



Albin Lohr-Jones/Pacific Press/LightRocket via Getty Images

J U N E 2 0 1 8

STARR
COMPANIES

**EXECUTIVE
INTELLIGENCE
BRIEF**

EXECUTIVE HIGHLIGHTS

The June edition of the *Executive Intelligence Brief* presents the following in-depth, strategic analyses:

CHINA MONTHLY REPORT

Beijing's toughening line in its trade confrontation with Washington reflects Chinese leaders' imperative not to be seen as bowing to foreign pressure. They also will try to exploit other countries' criticism of US trade policies as a way of billing China as a guardian of the global trading order.

SAUDI ARABIA/PRINCELY PARADOX

Recent events in Saudi Arabia have perplexed foreign investors. After a tour of the US, Crown Prince Mohammed bin Salman returned home only to disappear for a month — amid reports of an attack on a royal palace. Also puzzling was a crackdown on campaigners for women's rights — a cause the heir apparent has otherwise supported. Prince Mohammed is still dominant, but he will need to be wary of rival princes whom he elbowed aside on his way to the top.

INDIA/EMPLOYMENT GROWTH

Swept to power four years ago on a pledge to create 10 million jobs annually, Prime Minister Modi will be held to account by India's youthful electorate in the 2019 general election. While GDP growth has powered ahead since 2014, job-creation rates have plummeted. Modi has been stymied by political and bureaucratic resistance as well as global technological change.

CHINA/RENMINBI POLICY

Beijing has cautiously advanced the renminbi's global status, but enduring capital controls will prevent it from becoming a major reserve currency. The current strength of the renminbi against the US dollar, if it persists, could reverse the six-year downtrend in Chinese export prices in dollar terms, adding to global inflationary pressures.

RWANDA/ECONOMIC DEVELOPMENT

Less than a quarter-century after the genocide, Rwanda is now one of Africa's most dynamic economies. Pinning its hopes on knowledge-based services, Kigali is building the infrastructure for transport, telecoms and power generation. Paul Kagame, the authoritarian president, could stay in power for a further 16 years — a tenure that will in time create political tensions.



US, CHINA HEAD TOWARD TRADE SHOWDOWN

In a bid to head off a trade war that would be sparked by unilateral US tariff increases, senior American and Chinese negotiators attempted in early June to assemble a package that could redress some of the trade imbalance between the United States and China. Following bilateral talks, Chinese state media said that ‘concrete progress’ had been made, while warning that Beijing would not abide by the terms of a deal if Washington were to proceed with trade sanctions.

Beijing reportedly offered to purchase US agricultural, manufacturing, and energy products if Washington abandoned its threatened tariff increases. However, US Commerce Secretary Wilbur Ross and his delegation

CHINA MONTHLY REPORT



Despite the outward pleasantry, Sino-US trade talks in Beijing June 3 were tough

- Liu reportedly insisted, however, that the deal would be void if Washington proceeded with announced plans to levy tariffs on \$50 billion worth of Chinese-sourced products.
- Washington had earlier announced it would move ahead with tariff increases in mid-June in the absence of a broad agreement to slash the bilateral trade imbalance, as a means of pressuring Beijing to make fundamental changes in the way it manages China's economy.

Washington has demanded that Beijing stop coercing US firms to transfer technology to their Chinese partners, and to halt what the US administration considers unfair subsidies and assistance to Chinese firms as they compete globally for advanced technology. More broadly, Washington has sought Beijing's commitment to reducing the \$375 billion US merchandise trade deficit with China by \$200 billion.

By promising to increase purchases of US farm products, Chinese negotiators offered to ease regulations affecting agricultural imports. The Chinese team also reportedly promised to pressure state enterprises to buy more US natural gas, though it would likely require time for American firms to step up production. Nonetheless, larger Chinese energy purchases could have a limited impact on the overall US trade deficit, possibly diverting sales that currently go to other countries. The United States has only in recent years started to export oil and gas as companies exploit the shale energy revolution.

Beijing's toughening line in its latest negotiations with Washington — including a threat not only to back out of any purchasing agreements but also to retaliate for any US sanctions — reflects Chinese leaders' concern not to inflame domestic hardliners by appearing to submit to foreign pressure. Given the growing outcry from US allies about what they see as protectionist US trade policies, Beijing is likely to continue billing itself as a guardian of the global trading order as a way to line up support from other countries.

MILITARY BUILDUP CONTINUES IN SOUTH CHINA SEA

Washington is pushing back against stepped-up Chinese activity to militarize islands and reefs in the South China Sea, asserting that in doing so Beijing is 'out of step with international law'. Denouncing what he called Beijing's intimidation and coercion in its peripheral waters, Defense Secretary James Mattis revoked an invitation for the Chinese navy to participate in this summer's 26-nation Rim of the Pacific naval exercise in and around the Hawaiian Islands and Southern California. And on June 5, two US B-52 bombers flew near the Chinese-claimed Spratly Islands in a clear demonstration of Washington's resolve to counter Beijing's military buildup in the region.

departed Beijing on June 3 without an agreement having been reached:

- Chinese officials, led by Liu He, President Xi Jinping's top economic envoy, proposed a deal that would include Chinese companies' buying more US manufactured goods as well as soybeans, corn, natural gas, crude oil, and coal; Chinese and US officials estimated the value of the package could reach nearly \$70 billion in the first year.

