BUSINESS

THE INFORMER

EVENTS

Tuesday, June 11: British Chamber of Commerce breakfast: "Managing the impact of interest rate benchmarks reform".

American Chamber of Commerce breakfast: "Ushering in the future of American higher education". Bank of America Tower.

Wednesday, June 12: British Chamber of Commerce breakfast: "Greater Bay Area developments – Transport and logistics".

German Chamber of Commerce breakfast: "Payment evolution: Is money becoming digital?" Cofco Tower.

American Chamber of Commerce breakfast: "Trump and trade: The good, the bad, and the ugly". Bank of America Tower.

American Chamber of Commerce lunch: "Intellectual property and regulatory challenges in China for the F&B industry".

RESULTS

June 10 3rd Quarter: Tak Lee Machinery Holdings
Final: Hao Tian Development, Hao Tian Int'l Construction Investment Group, Speed Apparel Holding
AGM: Amber Energy, Baofeng Modern Int'l Holdings, Chanhigh Holdings, China Grand Pharmaceutical and Healthcare Holdings, Cosco Shipping Energy Transportation, Frontier Services Group, KK Culture Holdings, Nickel Resources Int'l Holdings, Qilu Expressway, Ruixin Int'l Holdings, Shanghai Electric Group, Tesson Holdings, Zhejiang Cangnan Instrument Group, Zhongsheng Group Holdings

June 11 Interim: Eco-Tek Holdings
Final: Hifood Group Holdings, Sun Kong Holdings
AGM: Dongjiang Environmental, First Tractor, Golik Holdings, Int'l Alliance Financial Leasing, Johnson Electric, Kin Pang Holdings, Labixiaoxin Snacks Group, Macrolink Capital Holdings, Riverine China Holdings, Shandong Chenming Paper Holdings, Shaw Brothers Holdings, Shougang Concord Century Holdings, SJM Holdings, Tong Ren Tang Technologies, Tongfang Kontafarma Holdings

June 12 1st Quarter: The Cross-Harbour (Holdings)
3rd Quarter: China All Nation Int'l Holdings Group, Media Asia Group Holdings

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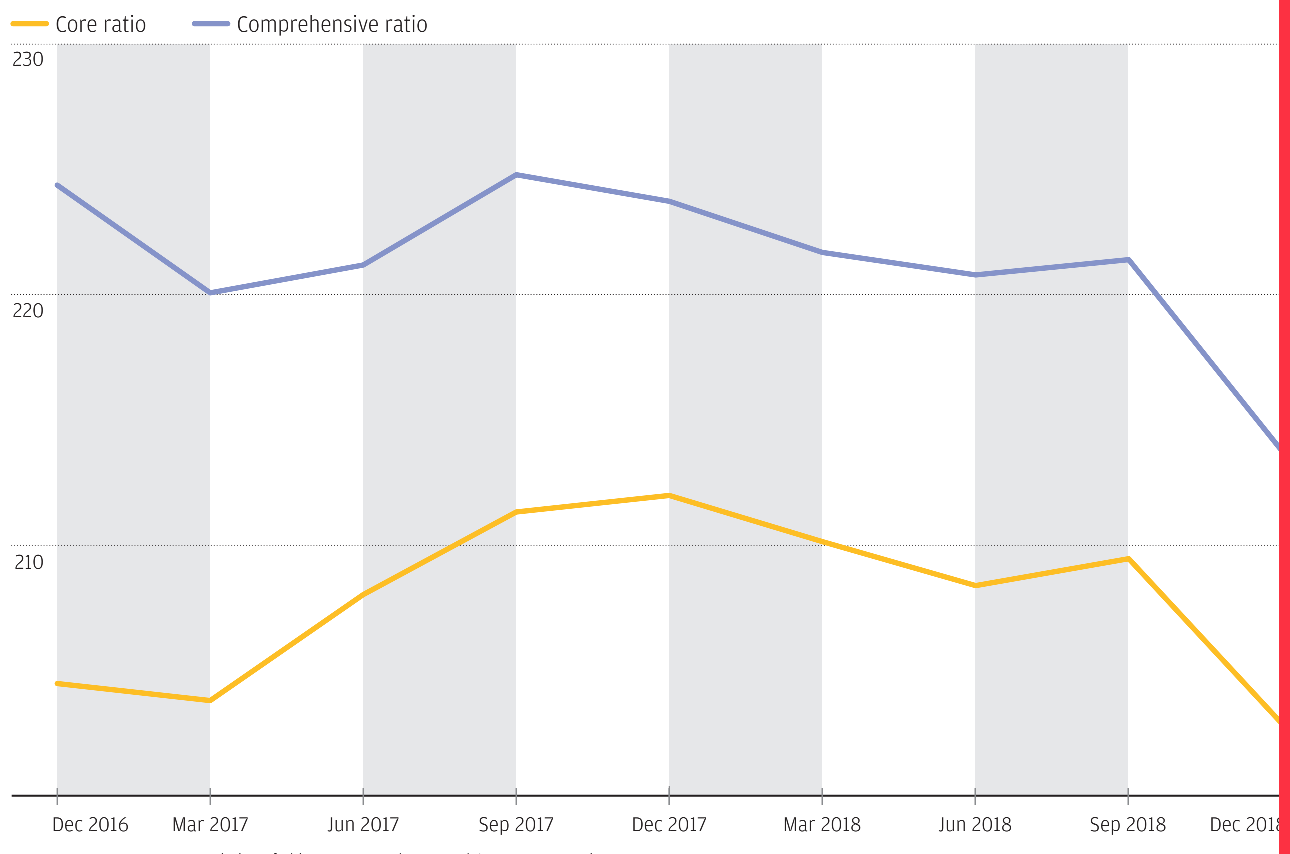
Chart of the day: Feeling the squeeze

