China News in Brief
July, 2015

Compiled by Yimin Zhang, University of Shanghai for Science and Technology and distributed free of charge.
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Selling the Beach to Beijing --- Miami developers and agents look to China as South American buyers slow down, aiming to understand a new clientele
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Industrial profits slump
Premier Li’s visit opens new chapter in China-EU economic ties
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Chinese premier hails BRICS bank
First Silk Road Cities Cooperation Forum bears fruit in Venice
More Chinese firms in Fortune 500
Foreign investors to boost China local government bonds: Pitch
Yuan hit by turnaround in the market
China pledges to stabilize RMB exchange rate
China’s holdings of US Treasuries rise for third month
China raises gold reserve for first time in six years
Deficit hits $104b in first half
Foreign money pours into Shanghai FTZ
China’s foreign trade remains lackluster, but outlook brightens
China expects fresh policy support for trade growth
Chinese entrepreneurs turn to e-commerce to beat foreign trade slump
High-tech products face more probes
China boosts foreign trade amid restructuring efforts
FCB to open door to foreign capital
19,470 firms sign up for three new FTZs
The New Mission for Multinationals
Right now for SMEs to invest abroad
China outbound direct investment surges in H1
Consumer inflation picks up

China's consumer inflation remained at a low level while industrial deflation lingered in June, raising speculation that policymakers may encourage more bank lending to shore up manufacturing and prevent risks arising from the stock market turbulence. The Consumer Price Index, the main gauge of inflation, climbed to 1.4 percent in June from 1.2 percent in May, driven largely by the 1.9 percent year-on-year growth in food prices, the National Bureau of Statistics said on Thursday. During the first six months of the year, the CPI rose 1.3 percent from a year earlier, much less than the annual targeted ceiling of 3 percent. The People's Bank of China has cut the one-year deposit and lending rate by 25 basis points and cut RRR for a targeted group of financial institutions on June 28 to stabilize growth and partly help boost stock market sentiment.

Source: CHEN JIA: Consumer inflation picks up, China Daily, 2015-07-10

China can promote healthy development of capital market: Premier

BEIJING - China has the confidence and capability to promote the healthy development of its capital market and provide a sound financial environment for economic growth, Premier Li Keqiang said. "China is and will face various challenges and risks during economic expansion. We will never take them lightly," Li told a conference on the current economic situation on Thursday, according to a cabinet statement released Friday. "We are confident that the government can ward off any regional or systemic risks in the economy and ensure we have an open, transparent, stable and healthy capital market," said the premier. Li's remarks came as China is trying to arrest a stock market nosedive that devoured huge amounts of wealth in a three-week plunge. For the premier, the country's economic fundamentals are sound. Since the second quarter of 2015, the Chinese economy has been operating steadily with signs of improvement, according to Li. "Economic vitality is increasing and market confidence is rebounding," he said. However, the premier warned that the foundation of the economy is not yet solid and external uncertainties are increasing. "Therefore, we need to make more efforts to underpin economic growth," said Li. He reiterated the government's determination to overhaul economic structure, cut red tape, encourage entrepreneurship and innovation, improve people's livelihood, and boost public services.

Source: Xinhua: China can promote healthy development of capital market: Premier, 2015-07-11

China's 2nd qtr growth remains at 7% [UPDATE1]

China's economy grew 7 percent in the April-June quarter from a year earlier, unchanged from the previous three months, official data showed Wednesday, at a time of jitters over the possibility that the recent stock market turmoil might dent domestic consumption further. China has set its gross domestic product growth target for 2015 at around 7 percent, the lowest in 11 years, as it seeks to improve the quality of development over quantity. "The national economy has been running within proper range and the major indicators picking up steadily, showing moderate but stable and sound momentum of development," said the National Bureau of Statistics, which released the data. But, regardless of China's efforts to bring a structural change in its economy, the pace of growth is not sufficient -- as evidenced by the central bank's cuts of key interest rates four times since last November, most recently late last month. Weighed down by a cooling property sector and overcapacity, China has been struggling with dwindling demand. Earlier this week, China's customs office said imports fell for an eighth straight month in June, down 6.1 percent from a year earlier. Moreover, Chinese stock prices had fallen by about a third from their peak in mid-June and the volatility in its equity markets likely to remain in place for some time could hurt consumer confidence.


GDP growth is stable, structural changes are on the way

China's gross domestic product expanded by 7 percent in the second quarter compared to the same period last year according to data released on Wednesday by China's National Bureau of Statistics. It maintains the same
growth rate as the first quarter and matches the government's target for the full year. Under stable growth, we can see structural changes.

First, growth is mainly driven by the tertiary industry, whose year-on-year expansion is 8.4 percent, compared with 7.9 in the first quarter. This may be related to the stock market and the real estate sector. In the second quarter the value of the stock market is increasing rapidly, which helps increase profits of financial institutes. After the new mortgage policy, sales in the real estate sector rebounded significantly, and this helps the growth of the tertiary industry. The second industry growth rate is only 6.1 percent, which is another lower level compared with the first quarter, suggesting that traditional industry is still facing structural adjustment. As to the structural contributions of investment, consumption and export, the National Bureau of Statistics released only the contribution of consumer spending. The annual total consumer spending is about 60 percent. Compared with the second quarter of last year, the ratio is up 5.6 percent, about 4.2 percentage points contributing to the ultimate growth rate of GDP. According to data on imports and exports in the first half, we can infer that the contribution of net exports to GDP has also improved. So we may conclude that the demand of domestic and foreign is the main driving force of GDP growth.

But there are some worries. First, relatively ample liquidity has caused a prosperous capital market, but the money has hardly flowed into the real economy. However, the use of leverage causes bubbles and as the deleverage process goes on in the second half of the year the positive effect to the tertiary industry cannot be so strong. Second, in order to remove the hidden danger of a possible burst of the real estate bubble, the sector can hardly go on to be the main driver of GDP growth. Third, the traditional pattern of economic growth is to motivate private funds by tax and bank saving into government investment, but with the decrease of investment effectiveness and the need of removal of excess capacity, the decrease of investment can drag on economic growth for quite a long time. In short, the economy still suffers impact from negative factors such as the removal of product capacity of the manufacturing sector and weakening of real estate, we also note that there are some short-term positive changes, such as stabilized real estate sales and warmer consumption.

Looking forward, although we do not deny that the current economy still has some downward pressure, there are reasons for optimism: First, the government on many occasions stresses a steady growth and many executives set the tone for the whole year's GDP growth rate of around 7 percent. Since last year, China's leaders are in line with the previous "new normal" statement and stressing "bottom line thinking", to ensure that the economy does not suffer systemic risk, but also give full consideration to employment needs. The debt exchange, the promotion of PPP in infrastructure and other stabilization measures will make investment at an acceptable level. Secondly, with new mortgage policy, repeatedly cutting interest rates and decreasing bank deposit reserve ratios, domestic real estate sales will show signs of recovery in the short run. Finally, the exchange rate is an important factor affecting external demand, but over the past few months the factor is gradually improving. Although external demand uncertainty remains strong, exports in 2015 will remain high. It is worth noting that since the end of June the stock market fell sharply, which may affect consumption, especially real estate sales. As the government takes action to save the stock market, the market is temporarily stabilized and likely to continue to rise. But the uncertainty remains. The government needs to focus on building market rules, which requires patience. Meanwhile, to maintain stable economic growth may be important to avoid systematic risk, but excessive administrative intervention delayed restructuring of the economy. How to balance two sides of administrative intervention requires skills. The author is a lecturer at the Management School of the Shanghai University and a research fellow at the China Europe International Business School Lujiazui International Finance Research Center. The views do not necessarily reflect those of China Daily.

Source: Wu Jiangang: GDP growth is stable, structural changes are on the way, China Daily, 2015-07-16

**China eyes foreign trade in stabilizing growth**

BEIJING - China will further improve its foreign trade environment to ensure steady growth of imports and exports, and cultivate its advantages in international competition. Clearance efficiency in port customs will be
further increased, and a nationwide clearance system established, according to a statement released after an executive meeting of the State Council presided over by Premier Li Keqiang on Wednesday. The cabinet stressed increasing imports of advanced technology, equipment and key components, as well as foreign consumer goods with great domestic demand, in an effort to promote industrial upgrades. It also pledged to stabilize the exchange rate of the yuan at a reasonable and balanced level, and to facilitate renminbi settlement to help enterprises avoid risks in cross-border trade. The cabinet also stressed more support to small businesses, as well as the development of emerging markets. Administrative and service fees in import and export links will be regulated to prevent arbitrary charges. Enterprises which successfully pass port inspections should be exempt from certain charges. The meeting also highlighted support for cross-border e-commerce and foreign trade service companies, to facilitate the stable development of imports and exports and boost economic growth.

Source: Xinhua: China eyes foreign trade in stabilizing growth, 2015-07-16

**China Faces Hurdles to Growth Goals**

"In the short term, the government was successful in maintaining growth momentum," said Credit Agricole CIB economist Dariusz Kowalczyk. "But there's a price of course in the long run." The drawbacks include the prospect of more nonperforming loans, rising bond defaults and greater financial instability, Mr. Kowalczyk said, pointing to commercial banks' 52.1% year-over-year increase in nonperforming loans in the first quarter. "And reform's taken a back seat. That's obvious." "The past two years were no good for manufacturing companies, and 2015 is worse," said Xu Pu, an iron-ore importer from China's Anhui province. "It's not that banks lack money. They just don't want to lend."


**China: Experts Question China's Economic Policy**

China reported Wednesday that its economy grew at a steady seven percent in the second quarter, which is better than most outside analysts had expected, but in line with the government's target for 2015. Last year's China's 7.4 percent growth rate was the lowest in 24 years, and so far 2015 is on track to be even lower. But just how much China's economy is slowing remains unclear, and outside analysts have long been skeptical of the official statistics. Tuesday's economic numbers referred to the period before June 30 when the stock market was on the rise. The market peaked on June 12, followed by a tumble, in which it quickly lost $4 trillion - a 32 percent drop. The impact of the market crisis may be clear in the next quarter, analysts said.

China's premier, Li Keqiang, in recent days has reassured investors that the country's economic fundamentals remain strong. But the government will take more precise and effective measures to promote stable and reliable economic growth. That reassurance is important, because the market losses reflected poorly on the government's economic policies. "The losses of many middle-class families in the crisis will truly reduce their trust on the credibility of the Chinese government, and that will affect their consumption and investment decisions," said Liu Jianxiong, associate professor at the Institute of Economics at the state-run China Academy of Social Sciences.

Beijing's moves that imposed strict new rules on selling shares, froze trading on many stocks, and forced investment funds to pump in billions of dollars stopped the steep market fall. But it also led to more uncertainty among investors. Liu, who works for a government owned think-tank, explained the credibility issue. "The Chinese government needs to reflect on its role in the stock market," he said. Liu said that the state media organs that had praised the Chinese stock market's rapid rise over the past year need to reassess their approach. "The propaganda machines in China also need to take a more professional, rational and objective stand on the stock market, or they will play a misleading role and cause loss to those ordinary people who trust in their opinions on stock market, he said.

Premier Li has promoted policies aimed at enhancing domestic consumption to make up for the business
losses suffered by Chinese industries from declining exports. Analysts say the $4 trillion stock market losses hit millions of consumers who are important to those plans. "The government is trying to avoid a spiraling of prices. Occasional ups and downs are fine. But a spiral can hit the ability of investors to repay loans, and harm banking liquidity," said Song Zhongzhi, assistant professor of finance at Cheung Kong Graduate School of Business in Beijing. But those efforts to halt the market losses are also seen as presenting new challenges for local companies. Officials had promoted the stock market as a place where small companies that struggled to get loans from traditional banks could raise money from investors. But already, some routine financial activities, like issuing initial public offers, refinancing and stock acquisitions have come to a halt. And that intervention has seeded confusion about what role the stock markets will play going forward. Trading is still suspended on about one-fifth of all companies listed on China's two stock exchanges, and government rules are barring big investors and companies from selling shares for the next six months. - VOA


Science 'critical' to economic upgrade

Premier Li Keqiang highlighted the "critical role" of technological innovation in driving China's economic transformation during a scientific seminar on Monday. Only by giving full play to scientific and technological progress can the nation's economy break through existing bottlenecks, he said. "Chinese people cannot depend only on hard work," he told hundreds of top scientists from the Chinese Academy of Sciences at the Great Hall of the People. "We should also depend on intelligence, which comes from science and technology." Monday's seminar was held to celebrate the 60th anniversary of the establishment of the academic division of the Chinese Academy of Sciences. The premier said it is normal for Chinese economic growth to slow down, especially considering its size. "Given the fact that it would be a great job for an economy of several trillion dollars to continue expanding at an annual growth of 3 or 4 percent, China's 7 percent growth is already a miracle," he said.

Li acknowledged that China is facing a number of challenges, ranging from higher labor costs to a strain on land and energy resources. China is also feeling a double pinch from the re-industrialization of developed economies and the stepped-up industrialization of other developing economies, Li added. He referred to the fact that in supermarkets in developed countries, low value-added and labor-intensive products made in China have been increasingly replaced by those from developing countries of Southeast Asia and South America. "We used to rely on large amounts of exports and imports to promote made-in-China products in the global market and, for a long period of time, it was a main support for the Chinese economy," he said. "Now technological innovation is playing the decisive role in economic development." Li said it was unfortunate that China missed several chances to join the scientific and technological revolution. "It is time for us now to reshape our new competitive strength".

He called for greater efforts from the country's scientists and technicians to achieve breakthroughs in key technologies while speeding up the industrialization of scientific and technological production. China is still suffering from poor research and development capability in the high-tech field, with its imports of chips topping $230 billion in 2013. Zhao Xinli, deputy director of the Ministry of Science and Technology's China Science and Technology Exchange Center, said scientific advances can directly promote productivity, which will bring changes to the methods of production and add incentives to the economy. The use of WeChat, a popular instant messaging system in China, has changed the market for traditional cellphone messages and generated growth in data service for telecom companies, he said. He suggested government subsidies for scientific research be allocated according to the importance and urgency of the project, instead of being evenly used among different projects.

Source: XING ZHIGANG/ZHAO YINAN: Science 'critical' to economic upgrade, China Daily, 2015-07-29

Country Forecast China July 2015 Updater

The Economist Intelligence Unit expects the economy to grow by 6.8% in 2015 as slowing expansion in investment—especially in property—holds back the pace of growth. As efforts to rein in the expansion of credit
continue to cause investment growth to slow, economic expansion will continue to decelerate in the next few years, falling to 5.7% by 2019.

Country forecast overview: Key indicators

<table>
<thead>
<tr>
<th>Key indicators</th>
<th>2014</th>
<th>2015</th>
<th>2016</th>
<th>2017</th>
<th>2018</th>
<th>2019</th>
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<tbody>
<tr>
<td>Real GDP growth (%)</td>
<td>7.4</td>
<td>6.8</td>
<td>6.5</td>
<td>6.1</td>
<td>6.0</td>
<td>5.7</td>
</tr>
<tr>
<td>Consumer price inflation (%; av)</td>
<td>2.1</td>
<td>1.5</td>
<td>2.2</td>
<td>2.9</td>
<td>3.2</td>
<td>3.0</td>
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<tr>
<td>Budget balance (% of GDP)</td>
<td>-1.8</td>
<td>-2.5</td>
<td>-2.8</td>
<td>-2.8</td>
<td>-2.9</td>
<td>-2.9</td>
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<tr>
<td>Current-account balance (% of GDP)</td>
<td>1.5</td>
<td>3.2</td>
<td>2.8</td>
<td>1.7</td>
<td>0.8</td>
<td>0.0</td>
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<tr>
<td>Commercial bank prime rate (%; year-end)</td>
<td>5.6</td>
<td>4.9</td>
<td>5.4</td>
<td>5.6</td>
<td>6.0</td>
<td>6.2</td>
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<tr>
<td>Exchange rate Rmb:¥100 (av)</td>
<td>5.80</td>
<td>5.04</td>
<td>4.91</td>
<td>4.90</td>
<td>4.99</td>
<td>5.09</td>
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Country forecast overview: Business environment rankings

<table>
<thead>
<tr>
<th>Value of index</th>
<th>Global rank</th>
<th>Regional rank</th>
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<tbody>
<tr>
<td>6.03</td>
<td>6.29</td>
<td>49</td>
</tr>
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</table>

a Out of 10. b Out of 82 countries. c Out of 17 countries: Australia, Bangladesh, China, Hong Kong, India, Indonesia, Japan, Malaysia, New Zealand, Pakistan, Philippines, Singapore, South Korea, Sri Lanka, Taiwan, Thailand and Vietnam.

China’s business environment score improves in 2015-19, but because of greater improvements elsewhere its global ranking slips. Improvements in financing and infrastructure will be offset by a deterioration in macroeconomic stability and policy towards foreign investment.

2017-19: Energy prices move closer to market rates, freeing up funds for investment in electricity infrastructure.

Fact sheet

<table>
<thead>
<tr>
<th>Annual data</th>
<th>2014a</th>
<th>Historical averages (%)</th>
<th>2010-14</th>
</tr>
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<tbody>
<tr>
<td>Population (m)</td>
<td>1,355.8</td>
<td>Population growth</td>
<td>0.5</td>
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<tr>
<td>GDP (US$ bn; market exchange rate)</td>
<td>10,432.3b</td>
<td>Real GDP growth</td>
<td>8.5</td>
</tr>
<tr>
<td>GDP (US$ bn; purchasing power parity)</td>
<td>18,256.0b</td>
<td>Real domestic demand growth</td>
<td>8.9</td>
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</tbody>
</table>
GDP per head (US$; market exchange rate) 7,695  Inflation 3.2
GDP per head (US$; purchasing power parity) 13,466  Current-account balance (% of GDP) 9.6
Exchange rate (av) Rmb:US$ 6.14b  FDI inflows (% of GDP) 4.1

a Economist Intelligence Unit estimates. b Actual.

Foreign trade: China's trade surplus (in balance-of-payments terms) increased to an estimated US$455.8bn in 2014, from US$351.8bn in 2013. Exports stood at an estimated US$2.3trn in 2014, while imports were worth around US$1.8trn.

