Trade Tensions Persist But Outlook For China Is Robust

China's GDP expanded faster than expected; US Secretary of the Treasury Steve Mnuchin prepares to visit Beijing.

An Historic Visit For China

Secretary of the Treasury Steve Mnuchin is scheduled to visit China for trade talks in early May. The visit is intended to smooth over escalating trade disputes brought on by President Trump's tariffs.

Analysts are positive about the trip, seeing it as the first steps in paving a path to future cooperation. "We view the openness to negotiations as a positive first step that could move the two sides to potential solutions on some issues," Ed Mills, Washington policy analyst at Raymond James, said in a note. Eurasia Group's Michael Hirson says Mnuchin's visit "may not carry sufficient weight with Beijing or with Trump to break the impasse" and resolution may require personal involvement from Trump and Xi.

The latest development in Trump's battle with Beijing is a proposed ban on Chinese investment in the US. The US Treasury is considering a ban on Chinese investment in sensitive technologies, a ban that would limit Chinese access to US intellectual property. The ban would fall under the jurisdiction of the International Emergency Economic Powers Act, passed in 1977, and could impact investment in things like semiconductors and 5G communications. Chinese state-supported businesses have already had to turn away from US investment so there is a precedent at work.

Meanwhile, China and Japan have made historic progress on trade relations. The two nations, long at odds with each other, have agreed to resume trade talks after an eight year hiatus. Foreign Minister Wang Yi is the first high-level official to visit Japan in effort to expand China's trade opportunities away from the US. The result of the meeting was positive, the ininister's left with plans to have President's Xi and Abe meet to discuss new ways the two nations could strengthen trade ties.

China Is Growing Faster Than Expected

Recent data shows Chinese GDP grew at a pace of 6.8% in the first quarter. This is a tenth hotter than expected and comes despite a slump in European and US expansion. Xing Zhihong, a spokesman at the National Bureau of Statistics says "The U.S.-China trade friction can't beat the Chinese economy," a feeling shared by investment managers at Value Partners Asia-Pacific Fund. In their view, China's economy is on an upward trajectory that tariffs will have little impact upon. According to them the effect of tariffs would be less than one tenth of one percent, a mere drop in the bucket for a nation expected to grow in the mid to high single digits over the next 5 years.

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“. . . if the current tariffs proposals were to be executed, its impact on China’s economic growth would likely be insignificant – reducing growth in gross domestic product (GDP) by less than a tenth of a percentage point. Trump’s latest threat to extend tariffs to cover an additional US$100 billion worth of Chinese goods is still manageable in the context of China’s economy.”

The Asia-Pacific Fund is a closed-end fund trading on the NYSE under the ticker symbol APB. It is managed by Value Partners, Asia's largest money management firm. Fund managers Norman Ho and

Philip Li expect to see trade tensions drag on sentiment in the near-term but longer-term fundamentals, on the macro and corporate level, favor growth making any market weakness a buy-on-the-dip