Weighted average core and comprehensive solvency ratios for the mainland's life insurers (%)



Sources: CRIC, Insurance Association of China, company data, Moody's Investors Service

SCMP

The mainland's life insurers saw their solvency ratios decline in the fourth quarter of last year. Core solvency ratios dropped to 203 per cent from 212 per cent at the end of 2017 while comprehensive solvency ratios fell to 214 per cent from 224 per cent. However, both ratios are well above their respective regulatory minimums of 50 per cent and 100 per cent. The decline in the ratios reflects volatile capital markets with lower equity prices and interest rates during the period, according to a report by Moody's Investors Service. These developments reduced the industry's available capital because of lower fair value of equity investments and less investment income, the credit rating agency said.

HOSPITALITY

HYATT TO EXPAND ITS ASIA-PACIFIC PRESENCE

Hotel group says its strategy involves tapping the growing appetite for domestic travel on the mainland, which reached 5.54 billion trips last year

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Hyatt Hotels, one of the world's largest luxury hospitality companies, plans to double its capacity in regions that include China within the next four years, according to the head of the company's Asia-Pacific operations.

A key part of the group's strategy is domestic tourism in China, as data from the newly formed Ministry of Culture and Tourism shows the travel bug is beginning to hit a tipping point, according to David Udell, president of the Asia-Pacific for Hyatt.

The ministry announced that domestic travel grew 10.8 per cent last year to 5.54 billion trips from 2017. The travel boom generated revenue of US$764 billion, a 12.3 per cent surge from the year before.

Chinese international travel also saw a significant increase in 2018, with the number of outbound trips jumping 14.7 per cent to 149.7 million year on year.

"As of May 2019, we have 74 hotels, or 21,021 rooms, in Greater China today, and we plan to double our presence in China over the next four years, with a pipeline of 27,000 rooms, which represents nearly a third of our global development pipeline," Udell said.

Hyatt chief executive Mark Hoplamazian told CNBC last week that China's domestic market was of vital importance, noting that domestic tourists accounted for a big share of occupancy at its mainland hotels.

As part of the expansion, he said Hyatt planned to hire "tens of thousands" of new employees on the mainland.

Among new locations, the hotel group plans for Grand Hyatt properties in Hefei, the capital of Anhui province, the Shenzhou Peninsula in Hainan and Jeju Island in South Korea. It also plans to open Park Hyatt properties in Jakarta, Kyoto, Shenzhen, Niseko and Suzhou, while next year, Hyatt plans to open boutique Andaz hotel brand properties in Bali, Shenzhen and Xiamen.

In February, the firm announced a joint venture with BTG Homeinns Hotel Group, a Chinese travel services provider and hotel operator, to develop a brand to service the upper-middle segment of domestic travellers.

The venture plans to open new hotels in major mainland cities over the next five years.

Hyatt is not alone in its expansion plans for China.

This year, Hilton Hotels chose Chengdu to launch its new Canopy-by-Hilton brand in the Asia-Pacific, which aims to create a hotel experience for guests wanting local flavour.

> **We plan to double our presence in China over the next four years**
>
> DAVID UDELL, HYATT HOTELS

In April, Intercontinental Hotels Group announced the opening of a hotel in Zhuhai, adding it had a further 341 hotels in the pipeline for China, targeting second- and third-tier cities.

Most Hyatt hotels are managed by the group working in partnership with separate owners. Only a small percentage are wholly owned hotels, and these are usually flagship properties.

The company has reported growth in its franchised operations, where a third party owns and manages the property, paying a franchise fee to Hyatt.

Last year, such fees from management and franchise agreements represented more than half of Hyatt's global gross earnings.

The model underscores the group's growth strategy in the Asia-Pacific that is focused on management and services rather than capital-intensive assets.