<table>
<thead>
<tr>
<th>Major exports 2014 % of total</th>
<th>Major imports 2014 % of total</th>
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<tbody>
<tr>
<td>Telecommunications equipment 12.0</td>
<td>Electrical machinery 17.7</td>
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<tr>
<td>Electrical machinery 11.9</td>
<td>Petroleum &amp; petroleum products 13.5</td>
</tr>
<tr>
<td>Office machines 9.5</td>
<td>Metalliferous ores and scrap 7.9</td>
</tr>
<tr>
<td>Clothing &amp; apparel 8.0</td>
<td>Professional instruments 4.4</td>
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<tr>
<th>Leading markets 2014 % of total</th>
<th>Leading suppliers 2014 % of total</th>
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<tbody>
<tr>
<td>US 16.9</td>
<td>South Korea 9.7</td>
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<tr>
<td>Hong Kong 15.5</td>
<td>Japan 8.3</td>
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<tr>
<td>Japan 6.4</td>
<td>US 7.9</td>
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<tr>
<td>South Korea 4.3</td>
<td>Taiwan 7.7</td>
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Data summary: Global outlook

Global outlook

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<tbody>
<tr>
<td>World GDP growth</td>
<td>4.0</td>
<td>2.6</td>
<td>2.1</td>
<td>2.2</td>
<td>2.3</td>
<td>2.4</td>
<td>2.8</td>
<td>2.8</td>
<td>2.9</td>
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<tr>
<td>US GDP growth</td>
<td>2.5</td>
<td>1.6</td>
<td>2.3</td>
<td>2.2</td>
<td>2.4</td>
<td>2.4</td>
<td>2.5</td>
<td>2.4</td>
<td>2.6</td>
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<tr>
<td>EU28 GDP growth</td>
<td>2.1</td>
<td>1.8</td>
<td>-0.4</td>
<td>0.2</td>
<td>1.4</td>
<td>1.7</td>
<td>1.9</td>
<td>1.9</td>
<td>1.9</td>
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<tr>
<td>Asia &amp; Australasia growth</td>
<td>6.9</td>
<td>3.5</td>
<td>4.0</td>
<td>4.0</td>
<td>3.3</td>
<td>3.9</td>
<td>4.1</td>
<td>3.7</td>
<td>3.8</td>
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<tr>
<td>Data summary: Gross domestic product, current market prices</td>
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<table>
<thead>
<tr>
<th>Gross domestic product, at current market prices</th>
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<tbody>
<tr>
<td>2010&lt;sup&gt;a&lt;/sup&gt;</td>
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<tr>
<td>-----------------</td>
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<tr>
<td>GDP&lt;sup&gt;c&lt;/sup&gt;</td>
</tr>
<tr>
<td>Private consumption</td>
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<tr>
<td>Government consumption</td>
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<tr>
<td>Gross fixed investment</td>
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<tr>
<td>Exports of goods &amp; services&lt;sup&gt;d&lt;/sup&gt;</td>
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<tr>
<td>Imports of goods &amp; services&lt;sup&gt;d&lt;/sup&gt;</td>
</tr>
<tr>
<td>Stockbuilding</td>
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<td>Domestic demand</td>
</tr>
</tbody>
</table>

Expenditure on GDP (US$ bn at current market prices)

| GDP<sup>c</sup> | 6,005 | 7,442 | 8,471 | 9,519 | 10,432 | 11,120 | 12,035 | 13,058 | 14,083 | 15,116 |

<sup>a</sup> Actual. <sup>b</sup> Economist Intelligence Unit estimates. <sup>c</sup> Economist Intelligence Unit forecasts.
<table>
<thead>
<tr>
<th></th>
<th>2010&lt;sup&gt;a&lt;/sup&gt;</th>
<th>2011&lt;sup&gt;a&lt;/sup&gt;</th>
<th>2012&lt;sup&gt;a&lt;/sup&gt;</th>
<th>2013&lt;sup&gt;a&lt;/sup&gt;</th>
<th>2014&lt;sup&gt;a&lt;/sup&gt;</th>
<th>2015&lt;sup&gt;b&lt;/sup&gt;</th>
<th>2016&lt;sup&gt;b&lt;/sup&gt;</th>
<th>2017&lt;sup&gt;b&lt;/sup&gt;</th>
<th>2018&lt;sup&gt;b&lt;/sup&gt;</th>
<th>2019&lt;sup&gt;b&lt;/sup&gt;</th>
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</thead>
<tbody>
<tr>
<td><strong>Private consumption</strong></td>
<td>2,157</td>
<td>2,732</td>
<td>3,145</td>
<td>3,547</td>
<td>3,932</td>
<td>4,285</td>
<td>4,710</td>
<td>5,212</td>
<td>5,731</td>
<td>6,262</td>
</tr>
<tr>
<td><strong>Government consumption</strong></td>
<td>789</td>
<td>1,007</td>
<td>1,159</td>
<td>1,311</td>
<td>1,413</td>
<td>1,532</td>
<td>1,686</td>
<td>1,878</td>
<td>2,077</td>
<td>2,284</td>
</tr>
<tr>
<td><strong>Gross fixed investment</strong></td>
<td>2,676</td>
<td>3,311</td>
<td>3,766</td>
<td>4,245</td>
<td>4,608</td>
<td>4,679</td>
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<td>5,346</td>
<td>5,675</td>
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<td>1,990</td>
<td>2,188</td>
<td>2,362</td>
<td>2,495&lt;sup&gt;c&lt;/sup&gt;</td>
<td>2,578</td>
<td>2,793</td>
<td>3,026</td>
<td>3,262</td>
<td>3,485</td>
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<td><strong>Imports of goods &amp; services</strong></td>
<td>1,425</td>
<td>1,809</td>
<td>1,956</td>
<td>2,127</td>
<td>2,227&lt;sup&gt;c&lt;/sup&gt;</td>
<td>2,068</td>
<td>2,282</td>
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<td>2,798</td>
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<td>211</td>
<td>169</td>
<td>180</td>
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<td>114</td>
<td>128</td>
<td>137</td>
<td>136</td>
<td>136</td>
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<td><strong>Domestic demand</strong></td>
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<td>7,261</td>
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<td>10,148</td>
<td>10,610</td>
<td>11,524</td>
<td>12,573</td>
<td>13,619</td>
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<td><strong>Economic structure (% of GDP at current market prices)</strong></td>
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<td>44.5</td>
<td>44.5</td>
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<td>44.2</td>
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<td>41.5</td>
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<td>1.0</td>
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<td>24.8</td>
<td>23.9&lt;sup&gt;c&lt;/sup&gt;</td>
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<td>23.2</td>
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<td>23.7</td>
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<td>23.1</td>
<td>22.3</td>
<td>21.3&lt;sup&gt;c&lt;/sup&gt;</td>
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<td><strong>Memorandum items</strong></td>
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<tr>
<td>Industrial production (% change)</td>
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<td>13.7</td>
<td>10.0</td>
<td>9.7</td>
<td>8.3</td>
<td>6.5</td>
<td>6.1</td>
<td>5.8</td>
<td>5.5</td>
<td>5.3</td>
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<td>Oil production ('000 b/d)</td>
<td>4,077</td>
<td>4,074</td>
<td>4,155</td>
<td>4,180</td>
<td>4,275&lt;sup&gt;c&lt;/sup&gt;</td>
<td>4,350</td>
<td>4,400</td>
<td>4,475</td>
<td>4,525</td>
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<tr>
<td>National savings ratio (%)</td>
<td>51.2&lt;sup&gt;c&lt;/sup&gt;</td>
<td>49.2&lt;sup&gt;c&lt;/sup&gt;</td>
<td>49.0&lt;sup&gt;c&lt;/sup&gt;</td>
<td>48.4&lt;sup&gt;c&lt;/sup&gt;</td>
<td>47.5&lt;sup&gt;c&lt;/sup&gt;</td>
<td>46.3</td>
<td>45.3</td>
<td>43.7</td>
<td>42.0</td>
<td>40.6</td>
</tr>
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<sup>a</sup> Actual.<sup>b</sup> Economist Intelligence Unit forecasts.<sup>c</sup> Includes statistical discrepancy.<sup>d</sup> Derived from current-account trade data and national-accounts net exports data. <sup>e</sup> Economist Intelligence Unit estimates.

**Data summary: Gross domestic product, at constant prices**

<table>
<thead>
<tr>
<th>Gross domestic product, at constant prices</th>
<th>2010&lt;sup&gt;a&lt;/sup&gt;</th>
<th>2011&lt;sup&gt;a&lt;/sup&gt;</th>
<th>2012&lt;sup&gt;a&lt;/sup&gt;</th>
<th>2013&lt;sup&gt;a&lt;/sup&gt;</th>
<th>2014&lt;sup&gt;a&lt;/sup&gt;</th>
<th>2015&lt;sup&gt;b&lt;/sup&gt;</th>
<th>2016&lt;sup&gt;b&lt;/sup&gt;</th>
<th>2017&lt;sup&gt;b&lt;/sup&gt;</th>
<th>2018&lt;sup&gt;b&lt;/sup&gt;</th>
<th>2019&lt;sup&gt;b&lt;/sup&gt;</th>
</tr>
</thead>
<tbody>
<tr>
<td>Real expenditure on GDP (Rmb bn at constant 1995)</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>2023</td>
<td>2024</td>
<td>2025</td>
<td>2026</td>
<td>2027</td>
<td>2028</td>
<td>2029</td>
<td>2030</td>
<td>2031</td>
<td>2032</td>
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<td>-------</td>
<td>-------</td>
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<td>-------</td>
</tr>
<tr>
<td>GDP</td>
<td>25,906</td>
<td>28,315</td>
<td>30,482</td>
<td>32,820</td>
<td>35,248</td>
<td>37,662</td>
<td>40,107</td>
<td>42,568</td>
<td>45,116</td>
<td>47,707</td>
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<td>11,153</td>
<td>12,063</td>
<td>12,876</td>
<td>13,869</td>
<td>14,867</td>
<td>15,915</td>
<td>17,028</td>
<td>18,183</td>
<td>19,366</td>
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<tr>
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<td>4,110</td>
<td>4,446</td>
<td>4,760</td>
<td>5,331</td>
<td>5,688</td>
<td>6,098</td>
<td>6,518</td>
<td>6,955</td>
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<td>12,759</td>
<td>13,859</td>
<td>15,119</td>
<td>16,252</td>
<td>16,902</td>
<td>17,747</td>
<td>18,599</td>
<td>19,491</td>
<td>20,368</td>
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<td>12,497</td>
<td>13,164</td>
<td>13,797</td>
<td>14,673</td>
<td>15,560</td>
<td>16,472</td>
<td>17,403</td>
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<tr>
<td>Imports of goods &amp; services</td>
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<td>11,621</td>
<td>12,972</td>
<td>13,603</td>
<td>13,474</td>
<td>14,286</td>
<td>15,137</td>
<td>16,019</td>
<td>16,905</td>
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<td>814</td>
<td>620</td>
<td>641</td>
<td>689</td>
<td>240</td>
<td>370</td>
<td>420</td>
<td>470</td>
<td>520</td>
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<td>Domestic demand</td>
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<td>28,836</td>
<td>30,988</td>
<td>33,396</td>
<td>35,792</td>
<td>37,399</td>
<td>39,720</td>
<td>42,145</td>
<td>44,663</td>
<td>47,210</td>
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<tr>
<td>Real expenditure on GDP (% change)</td>
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<td></td>
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<tr>
<td>GDP</td>
<td>10.4c</td>
<td>9.3c</td>
<td>7.7c</td>
<td>7.7c</td>
<td>7.4c</td>
<td>6.8</td>
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<td>6.1</td>
<td>6.0</td>
<td>5.7</td>
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<tr>
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<td>9.4</td>
<td>11.1</td>
<td>8.2</td>
<td>6.7</td>
<td>7.7</td>
<td>7.2</td>
<td>7.0</td>
<td>7.0</td>
<td>6.8</td>
<td>6.5</td>
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<tr>
<td>Government consumption</td>
<td>9.2</td>
<td>11.9</td>
<td>8.2</td>
<td>7.1</td>
<td>4.7</td>
<td>7.0</td>
<td>6.7</td>
<td>7.2</td>
<td>6.9</td>
<td>6.7</td>
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<tr>
<td>Gross fixed investment</td>
<td>12.5</td>
<td>8.5</td>
<td>8.6</td>
<td>9.1</td>
<td>7.5</td>
<td>4.0</td>
<td>5.0</td>
<td>4.8</td>
<td>4.8</td>
<td>4.5</td>
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<tr>
<td>Exports of goods &amp; services</td>
<td>9.1</td>
<td>9.5</td>
<td>9.5</td>
<td>11.5</td>
<td>5.3</td>
<td>4.8</td>
<td>6.4</td>
<td>6.0</td>
<td>5.9</td>
<td>5.6</td>
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<tr>
<td>Imports of goods &amp; services</td>
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<td>11.5</td>
<td>8.9</td>
<td>11.6</td>
<td>4.9</td>
<td>-1.0</td>
<td>6.0</td>
<td>6.0</td>
<td>5.8</td>
<td>5.5</td>
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<td>0.4</td>
<td>-0.7</td>
<td>0.1</td>
<td>0.1</td>
<td>-1.3</td>
<td>0.3</td>
<td>0.1</td>
<td>0.1</td>
<td>0.1</td>
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<td>Domestic demand</td>
<td>12.1</td>
<td>10.2</td>
<td>7.5</td>
<td>7.8</td>
<td>7.2</td>
<td>4.3</td>
<td>6.4</td>
<td>6.1</td>
<td>6.0</td>
<td>5.7</td>
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<td>Real contribution to growth (%)</td>
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<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
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<tr>
<td>Private consumption</td>
<td>3.7</td>
<td>4.3</td>
<td>3.2</td>
<td>2.7</td>
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<td>2.8</td>
<td>2.8</td>
<td>2.8</td>
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<td>0.7</td>
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<td>0.9</td>
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<td>3.9</td>
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<td>3.5</td>
<td>1.8</td>
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<td>2.1</td>
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<td>1.9</td>
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External balance  
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<td>-1.4</td>
<td>-0.8</td>
<td>0.1</td>
<td>-0.2</td>
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<td>0.1</td>
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</tbody>
</table>

\(^a\) Economist Intelligence Unit estimates. \(^b\) Economist Intelligence Unit forecasts. \(^c\) Actual.

Data summary: Gross domestic product by sector of origin

<table>
<thead>
<tr>
<th>Gross domestic product by sector of origin</th>
<th>2010(^a)</th>
<th>2011(^a)</th>
<th>2012(^a)</th>
<th>2013(^a)</th>
<th>2014(^a)</th>
<th>2015(^b)</th>
<th>2016(^b)</th>
<th>2017(^b)</th>
<th>2018(^b)</th>
<th>2019(^b)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Origin of GDP (Rmb bn at constant 1995 prices)</td>
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<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>GDP at factor cost</td>
<td>24,891</td>
<td>27,256</td>
<td>29,355</td>
<td>31,615</td>
<td>33,954</td>
<td>36,280</td>
<td>38,634</td>
<td>41,005</td>
<td>43,460</td>
<td>45,956</td>
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<td>2,111</td>
<td>2,200</td>
<td>2,299</td>
<td>2,386</td>
<td>2,484</td>
<td>2,569</td>
<td>2,653</td>
<td>2,738</td>
<td>2,829</td>
<td>2,914</td>
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<td>13,593</td>
<td>15,034</td>
<td>16,266</td>
<td>17,552</td>
<td>18,833</td>
<td>20,057</td>
<td>21,321</td>
<td>22,600</td>
<td>23,888</td>
<td>25,202</td>
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<td>Services</td>
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<td>9,985</td>
<td>10,784</td>
<td>11,679</td>
<td>12,625</td>
<td>13,641</td>
<td>14,646</td>
<td>15,652</td>
<td>16,727</td>
<td>17,823</td>
</tr>
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</table>

| Origin of GDP (real % change) |
| Agriculture | 4.3 | 4.2 | 4.5 | 3.8 | 4.1 | 3.4 | 3.3 | 3.2 | 3.3 | 3.0 |
| Industry | 12.7 | 10.6 | 8.2 | 7.9 | 7.3 | 6.5 | 6.3 | 6.0 | 5.7 | 5.5 |
| Services | 9.7 | 9.5 | 8.0 | 8.3 | 8.1 | 8.0 | 7.4 | 6.9 | 6.9 | 6.6 |

| Origin of GDP (% of factor cost GDP) |
| Agriculture | 9.6 | 9.5 | 9.5 | 9.4 | 9.2 | 8.9 | 8.6 | 8.4 | 8.2 | 7.9 |
| Industry | 46.2 | 46.1 | 45.0 | 43.7 | 42.6 | 41.8 | 41.3 | 40.9 | 40.6 | 40.3 |
| Services | 44.2 | 44.3 | 45.5 | 46.9 | 48.2 | 49.3 | 50.1 | 50.7 | 51.3 | 51.8 |

\(^a\) Actual.\(^b\) Economist Intelligence Unit forecasts.

Data summary: Growth and productivity

<table>
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<tr>
<th>Growth and productivity</th>
<th>2010(^a)</th>
<th>2011(^a)</th>
<th>2012(^a)</th>
<th>2013(^a)</th>
<th>2014(^a)</th>
<th>2015(^b)</th>
<th>2016(^b)</th>
<th>2017(^b)</th>
<th>2018(^b)</th>
<th>2019(^b)</th>
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<tbody>
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<td>Growth and productivity (%)</td>
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<td></td>
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<td></td>
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<td></td>
<td></td>
<td></td>
<td></td>
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</tr>
<tr>
<td>Labour productivity growth</td>
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<td>7.3</td>
<td>7.3</td>
<td>7.0</td>
<td>6.7</td>
<td>6.4</td>
<td>6.0</td>
<td>5.9</td>
<td>5.6</td>
</tr>
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<td>Total factor productivity growth</td>
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<td>4.6</td>
<td>3.2</td>
<td>3.4</td>
<td>3.4</td>
<td>3.6</td>
<td>3.5</td>
<td>3.3</td>
<td>3.3</td>
<td>3.2</td>
</tr>
</tbody>
</table>
Growth of capital stock | 13.6 | 12.7 | 12.0 | 11.5 | 10.9 | 9.8 | 9.0 | 8.4 | 7.9 | 7.4 |
Growth of potential GDP | 10.3 | 9.3 | 7.7 | 7.7 | 7.4 | 7.0 | 6.5 | 6.1 | 5.8 | 5.6 |
Growth of GDP | 10.4<sup>c</sup> | 9.3<sup>c</sup> | 7.7<sup>c</sup> | 7.7<sup>c</sup> | 7.4<sup>c</sup> | 6.8 | 6.5 | 6.1 | 6.0 | 5.7 |
Growth of GDP per head | 9.6 | 8.9 | 7.2 | 7.2 | 7.0 | 6.4 | 6.1 | 5.8 | 5.7 | 5.5 |

<sup>a</sup> Economist Intelligence Unit estimates. <sup>b</sup> Economist Intelligence Unit forecasts. <sup>c</sup> Actual.

### Data summary: Economic structure, income and market size

<table>
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<tr>
<th>Economic structure, income and market size</th>
<th>2010&lt;sup&gt;a&lt;/sup&gt;</th>
<th>2011&lt;sup&gt;a&lt;/sup&gt;</th>
<th>2012&lt;sup&gt;a&lt;/sup&gt;</th>
<th>2013&lt;sup&gt;a&lt;/sup&gt;</th>
<th>2014&lt;sup&gt;b&lt;/sup&gt;</th>
<th>2015&lt;sup&gt;c&lt;/sup&gt;</th>
<th>2016&lt;sup&gt;c&lt;/sup&gt;</th>
<th>2017&lt;sup&gt;c&lt;/sup&gt;</th>
<th>2018&lt;sup&gt;c&lt;/sup&gt;</th>
<th>2019&lt;sup&gt;c&lt;/sup&gt;</th>
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</thead>
<tbody>
<tr>
<td>Population, income and market size</td>
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<td></td>
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<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Population (m)</td>
<td>1,334.4&lt;sup&gt;b&lt;/sup&gt;</td>
<td>1,338.9&lt;sup&gt;b&lt;/sup&gt;</td>
<td>1,344.6&lt;sup&gt;b&lt;/sup&gt;</td>
<td>1,350.2&lt;sup&gt;b&lt;/sup&gt;</td>
<td>1,355.8</td>
<td>1,361.0</td>
<td>1,366.1</td>
<td>1,370.7</td>
<td>1,375.0</td>
<td>1,378.7</td>
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<tr>
<td>GDP (US$ bn at market exchange rates)</td>
<td>6,005</td>
<td>7,442</td>
<td>8,471</td>
<td>9,519</td>
<td>10,432&lt;sup&gt;a&lt;/sup&gt;</td>
<td>11,120</td>
<td>12,035</td>
<td>13,058</td>
<td>14,083</td>
<td>15,116</td>
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<tr>
<td>GDP per head (US$ at market exchange rates)</td>
<td>4,500&lt;sup&gt;b&lt;/sup&gt;</td>
<td>5,560&lt;sup&gt;b&lt;/sup&gt;</td>
<td>6,300&lt;sup&gt;b&lt;/sup&gt;</td>
<td>7,050&lt;sup&gt;b&lt;/sup&gt;</td>
<td>7,690</td>
<td>8,170</td>
<td>8,810</td>
<td>9,530</td>
<td>10,240</td>
<td>10,960</td>
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<td>Private consumption (US$ bn)</td>
<td>2,157.3</td>
<td>2,732.2</td>
<td>3,145.2</td>
<td>3,547.0</td>
<td>3,932.4&lt;sup&gt;a&lt;/sup&gt;</td>
<td>4,284.6</td>
<td>4,709.7</td>
<td>5,211.9</td>
<td>5,731.2</td>
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<tr>
<td>Private consumption per head (US$)</td>
<td>1,620&lt;sup&gt;b&lt;/sup&gt;</td>
<td>2,040&lt;sup&gt;b&lt;/sup&gt;</td>
<td>2,340&lt;sup&gt;b&lt;/sup&gt;</td>
<td>2,630&lt;sup&gt;b&lt;/sup&gt;</td>
<td>2,900</td>
<td>3,150</td>
<td>3,450</td>
<td>3,800</td>
<td>4,170</td>
<td>4,540</td>
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<tr>
<td>GDP (US$ bn at PPP)</td>
<td>12,246</td>
<td>13,700</td>
<td>15,235</td>
<td>16,754</td>
<td>18,256&lt;sup&gt;a&lt;/sup&gt;</td>
<td>19,504</td>
<td>21,113</td>
<td>22,903</td>
<td>24,921</td>
<td>26,990</td>
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<td>GDP per head (US$ at PPP)</td>
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<td>10,230&lt;sup&gt;b&lt;/sup&gt;</td>
<td>11,330&lt;sup&gt;b&lt;/sup&gt;</td>
<td>12,410&lt;sup&gt;b&lt;/sup&gt;</td>
<td>13,470</td>
<td>14,330</td>
<td>15,460</td>
<td>16,710</td>
<td>18,120</td>
<td>19,580</td>
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<td>Personal disposable income (Rmb bn)</td>
<td>16,746</td>
<td>19,622</td>
<td>22,529</td>
<td>25,256</td>
<td>27,983</td>
<td>30,599</td>
<td>33,376</td>
<td>36,441</td>
<td>39,782</td>
<td>43,198</td>
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<td>3,569</td>
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<td>4,556</td>
<td>4,989</td>
<td>5,468</td>
<td>6,000</td>
<td>6,536</td>
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<td>Growth of real disposable income (%)</td>
<td>8.8</td>
<td>7.7</td>
<td>10.4</td>
<td>8.1</td>
<td>8.6</td>
<td>7.7</td>
<td>6.7</td>
<td>6.1</td>
<td>5.8</td>
<td>5.4</td>
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Memorandum items
| Share of world population (%) | 19.58\textsuperscript{b} | 19.45\textsuperscript{b} | 19.32\textsuperscript{b} | 19.20\textsuperscript{b} | 19.08 | 18.96 | 18.84 | 18.73 | 18.62 | 18.50 |
| Share of world GDP (%
at market exchange rates) | 9.75 | 10.92 | 12.19 | 13.34 | 14.26\textsuperscript{a} | 16.03 | 16.60 | 16.68 | 16.62 | 16.65 |
| Share of world GDP (%
at PPP) | 14.03 | 14.76 | 15.56 | 16.29 | 16.93\textsuperscript{a} | 17.36 | 17.84 | 18.32 | 18.76 | 19.21 |

\textsuperscript{a} Actual.\textsuperscript{b} Economist Intelligence Unit estimates.\textsuperscript{c} Economist Intelligence Unit forecasts.

