end, it comes down to whether China will compromise on this plan. Xi has actively promoted it in the past, so it is difficult to reverse his stance, but China may end up crediting Europe for changing its mind on this program, as FTA negotiations with it would likely require ending state control and subsidization of such. Or it may credit other factors, including the headline People's Daily editorial from the recent Beihaide summit, promoting “Reform and Opening to the World” in order to prevent the appearance of capitulating to the US, in which case China could submit its efforts for boosting its high tech industry to vetting by the WTO since it should be the most expert, neutral arbiter of such.

Notably, the 2025 plan, which has never been formally legislated, has been a taboo topic in the Chinese media for many weeks now, allowing China a quiet interlude before potentially compromising on it. At a minimum, China is trying to hide its aggressive state-led plan from global attention, which is a form of backtracking from Xi's deviation from the famous Deng Xiaoping philosophy of hiding China's rise. The fact that many countries are now aggressively opposing Chinese investments and technology transfers has not gone unnoticed throughout China. Indeed, much more media is being allowed to speak negatively about China's over-reaching and it would not be too surprising if the 2025 appellation was never used again.

“Low Level Officials”?

The top negotiators in US and China probably dislike each other so much now, that it is better not to have them facing each other right now, but both sides are under pressure to act before the \$200BB of tariffs begin. Indeed, Xi has reportedly told his team to get something done, an instruction that I have not heard of before and, thus, seems highly significant. Lastly, it is possible that Xi has lost confidence that Liu He, the previous lead negotiator with little government or international negotiation experience, can achieve results in this process. However, Liu He and the US China hawks must have vetted their respective “low level” negotiators' mandates and will vet the results of the talks, so the talks are not actually “low level” at all.

David Malpass, who will lead the US delegation, is the most prominent economist in the US Administration and the only one with extensive previous experience in international governmental negotiations. He is very trusted by the US-China hawks and will not set his own agenda. He is trusted by Mnuchin, who has been greatly sidelined in these negotiations after his earlier attempt to enact a China deal that the hawks disliked. Thus, Malpass has the trust of both wings, which is highly significant. Meanwhile, the PRC Commerce Minister is the best official placed to talk about the 2025 plan, along with nearly every other trade issue, so it is not actually a low level summit. Indeed, the Commerce Ministry is routinely China's most protectionist ministry, so if a deal, or the outline of such, can pass his vetting, then it has a good chance of success. Meanwhile, there are reports that the US has drawn up a new, comprehensive list that is somewhat easier for China to accept, although clearly not one that excludes major elements of 2025 plan.

A Timeline

There have been reports in major media outlets, citing sources from both sides, that a timeline for a deal by November has been struck. This is a new concept and while it is unlikely to be cast in stone, it is unlikely that this was not approved by the top players on both sides. It is quite possible that, like the US-EU agreement, this timeline of continued negotiations, if the major 2025 plan elements are agreed to be eliminated, could be used by both sides to call a “time out” on the \$200BB of additional tariffs and retaliatory measures, at least until after the Congressional elections. Similar to the EU agreement, this would likely improve Trump's (and the Republican Party's) image among farmers and traditional Republican free-traders.

Conclusion

China-US tensions are unlikely to ever be low again, but these talks could be a major step to achieve some agreements, as both leaders need breathing space politically and economically. Neither Trump nor Xi are as omnipotent as purported and many wonder if the 2025 plan is worth this risk of great tumult. China will achieve hi-tech success and be a leader globally, with the only question being how fast. It seems to now be realizing that the world, led by the US, will not countenance it using widespread state-led methods to achieve such as quickly as it desires. If this is what China means by containment of its rise, it is a valid containment of such methods by the world's developed market-based nations.

Important Information

This document is prepared by Nikko Asset Management Co., Ltd. and/or its affiliates (**Nikko AM**) and is for distribution only under such circumstances as may be permitted by applicable laws. This document does not constitute investment advice or a personal recommendation and it does not consider in any way the suitability or appropriateness of the subject matter for the individual circumstances of any recipient.

This document is for information purposes only and is not intended to be an offer, or a solicitation of an offer, to buy or sell any investments or participate in any trading strategy. Moreover, the information in this material will not affect Nikko AM's investment strategy in any way. The information and opinions in this document have been derived from or reached from sources believed in good faith to be reliable but have not been independently verified. Nikko AM makes no guarantee, representation or warranty, express or implied, and accepts no responsibility or liability for the accuracy or completeness of this document. No reliance should be placed on any assumptions, forecasts, projections, estimates or prospects contained within this document. This document should not be regarded by recipients as a substitute for the exercise of their own judgment. Opinions stated in this document may change without notice.