President Xi has been pushing to invest more in naval and air forces to project China's influence abroad and assert its offshore territorial claims in Southeast Asian waters:

- This activity in recent weeks has included runway extension and deployment of military jamming equipment on Chinese-constructed artificial islands in the area.
- China began sea trials in May for its first domestically produced aircraft carrier, and has dispatched ships and submarines deep into the Indian and Pacific Oceans.
- The head of the US Navy's Indo-Pacific Command said that China is now capable of controlling the South China Sea 'in all scenarios short of war with the United States'.

Xi has defined control over China's peripheral waters as a vital national interest. Beijing's assertiveness in the South China Sea is thus a reflection of Xi's nationalistic ambitions, aiming to elevate China's global standing while building patriotic fervor among the Chinese populace to bolster the Communist Party's legitimacy. At the same time, believing they have no alternative to becoming able to defend China's strategic lines of communication at sea against interference not only by the United States but potentially by Japan and India, Chinese leaders are likely to continue moves to establish a more muscular Chinese naval presence in nearby waters as well as in the Western Pacific and the Indian Ocean Basin.

FEARS OF TECH ESPIONAGE REMAIN DESPITE ZTE DEAL

A possible thaw of Sino-US tensions in the telecommunications industry could set the stage for improved prospects in the broader tech sector, although congressional critics charge that American vulnerability to Chinese technological espionage is unchecked. US Commerce Secretary Wilbur Ross said on June 7 that Washington and Beijing had reached a deal allowing China's ZTE Corporation to return to business, requiring the telecommunications giant to make changes in management, pay a \$1 billion fine, and grant access to US enforcement officers to monitor its compliance with the settlement.

ZTE relies on a range of key US-sourced components including smartphone chips and optical elements for building its phones and cellular equipment. It had, however, effectively been shut down by a Commerce Department order in April to restrict its trade with the United States, following a US finding that ZTE had violated sanctions on dealings with North Korea and Iran and failed to carry out the terms of an earlier settlement.

The ZTE deal could have ripple effects in the broader tech sector. Qualcomm, a leading American multinational semiconductor producer and major chip supplier for ZTE phones, had been waiting on Chinese approval of a proposed merger with Dutch semiconductor company NXP. Consummation of the ZTE settlement could enable that deal to go forward. Nevertheless, opponents of the ZTE agreement in the US Congress have warned it would do little to safeguard against alleged Chinese corporate infiltration and national security espionage involving US telecom networks.

LOOKING AHEAD...

Revitalizing Party allegiance to Marxism. President Xi is ramping up a campaign to bolster the ideological fervor of Communist Party cadres ahead of key policy-setting meetings this autumn. Since April, Xi has been promoting Karl Marx as a rallying symbol for the nation, while pushing Party officials and state media to portray Marxist ideas as tools for standing up to alleged bullying by western powers and restoring China's greatness. In past years, the summer months have been the occasion for behind-the-scenes gatherings among senior leaders and influential Party elders attempting to develop consensus on future policy directions before the Party Congress in October or November. This year's third plenum of the 19th Party Congress is expected to set directives on reforms and economic policies.

Tightening control over information generated in China.

A new scientific data law is likely to create uncertainties for foreign groups about commercialization of scientific research conducted in China. A regulation recently approved by the State Council requires foreign scientists and foreign-invested institutions in China to obtain government approval before scientific data can be transferred abroad, or to other foreign parties within China. Foreign pharmaceutical and other tech companies are struggling to gauge how the new law will affect their partnerships with Chinese universities and local R&D centers. Because of the law's broad definition of what constitutes scientific data, some industry analysts warn that it risks curtailing international collaboration in cutting-edge research.

STARR COMPANIES

Every month, Starr Companies produces the *Executive Intelligence Brief*, as well as periodic *Special Bulletins*, for the exclusive benefit of our readers who need to understand the ever-changing risks and opportunities in managing their global businesses. Starr offers a wide range of insurance products — including coverages for such risks as political risk, energy, cyber, construction, marine, aviation, and more — to help mitigate potential problems and to allow you to manage your businesses and investments more securely. Starr also offers an *Intelligence Consulting Service* that can provide you with customized, top-to-bottom SWOT analyses of developments in specific countries and internationally, an understanding of which is crucial for effective decision making and risk mitigation.



See what the leading
insurance industry experts
at Starr can do for you.

To learn more about how we can support your needs, please visit our website or contact Gerald J. Komisar, Vice President, Starr Holdings, Inc.

Starr Companies

Global Risk Intelligence
399 Park Avenue
New York, NY 10022

Gerald J. Komisar

Vice President
jerry.komisar@starrcompanies.com
Office: 212-909-3625
Mobile: 571-292-4053

David J. Lay

Senior Director
david.lay@starrcompanies.com
Office: 646-560-0031
Mobile: 917-327-2267

This *Executive Intelligence Brief* has been written and approved by Starr Insurance Holdings, Inc., and the content is intended for informational purposes only. Neither Starr nor its subsidiaries, representatives or employees provide tax, legal or financial planning advice. You should consult your tax, legal and/or financial advisers regarding your or your company's own situation.

STARR
COMPANIES