Data summary: Fiscal indicators

| Fiscal indicators | 2010\textsuperscript{a} | 2011\textsuperscript{a} | 2012\textsuperscript{a} | 2013\textsuperscript{a} | 2014\textsuperscript{a} | 2015\textsuperscript{b} | 2016\textsuperscript{b} | 2017\textsuperscript{b} | 2018\textsuperscript{b} | 2019\textsuperscript{b} |
| Fiscal indicators (% of GDP) | | | | | | | | | | |
| Government expenditure | 22.1 | 22.7 | 23.6 | 23.8 | 23.7 | 24.5 | 25.0 | 25.2 | 25.5 | 25.7 |
| Government revenue | 20.4 | 21.6 | 21.9 | 21.9 | 21.9 | 22.0 | 22.2 | 22.4 | 22.6 | 22.8 |
| Budget balance | -1.7 | -1.1 | -1.6 | -1.9 | -1.8 | -2.5 | -2.8 | -2.9 | -2.9 | -2.9 |

\textsuperscript{a} Actual.\textsuperscript{b} Economist Intelligence Unit forecasts.

Data summary: Monetary indicators

| Monetary indicators | 2010\textsuperscript{a} | 2011\textsuperscript{a} | 2012\textsuperscript{a} | 2013\textsuperscript{a} | 2014\textsuperscript{a} | 2015\textsuperscript{b} | 2016\textsuperscript{b} | 2017\textsuperscript{b} | 2018\textsuperscript{b} | 2019\textsuperscript{b} |
| Monetary indicators | | | | | | | | | | |
| Exchange rate Rmb:¥100 (av) | 7.72 | 8.11 | 7.91 | 6.35 | 5.80 | 5.04 | 4.91 | 4.90 | 4.99 | 5.09 |
| Exchange rate Rmb:¥100 (year-end) | 8.02 | 8.05 | 7.24 | 6.00 | 5.24 | 4.91 | 4.93 | 4.95 | 5.04 | 5.10 |
| Real effective exchange rate (av) CPI-based | 109.0 | 111.9 | 118.1 | 125.6 | 129.7 | 145.4 | 149.0 | 147.6 | 145.3 | 143.8 |
| Purchasing power parity Rmb:US$ (av) | 3.32 | 3.51 | 3.51 | 3.52 | 3.51 | 3.50 | 3.48 | 3.46 | 3.44 | 3.42 |
| Money supply (M2) growth (%) | 18.9 | 17.3 | 14.4 | 13.6 | 11.0 | 10.6 | 10.1 | 8.9 | 9.2 | 8.2 |
### Domestic credit growth (%)

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<td>17.1</td>
<td>17.1</td>
<td>15.1</td>
<td>16.2</td>
<td>14.3</td>
<td>12.5</td>
<td>10.3</td>
<td>9.8</td>
<td>8.5</td>
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### Commercial banks' prime rate (%)

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<td>4.9</td>
<td>5.4</td>
<td>5.6</td>
<td>6.0</td>
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### Deposit rate (av; %)

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<td>3.5</td>
<td>3.0</td>
<td>3.0</td>
<td>2.8</td>
<td>2.0</td>
<td>2.5</td>
<td>3.0</td>
<td>3.5</td>
<td>3.6</td>
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a Actual.b Economist Intelligence Unit forecasts.

### Data summary: Employment, wages and prices

#### The labour market (av)

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<td>Labour force (m)</td>
<td>792.3</td>
<td>795.5</td>
<td>798.5</td>
<td>801.3</td>
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<td>803.0</td>
<td>801.1</td>
<td>798.9</td>
<td>796.7</td>
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<td>0.4</td>
<td>0.4</td>
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<td>0.4</td>
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<td>-0.1</td>
<td>-0.2</td>
<td>-0.3</td>
<td>-0.3</td>
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<td>Unemployment rate (%)</td>
<td>6.1</td>
<td>6.5b</td>
<td>6.5b</td>
<td>6.5b</td>
<td>6.6</td>
<td>6.3</td>
<td>6.1</td>
<td>5.8</td>
<td>5.4</td>
<td>5.1</td>
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#### Wage and price inflation (% except labour costs per hour)

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<tbody>
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<td>Consumer prices (av)</td>
<td>3.2</td>
<td>5.5</td>
<td>2.6</td>
<td>2.6</td>
<td>2.1a</td>
<td>1.5</td>
<td>2.2</td>
<td>2.9</td>
<td>3.2</td>
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<tr>
<td>Consumer prices (year-end)</td>
<td>4.5</td>
<td>4.1</td>
<td>2.4</td>
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<td>1.6a</td>
<td>1.6</td>
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<td>3.2</td>
<td>3.7</td>
<td>3.5</td>
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<td>Producer prices (av)</td>
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<td>-1.9</td>
<td>-1.9</td>
<td>-3.5</td>
<td>1.9</td>
<td>2.2</td>
<td>3.0</td>
<td>2.9</td>
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<td>GDP deflator (av)</td>
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<td>8.2</td>
<td>3.3</td>
<td>2.4</td>
<td>1.2</td>
<td>-0.4</td>
<td>1.2</td>
<td>1.7</td>
<td>2.0</td>
<td>1.9</td>
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<td>Private consumption deflator (av)</td>
<td>5.4b</td>
<td>8.8b</td>
<td>4.0b</td>
<td>3.7b</td>
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<td>1.5</td>
<td>2.2</td>
<td>2.9</td>
<td>3.2</td>
<td>3.0</td>
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<td>Government consumption deflator (av)</td>
<td>5.4b</td>
<td>8.8b</td>
<td>4.0b</td>
<td>3.7b</td>
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<td>2.7</td>
<td>3.4</td>
<td>3.7</td>
<td>3.5</td>
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<td>Fixed investment deflator (av)</td>
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<td>8.8b</td>
<td>2.3b</td>
<td>1.4b</td>
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<td>-2.5</td>
<td>1.3</td>
<td>1.5</td>
<td>1.5</td>
<td>1.5</td>
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<tr>
<td>Average nominal wages (av)</td>
<td>13.3</td>
<td>14.4</td>
<td>11.9</td>
<td>10.1</td>
<td>9.4</td>
<td>8.7</td>
<td>9.3</td>
<td>9.8</td>
<td>10.0</td>
<td>9.6</td>
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<tr>
<td>Average real wages (av)</td>
<td>9.8</td>
<td>8.4</td>
<td>9.1</td>
<td>7.3</td>
<td>7.2</td>
<td>7.1</td>
<td>7.0</td>
<td>6.7</td>
<td>6.6</td>
<td>6.4</td>
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<td>Unit labour costs (Rmb-based)</td>
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<td>4.3</td>
<td>2.6</td>
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<td>1.8</td>
<td>2.7</td>
<td>3.6</td>
<td>3.9</td>
<td>3.8</td>
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<td>Labour costs per hour (Rmb)</td>
<td>16.2b</td>
<td>18.5b</td>
<td>20.7b</td>
<td>22.8b</td>
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<td>27.1</td>
<td>29.6</td>
<td>32.5</td>
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<td>2.86b</td>
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<td>3.68b</td>
<td>4.06</td>
<td>4.42</td>
<td>4.85</td>
<td>5.36</td>
<td>5.88</td>
<td>6.42</td>
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a Actual.b Economist Intelligence Unit estimates.c Economist Intelligence Unit forecasts.
Data summary: Current account and terms of trade

<table>
<thead>
<tr>
<th>Current account and terms of trade</th>
<th>2010&lt;sup&gt;a&lt;/sup&gt;</th>
<th>2011&lt;sup&gt;a&lt;/sup&gt;</th>
<th>2012&lt;sup&gt;a&lt;/sup&gt;</th>
<th>2013&lt;sup&gt;a&lt;/sup&gt;</th>
<th>2014&lt;sup&gt;b&lt;/sup&gt;</th>
<th>2015&lt;sup&gt;c&lt;/sup&gt;</th>
<th>2016&lt;sup&gt;c&lt;/sup&gt;</th>
<th>2017&lt;sup&gt;c&lt;/sup&gt;</th>
<th>2018&lt;sup&gt;c&lt;/sup&gt;</th>
<th>2019&lt;sup&gt;c&lt;/sup&gt;</th>
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</thead>
<tbody>
<tr>
<td>Current account (US$ bn)</td>
<td></td>
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<tr>
<td>Current-account balance</td>
<td>237.8</td>
<td>136.1</td>
<td>215.4</td>
<td>182.8</td>
<td>155.2</td>
<td>358.0</td>
<td>331.3</td>
<td>224.4</td>
<td>106.0</td>
<td>1.8</td>
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<td>Current-account balance (% of GDP)</td>
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<td>2.5</td>
<td>1.9</td>
<td>1.5</td>
<td>3.2</td>
<td>2.8</td>
<td>1.7</td>
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<td>0.0</td>
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<td>1,805.9</td>
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<td>2,217.5</td>
<td>2,260.6</td>
<td>2,401.7</td>
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<td>Goods: imports fob</td>
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<td>-1,569.9</td>
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<td>1,600.9</td>
<td>1,752.3</td>
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<td>297.7</td>
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<td>390.4</td>
<td>659.6</td>
<td>649.4</td>
<td>593.0</td>
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<td>Services: credit</td>
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<td>215.1</td>
<td>200.1</td>
<td>205.2</td>
<td>218.8</td>
<td>232.9</td>
<td>246.9</td>
<td>261.2</td>
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<td>198.8</td>
<td>205.7</td>
<td>186.3</td>
<td>175.3</td>
<td>172.9</td>
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<td>-229.3</td>
<td>-224.0</td>
<td>-246.9</td>
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<td>-268.5</td>
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<td>-39.7</td>
<td>-42.6</td>
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Terms of trade

<p>| Export price index (US$-based; 2005=100) | 112.8 | 124.2 | 126.8 | 125.1 | 125.2 | 123.2 | 125.4 | 128.1 | 130.3 | 131.7 |
| Export prices (% change)               | 2.4   | 10.0  | 2.1   | -1.4  | 0.1   | -1.6  | 1.8   | 2.1   | 1.8   | 1.0  |
| Import price index (US$-based; 2005=100) | 123.5 | 140.7 | 139.8 | 136.2 | 134.9 | 123.4 | 128.6 | 135.5 | 141.3 | 145.8 |</p>
<table>
<thead>
<tr>
<th>Import prices (% change)</th>
<th>13.2</th>
<th>13.9</th>
<th>-0.7</th>
<th>-2.6</th>
<th>-0.9</th>
<th>-8.5</th>
<th>4.2</th>
<th>5.4</th>
<th>4.3</th>
<th>3.2</th>
</tr>
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<tr>
<td>Terms of trade</td>
<td>91.3</td>
<td>88.2</td>
<td>90.7</td>
<td>91.8</td>
<td>92.8</td>
<td>99.8</td>
<td>97.5</td>
<td>94.5</td>
<td>92.2</td>
<td>90.3</td>
</tr>
<tr>
<td>(2005=100)</td>
<td></td>
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<td>Memorandum item</td>
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<td></td>
<td></td>
<td></td>
<td></td>
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</tr>
<tr>
<td>Export market growth (%)</td>
<td>13.6b</td>
<td>3.8b</td>
<td>-0.5b</td>
<td>-2.1b</td>
<td>4.7b</td>
<td>5.8b</td>
<td>5.1b</td>
<td>4.8b</td>
<td>4.8b</td>
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a Actual. b Economist Intelligence Unit estimates. c Economist Intelligence Unit forecasts.

**Data summary: Foreign direct investment**

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</thead>
<tbody>
<tr>
<td>Inward direct investment</td>
<td>273.0</td>
<td>331.6</td>
<td>295.6</td>
<td>347.8</td>
<td>377.2</td>
<td>335.3</td>
<td>295.0</td>
<td>255.4</td>
<td>283.2</td>
<td>253.3</td>
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<tr>
<td>Inward direct investment (US$ bn)</td>
<td>4.5</td>
<td>4.5</td>
<td>3.5</td>
<td>3.7</td>
<td>3.6</td>
<td>3.0</td>
<td>2.5</td>
<td>2.0</td>
<td>2.0</td>
<td>1.7</td>
</tr>
<tr>
<td>Inward direct investment (% of GDP)</td>
<td>10.2</td>
<td>10.0</td>
<td>7.8</td>
<td>8.2</td>
<td>8.2</td>
<td>7.2</td>
<td>5.9</td>
<td>4.8</td>
<td>5.0</td>
<td>4.2</td>
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<tr>
<td>Outward direct investment</td>
<td>-87.2</td>
<td>-99.9</td>
<td>-119.4</td>
<td>-162.9</td>
<td>-178.7</td>
<td>-249.0</td>
<td>-269.0</td>
<td>-274.0</td>
<td>-295.5</td>
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<td>Net foreign direct investment</td>
<td>185.7</td>
<td>231.7</td>
<td>176.3</td>
<td>185.0</td>
<td>198.5</td>
<td>86.3</td>
<td>26.0</td>
<td>-18.6</td>
<td>-12.3</td>
<td>-12.3</td>
</tr>
<tr>
<td>Stock of foreign direct investment</td>
<td>587.8</td>
<td>711.8</td>
<td>832.9</td>
<td>956.8</td>
<td>1,334.0</td>
<td>1,669.3</td>
<td>1,964.3</td>
<td>2,219.7</td>
<td>2,502.9</td>
<td>2,756.1</td>
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<tr>
<td>Stock of foreign direct investment per head (US$)</td>
<td>440.5</td>
<td>531.6</td>
<td>619.4</td>
<td>708.6</td>
<td>984.0</td>
<td>1226.5</td>
<td>1438.0</td>
<td>1619.3</td>
<td>1820.3</td>
<td>1999.1</td>
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<tr>
<td>Stock of foreign direct investment (% of GDP)</td>
<td>9.8</td>
<td>9.6</td>
<td>9.8</td>
<td>10.1</td>
<td>12.8</td>
<td>15.0</td>
<td>16.3</td>
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Memorandum items

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<th>Share of world inward direct investment flows (%)</th>
<th>19.3</th>
<th>19.7</th>
<th>21.2</th>
<th>22.5</th>
<th>22.8</th>
<th>19.5</th>
<th>16.5</th>
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<th>14.0</th>
<th>11.6</th>
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<tr>
<td>Share of world inward direct investment stock (%)</td>
<td>3.0</td>
<td>3.5</td>
<td>3.8</td>
<td>4.2</td>
<td>5.4</td>
<td>6.3</td>
<td>7.0</td>
<td>7.4</td>
<td>7.8</td>
<td>8.1</td>
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a Actual. b Economist Intelligence Unit estimates. c Economist Intelligence Unit forecasts.
Data summary: External debt

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<tbody>
<tr>
<td>Total external debt (US$ bn)</td>
<td>559.8</td>
<td>710.2</td>
<td>750.7</td>
<td>874.5</td>
<td>963.1</td>
<td>997.4</td>
<td>1,119.1</td>
<td>1,284.1</td>
<td>1,454.7</td>
<td>1,612.0</td>
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<tr>
<td>Total external debt (% of GDP)</td>
<td>9.3</td>
<td>9.5</td>
<td>8.9</td>
<td>9.2</td>
<td>9.2</td>
<td>9.0</td>
<td>9.3</td>
<td>9.8</td>
<td>10.3</td>
<td>10.7</td>
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<tr>
<td>Debt/exports ratio (%)</td>
<td>30.7</td>
<td>32.6</td>
<td>31.4</td>
<td>33.8</td>
<td>36.2</td>
<td>36.9</td>
<td>39.0</td>
<td>42.8</td>
<td>46.1</td>
<td>48.9</td>
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<tr>
<td>Debt-service ratio, paid (%)</td>
<td>3.3</td>
<td>3.4</td>
<td>3.1</td>
<td>1.5</td>
<td>1.9</td>
<td>2.6</td>
<td>3.3</td>
<td>3.6</td>
<td>4.0</td>
<td>4.6</td>
</tr>
</tbody>
</table>

*a Actual. b Economist Intelligence Unit estimates. c Economist Intelligence Unit forecasts.

Data sources and definitions

The sources for global and domestic data refer to historical data. The source for all forecast data, unless otherwise stated, is The Economist Intelligence Unit

Global data

US and OECD GDP growth: OECD
World trade growth: Economist Intelligence Unit aggregate
US and OECD inflation: OECD
Oil prices: dated Brent Blend

Domestic data

Gross domestic product (GDP): the sum of value added for all sectors of the economy, including both "material production" (physical output) and "non-material production" (non-tangible output, such as services), adjusted for depreciation

GDP growth: NBS, China Statistical Yearbook; press reports
Components of GDP: World Bank; press reports
Population: NBS, China Statistical Yearbook; IMF, IFS
GDP per head: US$ GDP divided by population
Unemployment: Economist Intelligence Unit estimates, based on official survey data
Government policy indicators: IMF, IFS; government statements
Wage inflation: based on annual average wage in manufacturing; NBS, China Statistical Yearbook
Exchange rate: official exchange rate of the renminbi against the US dollar
Current account: IMF, IFS
Stock of foreign investment: UNCTAD, World Investment Report

Debt-service ratio: total foreign debt service (principal repayments on medium- and long-term debt plus interest payments on short-, medium- and long-term debt in US dollars) actually paid, as a percentage of total exports of goods and services


China's new yuan loans hit 6.56 trillion yuan in H1

BEIJING -- China's new yuan-denominated lending reached 6.56 trillion yuan ($1.07 trillion) in the first half of this year, the central bank said Tuesday. The volume was 537.1 billion yuan more than that in the same period of last year, the People's Bank of China said in a statement. M2, a broad measure of money supply that covers cash in circulation and all deposits, increased 11.8 percent year on year to 133.34 trillion yuan at the end of June, the statement said.

Source: Xinhua: China's new yuan loans hit 6.56 trillion yuan in H1, 2015-07-14

China may pilot broker licenses for banks

BEIJING - China may grant commercial banks stock broker licenses in a test run of reforms to allow lenders to conduct mixed business, a business insider has told Xinhua. The State Council, or China's cabinet, is likely to permit several banks to hold securities brokerage licenses directly in an experimental manner at proper time, said the source, who is familiar with the matter but declined to be named. The source didn't elaborate on the possible timing of the move, but an experimental manner usually means that it will probably happen before laws are changed to formally allow such practice. It is a common international practice to let some banks try mixed business first and amend laws later, Sinolink Securities said in an earlier report. The current Law on Commercial Banks prohibits lenders from undertaking trust and broker businesses. A draft amendment to the law was passed by the State Council in June and has yet to be reviewed by the country's top legislature. China's Securities Law mandates that securities, banking, trust and insurance should be operated and regulated separately. However, the lines between these businesses have become increasingly blurred in recent years. The potential income from brokerage increasingly appeals to banks, which are under pressure as interest rate cuts and reforms to liberalize those rates squeezed their profit.

Of 16 commercial banks listed on China's yuan-denominated A-share market, six have already ventured into brokerage, including the country's top four state-owned banks. They made it through buying stakes in or establishing separate subsidiaries with broker licenses. However, most of those banks are basically limited to broker services in Hong Kong, instead of the mainland stock market. The country's securities regulator, China Securities Regulatory Commission (CSRC), is working to allow banks to apply to do broker business, though no timetable has been set, CSRC spokesman Zhang Xiaojun said in March. To avert risks, banks with broker licenses would still have to conduct the business through setting up independent subsidiaries, rather than do it by themselves, Industrial Bank chief economist Lu Zhengwei told Xinhua.