In any investment, past performance is neither an indication nor guarantee of future performance and a loss of capital may occur. Estimates of future performance are based on assumptions that may not be realised. Investors should be able to withstand the loss of any principal investment. The mention of individual stocks, sectors, regions or countries within this document does not imply a recommendation to buy or sell.

Nikko AM accepts no liability whatsoever for any loss or damage of any kind arising out of the use of all or any part of this document, provided that nothing herein excludes or restricts any liability of Nikko AM under applicable regulatory rules or requirements.

All information contained in this document is solely for the attention and use of the intended recipients. Any use beyond that intended by Nikko AM is strictly prohibited.

Japan: The information contained in this document pertaining specifically to the investment products is not directed at persons in Japan nor is it intended for distribution to persons in Japan. Registration Number: Director of the Kanto Local Finance Bureau (Financial Instruments firms) No. 368 Member Associations: The Investment Trusts Association, Japan/Japan Investment Advisers Association/Japan Securities Dealers Association.

United Kingdom and rest of Europe: This document constitutes a financial promotion for the purposes of the Financial Services and

Markets Act 2000 (as amended) (FSMA) and the rules of the Financial Conduct Authority (the FCA) in the United Kingdom (the FCA Rules).

This document is communicated by Nikko Asset Management Europe Ltd, which is authorised and regulated in the United Kingdom by the FCA (122084). It is directed only at (a) investment professionals falling within article 19 of the Financial Services and Markets Act 2000 (Financial Promotions) Order 2005, (as amended) (the Order) (b) certain high net worth entities within the meaning of article 49 of the Order and (c) persons to whom this document may otherwise lawfully be communicated (all such persons being referred to as relevant persons) and is only available to such persons and any investment activity to which it relates will only be engaged in with such persons.

United States: This document is for information purposes only and is not intended to be an offer, or a solicitation of an offer, to buy or sell any investments. This document should not be regarded as investment advice. This document may not be duplicated, quoted, discussed or otherwise shared without prior consent. Any offering or distribution of a Fund in the United States may only be conducted via a licensed and registered broker-dealer or a duly qualified entity. Nikko Asset Management Americas, Inc. is a United States Registered Investment Adviser.

Singapore: This document is for information only with no consideration given to the specific investment objective, financial situation and particular needs of any specific person. You should seek advice from a financial adviser before making any investment. In the event that you choose not to do so, you should consider whether the investment selected is suitable for you. Nikko Asset Management Asia Limited is a regulated entity in Singapore.

Hong Kong: This document is for information only with no consideration given to the specific investment objective, financial situation and particular needs of any specific person. You should seek advice from a financial adviser before making any investment. In the event that you choose not to do so, you should consider whether the investment selected is suitable for you. The contents of this document have not been reviewed by the Securities and Futures Commission or any regulatory authority in Hong Kong. Nikko Asset Management Hong Kong Limited is a licensed corporation in Hong Kong.

Australia: Nikko AM Limited ABN 99 003 376 252 (**Nikko AM Australia**) is responsible for the distribution of this information in Australia. **Nikko AM Australia** holds Australian Financial Services Licence No. 237563 and is part of the Nikko AM Group. This material and any offer to provide financial services are for information purposes only. This material does not take into account the objectives, financial situation or needs of any individual and is not intended to constitute personal advice, nor can it be relied upon as such. This material is intended for, and can only be provided and made available to, persons who are regarded as Wholesale Clients for the purposes of section 761G of the Corporations Act 2001 (Cth) and must not be made available or passed on to persons who are regarded as Retail Clients for the purposes of this Act. If you are in any doubt about any of the contents, you should obtain independent professional advice.

New Zealand: Nikko Asset Management New Zealand Limited (Company No. 606057, FSP22562) is the licensed Investment Manager of Nikko AM NZ Investment Scheme, Nikko AM NZ Wholesale Investment Scheme and the Nikko AM KiwiSaver Scheme.

