In US-China tech war, investors bet on China's localisation push

REUTERS, Shanghai

As the US-China "tech war" widens, investors are betting on China's efforts to replace US technologies with indigenous applications to run networks in the state sector.

In recent months, local governments and state firms such as China Telecom have announced plans and procurements aimed at fostering a home-grown tech ecosystem to displace gear from the likes of Intel, Microsoft, Oracle and IBM.

An index tracking Chinese IT stocks has jumped nearly 30% this year, doubling blue-chip gains.

"We're seeing more US actions against China, and the future tends to be 'one world, two systems'," said Wu Kan, portfolio manager at Soochow Securities Co, who has invested in local tech leaders including China National Software & Service Co Ltd, China Greatwall Technology Group and Beijing Kingsoft Office Software.

"Any segment that faces decoupling risks represents big investment opportunities."

Some market watchers warn valuations of China tech stocks are getting frothy at roughly 60 times trailing earnings, noting Chinese firms could take years to catch-up to established global players. But Wu said price levels are justified by growth potential and direct government backing.

The Trump administration has recently strengthened restrictions on China's Huawei Technologies and sanctioned China-owned apps TikTok and WeChat. Washington also rolled out a "Clean Network" initiative to exclude Chinese tech firms perceived as threatening national security.

Under US pressure, Chinese vendors are poised to gain local market share, said Jie Lu, Robeco's China research head. "China will ramp up the investment and R&D intensity for critical industries such as semiconductors," Lu said.

Dongxing Securities predicted that a retooling would create a 1 trillion yuan ($144.46 billion)

REUTERS/FILE

Chinese and U.S. flags flutter near The Bund, before U.S. trade delegation meet their Chinese counterparts for talks in Shanghai, China.

opportunity over the next three years for local vendors.

Local governments are rushing to form industry federations to promote the use of Huawei's Kunpeng processing technologies.

Last week, China Unicom's Wuchang subsidiary struck a partnership with Huanghe Technology, which makes servers and PCs using Kunpeng technologies. In May, IT distributor Digital China said it was building plants to make PCs and servers using Kunpeng CPUs.

Also in May, China Telecom said it would procure up to 56,314 servers in 2020, one-fifth of them using Kunpeng and Hygon Dhyana chips, which rival US brands Intel and AMD in a move seen as a gesture of Beijing's localisation push.

"China must promote domestic replacement to avoid being strangled, even as its current technology lags by far," Zhang Chi, chairman of Xin Ding Capital said during an investor roadshow for Haigon Information Technology, maker of Hygon Dhyana chips.

Some 95% of Chinese servers use CPUs from Intel. It would be disaster, Zhang said, "if one day, Trump bans Intel from selling CPUs to China." Zhang expects Chinese government agencies to replace all computers using US chips in the next five years, echoing views of many analysts.

National Software & Service, which makes operating systems that compete with Windows and middleware that aims to rival IBM and Oracle, expects revenue this year to jump 70% to 10 billion yuan.

UK online job adverts slip back in mid-August

REUTERS, London

The number of online job adverts posted by employers in Britain - a measure of how quickly the labour market might recover from its coronavirus slump - has fallen back slightly, the country's statistics office said on Thursday.

Between Aug. 7 and 14, the total volume of online job adverts decreased to 58% from 62% of its 2019 average, partly offsetting a large increase in the previous week, the Office for National Statistics said.

The figures used job adverts provided by Adzuna, an online job search engine, the ONS said.

Britain, like many other economies, is facing the prospect of a sharp rise in unemployment as the government phases out its emergency job subsidy scheme, which is due to close at the end of October.

The ONS said 12% of the workforce was on furlough, based on a survey it conducted between July 27 and Aug. 9, little changed from the previous two-week period.

It also said the number of people going shopping continued to rise slightly in the latest week. Overall footfall was 68% of its level the same day a year ago, the highest since the week beginning March 16, just before the lockdown fully started.

10 more economic zones get the nod

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Other governing body members connected from the Prime Minister's Office and the Cabinet Division.

Meanwhile, Bangladesh Economic Zones Investors Association (Bezia) has sought intervention from the Prime Minister's Office (PMO) to address some hurdles to investment in the country's economic zones.

Potential investors were recently blindsided by the implementation of a 15 per cent value-added tax (VAT) imposed on land lease at economic zones.

Besides, investors are unable to attain bank loans against land taken on the rent due to unfavourable conditions of leasing policies, Bezia said in a statement.

"Our confidence and expectations were shattered when we unexpectedly received letters from the Bangladesh Economic Zones Authority (BEZA) on the VAT issue," read the statement.

This will increase their outlay, they added.

"Furthermore, we are keen to enjoy a tax holiday as provided for industrial units regardless of what they produce within the economic zones."

Bezia also said investors were facing indefinite delays in the handover processes for leased lands at economic zones and were also in uncertainty about whether the infrastructure and facilities would be made available there as promised by Beza.

This includes the construction of port facilities at Bangabandhu Sheikh Mujib Shilpa Nagar in Mirsarai, Chattogram, a project which has already far exceeded its completion deadline.

While investors had been exempted from VAT charges and were given a tax holiday for a certain period, the National Board of Revenue recently issued a notice declaring that the 15 per cent VAT would be imposed on land leasing from now on, according to Bezia.

The platform also said banks were uninterested in providing loans for investment in economic zones using leasing agreements as collateral since the potential borrowers did not own the land.

Inflation drops again

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An increase in the price of non-food items in urban areas led to an increase in the non-food inflation, he said.

"The decrease in food inflation may be reflecting the improved functioning of the supply chain with the reopening of the economy. Demand pressure on food items may also have eased following Eid."

Despite the decrease, food inflation is still high at 5.7 per cent year-on-year.

Rice prices increased in August. Ensuring an adequate supply of essential food items in the local markets will be critical for bringing food inflation down further to ease the sufferings of the poor and vulnerable population, the economist said.

Increase in non-food inflation in urban areas was driven by an increase in transport, pharmaceuticals and furniture, furnishing and household equipment. These resulted from both increases in cost and demand.

"The biggest concern is the acceleration in prices of pharmaceutical products. Inflation in this category is in double digits since April," Hussain said.

This needs to be looked into in greater detail because it is adding salt to the injuries caused by the health crisis.

The latter may have increased demand for pharmaceuticals, but the government did reduce duties on imported inputs.

"Local market prices are not reflecting these reductions," Hussain added.

Inflation ended the just-concluded fiscal year at 5.65 per cent, slightly overshooting the government's target of 5.5 per cent, owing to the dragging supply chain disruption caused by the pandemic-induced shutdown.

Food inflation was 5.56 per cent and non-food inflation 5.85 per cent.

Inflation target for this fiscal year is 5.4 per cent.

Bangladesh getting connected with Vietnam through sea route for the first time

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Currently, it takes around a month to reach export cargoes from Chattogram to the US. They are routed through Singapore; there is no direct feeder service between Chattogram and Vietnam.

Five feeder vessels would be deployed for the new weekly service, said FAMFA Chairman Islam, adding that they were launching the shipping service to cater to the increasing trade between China and Bangladesh.

Currently, there are three feeder services between Chattogram and China. With the new service, businesses will be able to transport their export and import cargoes on this route at a competitive rate.

CNC Line recently stated in its website that as an express service from China to Bangladesh, the BBX 2 promises shippers one of the best transit times in the market.

Nasir Uddin Chowdhury, chairman of the standing committee on port and shipping of the Bangladesh Garment Manufacturers and Exporters Association, hopes the new service would open up a new avenue for transshipping in the country's export cargo since the exporters had so far been dependent mostly on Singapore.