Source: Xinhua: China may pilot broker licenses for banks, 2015-07-17

China's non-performing loans on the rise

Chinese banks' non-performing loans (NPLs) will probably exceed 1.5 percent this year, if no appropriate economic stimulus program is adopted, a survey by global financial service provider KPMG survey showed on Tuesday. According to the statistics from the China Banking Regulatory Commission (CBRC), the NPLs of China's domestic commercial banks for the first quarter of 2015 totaled 982.5 billion yuan ($158 billion), a year-on-year increase of 336.4 billion yuan and an increase of 139.9 billion yuan compared to the end of 2014. Chinese bank's
NPL ratio hit 1.39 percent by the end of this quarter, an increase of 0.35 percent than the previous year. The overcapacity and economic slowdown in China are the major causes of a dramatic increase in NPLs, according to KPMG's report. China's overall economic slowdown, the accelerated industrial restructuring, the weakening domestic and overseas demand and the overcapacity in steel and other industries led to increasing financial risks of many enterprises. These enterprises' operational difficulties, increasing losses and cash flow problems, resulted in a drastic drop in the quality of credit assets throughout the whole banking sector. The growth of NPL rates at major commercial banks also accelerated in the first quarter in 2015. Among the 16 listed domestic banks that have issued their financial report, Ping An Bank and ICBC saw the biggest growth. At the end of March 2015, among the 16 banks, the NPL balances of ICBC, ABC and CCB topped the list, totaling 412.8 billion yuan, accounting for 58 percent of the total NPL balances of the 16 listed domestic banks. The total assets and liabilities of China's banking industry continued to expand in 2014, but the growth rate dropped and there have been adjustments in the asset and liability structure, said KPMG's report. According to the Report on the Performance of China's Banking Industry published by the CBRC, commercial banks' total assets at the end of 2014 reached 134.8 trillion yuan, an increase of 16 trillion yuan or 13.5 percent compared to 2013, and their total liabilities reached 125.1 trillion yuan, an increase of 12.9 percent. Earnings continued to increase, but the growth rate dropped as China slowed down its economic growth and lowered interest rates several times.

Source: Hu Yuanyuan and Zhang Hao: China's non-performing loans on the rise, China Daily, 2015-07-22

China credit card transactions hit 15.2t yuan in 2014

BEIJING - Credit cards are gaining increasing popularity among Chinese, with payments totaling 15.2 trillion yuan ($2.49 trillion) last year, a report by China Banking Association showed on Tuesday. The volume was up 16 percent from the previous year. In 2014, around 64 million new credit cards were issued, bringing the total to 460 million. The report also highlighted rising risks in the industry. In 2014, credit card repayments delayed by more than half a year were up 42 percent year on year to 35.76 billion yuan in 2014, according to the report. China's multi-trillion bank card clearing market has been monopolized by China UnionPay Co, the national bank card association founded in 2002. It was the sole company approved by the central bank to provide clearing services for bank card transactions in the country. To gradually open up the market to bring in competition, China's State Council announced detailed regulations in April to widen the market for bank card clearing services. Starting from June 1, companies with a standard bank card clearing system and a registered capital of no less than one billion yuan are qualified to apply to conduct bank card clearing services in China.

Source: Xinhua: China credit card transactions hit 15.2t yuan in 2014, 2015-07-29

Internet finance guidelines pave way for healthy sector

BEIJING - Financial authorities hope new guidelines for China's burgeoning online finance market can end the sector's wild growth and foster a healthy market through closer supervision and support for innovation. Issued by 10 central government ministries, including the central bank, the guidelines propose measures to cope with risks in the industry, such as a mechanism for improved transparency, and a public education campaign on online banking. The guidelines categorize online banking into different business sectors and place each sector under the supervision of a specific institution. The central bank will oversee online payments while the China Banking Regulatory Commission will supervise online lending and peer-to-peer platforms. The China Securities Regulatory Commission will be responsible for crowdfunding and the online sale of funds.

Internet finance has played a positive role in helping small enterprises grow and expanding employment, opening the doors for mass entrepreneurship and innovation. However, risks such as fraud, fund flight, illegal fundraising and an imperfect credit system have emerged. The turnover of Chinese peer-to-peer (P2P) lending platforms, loans made without going through traditional financial institutions such as banks, reached 321.19 billion yuan ($53.76 billion) in 2014, up 268.83 percent year on year, according to the Payment & Clearing Association of
China. Its report also showed that 287 P2P platforms either went bankrupt or had difficulty in withdrawing funds as a result of fraud in 2014. This was an increase of 282.67 percent from the previous year. The guidelines should decrease the negative effects of illegal network transactions, protect the legitimate rights of investors and encourage fair competition, according to Guo. They specify that client funds must be parked at established banks, and require that online financing platforms provide better disclosure and warn customers more regularly about risk. In addition, the guidelines also outline measures to encourage innovation in Internet finance, including boosting cooperation between financial institutions and Internet companies, expanding access to capital, cutting red tape and introducing tax breaks. According to the guideline, the government will broaden channels for fundraising for Internet finance firms and will encourage those they deem qualified to list on domestic markets.

In the long run, the guidelines will need to be adapted to the changing environment of Internet finance, with companies being the key player in Internet finance while government is the supervisor, said Guo.

Source: Xinhua: Internet finance guidelines pave way for healthy sector, 2015-07-20

China relaxes rules on margin trading

BEIJING - China Securities Regulatory Commission (CSRC) amended previously strict rules on margin trading business of brokerages amid growing concerns on a plunging stock market. The amendment canceled the item stipulating that investors should make additional guaranty in two trading days if the ratio of capital they borrowed from brokerages reaches the 130 percent of warning level, and allowed the two sides to decide through discussion instead of compulsory sell-off. Brokerages will be able to extend contracts with their clients as long as the maximum term is under 6 months, the amendment said. The revised rules said brokerages that had more-than-permitted margin trading could maintain the current level but forbade further increase. Individual investors that possess less than 500,000 yuan (around $82,000) of securities assets, a threshold for margin trading, were also given the nod to continue their business, according to the amendment. In addition, the CSRC planned to improve its management on margin trading to fend off risks and ensure the healthy development of the business.

China's stock continued a losing streak on Wednesday. The benchmark Shanghai Composite Index declined 3.48 percent to close at 3,912.77 points on Thursday. It was the first time since April that the index closed below the psychologically sensitive level of 4,000 points. About $2.65 trillion in market value has been wiped out in three weeks. Thursday's decline came after a string of government policies to lift the market, including the securities regulator easing margin trading rules and the stock exchanges cutting stock trading fees by 30 percent. The People's Bank of China also announced an injection of additional liquidity worth 35 billion yuan ($5.66 billion) through open market operations after cutting interest rates and the reserve requirement ratio for banks over the weekend. But traders did not buy into the supportive measures as they continued to dump stocks and liquidate their leveraged margin positions. Economists warned that investor panic may continue to spread and generate further selling pressure, which could have a detrimental impact on the country's financial stability and the overall economy. On Thursday, Zhou Xiaochuan, governor of the PBOC, the central bank, said during an internal meeting that China will firmly hold the bottom line to prevent systemic and regional financial risks. While analysts attributed recent market drops to forced liquidation of margin trading, there is growing speculation that the market has been further depressed by speculators shorting the A-share market. Tools such as stock index futures, which are intended for investors to hedge risks, have been

Spillover could harm sluggish economy

The boom and bust cycle in China's equities market seems to be taking place much quicker than anticipated, sparking warnings that stock market turmoil may generate a systemic financial crisis that could spill over into the country's sluggish economy. Supportive government policies once again failed to prevent the A-share market from free-falling as the benchmark Shanghai Composite Index declined 3.48 percent to close at 3,912.77 points on Thursday. It was the first time since April that the index closed below the psychologically sensitive level of 4,000 points. About $2.65 trillion in market value has been wiped out in three weeks. Thursday's decline came after a string of government policies to lift the market, including the securities regulator easing margin trading rules and the stock exchanges cutting stock trading fees by 30 percent. The People's Bank of China also announced an injection of additional liquidity worth 35 billion yuan ($5.66 billion) through open market operations after cutting interest rates and the reserve requirement ratio for banks over the weekend. But traders did not buy into the supportive measures as they continued to dump stocks and liquidate their leveraged margin positions. Economists warned that investor panic may continue to spread and generate further selling pressure, which could have a detrimental impact on the country's financial stability and the overall economy. On Thursday, Zhou Xiaochuan, governor of the PBOC, the central bank, said during an internal meeting that China will firmly hold the bottom line to prevent systemic and regional financial risks. While analysts attributed recent market drops to forced liquidation of margin trading, there is growing speculation that the market has been further depressed by speculators shorting the A-share market. Tools such as stock index futures, which are intended for investors to hedge risks, have been
used as weapons to slaughter the bull market, said Liu Shuwei, director of the Chinese Enterprise Research Center at the Central University of Finance and Economics. Some analysts said that the recent market turmoil may be a hard-learned lesson for regulators and investors and may lead to a more cautious attitude by Beijing toward the country's financial innovation and liberalization. The China Securities Regulatory Commission has launched an investigation into investors who use stock index futures to short the market.

Analysts believed that it is highly likely that the government will roll out more measures including a reduction of stock stamp duties and a suspension of new share sales to prop up the market. While government measures may help calm the market in the short term, some analysts expressed doubts over the administrative intervention as it may sow seeds for an even greater crisis in the future.

Contact the writers at lixiang@chinadaily.com.cn and wuyiyao@chinadaily.com.cn.
Source: Li xiang and Wu yiyao: Stocks dive further despite policy support, China Daily, 2015-07-3

China sovereign fund net profit surges in 2014

BEIJING -- China Investment Corporation (CIC), the sovereign wealth fund, reported a huge net profit increase in 2014 in the company's annual report, released Friday. Net profits hit $89.1 billion last year, $2 billion more than the previous year. CIC branches abroad reported a net investment profit margin of 5.47 percent in 2014, lower than the annual average rate of 5.66 percent registered since the founding of the company in 2007. The company's total assets surpassed $740 billion, according to the report. Ding Xuedong, CIC chairman and CEO, said the company intensified risk control, optimized its structure of investment combinations and promoted long-term investments during last year. By the end of last year, open market stocks and long-term assets accounted for 44.1 percent and 26.2 percent separately of its overseas investment portfolio, said the company. The CIC has three subsidiaries -- CIC International and Central Huijin Investment Ltd. and CIC Capital Corporation.
Source: Xinhua: China sovereign fund net profit surges in 2014, 2015-07-4

Free stocks from $10-trillion roller-coaster

Both the volatility and the three-week index dive in Chinesestock markets have been beyond the wildest imagination of most investors and should prompt the country's policymakers to take immediate and effective measures to preempt panic in the stock market. But while doing so, they should be careful not to mislead investors with the impression that the government is out to boost share prices at any cost. With the benchmark Shanghai Composite Index closing at 3,686.92 points on Friday, the Chinese stock market has plummeted by nearly 29 percent over the past three weeks. This decline is in sharp contrast to a year of spectacular gains that inflated its total value to more than $10 trillion in June, roughly the size of the country's gross domestic product in 2014.

Given the huge size of the Chinese stock market, it is more than obvious that the country's securities watchdog must take action to prevent an overdue market correction from spiraling out of control and causing irremediable damage to not only the stock market but also the real economy. Since the People's Bank of China cut interest rates last weekend the Chinese authorities have come up with a slew of measures that are apparently meant to bolster sentiments in order to arrest the steep fall of the stock market from its periodical peak on June 12. Some measures like the plan to allow the country's pension fund to invest in equities is of long-term significance to the healthy expansion of the stock market. Other measures like relaxing collateral rules on margin lending and efforts to crack down on stock market manipulation are supposed to deliver immediate results and help arrest the decline. Unfortunately, the slide of the stock market over the past week indicates that investors have not yet responded well to these positive developments.

Explanations abound for the continuous decline of shares. Some observers say the ridiculously high prices of shares, especially those of some newly listed high-tech companies which even their founders cannot resist cashing in on, are to blame. Others have blamed poorly regulated margin lending as the root cause of the recent stock boom and the ongoing bust. Leveraged stock investment through gray-market or official-margin lending has substantially
increased the risk of a snowball effect with their borrowers being forced to liquidate their positions when the shares started dipping. Still others attribute the bust to blind optimism fueled by the surge of retail investors into the market. It was reported that the number of trading accounts holding at least some stocks hit 68 million by the end of May, up 27 percent year-on-year. And a few even believed the rumors that foreign capital was maliciously attacking the Chinese market.

Admittedly, it will be almost impossible to identify the exact reason for the stock bubble. But that does not mean policymakers can wait out this stock storm. The yearlong surge of shares has a lot to do with most investors' belief in the Chinese government's vow to transform the country's growth model through reforms and innovation during which the stock market will play a central role. If policymakers cannot timely restore order in the stock market, whose long-term performance is based on the real economy but led by investors' expectations, the dramatic fall could result in huge financial losses for tens of millions of retail investors and their families, as well as related financial institutions. Worse, pessimism will spread in the market undermining enthusiasm and fund-raising for innovation-driven growth. Therefore, the policymakers have to take resolute measures to prevent stock panic. The failure of expedient policies to boost the market in the past days should serve as a warning against confusing and piecemeal measures that would only wear thin investors' confidence. Now is the time for the policymakers to take effective steps to eliminate too much risk-taking to develop a booming stock market for innovation-led economic transformation.

Source: ZHU QIWEN: Free stocks from $10-trillion roller-coaster, China Daily, 2015-07-4

IPO approval not to be suspended: CSRC

BEIJING - China's securities regulator said Sunday night that the approval of initial public offerings (IPOs) would not be suspended though the number of new shares hitting the stock market will be cut. No new companies will be listed in the market "in the near future" following announcements from 28 companies on Saturday to suspend their IPO plans, said Deng Ge, spokesperson of the China Securities Regulatory Commission (CSRC). The approval of IPO applications will not stop but the number of companies getting listed and their capital raising will drop in the future, Deng said. The CSRC will investigate and punish market manipulation that is shorting A-shares via stock futures, Deng said. More efforts will be made to crack down on stock market rumors, Deng said, urging the investors to be discriminative. Beijing police said on Sunday that they had detained a man who spread a rumor online about someone leaping to his death due to the stock market slump.

Source: Xinhua: IPO approval not to be suspended: CSRC, 2015-07-6

China's Stock Plunge Is Scarier Than Greece

When China's economy slowed following the 2008 global financial crisis, Beijing pumped massive amounts of liquidity into the system. First that money went into the property market, later into the various debt-related products sold through the shadow banking system. But when property slumped and the shadow banks started to pose systemic risks, China had only one major market left to flood -- stocks. Funneling some of China's $20 trillion in savings into stocks was a last-ditch effort to revive flagging economic growth by giving the country's debt-laden companies a new source of financing. The aim was to trigger a slow and steady bull run, but the somnolent stock market exploded into one of the biggest bubbles in history. There are four basic signs of a bubble: prices disconnected from underlying economic fundamentals, high levels of debt for stock purchases, overtrading by retail investors, and exorbitant valuations. The Chinese stock market is at the extreme end on all four metrics, which is rare. The sharp equity rally took place despite sputtering economic growth and shrinking profits. By official count, margin debt on the Chinese stock market has tripled since June 2014. As a share of tradable stocks, margin debt is now nearly 9%, the highest in any market in history. At the leading brokerages, 80% of margin finance has been going to retail investors, many of them new and inexperienced. Today China's 90 million retail investors. Two thirds of new investors lack a high school diploma. In rural villages, farmers have set up mini stock exchanges, and
some say they spend more time trading than working in the fields.

The signs of overtrading are hard to exaggerate. The total value of China's stock market is still less than half that of the U.S. market, but the trading volume on many recent days has exceeded that of the rest of the world's markets combined. Turnover is 10 times the level seen at the peak of the previous China bubble in 2007, and virtually the entire market inventory is changing hands every month. Such frantic activity has pushed up valuations for companies large and small, with the broad CSI 500 index trading at 50 times last year's earnings and the Nasdaq-style board Chinext valued at 110 times last year's earnings. Since the June 12 peak, nearly $3 trillion in value has been erased, as Beijing takes increasingly desperate measures to arrest the price collapse. The authorities have cut interest rates and transaction fees. They have directed mutual funds and state pension funds to buy stocks. Over the weekend they panicked and reversed course by suspending new initial public offerings, suddenly choking off a source of the new corporate funding they had been trying to create. This comes when the real cost of corporate borrowing is high. Any further reduction in interest rates could accelerate the outflow of capital, after a record $300 billion has already left China this year.

The continuing crisis is viewed, locally and globally, as a test of China's control over the economy. The "Beijing put" -- a perception that Chinese economy and markets are backstopped by the government -- is under threat. That perception has underpinned the widespread belief that Chinese growth won't fall much below 7%, because that is the government's desired target and Beijing is omnipotent. Looming over all of this is China's massive run-up in debt, which has increased by over $20 trillion -- to around 300% of GDP -- since the global financial crisis in 2008. All along, the bulls argued that Beijing has successfully managed every challenge to its three-decade economic boom, and that it could overcome the threat this debt represents. At a minimum, the argument went, China's financial woes would be smaller than those of other countries with high levels of borrowing. This faith in Beijing encouraged many global hedge funds to pile into Chinese stocks. But if Beijing can't stop the market's tumble, there could be a sudden shift in the perception of exactly how far economic growth might fall under the weight of too much debt. If that floor crumbles and the Chinese economy spirals downward, it will make the drama surrounding Greece feel like a sideshow. China has been the largest contributor to global growth this decade; Greece's economy is about the size as that of Bangladesh or Vietnam.


**Stocks open 7% down as market crash continues**

Central bank will provide "ample liquidity" to help stabilize the country's stock market, it announced on Wednesday, minutes after the benchmark index plunged 7 percent at the opening. The Shanghai Composite Index traded at 3,553.18 as of 11 am, narrowing its loss to 4.7 percent after the announcement. The gauge has retreated 30 percent from the June 12 peak. The central bank will actively assist China Securities Finance Corp, a State-owned facilitating margin loan service among brokerages, to obtain ample liquidity through channels including loans and bonds, it said in the open statement. "The People's Bank of China will pay close attention to market moves and do whatever it can to prevent systemic risks." It was the first time the central bank made voice since the rout, as traders unwound their leveraged positions at a record pace, leaving investors shudder in fear. The statement was published after earlier regulatory moves failed to stem the plunge, with market gauges heading for a four-month low. The State Council ordered the suspension of new public offerings over the weekend to unleash liquidity locked up in share subscriptions, while brokerages and executives from 25 mutual funds as well as social security fund vowed to buy stocks. The Shenzhen Component Index traded at 10,959.40 as of 11 am, down 3.7 percent. Over one-third of the companies listed on the Shanghai and Shenzhen exchanges were suspended from trading on Tuesday.

Source: Dai Tian: Stocks open 7% down as market crash continues, China Daily, 2015-07-8

**CSF to increase purchase of smaller company shares to support stock market**
BEIJING - China's state-owned margin trading service provider will support the tumbling stock market by increasing share purchase and offering brokers liquidity aid, the country's top securities watchdog said Wednesday. China Securities Finance Corporation Limited (CSF) will purchase more shares of small- and medium-sized listed companies to ease stock market liquidity, said Deng Ge, a spokesperson for the China Securities Regulatory Commission (CSRC). The CSF will also continue to maintain the stability of blue-chip stock prices and offered 260 billion yuan (41.89 billion) of stock-secured credit for 21 brokerage firms to conduct self-run share purchasing on the market on Wednesday, Deng said. The moves are aimed at helping market transactions resume as normal as "investors' panic and irrational sell-offs caused a liquidity strain on the stock market," according to Deng.

China's stock market has been in a downward spiral since hitting a peak in June, with the benchmark Shanghai Composite Index shedding more than 30 percent. The government has rolled out a streak of supportive measures, including asking 21 major securities brokers to spend 128 billion yuan on exchange traded funds (ETF) that track the performance of blue chip stocks on Monday. Those brokers are in normal and sound operation with plenty of capital and liquidity, Deng said, noting that the CSF will provide ample liquidity support for them. The total net assets of the 21 securities firms now exceeds 800 billion yuan, while their combined net capital and high-quality liquid assets both stand above 600 billion yuan, he said. The CSF is the only company in China that provides margin financing for securities firms. Its shareholders include the Shanghai and Shenzhen stock exchanges, several futures and commodity exchanges, as well as the China Securities Depository and Clearing Co, Ltd.

Source: Xinhua: CSF to increase purchase of smaller company shares to support stock market, 2015-07-8

Chinese regulators' moves to stabilize stock market encouraging

NEW YORK - Chinese regulators' response to the country's stock market following a three-week losing streak has been encouraging and in line with what is needed to stabilize the market, US experts have said. "The policymakers' moves over the past weekend are very tuned with the market. They realize the market needs to be stabilized at this juncture," Brendan Ahern, chief investment officer of US fund company KraneShares, told Xinhua on Monday. On Saturday, 28 Chinese companies scheduled for IPOs announced that they would postpone follow-up issue of shares due to recent fluctuations. Meanwhile, 21 major securities brokers in China promised to spend no less than 120 billion yuan ($19.62 billion) on exchange-traded funds that track the performance of blue-chip stocks. In addition to these steps, last weekend, China's central bank lowered both the interest rate and the reserve requirement ratio for banks to inject liquidity into the market. Ahern said the string of measures was in accordance with the three main factors that triggered recent plunges in the stock market: corrections for the bull market, excessive supply of IPOs, and extensive use of margin. He added that the large number of IPOs in June created more supply than demand, which also weighed on the stock market. When talking about margin, Ahern said the regulators' concern over margin is appropriate, particularly in the ChiNext market. "The policies are really to help stabilize the market to allow the deleveraging to take place," he said. He pointed out that ChiNext and some small caps may have further volatility because of the continued emphasis by regulators and policymakers on blue-chip stocks. Ahern also noted that this round of market pullback provides an opportunity for foreign investors who missed the initial rally in the Chinese stock market to enter.

