

Sunday, October 28th 2018

Dear Chris

Of the many infrastructure projects announced by the Hong Kong Special Administrative Region (SAR) government, a bridge has caught my attention. It can be seen on the approach to the HK airport, and is a few times longer the one that connects the Florida Keys to the mainland United States. This bridge connects up Hong Kong, Macau and Zhuhai, a city in Guangdong province in China.

In addition to this bridge, a high speed rail link is being built between Hong Kong and Guangdong. These projects are seen as wasteful by the locals of Hong Kong but are deemed critical and politically sensitive by the mainland Chinese security officials based inside Hong Kong, who are, in the long term, in control.

No matter if these projects are wasteful or not, they do illustrate both the benefits and the risks of being linked to China. The current slowdown in the Chinese economy has been driven by the rising anti-corruption drive by the government which has hurt the private corporate sector. And this is before the impact of the Trump tariff.

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With Hong Kong tied to this Chinese slowdown, we should anticipate more controversial infrastructure projects being announced to smooth this tepid growth.

The last thing the Chinese government wants is social unrest. Given the dominance of retail investors in China, the government will do everything it can to avoid a severe deceleration in the domestic economy. Fiscal spending, weakening the currency, and tight capital controls will be applied, with the US Administration continuing to object to the currency.

Infrastructure is the hallmark Xi Jinping's all-encompassing One Belt, One Road (OBOR) initiative. Each link, whether its in Hong Kong, somewhere in Central Asia or in OBOR's final destination, London, the Chinese government is laying the foundation for links that are as long as this new bridge.

See you back in London!

James