Revenue for Hyatt has remained flat in recent years. The company reported revenue of US$4.46 billion in 2017, compared to US$4.45 billion in 2016.

Net income amounted to US$761 million last year, up from US$390 million in the prior year.

HOUSING

Tariff war pushes Chinese property buyers to Japan

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Japan's property market appears to be benefiting from the worsening US-China trade war, as a rising number of affluent mainlanders shift their attention to assets in Tokyo ahead of next year's Olympic Games.

Property portal Juwai.com said its data showed interest by Chinese buyers in Tokyo had risen by a factor of 10 in the first quarter, compared with the number of inquiries made a year earlier.

"Some Chinese buyers are holding back from residential real estate in the US because of the trade war," said Carrie Law, chief executive of Juwai.com. "Events in the trade war have been unpredictable. They worry that after buying US property, they might later have problems with their visa or other issues that make it hard for them to keep that property."

Juwai.com said investors were optimistic about price growth in the greater Tokyo area, while the island nation's closer proximity was also considered a positive when managing overseas investment properties.

"US property was the most popular [investment] among Chinese in 2014. The trend has changed in recent years, particularly this year," said Alex Yeung, founder of property agency Century 21 Culture Centre Property. "Instead of Britain, the US, Australia and New Zealand, they have now come to [focus on] Asia, mainly Thailand, Malaysia and Japan. Japan saw rapid growth."

Yeung, who has written three books about investing in Japanese property, said stronger demand from mainland investors and local Japanese had helped revitalise the housing market.

Tokyo home prices rose 7 to 10 per cent on average last year, while in Osaka they jumped 12 per cent, according to official data.

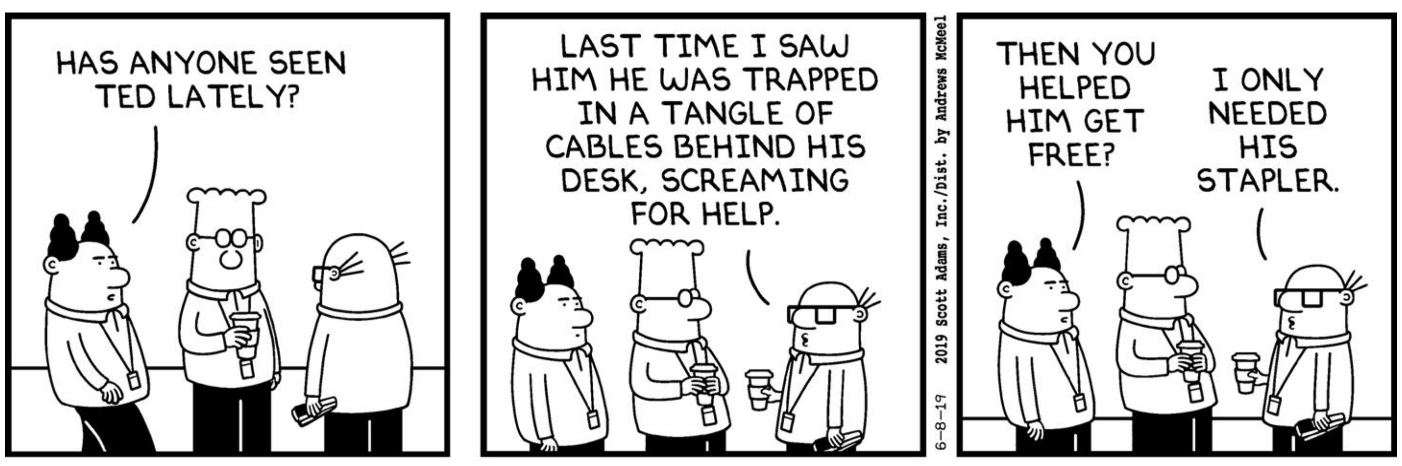
Prices could climb up to 20 per cent next year, Yeung said.

He said mainlanders were shying away from Canada, Australia and other markets in the West amid what they perceived as a less welcoming environment.

Aside from the trade war, he cited the detention of Huawei Technologies chief financial officer Sabrina Meng Wanzhou in Vancouver, as well as Australia's stricter immigration policies, as leading mainland investors to question traditional investment destinations.

"But then [mainlanders] need somewhere to invest. So they come to Tokyo and Osaka, which are some of the most liveable cities in Asia in terms of transport and social order," Yeung said.

DILBERT



COMMENTARY

The shadow of regulation looms large over big tech

It was once hard to see governments taking on the likes of Facebook and Google, but not now

Howard Yu

At anyone's political height, it's hard to imagine how they might fall. At the height of Apple, Google, Facebook and Amazon, it was hard to imagine any government daring to take on companies whose mottoes were "Don't be evil", "Making a dent in the universe", "Your margin is my opportunity" or "Move fast and break things".