Source: Xinhua: Chinese regulators' moves to stabilize stock market encouraging, 2015-07-8

New govt measures to boost confidence

- The People's Bank of China will provide ample liquidity to help stabilize the stock market. It will work with China Securities Finance Corp Ltd, the State-owned margin lender, to obtain liquidity through loans and bonds. The PBOC says it will do whatever it can to prevent systemic risks.
- The China Insurance Regulatory Commission has increased the limits for insurers to invest in blue-chip stocks from 5 percent to 10 percent of their total assets. Qualified insurers can also increase the ratio of their equity assets from 30 percent to 40 percent of their total assets.
The State-owned Assets Supervision and Administration Commission, the State assets regulator, has urged the 112 central State-owned enterprises to buy more shares in their companies.

The China Securities Regulatory Commission has prohibited major shareholders and senior executives of listed companies from selling stocks in their own firms for at least six months.

China Financial Futures Exchange has substantially raised the margin requirement for futures trading on the CSI 500 that tracks small and mid-cap stocks to 30 percent to curb speculative short selling.

China Securities Finance Corp Ltd has granted loans of 260 billion yuan ($42.1 billion) through stock collateral to 21 brokerage firms to allow them to buy more shares.

The Ministry of Finance has encouraged State-owned financial firms to increase their holdings in listed companies when prices are at reasonable levels. It has also promised not to reduce its holdings in Chinese shares during market volatility.

Central Huijin Investment Ltd, the investment arm of the country's sovereign wealth fund, has promised not to reduce its stock holdings.

Source: New govt measures to boost confidence, China Daily, 2015-07-9

Is China's stock market hitting a bump or signaling an economic meltdown?

For one day, at least, it was enough. The Shanghai composite index jumped 5.8 percent on Thursday to pare its losses the last month to 27 percent, while the tech-heavy Shenzhen index rose 3.8 percent to stand 37 percent lower than it was in mid-June. This isn't quite as good as it sounds, though, since more than half of all stocks were suspended to try to stem the panic. That was one of a panoply of measures Beijing unveiled, which includes everything short of ordering stock prices to go back up. Now this might just be a bump in the financial road. If you're a glass-half-full kind of person, you would point out that, even with this sell-off, the Shanghai and Shenzhen markets are both still up around 80 percent over the past 12 months. You would also note that only 7 percent of Chinese people own stocks, so this market meltdown shouldn't cause an economic one. The question, though, is whether it's warning us that a meltdown is coming. The answer is a definite maybe. Commodities have been selling off as well, in large part because people who lost money on stocks have had to sell other things to raise cash, but maybe also because Chinese factories don't have as much demand for them anymore. That would fit with the fact that the Australian dollar, which tends to move in tandem with China's economy because of the countries' close trade ties, has also been dropping.

But we have to be careful about reading too much into this, as the stock market has a way of predicting six of the last two recessions. There's a chance that China's stocks are falling because China's growth is falling and not just because prices had gotten so high that they didn't make any sense. The only thing we can say for sure is that China's stocks are telling us that they have too much debt. Now, up until a year ago, the Shanghai market had been a pretty boring place to put your money, considering that it had barely gone up since its last bubble burst in 2007. But that changed when the state media began trumpeting how cheap stocks looked last fall. People listened, and then they went nuts. New trading accounts shot up, with two-thirds of them coming from people who hadn't graduated from high school. Not only that, but they started buying stocks with borrowed money, what's known as "buying on margin." All this new money pouring into the market - margin loans quintupled in a year - sent stocks soaring so much that it wasn't long before stocks were going up because stocks had been going up. There may never have been a more perfect bubble. Stock prices climbed 150 percent at the same time that corporate profits were falling, economic growth was slowing and accounting standards were as unreliable as ever. And the fact that the boom was built on borrowed money meant that the bust would come quick. If a stock becomes worth less than you borrowed to buy it, you have to put up the difference as collateral - or, if you don't have it, be forced to sell. But forced selling makes the stock fall even more, which makes even more people face margin calls and have to sell, too. So stocks go down because stocks were going down.

Beijing has tried to stop this vicious cycle by making it cheaper to buy stocks, easier to buy stocks and by
helping people buy stocks, among other ways of throwing money at the problem. Specifically, it has cut interest
rates, let banks lend out more of their money, let pension funds buy stocks, made it easier to borrow money to buy
stocks with, let people use real estate to borrow money to buy stocks with, pressured companies to buy back their
own stock, barred major shareholders from selling any stock for six months, cut trading fees, capped short-selling
and suspended IPOs. Maybe the most effective thing it has done, though, is having its central bank print money to
lend to people who want to buy stocks. The idea is to put a floor under stock prices so there aren't any more margin
calls dragging them further down. Whether it will work for more than a day depends on how much money China
really is willing to print. The rest of the world can handle a Chinese stock market crash but not a Chinese housing
crash. That really could be 1929 with Chinese characteristics.
Source: Is China's stock market hitting a bump or signaling an economic meltdown?, O'Brien, Matt. The Washington

BusinessPundit: China's Stock Market Crash: Why It Happened And What's Next

The Chinese stock markets - the main two are in Shanghai and Shenzhen, with smaller ones like the ChiNext
start-up index also in the mix - are essentially seeing their bubble burst. Share prices skyrocketed between last
summer and the beginning of this summer, in some instances quadrupling, and the overall stock indexes saw their
values double. That jump was largely due to investors flocking to small and mid-size companies. Many of those
investors happened to be working- and middle-class people, including families who borrowed heavily to ride the
wave and make their bid at fortune. All of this, by the way, was happening while the Chinese economy was actually
cooling off. Connect some of these dots and you might begin to see a worrisome pattern emerge. The Shanghai and
Shenzhen markets each fell by more than 7 percent on June 26, sparking a furious attempt by the government to
right the wobbly financial ship. The central bank slashed interest rates the next day. Initial public offerings have
been halted. Trading on many stocks stopped altogether to prevent further losses. And last weekend, while
Americans were setting off fireworks, big Chinese brokerage firms were announcing a$19.3 billion plan to buy
shares of blue chip stocks in a bid to stabilize the markets. That worked briefly on Monday, by Tuesday things
looked worse, and on Wednesday the markets plummeted again. By that point, about a third of the massive gains
the markets had made between last summer and early June of this year had been wiped out. Those market dynamics
can create a chain reaction of selling. China's major exchanges prevent a stock from falling more than 10 percent on
any given day. When that happens, analysts say, many investors opt for selling other shares, broadening the sell-off.
Then when the market opens the next day, they continue selling down the stock that was previously halted,
effectively prolonging the turmoil.

It's really hard to tell. On Thursday and Friday, stocks bounced back, but that doesn't necessarily mean the
system is correcting itself. In fact, because of the highly leveraged gains of the past year and the cool economy, a
true "correction" would probably see much of those gains reversed. The financial boom just didn't - and doesn't -
match the economic realities that Chinese companies and consumers are facing. But while China has opened up
economically to a striking degree over the past several decades, it remains guided by a firm hand in Beijing. And
even though the Communist Party may not be interested in central planning any more, President Xi Jinping does
have a great degree of control - and, more to the point, he has rooted his power in a perception that he is, in fact, in
control. So you can probably expect the government to continue doing whatever it can to prop up the stock market
despite being as artificially inflated as it already is. The political cost of letting it collapse is just too high. And, in
situations like this, government intervention into the economy is not unprecedented elsewhere. Recall the fall of 2008
in the U.S., when Washington bailed out the big banks to avoid a financial collapse. That's just one of the most
recent examples.

Some are comparing the Chinese crisis to the stock market crash of 1929. That, of course, preceded a global
depression. Not everybody sees China's situation quite so apocalyptically. The Economist writes in its current issue
that. Lost in the drama is the fact that the stockmarket still plays a small role in China. The free-float value of
Chinese markets—the amount available for trading—is just about a third of GDP, compared with more than 100% in developed economies. Less than 15% of household financial assets are invested in the stockmarket, which is why soaring shares did little to boost consumption and their crash should do little to hurt it. Many stocks were bought with debt, and the unwinding of these loans helps explain why the government has been unable to stop the rout. But such financing is not a systemic risk; the loans are about 1.5% of total assets in the banking system. The economy is solid. Growth, though slowing, has stabilised. The property market, long becalmed, is picking up. Money-market rates are low and steady, suggesting banks are stable. But what happens if the government's efforts fail and the markets dive again? Could a Chinese stock market collapse cause the same worldwide ruin as the 1929 crash? Taken on its own, no. China's financial system is pretty isolated, with most investment coming from within. So far that's prevented the turmoil from spilling over into the global economy. But if the government's attempts to prop up the econoy fail, and consumers are spooked - or impoverished - enough to cut consumption, that could be a different story. As the families and young workers who joined the feeding frenzy by investing borrowed money suffer losses, they'll be hard-pressed to continue consuming at the rate Beijing would prefer. That, in turn, will likely cause a ripple effect across the Chinese economy, slowing purchases and tightening the flow of money. American companies could also be affected in a big way, especially industrial firms heavily invested in China.


Picking through China's Stock Mess

Given the way Chinese stocks have risen, fallen and suddenly risen again the past few days, it is time for investors to look for companies better tethered to the ground. Take Fuyao Glass Industry Group, which has a market value of $5 billion. It has emerged in recent years not only as the largest provider of glass for cars in China by far, but also the second largest in the world, after Tokyo-listed Asahi Glass. Cars these days come with more glass to offer drivers better views so auto glass has a shiny future. In China, sport-utility vehicles -- with their big windshields -- are a rare growth spot. Still, given the risk posed by China's rapidly decelerating car market, it helps that Fuyao's sales outside China constituted 34% of revenue last year. The company also benefits from a broad customer base, as a supplier to 20 car makers world-wide. This, plus its own industry position, should preserve its bargaining power and, in turn, its ability to pay out roughly 60% of profit in dividends. Its yield is an enticing 5.5%. After falling 27% in the past month, Fuyao's Hong Kong shares have clawed some back. But they still fetch just 11.8 times forward earnings versus an average of 16.5 times for nine global and Hong Kong auto-parts suppliers.

Another example: China Medical System Holdings, whose main drugs treat depression, cholesterol and heart failure, and which sports a market value of $3 billion. It is expanding distribution to include more hospitals, notes Credit Suisse, and sales growth is now among the sector's highest. The $28 of spare cash it generates for every $100 of sales also is high compared with rivals. China Medical's stock climbed Thursday and Friday, but that followed a 30% drop the previous three months. At 19.1 times earnings, its multiple is at a big discount to the average 26.9 times of 16 peers in Hong Kong and China, according to S&P Capital IQ. Hong Kong's market hasn't soured enough for blue chips such as technology giant Tencent Holdings or insurer AIA Group to look particularly cheap. But as markets swing, investors can forage for value one layer below the blue chips.


Stock market rescue places China’s renminbi reform under threat

The crisis that erupted on China’s stock markets over the past month destroyed about $3tn in market capitalisation before an unprecedented rescue programme appeared to calm investor nerves on July 9 and 10. But regardless of whether the Chinese government’s “unconventional measures” succeed or fail, they now threaten to derail the renminbi’s slow-but-steady transformation into a freely tradeable international reserve currency. In the
two years since President Xi Jinping assumed power, liberalisation of China’s once hermetically sealed capital account has made real progress. Indeed, it is arguably the only plank in Mr Xi’s bold reform programme in which the government can claim to have made real gains. One major capital account liberalisation initiative is the Shanghai-Hong Kong Stock Connect programme, which launched in November. It allows investors in each city to buy shares in the other without prior approval, albeit subject to aggregate quotas in each direction. A similar link between the Hong Kong and Shenzhen stock exchanges is due in the coming months, opening another channel for capital going in and out of China. More significantly, China unveiled in May a qualified domestic individual investor programme — known as “QDII2” to distinguish it from an earlier one for domestic institutional investors — that will allow Chinese individuals to buy overseas assets. QDII2 finally provided a legal outlet for hitherto grey market channels through which wealthy Chinese have become a powerful global force, bidding up the prices of everything from real estate to vineyards. Coupled with progress on interest rate liberalisation at home, China’s capital account reforms received a major endorsement in May when the International Monetary Fund declared the renminbi was “no longer undervalued” and suggested the currency was on track for inclusion in its so-called Special Drawing Rights basket of reserve currencies later this year. To be included in the SDR, the IMF must find that the renminbi is “freely usable”.

But this important strategic imperative has been knocked sideways in less than a week by Beijing’s unprecedented market rescue plan, which included directives banning shareholders and executives from selling shares, and a rush by listed companies to suspend trading. “Confidence in the local Chinese equity market has been shattered and is unlikely to come back any time soon,” Heinz Ruttimann, a strategy analyst at Julius Baer, said last week. “To stop trading is serious and for investors the most hated market intervention.” There are signs foreign funds are already taking flight. Since July 3, international investors have withdrawn Rmb40.5bn ($6.5bn) from Chinese stocks through the connect scheme, according to Hong Kong exchange data. “A company shouldn’t seek suspension to hide simply because it doesn’t like what’s going on in the world,” says one person who works closely with the China Securities Regulatory Commission, the market regulator. “To agree to be listed means that you agree to be listed and that’s what should happen.” Even CY Leung, Hong Kong’s chief executive, noted the contrast between his city’s reaction to the rout and China’s in a way that highlighted the latter’s immaturity. “Hong Kong boasts certain advantages,” Mr Leung said on Friday. “Over the past few days everyone was offered a glimpse into how Hong Kong’s structure, legislation, policies and measures played their roles amid the fluctuation in global markets.” Critics of the measures unleashed by Beijing last week argue that they point to a fundamental tension at the heart of China’s political economy that a free-floating renminbi would test even more severely.

Beyond capital account opening, the Communist party has yet to deliver on its biggest reform promises, most notably a pledge to let the market play a “decisive” role in the economy. The reform blueprint, for example, has made only fitful progress on state sector reform. Foreign investors in China also routinely complain that they now find themselves operating in a hostile regulatory climate and remain frustrated by a myriad of bureaucratic market entry barriers.

Source: Tom Mitchell in Beijing: Stock market rescue places China’s renminbi reform under threat, Financial Times, July 12, 2015 2:13 pm

**China’s stock market crash: Liberalisation cannot be fully controlled**

VISITING China last week to discuss finance with regulators, officials and industry people in Beijing and Shanghai was a timely reminder of the country’s economic vitality. All the facts confirm this - China is the world's second largest economy (probably the largest on a purchasing power parity basis), and it is growing at twice the rate of the fastest-growing western economies. The country is firmly embarked on a path of economic and financial liberalisation in the measured and controlled Chinese way. The RMB is now fully convertible on the current account and is well on the way to becoming so on the capital account too. And on top of this the Chinese market is more open to foreign institutions. While there is still some way to go in this last point, Chinese institutions are
making their presence felt in global markets.

The push for liberalisation was tested in a big way while I was in China. By June, the Shanghai stock market had grown by 150 per cent in a year, driven by retail investors, and often with borrowed money. Of course, the correction had to come - and prices have fallen 30 per cent since mid-June. This was portrayed as a disaster in the media, although in reality it was a correction familiar to western markets. Some held the government to be responsible and it announced a package of measures to stabilise the market. They did not work and the market continued to fall. So there are two lessons for both government and investors to learn: investing in the stock market with leveraged borrowed money is bound to end in tears, and market forces can easily trump government action. Will this cause a rethink on the pace of reform? Quite possibly yes, at least in the short term.

But the roadmap remains, albeit with some road works taking place. The Chinese market will open up, offering huge opportunities for British firms. Equally importantly, the Chinese government is helping businesses globalise through a range of initiatives, including the Silk Road Fund and the Asian Infrastructure Investment Bank. The size of China's economy means that these developments can be partly on Chinese terms - but the stock market correction is a lesson to China that liberalisation cannot be fully controlled, and that the country must make its own substantial adaptations to manage a market rather than a command economy. This point is a central conclusion of an important new report by the Atlantic Council (Renminbi Ascending: How China's Currency Impacts Global Markets) on the implications of internationalising the RMB. The report shows that China must have a much greater role in the international financial regulatory system and must take the necessary internal measures to cope with a convertible currency. For western countries, particularly the US, it also highlights how we need to fully understand and adapt to the change in the world order.


China's Stock Plunge Undercuts Foreign Plans

Steep drops in China's stock markets have shaken trust in the country's economic management following a series of missteps and measures to avert further falls. The plunge of over 30 percent in the Shanghai Composite Index (SCI) between June 12 and July 8 has made a lasting impression on China's investment environment, despite government efforts to provide support. And never mind that the government responded with a barrage of intended fixes and capital infusions to slow the slide and stage a partial recovery. The first flurry of government remedies did little to help small investors who lost savings by buying into the market at the peak and then were unable to get out when it plunged. Many borrowed on margin accounts and then were shocked when their stocks stopped trading after reaching the 10-percent daily limit for declines.

A series of unprecedented rescue efforts have had mixed results. On July 4, China's regulators stopped 28 companies from launching planned initial public offerings (IPOs) out of concern for diluting the market. The government also pushed 21 brokerages to invest 120 billion yuan (U.S. $19.6 billion) in exchange-traded funds (ETFs), hoping to buoy the sinking boat with liquidity from the China Securities Finance Corp. and the central bank. The SCI responded only briefly on July 6 with a 2.4-percent gain, but shares slipped back as debt fears and economic gloom returned. By midweek, over half of the listed companies on China's exchanges had filed for trading suspensions to limit their losses. Estimates of lost stock value topped U.S. $3 trillion (18.6 trillion yuan), equal to nearly 29 percent of China's gross domestic product (GDP) last year.

Further rescue efforts followed but failed to restore confidence. At first, the government "ordered" state-owned enterprises (SOEs) and "asked" state-owned financial companies not to sell shares during the downturn, the official Xinhua news agency said. Regulators also "allowed" government pension funds and insurance companies to buy stocks with eased rules. But the market only rebounded on July 9 with a 5.8-percent gain after the government stacked the deck with measures that virtually guaranteed that there would be more pressure to buy than to sell. Among the more controversial moves, large shareholders were "ordered" not to sell company stock for six months,
while police vowed to investigate and punish "malicious short selling" by investors who hoped to profit from price declines, Xinhua reported. On Friday, the SCI climbed 4.5 percent, closing up 5.2 percent for the week but 25 percent below this year's high.

But in a classic case of bad timing, the pitfalls of China's economy have come into focus and contrasted sharply with the image it has been projecting abroad. While the debacle in stocks may not be a measure of China's long-term prospects, it has been seen as a black eye for the economic management of President Xi Jinping and Premier Li Keqiang. Premier Li was "very angry" that the crisis struck just as he was returning from a five-day visit to Europe aimed at promoting investment and trade, according to a source "familiar with the trip," the Financial Times said. Li's mission to Belgium and France was one of several recent efforts to push China's economic power to the front of the world stage. Despite the troubles at home, Xi traveled to Ufa, Russia last week for meetings of the Shanghai Cooperation Organization (SCO) and the emerging BRICS countries, including Brazil, India and South Africa, to announce new financial institutions that may compete with the International Monetary Fund and the World Bank. One interpretation is that Xi may only have shaken confidence in the market further if he had cancelled the trip.

In the end, China's market turmoil may have relatively little economic consequence, despite the pain for investors, Scissors argued. "This has to do with an immature financial system, which the Chinese aren't fixing," he said. China's markets have followed a boom-and-bust cycle, last seen in October 2007, when the SCI plummeted 71 percent over a one-year period after soaring fourfold since the start of 2006. Despite the slump, China's GDP climbed 13 percent in 2007 and 9.6 percent in 2008, according to National Bureau of Statistics (NBS) data. But with GDP growth in 2014 falling to a 24-year low of 7.4 percent and a six-year quarterly low of 7 percent in the first quarter, investors will be looking anxiously at second-quarter figures due to be announced later this week. The longer-term weakening of China's economic growth remains the main consideration, Scissors said. Whether the market crisis will cut deeply enough to affect China's many international investment plans is uncertain, but the sheer number of them suggests a possible pullback if the stock slide is prolonged. In addition to the AIIB and BRICS funding, China has been promoting its "belt and road" initiatives to recreate ancient Silk Road trade routes and an "industrial capacity cooperation" program to build manufacturing bases abroad. The threat of a serious economic setback could follow the pattern of 1998, when the Asian currency crisis delayed China's "go out" plan for foreign energy investments by several years. In the current downturn, China's partners will be looking to see how well it performs as an emerging world financial center and how much it relies on interventionist, arbitrary and non-market policies. Some of its moves have already proved contradictory and self-defeating.