This material is for the use of researchers, financial advisers and wholesale investors (in accordance with Schedule 1, Clause 3 of the Financial Markets Conduct Act 2013 in New Zealand). This material has been prepared without taking into account a potential investor's objectives, financial situation or needs and is not intended to constitute personal financial advice, and must not be relied on as such. Recipients of this material, who are not wholesale investors, or the named client, or their duly appointed agent, should consult an

Authorised Financial Adviser and the relevant Product Disclosure Statement or Fund Fact Sheet (available on our website www.nikkoam.co.nz).

Kingdom of Bahrain: The document has not been approved by the Central Bank of Bahrain which takes no responsibility for its contents. No offer to the public to purchase the Strategy will be made in the Kingdom of Bahrain and this document is intended to be read by the addressee only and must not be passed to, issued to, or shown to the public generally.

Kuwait: This document is not for general circulation to the public in Kuwait. The Strategy has not been licensed for offering in Kuwait by the Kuwaiti Capital Markets Authority or any other relevant Kuwaiti government agency. The offering of the Strategy in Kuwait on the basis a private placement or public offering is, therefore, restricted in accordance with Decree Law No. 7 of 2010 and the bylaws thereto (as amended). No private or public offering of the Strategy is being made in Kuwait, and no agreement relating to the sale of the Strategy will be concluded in Kuwait. No marketing or solicitation or inducement activities are being used to offer or market the Strategy in Kuwait.

Kingdom of Saudi Arabia: This document is communicated by Nikko Asset Management Europe Ltd (Nikko AME), which is authorised and regulated by the Financial Services and Markets Act 2000 (as amended) (FSMA) and the rules of the Financial Conduct Authority (the FCA) in the United Kingdom (the FCA Rules). This document should not be reproduced, redistributed, or sent directly or indirectly to any other party or published in full or in part for any purpose whatsoever without a prior written permission from Nikko AME.

This document does not constitute investment advice or a personal recommendation and does not consider in any way the suitability or appropriateness of the subject matter for the individual circumstances of any recipient. In providing a person with this document, Nikko AME is not treating that person as a client for the purposes of the FCA Rules other than those relating to financial promotion and that person will not therefore benefit from any protections that would be available to such clients.

Nikko AME and its associates and/or its or their officers, directors or employees may have or have had positions or material interests, may at any time make purchases and/or sales as principal or agent, may provide or have provided corporate finance services to issuers or may provide or have provided significant advice or investment services in any investments referred to in this document or in related investments. Relevant confidential information, if any, known within any company in the Nikko AM group or Sumitomo Mitsui Trust Bank group and not available to Nikko AME because of regulations or internal procedure is not reflected in this document. The investments mentioned in this document may not be eligible for sale in some states or countries, and they may not be suitable for all types of investors.

Oman: The information contained in this document neither constitutes a public offer of securities in the Sultanate of Oman as contemplated by the Commercial companies law of Oman (Royal decree 4/74) or the Capital Markets Law of Oman (Royal Decree 80/98), nor does it constitute an offer to sell, or the solicitation of any offer to buy non-Omani securities in the Sultanate of Oman as contemplated by Article 139 of the Executive Regulations to the Capital Market law (issued by Decision No. 1/2009). This document is not intended to lead to the conclusion of any contract of whatsoever nature within the territory of the Sultanate of Oman.

Qatar (excluding QFC): The Strategies are only being offered to a limited number of investors who are willing and able to conduct an independent investigation of the risks involved in an investment in such Strategies. The document does not constitute an offer to the public and should not be reproduced, redistributed, or sent directly or indirectly to any other party or published in full or in part for any

purpose whatsoever without a prior written permission from Nikko Asset Management Europe Ltd (Nikko AME). No transaction will be concluded in your jurisdiction and any inquiries regarding the Strategies should be made to Nikko AME.

United Arab Emirates (excluding DIFC): This document and the information contained herein, do not constitute, and is not intended to constitute, a public offer of securities in the United Arab Emirates and accordingly should not be construed as such. The Strategy is only being offered to a limited number of investors in the UAE who are (a) willing and able to conduct an independent investigation of the risks involved in an investment in such Strategy, and (b) upon their specific request.

The Strategy has not been approved by or licensed or registered with the UAE Central Bank, the Securities and Commodities Authority or any other relevant licensing authorities or governmental agencies in the UAE. This document is for the use of the named addressee only and should not be given or shown to any other person (other than employees, agents or consultants in connection with the addressee's consideration thereof).

No transaction will be concluded in the UAE and any inquiries regarding the Strategy should be made to Nikko Asset Management Europe Ltd.