At the height of the golden dream of California, Peter Thiel, co-founder of PayPal, wrote in his 2014 bestseller *Zero to One* that "competition is for losers". Thiel advises his readers that "if you want to create and capture lasting value, look to build a monopoly". The *Wall Street Journal* reprinted the book excerpt, and Stanford University invited Thiel to share his business insights with undergraduates by teaching a class known as "CS 183: Startup".

That monopolistic behaviour, common in the age of the "platform economy", is well understood. Economists and business researchers routinely use the "network effect" to describe the value of a platform, which largely depends on the number of users on either side of the exchange, differing from a traditional economy. The more riders a ride-sharing platform has, for instance, the more attractive it becomes to drivers, leading even more people to use it. And once a platform reaches a certain size, the thinking is that it becomes too dominant to unseat. In other words, a platform economy has no room for multiple players; the market equilibrium will forever move towards a monopoly. That's how Google dominates search engines, Facebook rules social networks, Twitter towers over microblogging, and Netflix, YouTube and Spotify have cornered the movie-streaming, video-sharing and music-streaming markets.

Any data scientist would further confirm that data sets become geometrically more valuable when you combine them. Combined data sets often reveal insights and business opportunities that could not have been imagined previously. When Google introduced Gmail, it built a data set of identity in addition to its search engine data set. Combining the two data sets created a geometric increase in value, as future AdWords ads would provide more value to advertisers and, by extension, to Google.

The same thing happened again with Google Maps, which enabled Google to tie identity and purchase intent to location. In each instance, it was only after Google had introduced a new service that the company could then find new scenarios for which combining sets of user data would be even more powerful.

That dream of universal domination is, however, on the edge of turning into a nightmare.

The Justice Department is claiming jurisdiction over Apple, potentially following the Dutch investigation into it for favouring its own apps, like Apple Music, over third-party apps such as Spotify, in addition to the 30 per cent commission the iTunes Store already levies.

More drastic is perhaps India, where new regulations have been designed to tame the "platform economy": a platform maker cannot participate as a player and must stay impartial. Amazon sells its own private labels, AmazonBasics, around the world, but in India, it will soon only operate its marketplace and nothing else. It's the same logic that previously only radicals such as Elizabeth Warren or Tim Wu dared voice. Today, governments are considering enacting such policies.

In Europe, consumers must give consent before a company can start collecting personal data, and companies must explain why they are collecting the data and how they are using it. They are not allowed to use that data for different purposes later on.

There has been talk, and even a legal proposition mounted in Germany, of forbidding Facebook from integrating Messenger, Instagram and WhatsApp as it seeks to combine user data from different sources – another instance where an investigation by the Federal Trade Commission might follow.

Google's unofficial motto was once "Don't be evil".

> **One day, the trillion-dollar valuation will come crashing down under its own weight**

Yet another German initiative proposes that dominant platforms must share bulk, anonymised data with competitors, meaning all transport firms would have access, for example, to Uber's information about traffic patterns in Europe.

Activist Rebecca Solnit likes to say: "Every protest shifts the world's balance." When Silicon Valley has wilfully squandered its goodwill and the tech giants' likeability has sunk irreversibly low, the little guys, the little nations, will begin to erode their positions slowly and gradually until one day, the trillion-dollar valuation will come crashing down under its own weight.

Howard Yu is the author of LEAP: How to Thrive in a World Where Everything Can Be Copied and LEGO professor of management and innovation at the IMD Business School in Switzerland

Business ties bear the burden amid trade war

Leveraging long-standing business relationships is not only a potential survival tactic for US companies, but could help keep retail prices under control.

"The people that have these relationships work with each other. It's not a zero-sum view of doing business," said William Zarit, former minister for commercial affairs at the US embassy in Beijing, noting that both sides could agree to cut their share of profits to get through this period.

"Eventually, if this keeps going, the consumer is going to have to absorb at least part of the tariffs, but that's one way to work together to minimise the damage to the market."

Green is hoping to reach an agreement to share the burden with his China-based producers if the tariffs proceed.

In the artificial flower decoration industry, which only represents about US$700 million of the more than US$550 billion in Chinese imports that made their way into the US last year, the hit from the tariffs could cause a shake-out as big retailers look to cut out middlemen such as Green.

Switching supply chains is not possible for Green. China dominates the world's artificial flower market and has special machines needed to make the products.

Of US imports of artificial flowers, most came from mainland China and Hong Kong, which became the world's artificial flower hub in the 1950s. The making of such flowers moved to the mainland, where output dwarfs the second-largest source of US imports, Thailand, responsible for just more than US$3 million annually.

Looking ahead, Green is trying to figure out how he will make ends meet if the tariffs go through and he cannot get an exception.

"I'll take a huge hit, and then the US consumer is going to take a hit," he said of the tariffs. "Everybody's going to pay."