The government's infusions of liquidity into the falling market serve as a reminder that Li complained only three months ago that state banks were more interested in lending for stock market speculation than in financing to support the "real economy." Now, the government has called for more lending to buy shares and avoid a market collapse. On April 17, regulators also tightened margin trading rules and allowed funds to lend shares for short selling in a bid to bring the stock market bubble down. Now that the bubble has apparently burst, regulators have reversed course, pumped more funds into margin trading, blamed short sellers for the crisis and threatened them with prosecution.


**Disaster is providing ultimate test**

The roller coaster that the Chinese stock market has ridden in the last couple of weeks has been widely reported, including the evaporation of market value equivalent to 10 times the Greek GDP. The Chinese government has taken a train of contingent moves to put the brakes on what some investors have called a stock market disaster. It should be enough to dissipate a panic that had once loomed large and bring the market to a more
stable environment. But the cost the country has to pay will be heavy. And there are deep lessons to be learned before its capital markets can return to normal.

Lesson one: It is dangerous to play with greed. Human beings are greedy. So are the companies and institutions, whether or not they are State-owned, unless they are tasked to aim for something other than returns on investment. At a time when the economy seemed to grow at a less than ideal pace, as it was in the beginning of the year, it would certainly be nice for many companies to be able to raise additional funds from a robust stock market to reinvest in their new products or services. But it would certainly invite danger if the market was allowed to channel almost unlimited funds, some of which were on credit, to nearly all listed companies, whether or not they had a worthy reinvestment plan or adequate management to execute it. At one time, the authorities were so lenient as to allow investors who had borrowed heavily to increase their bets in the market without a warning or precaution about any adverse consequences. Small wonder that the bull market—before the index began to go downhill in June was nicknamed a "leveraged bull". Naturally, when the general share price level goes up too fast and too high, the market will offer itself up as an easy target for short-sellers. The same greed can drive people with as much passion as they had about the leveraged bull market to slaughter that bull without mercy.

Lesson two: The stock market is by nature an untamed place. The government would be more likely to make a mistake by setting a target or seeking a goal of its preference. Nor can a stock market rally directly contribute to the overall growth of the economy, from the reinvestment in industrial hardware to an increase in retail sales. The bond market, by contrast, is a much easier way to lead the flow of society's funds where the central government would like to have it, such as large, national-level public infrastructure projects. China is already a nation with a considerable number of people looking for a quick return on their money. Rather than letting those people invest their money in companies they hardly know anything about in the stock market, or buy houses in foreign cities where they can hardly live in, the government should put their resources to a better and more profitable use.

Lesson three: Don't blame reform for the stock market crash. Rather, it is a lack of reform that gave rise to the recent nosedive in indexes. Yet the lack of reform comes from two things, like two sides of the same coin. One side is the lack of a truly centralized regulatory regime for the financial market and due protection of the key interests of small investors. The other side is a lack of a truly competitive market and diverse investment instruments. There should be an overarching body, aided by people with lots of industry experience, to coordinate the separate bureaucracies overseeing different parts of the financial market. It will take some time for China to pick up the pieces after its recent stock market rout.

Source: ED ZHANG: Disaster is providing ultimate test, China Daily, 2015-07-13

China's stock market heresy; the intervention is working. But long term, liberal reform is necessary.

The concluding chapter of "The Book of Free Markets" tells us that propping up the market may provide temporary paper earnings but reinforces risky behavior by investors, who can expect to get bailed out in the future when their bets go bad. So on the one hand there's theory, perhaps best expressed by Jason Zweig of the Wall Street Journal, who declared: "The Chinese government regards markets as clay that can be molded. Instead, markets are like water: They always find their own level, no matter who or what tries to control them." But on the other hand there's reality, which seems to indicate that China's muscular intervention is working. The Shanghai Composite Index rose from its low Wednesday of 3,507 to close Monday at 3,970, up 13.2% in just three trading days. The Shenzhen and Hong Kong exchanges gained 12.5% and 10.2%, respectively. Although Chinese markets lost more than 30% of their value during the last month, they are still up 95% from June 2014, when the climb began. Meanwhile, China's downturn has barely caused a ripple on the New York Stock Exchange. The turmoil in Greece and the recent increase in the price of Starbucks coffee have had a greater effect on American investors. Recent history is of course not the only evidence that China's "clay" approach gets results: China has averaged 9% growth for 36 years by combining market-oriented policies with strong doses of protectionism.

In the long run, liberalization and a stronger regulatory framework are more likely to result in economic
stability and growth than repeated intrusion. If China's policymakers want their financial markets to eventually function independently, they'll have to put forward a new round of reformist policies. They should begin by removing the series of temporary stimuli to pump up the stock market, including eliminating margin trading, allowing all listed firms to resume trading (1,000 are still suspended) and letting investors large and small buy and sell shares at will. The next step is to improve the underlying governance of the stock markets by expanding listed firms' transparency, limiting banks' involvement and exposure, strengthening the rights of minority shareholders, and making regulators' overriding task honest market behavior, not growth and profitability. The final task for policymakers is to further open Chinese stock markets to foreign capital and permit Chinese households and companies to invest abroad. Fully opening China's capital account would reduce the difference in the stock prices of Chinese companies listed domestically and on foreign bourses and more broadly decrease opportunities for arbitrage, thereby reducing the volatility that China's regulators so want to avoid. Anyone who thinks China has broken its intervention habit will certainly be proved wrong before long. But if its leaders move steadily toward liberalization, there should be less need for heresy in the first place.


China Market a Bad Casino, Hedge Fund Managers Say; Bill Ackman: 'It looks worse to me than 2007 in the United States'

The Chinese government has been in damage-control mode for weeks amid a drop in Chinese share prices and questions about whether the stock market’s upward march since late last year was sustainable. Its latest effort: New data from the National Bureau of Statistics--frequently questioned by independent experts--that showed gross domestic product growth holding steady at 7% in the second quarter. Most economists had expected growth below 7%. The Shanghai Composite ended the day down 3% at 3805.70, putting it 26% below a seven-plus-year high it reached on June 12.

Hedge fund managers for years have bemoaned the influence of the world's governments and central banks on the markets, saying they distort security prices and make it harder to trade. Yet China had, until recently, been a bright spot. The AsiaHedge Chinese Long/Short Equity Index is up more than 19% through the end of June--even though last month marked its worst monthly showing in two years, with a 5% drop, the research firm said. Paul Singer, founder of Elliott Management Corp., compared China's effort to prop up its stocks unflatteringly to quantitative easing campaigns from the U.S. Federal Reserve and European Central Bank. Hundreds of stocks in Shanghai and Shenzhen were halted from trading in an apparent bid to stem further declines. "The damage that's been done to people's perception" is significant, Mr. Singer said. "All of a sudden you can't trade and don't even know a rough price...and your brokerage firm has become insolvent." Mr. Singer's pessimism was shared by most, though not by all gathered at he Pierre hotel. Eric Mindich, a former Goldman Sachs Group Inc. partner who now runs hedge fund Eton Park Capital Management L.P., said the Chinese authorities had "plenty of ammunition" to keep the good times rolling. He said he was buying in particular H-shares, or stakes in Hong Kong-listed companies incorporated in China. "This won't turn into a major dislocation in the real economy," Mr. Mindich said.

Source: China Market a Bad Casino, Hedge Fund Managers Say; Bill Ackman: 'It looks worse to me than 2007 in the United States', Copeland, Rob; Zuckerman, Gregory. Wall Street Journal (Online) [New York, N.Y] 15 July 2015: N/A.

China's bailout must have 'proper' exit: experts

BEIJING - China has taken measures to steady the stock market but questions have arisen over how to properly exit the new regime at a prudent time, when the market returns to normal. Zhao Xijun, deputy director of the finance and securities institute at Renmin University of China, expects the government to wait until liquidity, investor confidence and the fund-raising function of the equity market are back on track. Only then could
withdrawal of the stabilizing measures be described as "prudent." Not only should the timing be prudent, but the exit must be conducted "in batches" and "properly," he said. Bailout measures can steady a market, but wholesale adjustments to China's stock market are obviously required if reliability and stability are to be assured. In any case, stock markets only function efficiently when the real economy is sufficiently healthy, said Yi Xianrong of the Chinese Academy of Social Sciences.

The country was taken by surprise by a stock market plunge of more than 30 percent from the June 12 peak, but the freefall must be balanced against the staggering gains of China's various indexes over the past year, especially since the beginning of 2015. To prevent market upheavals from threatening overall financial stability, the government has poured in funds and restricted futures trading on a major small-cap index. The policy support has, to some extent, restored market confidence, with the key index rising for several days after the concerted moves. Regarding the impact of the stock market on the broader economy, Nomura research said the equity market sell-off will have a "small" negative effect on the real economy and the risk of a financial crisis is limited.

Source: Xinhua: China's bailout must have 'proper' exit: experts, 2015-07-15

**Market rout offers valuable lessons in open economy**

If a sports game is affected by a sudden downpour, it is the referee's job to announce a halt of the competition. If, and heaven forbid, there is a fire in a movie house, it is the projectionist's obligation to call for the firemen, and to help direct a quick evacuation. By the same token, no one can really dispute that if the Chinese government sees the country's stock market as in a disastrous moment, it will have to react according to its own judgment and the feedback it collected. And as it has, in the last couple of weeks, by imposing one policy after another to arrest a sell-off that wiped out up to one-third of the value of the A-share market from its peak and might cause an even larger setback of the economy that was already struggling in a difficult transition. Now that the panic that the Shanghai and Shenzhen bourses went through two weeks ago seems to have calmed down, one has to admit that the intervention directed by the premier's office in Beijing has done its work fairly swiftly. A restoration of rationality will help the country's stock market, which is only a little more than 20 years old and boasts perhaps the largest group of retail investors in the world, to continue growing in size and in opening up to international capital as well. It can be expected that the intervention policies would be lifted one after another once suitable regulations are stipulated on the trading practices that were deemed excessive, and the market returns to its normal functioning.

It is because what the government can do is only limited. It can, with all its "policy weapons", put an abnormal trend to a stop and create a new trading environment—with a more effective regulatory regime in particular. But all the policies put together still can't replace the market and the millions of investors, large and small, doing business on an everyday basis. It would be a mistake to imagine that the interventionist policies will stay for good. Many of them are of contingent nature and simply cannot stay. Instead, what can, and indeed should, stay are the lessons that regulatory officials and investors can learn from the wild volatility since the early months of the year. Any market that rises too fast would be seen as a bubble suspect and invite attacks on its value. A stock market of massive small investors and small funds, and only a few companies with a clear market niche and core competence, has an even stronger tendency of this kind.

The regulatory regime of such a market, therefore, will have to demonstrate some unique characteristics. It will have to make sure that:

- Highly leveraged investment, for both institutions and individuals, are subject to a stricter limit and perhaps more detailed rules.
- Financial futures had better be cordoned off to small individual punters and welfare funds.
- More investment instruments, which may diversify investors' interests and perhaps generate more direct support to the government-led key projects, are available, such as a large market of government and corporate bonds.
- There is a powerful fund that, with access to the central treasury, can be used by the premier's office to interfere with the market in case of a critical situation—preferably with full authorization by the national legislature.
And the regulatory body is composed of people with both a good sense of responsibility and good experience in the domestic and international financial markets. Viewed from this perspective, one can also say that the recent stock market rout lends to China an important opportunity of learning, and thereby preparing itself for running a more open economy.

Source: ED ZHANG: Market rout offers valuable lessons in open economy, China Daily, 2015-07-15

Rescue Mission Underway with a raft of supportive measures in place, will China's stock market bottom out amid a continued plunge?

China's A-share market has been on a roller coaster ride over the past six months. The stock market staged a stunning surge from last November to mid-June, when the Shanghai Composite Index (SCI) soared from less than 3,000 points to its peak of 5,166 points on June 12. To the surprise of many, after the rally, the stock market witnessed its worst three-week loss since 1992. The SCI tumbled by nearly 30 percent in the three weeks from June 15 to July 3. For the Shenzhen Component Index and the ChiNext, the Nasdaq-style board that tracks growth enterprises, the plunges were even deeper. The dramatic fall wiped out $2.36 trillion in the three weeks, more than 10 times the GDP of Greece in 2014. To avoid further market slide that will endanger the entire financial system, Chinese authorities are doing everything they can to rescue the market. The People's Bank of China (PBC), the country's central bank, has cut interest rates to a record low and pledged to provide ample liquidity for the market; brokerages have committed to buy billions worth of stocks; IPOs have been suspended; state-owned enterprises have been urged to buy more stocks; and major shareholders and senior executives of listed companies have been prohibited from selling stocks in their own firms for at least six months.

Although the stock market continued to decline from July 6 to 8, a strong recovery was staged on July 9, with the SCI closing at 3,709 points, surging 5.76 percent from the previous trading day and raising high hopes for investors. Blue-chip stocks responded better to latest supportive measures, with stock prices of some state-owned insurers, banks and oil companies managing to gain sharply, while price recovery was slower in overvalued small stocks. On July 7, another 660 listed companies applied for trading suspensions, which, if granted, will bring the total number of suspensions to 1,420, more than half of the roughly 2,800 companies listed on Shanghai and Shenzhen stock exchanges.

Why the plunge? According to Gu Jie, Vice President of Guotai Junan Securities Co. Ltd., poisonous assets--stocks with extremely high valuations--and high leveraging are the main reasons for the current market slump. It is highly leveraged margin trading--a system that allows investors to borrow money to trade stocks--that prompted a wild rally of 150 percent in the past year until June 12, he said. On June 12, the China Securities Regulatory Commission (CSRC) announced it would crack down on illegal leveraged trading. The stock market then declined in a chain reaction. After the bubble popped and prices fell drastically, short sellers saw an opportunity to make money from declining stock values by using short futures position, which led to further price declines. According to Guan Qingyou, Executive Director of Minsheng Securities Co. Ltd.'s Research Institute, the stock market has now been mired in a vicious circle. "As stock prices decline, many margin trading accounts are compulsorily sold out, which leads to a further decline of prices. A further decline of prices will lead to forced liquidation of more margin accounts," Guan said. "Without government intervention, the circle can't be broken. The government should take out real money to inject liquidity and buy shares to lift the market," Guan suggested. "When necessary, the market can even be closed to prevent a crash." "Further steep market declines without government intervention could lead to chain reactions across the financial markets, including the liquidation of fund and trust products as well as rising bad loans in the banking sector. China's decision makers should take this problem seriously as it's about preventing financial risks and maintaining social stability," Guan warned.

Policy Combo to Stabilize the Plummeting Stock Market

- July 9: Vice Minister of Public Security Meng Qingfeng leads a team to visit the head office of the China Securities Regulatory Commission (CSRC), a sign that the Chinese police have joined the securities regulator to
probe clues related to malicious short selling amid recent chaos in the stock market.
- July 8: The People's Bank of China (PBC) says it will provide ample liquidity to help stabilize the stock market. It will work with China Securities Finance Corp. Ltd. (CSF), the state-owned margin lender, to obtain liquidity through loans and bonds. The central bank says it will do whatever it can to prevent systemic risks.
- The CSRC increases the limits for insurers to invest in blue-chip stocks from 5 percent to 10 percent of their total assets.
- The State-owned Assets Supervision and Administration Commission urges the 112 centrally administered state-owned enterprises to buy more stocks of their companies.
- The CSRC prohibits major shareholders and senior executives of listed companies from selling stocks in their own firms for at least six months.
- CSF grants loans of 260 billion yuan ($42 billion) through stock collateral to 21 brokerage firms to allow them to buy more shares.
- The Ministry of Finance encourages state-owned financial firms to increase their holdings in listed companies when prices are at reasonable levels. It also promises not to reduce its holdings in Chinese shares during market volatility.
- July 5: CSF says it will raise funds through multiple channels and expand its business scale to help keep the stock market stable. The PBC will help the CSF to access more liquidity.
- July 4: The 28 Chinese companies that have obtained permission from the CSRC for initial public offerings announce they will postpone the follow-up issue of shares to avoid draining the market liquidity caused by a shares glut.
- China's 21 major securities brokers declare they will spend no less than 120 billion yuan ($20 billion), or 15 percent of their total net assets, on exchange traded funds (ETF) that track the performance of blue-chip stocks.
- July 3: The State Council approves the establishment of a 100-billion-yuan ($16 billion) national insurance investment fund to invest in equities of listed and unlisted companies as well as bonds and equity funds.
- July 2: The CSRC announces it will examine short selling activities for stock index futures, looking specifically for suspected manipulation.
- July 1: The CSRC releases amended rules on margin trading, which relaxes margin trading rules by allowing brokerages and margin investors to decide through discussion when and how large a percentage of additional guarantees should be kept in place as opposed to a compulsory sell-off.
- Shanghai and Shenzhen stock exchanges announce a 30-percent cut on transaction fees to take effect on August 1 to boost the markets.

Source: Rescue Mission Underway With a raft of supportive measures in place, will China's stock market bottom out amid a continued plunge?, Beijing Review (Jul 16, 2015)

**China's stock wobbles may deter foreign investors - for now**

The rollercoaster movement of China's stock indexes in the recent month has raised eyebrows worldwide, including analysts and portfolio managers in Europe. Market experts say margin financing – using borrowed money to trade shares, enabling traders to place greater sums in the equities market - and the accelerated pace of initial public offerings have both contributed to the volatility of China's A share market. "The original move up in the markets was much too fast to be sustainable, particularly since it was largely fueled by leverage. An additional factor was the government's IPO pipeline which was putting way too much supply into the market and causing significant volatility even when the markets were still rising by sucking equity out of the markets in the form of IPO deposits," said Robert Davis, a Brussels-based senior portfolio manager at NN Investment Partners, Davis added that once the government, through the China Securities Regulatory Commission, warned on margin trading and speculators tried to start selling their positions to lock in their gains, the markets really started to wobble. "Just trading on momentum and ignoring fundamentals can work for a while, but it will always turn and without
valuation support you will end with a crash," said Davis.

Despite Chinese regulator's efforts to improve its financial market over the years, the A-Share market remains some way from being an efficient discounting mechanism of future corporate profitability, according to Douglas Turnbull, Fund Manager at Neptune Investment Management, a UK-based fund management company. "Rather, it remains subject to retail investor sentiment which can be led by, amongst other things, direction from the government, the liquidity environment, and the relative attractiveness of other Chinese asset classes and investment options. In other words, caveat emptor," Turnbull added.

In an attempt to buoy the market, CSRC has announced a string of supportive policies, including a 30-per cent transaction fee cut, benchmark interest rates and required reserve ratio cut, margin trading rules relaxation and the latest IPOs suspension. For most long-only market participants, the government intervention is good news as this clearly shows that they are on the investors' side. "However, in order to overturn the disaster, the government would have to do more, not only injecting liquidity but also making fundamental reforms to allow the financial market function properly. Blindly pumping cash into the system can only postpone a crash instead of avoiding one," Hu commented, adding that "on the other hand, it makes clear to foreigners that the Chinese stock market still has a long way to go before it evolves into a free and 'investable' market."

But, some fund managers believe it is possible that this very public demonstration of policy intervention in markets might cause a slowdown or even backtracking of wider liberalization and reform. "This would be extremely damaging for China in the long run as the direction of reform is both necessary and, this episode aside, has largely been well considered. China has serious structural imbalances that liberalization is required to tackle and it would be negative if these were now slowed or watered down," Davis remarks. "Chinese policymakers consistently demonstrate a great degree of skill in controlling gradual change in their economic management. The stock markets seem to be something of an anomalous exception to that, as both 2007/8 and 2014/15 would suggest," Turnbull said. This episode suggested that insufficient control of leverage on the way up, and insufficient control over the pace of equity issuance, are both to blame for the current market problems, he added. The volatility in China stock market is likely to make outsiders wary of further exposure to China, as evidenced by Global index provider MSCI last month declining to add China to its global benchmarks.

Source: Wang Mingjie: China's stock wobbles may deter foreign investors - for now, China Daily, 2015-07-17

**Giant Fund Flips View on China: Steer Clear**

Bridgewater Associates LP, one of Wall Street's more outspoken bulls on China, told investors this week that the country's recent stock-market rout will likely have broad, far-reaching repercussions. The fund's executives once had been vocal advocates of China's potential. But that was before panic in the country's stock markets shaved a third of the value off Shanghai's main index, battering hordes of mom-and-pop investors and hedge funds alike, before partially rebounding. "Our views about China have changed," Bridgewater's billionaire founder, Raymond Dalio, wrote with colleagues in a note sent to clients earlier this week. "There are now no safe places to invest." Bridgewater, which has $169 billion under management, is renowned for its ability to navigate global economic trends -- including the profit it turned in 2008, when most of its peers lost big. The company's flagship fund reported its worst month in nearly a year in June, trimming its gains for 2015 to about 10%, a person familiar with the matter said. A spokeswoman declined to elaborate on the fund's changing views on China.

The move adds Mr. Dalio and Bridgewater to a growing chorus of high-profile investors who are challenging the long-held view that China's rise will provide a ballast to a whole host of investments, from commodities to bonds to shares in multinational firms. For a generation, bets on China's rising middle class have been commonplace on Wall Street and beyond as investors have looked to diversify their holdings. But with the country's stocks on a roller-coaster ride this summer, those beliefs are being tested. The world's second-largest economy faces renewed questions about the sustainability of its growth and the government's commitment to loosening its grip on the country's heavily controlled markets.
Kingdon Capital Management LLC, a nearly $3 billion New York hedge-fund firm, told clients this week it had sold all its shares in Chinese companies listed on the Hong Kong exchange. It said it was spooked by the fallout from a surge in China in the use of borrowed money to purchase stocks, particularly after authorities cracked down on the practice, helping drag down Kingdon's investments. The firm said it would wait until the level of such borrowing in the market drops further before going in anew. The shifts by Kingdon and Bridgewater follow a series of concerns raised publicly last week about China by other high-profile hedge-fund managers, including Elliott Management Corp. founder Paul Singer, Perry Capital LLC founder Richard Perry and Pershing Square Capital Management LP founder William Ackman. In China, few traders dare cross regulators by publicly expressing their concerns. "It looks worse to me than 2007 in the United States," Mr. Ackman said during an investment conference in New York, pointing to the unreliability of the government's economic statistics. "Much worse."


China to continue to stabilize stock market: CSRC

BEIJING - China Securities Finance Corporation Ltd (CSF) will continue to buy stocks to stabilize the market, the securities watchdog said on Monday. Zhang Xiaojun, spokesperson with the China Securities Regulatory Commission (CSRC), made the remark after the benchmark Shanghai Composite Index experienced the sharpest daily drop since Feb 27, 2007, dispelling rumors that the national margin trading service provider has backed off from stabilizing the stock market. CSRC is investigating huge stock sell-offs by some individuals and will punish any malicious short selling, Zhang added.

Source: Xinhua: China to continue to stabilize stock market: CSRC, 2015-07-28

Regulators to investigate 'massive sell-off' of stocks

The China Securities Regulatory Commission said it is probing "a massive sell-off" after Monday's sharp dive in the market. The CSRC said it had received whistle-blower reports and market monitoring reports, and had organized inspection and enforcement teams. The Shanghai Composite index lost almost 8.5 percent on Monday, the largest daily loss in eight years, followed by another 1.68 percent loss on Tuesday. Regulators have previously said that "malicious short sellers" will be severely punished, and investigations against short selling and market manipulation have been conducted nationwide, according to the Ministry of Public Security. No results of the investigations have been released.

China's stock market has seen wild swings in the past six weeks as it plunged some 30 percent from mid-June to early July before rebounding by about 15 percent after regulators took a slew of measures to boost market confidence and avoid risks extending to more sectors. Share of some 2,000 companies listed in Shanghai and Shenzhen dropped on Tuesday, particularly those in the construction, technology and machinery sectors. Shares of brokerages and lenders outperformed those from other sectors, posting gains of more than 2 percent on average on Tuesday. Market insiders said A-shares market was adjusting on Tuesday after the huge plunge, and they remained bullish for the mid to long term, but it may take some time for investors to adjust their strategies and recover confidence. It may take some time for the economy to adjust and find a new engine of growth, and listed companies need to boost their performance to give share price growth real support.

Source: Wu Yiyao in Shanghai: Regulators to investigate 'massive sell-off' of stocks, China Daily, 2015-07-29

Central bank to maintain policy despite inflation fears

BEIJING -- China's central bank said Tuesday it will maintain prudent monetary policy in the second half of this year despite inflation concerns triggered by recent rise in the price of pork, the nation's staple meat. The People's Bank of China (PBOC) said in an online statement that it will keep the policy orientation and flexibility of multiple monetary tools to ensure that liquidity stays at an appropriate level. The statement came after rising
concerns that policymakers may tighten the monetary policy as inflation has shown signs of warming due to an unexpectedly sharp increase in pork prices. Pork accounts for 2.9 percent of the consumer price index (CPI). The price has risen more than 20 percent since March. CPI rose only 1.3 percent in the first half. Dismissing the concerns, the PBOC said the consumer price has steadied at a low level and the outlook is stable. The central bank said it will continue to improve lending structure, lower financing costs, keep the yuan stable, stabilize financial market expectations and boost the real economy. Li Pumin, secretary-general of the National Development and Reform Commission, a powerful regulator, said the rise was determined by the market and the prices will be back to normal after the period of adjustment. The PBOC will hold a meeting for branch presidents at the beginning of August to map out major tasks in the second half of this year.
Source: Xinhua: Central bank to maintain policy despite inflation fears, 2015-07-29

World News: Asia: World Bank Has Faith in China Overhaul

BEIJING -- The World Bank believes that China remains committed to an economic and financial-sector overhaul, the international lender's chief said, despite concerns that Beijing may delay reform plans to support a slowing economy and stem a stock-market swoon. "I'm convinced that their resolve and commitment to their reforms is as strong as ever," President Jim Yong Kim told reporters at a briefing in Beijing on Friday, a day after meetings with top Chinese officials, including Premier Li Keqiang, Finance Minister Lou Jiwei and central-bank chief Zhou Xiaochuan. "We see that, in terms of fiscal reforms, financial reforms, even reforms of things like the hukou system, their resolve absolutely continues to be there," Mr. Kim said. "We're confident that the reform process will continue." Mr. Kim, however, suggested that he isn't too concerned. "I think it's important to recognize that this is a relatively young stock exchange, 20 years (old)," he said. Across the world, "governments have taken many measures to reduce excess volatility in their stock markets." Despite the recent market volatility, "China's economy is strong and its fundamentals are sound," according to Mr. Kim, who also reiterated the World Bank's forecast that China's economy will grow roughly 7% this year.

A World Bank report late last month chided Beijing over its level of involvement its financial markets, but the critical comments -- which called on China's government to reduce interference starting "at the highest level" -- were excised from the document two days after its release. The removal raised concerns about Chinese pressure on international organizations and the independence of the bank's economic research and analysis. At Friday's briefing, Mr. Kim said the deleted comments hadn't gone through proper internal reviews and had been published by mistake. Separately, Mr. Kim said China set up on Thursday a $50 million trust fund with the World Bank that would finance efforts to reduce poverty. The international lender also plans discussions later this year with the new Beijing-led Asian Infrastructure Investment Bank on making joint investments in development projects, he said.

Anti-trust cases up in first half

The nation filed 169 anti-trust cases to tackle unfair competition at home and in overseas markets during the first six months of the year, up 46 percent on a year-on-year basis, the Ministry of Commerce said on Tuesday. About 153 cases have been approved by the ministry after the review. Manufacturing industries, including shipbuilding, auto parts, mechanical and electric equipment businesses, accounted for 53 percent of the cases. Shen Danyang, spokesman for the ministry, said there has also been a growth in other sectors like finance, telecommunications, agriculture and transportation. Equity purchasing and forming joint ventures accounted for 87 percent of the total cases during this period. Domestic companies launched more merger and acquisition activities in their home market than previous years, said Shen. Transaction value under 10 billion yuan ($1.61 billion) accounted for 84 percent in the first half. China introduced an anti-monopoly law in 2008 that requires foreign firms to pass a review meant to prove that they pose no threat to the nation's national security. The ministry said
China will further improve the transparency and efficiency of handling and reviewing merger and acquisition cases.
Source: ZHONG NAN: Anti-trust cases up in first half, China Daily, 2015-07-22

Justice comes to virtual world

Sesame Credit Management, a consumer credit agency backed by e-commerce giant Alibaba Group Holding Ltd, has teamed up with China's top court to pressure people to comply with court verdicts. Sesame Credit, a business unit under Zhejiang Ant Small & Micro Financial Services Group Co, the parent company of China's largest e-payment tool Alipay, said in a statement on Tuesday that it has connected with the Supreme People's Court's database, which contains a real-time blacklist of those who flout court verdicts, including debtors. Those on the blacklist will not only see their Sesame credit score reduced but also find that they are banned from buying high-priced items online across Alibaba's e-commerce platforms including Taobao and Tmall. The top court, which released a blacklist of dishonest debtors in November 2013, has already cooperated with several banks and transportation authorities to prevent people on the blacklist from applying for credit cards and loans or traveling by air, high-speed trains or first-class sections on ships and ordinary trains in a bid to get them to obey judgments. Sesame Credit is the first Internet-based company that the Supreme People's Court has agreed to cooperate with. Liu Tao, from the top court's verdict implementation department, told China Daily that the idea is to ban high-end spending by such debtors. "The goal is to further push those on the blacklist to obey court verdicts," she said. More than 700,000 people were on the blacklist of the top court as of December 2014. Liu Honghui, a Beijing-based lawyer, said: "The Internet is a major buying channel in today's China, and if a debtor is buying luxury goods online, that means they can afford their debts." Liu said it is also reasonable that the restrictions only apply to luxury items. "We also have to ensure that debtors can have what they need to live," he added.
Source: MENG JING/CAO YIN: Justice comes to virtual world, China Daily, 2015-07-2

China to release guideline on Internet finance

SHANGHAI -- A guideline for China's Internet finance drafted by the central bank and other financial regulators will soon be released, said a central bank official on Sunday at a Shanghai forum. The guideline seeks to "promote the healthy development of Internet finance". It has been reviewed and approved by the State Council, China's cabinet, and is due for release soon, according to Zhang Tao, a director with the People's Bank of China. Internet finance has been used as a catch-all term in China, referring to loans, investments and other financial services provided through online channels rather than through banks and other financial institutions. The guidelines will encourage innovation in Internet finance and lay out measures to ward off potential risks. It will also ensure fair competition and protect legitimate rights of investors. "Internet finance is growing very fast and in general we think it has diversified offerings in the financial sector and can help address financial needs of small and micro firms and those in the countryside," Zhang said.

Over the past couple of years, the Internet has increasingly become a new channel to connect investors with lenders that have been under-served by Chinese banks. It has also become a popular sales channel for a wide range of wealth management products, from money market funds to borrowing money, to invest in the stock market. While authorities recognized Internet finance as a compliment to traditional financial services and for allocating resource more efficiently, it has also warned of risks such as defaults, risk control and even fraud, in this unregulated sector. Zhang also added that existing regulations will need to be amended to adapt to changes that come with the rise of Internet finance, but didn't specify which rules will be subject to change.
Source: Xinhua: China to release guideline on Internet finance, 2015-07-13

China's H1 group-buying turnover exceeds $12b

SHANGHAI - The turnover of China's group-buying market reached 76.9 billion yuan ($12.6 billion) in the first half of this year, up 161 percent year on year, according to Tuan800, a web portal that tracks the industry. The
half-year turnover in 2015 passed the full-year turnover of 2014, which stood at 74.8 billion yuan, according to a Tuan800 statement released on Tuesday. Meituan.com and Dianping.com, two group-buying sites backed by China's Internet giants Alibaba and Tencent, dominated the market with a 57 percent and 27 percent share. The turnover of dining in the first six months reached 48.3 billion yuan, more than 60 percent of the group-buying market. Group buying websites are major players in China's online shopping business as they offer products and services at significantly reduced prices.

Source: Xinhua: China's H1 group-buying turnover exceeds $12b, 2015-07-29

Pain and Hope as China Molds Its Capital into New Supercity: [Foreign Desk]

For decades, China's government has tried to limit the size of Beijing, the capital, through draconian residency permits. Now, the government has embarked on an ambitious plan to make Beijing the center of a new supercity of 130 million people. The planned megalopolis, a metropolitan area that would be about six times the size of New York's, is meant to revamp northern China's economy and become a laboratory for modern urban growth. "The supercity is the vanguard of economic reform," said Liu Gang, a professor at Nankai University in Tianjin who advises local governments on regional development. "It reflects the senior leadership's views on the need for integration, innovation and environmental protection." The new region will link the research facilities and creative culture of Beijing with the economic muscle of the port city of Tianjin and the hinterlands of Hebei Province, forcing areas that have never cooperated to work together. This month, the Beijing city government announced its part of the plan, vowing to move much of its bureaucracy, as well as factories and hospitals, to the hinterlands in an effort to offset the city's strict residency limits, easing congestion, and to spread good-paying jobs into less-developed areas. Jing-Jin-Ji, as the region is called ("Jing" for Beijing, "Jin" for Tianjin and "Ji," the traditional name for Hebei Province), is meant to help the area catch up to China's more prosperous economic belts: the Yangtze River Delta around Shanghai and Nanjing in central China, and the Pearl River Delta around Guangzhou and Shenzhen in southern China.

But the new supercity is intended to be different in scope and conception. It would be spread over 82,000 square miles, about the size of Kansas, and hold a population larger than a third of the United States. And unlike metro areas that have grown up organically, Jing-Jin-Ji would be a very deliberate creation. Its centerpiece: a huge expansion of high-speed rail to bring the major cities within an hour's commute of each other. But some of the new roads and rails are years from completion. For many people, the creation of the supercity so far has meant ever-longer commutes on gridlocked highways to the capital. Encouraged by Hebei Province's relatively open residency policies and inexpensive housing, people are flocking to suburbs like this one. Yanjiao has grown tenfold, to as many as 700,000 inhabitants, in a decade. But it remains a bedroom community for Beijing -- a swath of apartment towers and restaurants with few services. Many believe that the transportation woes will sort themselves out, given enough time and money. A subway and better light rail are planned to open in three to five years, and a new bridge over the Chaobai River to Beijing is under construction. More worrying for many Yanjiao residents is the dearth of hospitals and schools. On a bright summer morning, it is easy to see Yanjiao's better side. Even though the cookie-cutter, 25-story housing blocks stretch dully into the horizon, shopping is plentiful, some streets are tree-lined and the air is much cleaner than in Beijing. But the city has no bus terminals, no cinemas and only two very small parks. "The streets flood in the rain because there is no good drainage," said Xia Zhiyan, a 42-year-old employee of a printing company. "They just built more and more apartments without the most basic facilities."

But several factors are making Jing-Jin-Ji a reality. The most immediate is President Xi Jinping, who laid out an ambitious plan for economic reform in 2013 and has endorsed the region's integration. The plan calls for eliminating the "beheaded highways" by 2020 and constructing a new subway line. In addition, the plan assigns specific economic roles to the cities: Beijing is to focus on culture and technology. Tianjin will become a research base for manufacturing. Hebei's role is largely undefined, although the government recently released a catalog of minor industries, such as wholesale textile markets, to be transferred from Beijing to smaller cities. Beijing is
shifting much of its city administration to the Tongzhou suburb, ending the longstanding practice of putting government offices in the old imperial district. The plan has started to drive up property prices in the suburbs, according to local news reports. Improving the infrastructure, especially high-speed rail, will be critical. According to Zhang Gui, a professor at the Hebei University of Technology, Chinese planners used to follow a rule of thumb they learned from the West: All parts of an urban area should be within 60 miles of each other, or the average amount of highway that can be covered in an hour of driving. Beyond that, people cannot effectively commute. High-speed rail, Professor Zhang said, has changed that equation. Chinese trains now easily hit 150 to 185 miles an hour, allowing the urban area to expand. A new line between Beijing and Tianjin cut travel times from three hours to 37 minutes. That train has become so crowded that a second track is being laid. Now, high-speed rail is moving toward smaller cities. One line is opening this year between Beijing and Tangshan. Another is linking Beijing with Zhangjiakou, turning the mountain city into a recreational center for the new urban area, as well as a candidate to host the 2022 Winter Olympic Games. "Speed replaces distance," Professor Zhang said. "It has radically expanded the scope of what an economic area can be." Wang Jun, a historian of Beijing's development, said creating the new supercity would require a complete overhaul of how governments operated, including instituting property taxes and allowing local governments to keep them. Only then can these towns become more than feeders to the capital. "This is a huge project and is more complicated than roads and rail," he said. "But if it can succeed, it will change the face of northern China."


Northeast provinces look ahead

China's northeastern rustbelt is expected to see a more rapid transition, with State-owned enterprise reform and manufacturing upgrading providing the uptick for growth in the region, economists said on Wednesday. With several Chinese provinces having posted their GDP data for the first six months of the year, except for the northeastern provinces of Heilongjiang, Jilin and Liaoning, economists are not too optimistic about a short-term growth renaissance for the region. The three provinces were ranked in the bottom five of China's 31 provinces and regions for GDP growth in 2014 and the trend continued in the first quarter. Jilin's 5.8 percent, Heilongjiang's 4.8 percent and Liaoning's 1.9 percent are all below the nation's average 7 percent growth in the first quarter. Gao Guoli, deputy director of the Research Institute of Territorial Development and Regional Economics under the National Development and Reform Commission, said it is not realistic to expect the region's economy to rebound in the short term. Frequent visits by China's top leaders to the region indicate policymakers' concerns on growth revival in the northeast, SOE reform and manufacturing industry upgrading, said economists.

President Xi Jinping and Premier Li Keqiang visited the same local manufacturing company in the past three months, a rare instance of the same facility being chosen in such a short time. The company is Changchun Railway Vehicles Co, a subsidiary of China's biggest train maker China Railway Rolling Stock Corp Ltd based in capital city of Jilin province. High-speed trains have become a pretty name card for China, said Xi during his visit, adding high-speed train technology and cooperation were talked about a lot during his overseas visits in the past two years. Xi also witnessed the signing of a deal between China and Russia for strengthening high-speed train cooperation during a visit to Moscow in May. In May, China Railway Group Ltd said it won a 2.4 billion yuan ($390 million) contract to build a high-speed railway line in Russia connecting Moscow with the city of Kazan, paving the way for Chinese construction and rolling stock companies to bid for follow-up projects. Wang Run, chairman of the Changchun Railway Vehicles, said the company has exported products to more than 18 countries and regions including Thailand, Malaysia, Pakistan, the United States and Argentina. CRRC, formed by last month's merger of CNR Corp and CSR Corp, has exported products to more than 80 countries and regions, including high-speed trains that run at up to 380 kilometers per hour and subway trains, trams and locomotives. Manufacturing industries weighs heavily on the region's economy and are dominated by SOEs. The proportion of foreign and private firms is
very low as the region has deep structural issues. However, the northeast region's industries are in line with the country's strategy of sharpening core competitiveness of the manufacturing sector, and have great potential for revival if it can perform well after the deepening SOE reforms, said Zhou.

Source: LAN LAN: Northeast provinces look ahead, China Daily, 2015-07-23

24 out of 26 provinces see increase in GDP growth

24 out of 26 provinces that have released their latest economic data, 24 posted an increase in GDP growth in the second quarter, while stable growth remained a major priority for the latter half of the year, reported Shanghai Securities News. Chongqing municipal and Guizhou province are the only two that reported a double-digit year-on-year growth in the first six months, 11 percent and 10.7 percent respectively. Anhui and Shandong province saw their latest growth rate in line with the first quarter. Liaoning province, ranked at the bottom, grew 2.6 percent in the first half of the year. Its full-year growth target was 6 percent. Beijing and Shanghai municipals reported a 7 percent growth with better-poised economic structure, said the newspaper, as finance, information and technology services contributed to 73.7 percent of the capital's GDP growth. Economic powerhouse Guangdong province grew 7.7 percent in the first half of the year, up from first quarter's 7.2 percent. China's GDP expanded 7 percent year-on-year in the second quarter, earlier data from the National Bureau of Statistics showed, remaining unchanged from its first-quarter. The nation's economic slowdown is likely to grind to a halt by the end of this year or the first half of 2016, and the GDP growth rate will stay around 7 percent, according to Xinhua citing Li Daokui, director of Tsinghua University's Center for China in the World Economy, on Thursday.

Source: Dai Tian: 24 out of 26 provinces see increase in GDP growth, China Daily, 2015-07-27

West leads others in growth stakes

Guizhou province with 10.7 percent growth. Central provinces also performed strongly, taking up 4 of the top 10 fastest-growing regions nationwide. Not surprisingly, the three northeastern provinces, or the old industrial base referred to as the "rust belt", and Shanxi province, the latest regions to release their data, took up the bottom positions, as they did in the first quarter. Liaoning province, a steel and equipment manufacturing hub, reported the slowest GDP growth among 31 regions, though the 2.6 percent year-on-year growth in the first half was better than the 1.9 percent growth in the first quarter. Fixed-asset investment in Liaoning, a pillar of the economy, fell 13.3 percent from a year earlier, an improvement over the whopping 18.5 percent contraction in the first quarter. Coal-reliant Shanxi province ranked the second-slowest, with a growth rate of just 2.7 percent, compared with 2.5 percent in the first quarter. Another coal-rich region, Inner Mongolia autonomous region, was also among the few regions that grew below the national GDP of 7 percent. Another two northeastern provinces, Heilongjiang and Jilin, also were among the laggards. President Xi Jinping's visit to the heartland of Northeast China earlier this month underscored the immense downward pressure there.
In contrast, major economic powerhouses along the eastern seaboard showed resilience during the downturn. Guangdong, an economic powerhouse, grew by 7.7 percent, up from 7.2 percent in the first quarter, while Jiangsu province grew by 8.5 percent, marginally faster than the 8.4 percent in the first quarter. Zhejiang grew by 8.3 percent, up from 8.2 percent. Improvement in external demand might have played a role in the growth of these provinces, as many of them are traditionally export-oriented. China's exports grew by 0.9 percent in the first half, better than the 1.2 percent decline in the first half of 2014. But analysts said internal restructuring of the economy, particularly robust consumption and the services sector, contributed a larger role.

Chongqing, an export-oriented hinterland city, was hit hard by the sluggish demand from Europe and the United States. But China International Capital Corp said that the municipality was able to navigate the downturn and become a growth champion thanks to the regional government's proactive role. Chongqing has been relentless in attracting industries from the more developed, and more expensive eastern regions, not only in its established industrial cluster of electronics and automobiles, but also in nurturing strategic emerging industries. The city now produces one-third of the world's laptops. "The case of Chongqing illustrates regional governments in China can play a critical role in local economic growth and industrial upgrading," CICC said.

Source: ZHENG YANGPENG: West leads others in growth stakes, China Daily, 2015-07-29

China to deepen reform to boost innovation and entrepreneurship

BEIJING - China will remove more vocational qualification and certification requirements to support creation of new businesses and bring forth new ideas. A total of 62 vocational qualifications, including web advertising brokers and port cargo handling workers, will be abolished, according to a statement released after an executive meeting of the State Council presided over by Premier Li Keqiang on Wednesday. The qualifications used to be required as a threshold to for people to enter the profession. "China has been strengthening innovation and entrepreneurship," the statement said, "and will continue reform to remove unreasonable constraints for market entities, to let the market play the key role in allocating resources."

Source: Xinhua: China to deepen reform to boost innovation and entrepreneurship, 2015-07-16

Can China stand on its own?

Does China deserve the benefits of being classified a "developing country"? China's economy is, by one measure, bigger than that of the United States. As the "China Factor" series in The Times makes clear, its global ambitions and power are enormous. But by per capita income it isn't in the top 100 countries, as many as 200 million Chinese may live below international standards of poverty, and the sickening plunge in its stock market indicates that its gains may be fragile. So does it deserve the benefits of being classified as a "developing" country, which provides it with trade and fiscal relief and allows it to avoid tougher carbon emission standards? Making China abide by "advanced countries' standards" in its development aid practice abroad is unfair to the underprivileged citizens in China (since they will be paying for such compliance) and unsustainable because China is actually misallocating scarce resources to project its power abroad when most of the social needs typical of a
developed country are not met at home. To outside observers, China appears to be an economic juggernaut whose expanding role in development aid must be accompanied by stringent rules that "industrialized" nations follow. This argument seems reasonable on the surface, but overlooks several crucial realities.

First, China's external development programs are financed by the taxes paid by ordinary Chinese who have no voice in deciding whether such programs should actually exist. If China were a democracy, it is doubtful whether its taxpayers would support their government's costly prestige projects abroad. Second, to the extent that compliance with industrialized nations' development aid standards entails real and significant costs, such costs will only further add to the burden of ordinary Chinese citizens, many of them lacking basic social services and protection. Finally, China's rapid economic development has been achieved at immense social and environmental costs at home. And in the process of its own development, the Chinese government has consistently failed to comply with the rules of sustainable development commonly practiced in industrialized countries.

China's neglect of its environment has resulted in an unfolding ecological calamity with devastating global consequences. Its lax enforcement of food and drug safety victimizes not only Chinese citizens, but also consumers around the world who purchase such goods imported from China. Corruption in its infrastructure and construction industry has produced shoddy and dangerous bridges, highways and buildings that have already killed large numbers of people. Its substandard labor practices and human rights record cause human suffering and fuel social unrest at home. We would be better off pressuring China to improve the lives of its own people by following the rules of developed countries in its domestic affairs than trying to persuade Beijing to change its ways abroad. Since China has nearly 1.4 billion people, the net benefits from reforming its behavior at home will far exceed any conceivable change in its external development aid practices.


30% of global duty-free shopping driven by Chinese travelers

Chinese shoppers drove 30 percent of all global duty-free sales in 2014. They have contributed the most to duty-free sales since 2009, and growth in duty-free spending outstrips local retail-sales expansion, said Catherine Lim, senior analyst at Bloomberg Intelligence. The number of outbound Chinese tourists will surge 19 percent to 139 million this year and rise to 164 million in 2016, which will boost global duty-free and travel-related retail sales, Lim said. Last year, Chinese tourists spent more than $163 billion on overseas shopping. Chinese spending on tax-free shopping could hurt the country's retail sales, Lim said. Last year, Chinese duty-free spending grew 18 percent, faster than the 12 percent rise in domestic retail sales, based on Bloomberg Intelligence. Chinese visitors to Japan surged 113 percent from a year ago in April, the 19th straight month of more than 40 percent growth as weaker yen fell against Chinese currency, data from Bloomberg Intelligence. With South Korea grappling with MERS and other countries easing visa restrictions, Japan and other nations will draw more Chinese visitors, Lim said.

Source: Zhang Jie: 30% of global duty-free shopping driven by Chinese travelers, China Daily, 2015-07-15

China retail sales up 10.4% in H1

BEIJING - China's retail sales grew 10.4 percent year on year to 14.16 trillion yuan ($2.32 trillion) in the first half of 2015, the National Bureau of Statistics said on Wednesday. The growth was down 0.2 percentage point from the rate seen in the first quarter. In June alone, retail sales went up 10.6 percent, accelerating 0.5 percentage point from May. In breakdown, the catering sector reported an 11.5-percent year-on-year rise in revenues from January to June, while sales of other consumer products increased 10.3 percent. Online retail sales continued to be a bright spot, surging 39.1 percent year on year to 1.65 trillion yuan.
To steer the economy onto a more sustainable track, the government has been trying to drive domestic consumption and move away from an overreliance on investment and exports. Consumption contributed 51.2 percent to GDP growth last year, three percentage points more than the previous year.

Source: Xinhua : China retail sales up 10.4% in H1, 2015-07-15

**China's H1 fixed-asset investment up 11.4%**

BEIJING - China's fixed-asset investment grew 11.4 percent year on year to 23.71 trillion yuan ($3.88 trillion) in the first half, official data showed on Wednesday. The growth pace was flat from the figure for the first five months but was lower than the 13.5-percent growth registered in the first quarter, the National Bureau of Statistics (NBS) said in a statement. "Investment growth rebounded in both May and June, bringing the pace for the first half to the same level as the January-May period. We can also say that the trend of declining investment has been basically curbed," NBS spokesperson Sheng Laiyun told a press conference. In the first half, fixed-asset investment in the agricultural sector grew most rapidly, up 27.8 percent year on year, followed by 12.4 percent for the service sector and 9.3 percent for the industrial sector. The calculation does not include fixed-asset investment by farmers. It includes projects with investment of at least 5 million yuan, as well as all property development projects.

Source: Xinhua : China's H1 fixed-asset investment up 11.4%, 2015-07-15

**Selling the Beach to Beijing --- Miami developers and agents look to China as South American buyers slow down; aiming to understand a new clientele**

Executives of the Miami Association of Realtors, the largest local group of the National Association of Realtors, were there, too, handing out Miami market data and gold palm-tree pins attached to a card with the tagline, written in Chinese, "Enjoy the unique taste of life." According to the National Association of Realtors, Chinese buyers recently surpassed Canadians as the top foreign buyers of homes in the U.S., purchasing $28.6 billion of properties in the 12-month period ending in March.


**China's June PPI down 4.8%**

BEIJING - China's producer prices continue to fall in June, a sign of prolonged weakness of demand, data from the National Bureau of Statistics showed on Thursday. The producer price index, a measure of costs for goods at the factory gate, fell 4.8 percent year on year in June, widening from the 4.6-percent drop seen a month earlier. The reading also marked the 40th straight month of decline. "This showed industrial demand is worsening, and China continues to face prominent deflationary risks," noted Qu Hongbin, chief China economist at HSBC. Month on month, producer prices in June went down 0.4 percent. Output prices of production materials fell 6.2 percent in June, contributing 4.7 percentage points of the PPI drop during the month, while those of consumer goods edged down 0.2 percent during the period. Weighed down by a housing market downturn, weak domestic and external demand and overcapacity,
BEIJING - Despite a continued slowdown, China's industrial sectors may walk out of their worst period and provide a firm footing for stabilization of the economy, new data has suggested. Industrial output grew 6.3 percent year on year in the first half of 2015, slightly down from a 6.4-percent increase in the first quarter, the National Bureau of Statistics (NBS) Wednesday. In an encouraging sign, the gradually recovered from 5.6 percent in March, the lowest level since the global financial crisis in 2008.

Industrial enterprises raked in combined profits of 2.25 trillion yuan (nearly $370 billion) in the Jan-May period, down 0.8 percent from a year earlier, the NBS said. China uses industrial output, officially called industrial value added, to measure the activity of designated large enterprises with annual turnover of at least 20 million yuan. NBS spokesperson Sheng Laiyun said during a press conference that the industrial structure has continued to improve and high-tech sectors maintained double-digit growth. The NBS also released a string of other economic indicators including retail sales and investment on Wednesday.

Industrial profits slump

China's industrial profits dropped 0.3 percent in June from a year earlier, the worst in three months, indicating further deflationary pressures despite an alleviation in the debt servicing burden. Total profit of industrial enterprises declined to 588.6 billion yuan ($94.8 billion) last month, compared with a 0.6 percent increase in May, the National Bureau of Statistics said on Monday. The weakness in the industrial profit growth will further lower entrepreneurs' confidence on future income, curb potential manufacturing investment and have negative implications for corporate cash flows and government tax revenue, experts said. During the first six months, industrial profit declined by 0.7 percent year-on-year, compared with a fall of 0.8 percent from January to May, mainly because of the sharp drop in factory gate prices and higher production costs, according to the NBS. Industrial deflation intensified in June, as evidenced by the continued deterioration in the Producer Price Index that declined further by 4.8 percent from a drop of 4.6 percent in May, which directly led to a fall in industrial profits, said He Ping, an economist at the NBS. The central bank's monetary easing measures have to some extent helped in reducing industrial companies' debt burden, said He. "After three cuts in benchmark interest rates this year, industrial companies' interest payment has declined by 6.2 percent year-on-year in June, the largest drop in six months," the NBS economist said.

The country's industrial production in June accelerated to 6.8 percent year-on-year, picking up from 6.1 percent in May, and supported a stable GDP growth of 7 percent in the second quarter. Total power use to rise 3% during year. Total national energy consumption rose 0.7 percent in the first half of the year compared to last year, official figures showed on Monday, with a decline in coal use offset by increases in oil, natural gas and renewable power consumption. The National Energy Administration said it expected energy consumption to inch up further in the second half, with total power use over 2015 likely to reach 5.7 trillion kilowatt-hours, up around 3 percent from last year. China's energy consumption has tripled in just two decades but annual growth has now slowed.
considerably as a result of the economic downturn. The impact has been felt disproportionately in the coal sector, which still accounts for around two-thirds of total energy consumption but is now the primary target of the government's war on pollution. Coal production fell 5.8 percent to 1.79 billion tons in the first six months of the year, the NEA said. Fixed-asset investment in the sector plunged 12.8 percent, however, to 168.6 billion yuan ($27.15 billion). Over the same period, crude oil output rose 2.1 percent to 110 million tons while natural gas production—including coalbed methane and shale gas—rose 4.3 percent to 67.4 billion cubic metres, the energy bureau said. Total power generation rose 0.6 percent, it said, largely as a result of higher renewable and nuclear volumes. The share of non-fossil fuel in total power generation has now hit 22.9 percent, up 3 percentage points from the same period of 2014, the administration said.

Source: CHEN JIA: Industrial profits slump, China Daily. 2015-07-28

**Premier Li's visit opens new chapter in China-EU economic ties**

BEIJING - Chinese Premier Li Keqiang's visit to the European Union has resulted in a hoard of new trade deals, which are expected to establish the highest level of bilateral economic and trade cooperation to date. During Li's visit, the two economic giants expressed interest in linking the European Fund for Strategic Investments (EFSI), known as the Juncker Plan, with the China-proposed Belt and Road Initiative and an international production capacity cooperation plan championed by Premier Li. The premier proposed combining China's comparative advantages in production capacity and equipment manufacturing with the advanced technology of European economies. He called on the two sides to join hands in exploring third-party markets. With both China and Europe facing the task of maintaining steady economic growth and optimizing their economic structure, analysts believe integration of their development strategies will boost the growth of both sides and provide new opportunities for China-EU economic ties.

The Belt and Road Initiative - namely the Silk Road Economic Belt and the 21st Century Maritime Silk Road - was proposed by Chinese President Xi Jinping in 2013 with the aim to revive the ancient trade routes between Asia and Europe, break infrastructure bottlenecks and boost efficient allocation of resources. The Juncker Plan, named after European Commission President Jean-Claude Juncker, is a 315 billion euro ($352 billion) plan to resuscitate Europe's economy and construct large infrastructure projects. For EU, a positive response to the Belt and Road Initiative will help it escape the debt crisis and revive its economy, said Bai Ming, a senior researcher with a Ministry of Commerce think tank. In addition, the entry of 18 European countries into the China-initiated multilateral bank Asian Infrastructure Investment Bank (AIIB) signified their stance and attitude for sharing Asian infrastructure investment, he said. "The benefits (of the Belt and Road Initiative) are not just for China itself; Europe, too, (the initiative) stands to benefit from better connections with Asia's dynamic economies," Juncker told Xinhua in a recent interview.

The EU has been China's largest trading partner for 11 years while China has been the EU's second largest trading partner for 12 years. Bilateral trade volume increased from $2.4 billion in 1975 to $615 billion in 2014. Exploring the third-party markets is another key topic on the premier's trip. During his visit to Paris, Li called on the two global heavyweights to jointly explore third-party markets and open new space for bilateral practical cooperation and help foster a sustainable global economic recovery. Four decades after China and the EU formally established ties, 2015 can be a new, more prosperous chapter for relations between the two edges of Eurasia as both are mutually reinforcing global partners and not mutually excluding competitors, he said.

Source: Xinhua: Premier Li's visit opens new chapter in China-EU economic ties, 2015-07-1

**Belt and Road Initiative to promote SCO economic cooperation**

BEIJING -- The Belt and Road Initiative, a development strategy proposed by China, will inject fresh impetus into economic cooperation among members of the Shanghai Cooperation Organization (SCO). The 15th meeting of the SCO Heads of State Council will be held on Friday in Ufa, capital of Russia's Bashkortostan Republic. During
the meeting, leaders of SCO member states -- China, Kazakhstan, Kyrgyzstan, Russia, Tajikistan and Uzbekistan -- will ratify the SCO Development Strategy until 2025, a comprehensive blueprint that covers a variety of issues. The summit, which is expected to boost the further development of the organization, is of great significance for safeguarding regional security and stability, and promoting common development of its member states. A major topic on the agenda will be the linkage between China's Belt and Road Initiative and other SCO members' development strategies. During a meeting with Russian President Vladimir Putin, Xi suggested that the two countries take the SCO as an important platform to dovetail China's Belt and Road Initiative with Russia's aspiration under the Eurasian Economic Union (EAEU) framework, expand room for their practical cooperation, and facilitate development, cooperation and prosperity of the whole Eurasian continent. Xi recalled his last meeting with Putin in May when the two heads of state agreed to connect China's construction of the Silk Road Economic Belt with the development of the EAEU, prioritizing cooperation in such areas as investment, finance, energy, aviation, space, construction of high-speed railways and other infrastructure, as well as the development of Russia's Far East region.

During the Ufa summit, a decision on starting procedures for India and Pakistan to join the SCO as full members is also scheduled to be adopted, signifying the official beginning of the bloc's expansion. The eagerness of countries to join the SCO reflects the fact that the "Shanghai Spirit" of mutual trust, mutual benefit, equality, consultation, respect for cultural diversity and pursuit of common development is being widely recognized by the international community. When meeting with Indian Prime Minister Narendra Modi, Xi also proposed to explore ways to effectively connect the Belt and Road Initiative with India's relevant development plans, in a bid to achieve mutually beneficial cooperation and common development. Xi suggested that China and India, as the world's two largest emerging economies, work together to forge a closer, more comprehensive and firmer partnership. Meanwhile, Chinese and Russian experts expressed their earnest expectations for the role played by the Belt and Road Initiative in promoting economic cooperation among SCO member states.

Source: Xinhua: Belt and Road Initiative to promote SCO economic cooperation, 2015-07-10

China pledges active participation in int'l financing cooperation

ADDIS ABABA - Chinese Finance Minister Lou Jiwei, who attended the Third International Conference on Financing for Development on behalf of President Xi Jinping, said China will partner with various parties to actively secure financing for development to achieve sustainable growth and shared prosperity in the world. Representatives of the 193 UN member states attending the Addis Ababa conference are expected to reach a far-reaching agreement to provide a funding framework and a package of policy advice to help countries seek both public and private funds locally and internationally in order to achieve a 17-target Sustainable Development Goals (SDGs) to be held in New York this September. In an interview with Xinhua, Lou said financing lies at the center of setting and implementing the world's post-2015 development agenda. In the past 15 years, despite a boost in international financing, the developing world faced tremendous development hurdles. As global cooperation continues to strengthen, the world should focus more on helping the developing world address their concerns. The developed countries should deliver their promises to further write off debts, open the markets, and make good on the Official Development Aid (ODA) pledge to invest 0.7 percent of the gross national income for the developing world. He identified poverty reduction, health, education, infrastructure construction as the key areas for the ODAs offered by the developed world.

Lou said as the world's largest developing country, China benefited a lot from the international financing cooperation and in return contributed actively to the process. Over the past few decades, China has extended assistance to over 120 developing countries to invest in health, education, climate change, agriculture. "Especially after the First International Conference on Financing for Development in 2002, China provided money, technology, market and experiences to fast-track South-South cooperation," Lou said. "South-South cooperation was built on a partnership that features mutual trust, equality, and no political strings attached." "South-South cooperation can
play an even bigger role but it should always come as a supplement to the North-South cooperation which has been dominating the international financing cooperation scenes," he added. Lou said China is experimenting with initiatives like the Asian Infrastructure Investment Bank, the BRICS Development Bank, and the "Road and Belt Initiative" to produce new public products to advance the global development towards shared prosperity.

Source: Xinhua: China pledges active participation in intl financing cooperation, 2015-07-16

AIIB, World Bank planning closer project cooperation

The Asian Infrastructure Investment Bank and the World Bank are seeking more effective ways of cooperation and are considering several co-financing projects, according to a senior official. Jin Liqun, secretary-general of the AIIB Multilateral Interim Secretariat, held discussions with World Bank President Jim Yong Kim on Thursday to discuss cooperation between the two institutions. The two sides agreed to explore opportunities for joint financing projects in the coming months. "We plan to identify the projects for possible co-financing in the fall," said Jin. "Based on my time at the World Bank as an alternate executive director, I am fully confident that close cooperation between the two sides will improve lives of citizens in the member countries." Jin said that since the establishment of the Multilateral Interim Secretariat last November, the World Bank has been very generous in sharing its expertise, experience and global good practices with the secretariat. The AIIB Multilateral Interim Secretariat and the World Bank are working together, having exchanged views on matters such as institutional governance, organizational structure, social and environmental safeguards and procurement procedures, according to the World Bank. "I congratulate Secretary-General Jin Liqun and all prospective founding members on the great progress made in establishing the AIIB," said Kim. "More funding for infrastructure will help the poor, and we are pleased to be working with China and others to help the AIIB hit the ground running," he said.

The prospective founding members of the AIIB signed the Articles of Agreement last month and the bank is expected to be operational by the end of the year. An official signing ceremony to establish the bank's operational framework, attended by representatives of the 57 nations that applied to be founding members, took place in Beijing on June 29. Jin, formerly with the World Bank and Asian Development Bank, has been nominated to head the bank. According to the AIIB framework, the bank will have authorized capital of $100 billion. China has a 30.34 percent stake in it and 26.06 percent of the votes. So far, China is the World Bank's third-largest shareholder and an important contributor to the International Development Association, the institution's fund for the poor, as well as the Global Infrastructure Facility, an international platform that facilitates the preparation and structuring of infrastructure public-private partnerships.

Source: CHEN JIA : AIIB, World Bank planning closer project cooperation, China Daily, 2015-07-17

Chinese premier hails BRICS bank

BEIJING - Chinese Premier Li Keqiang on Thursday hailed the opening of the New Development Bank (NDB) as an "important step forward" in cooperation among BRICS countries. "This is great progress in financial cooperation among developing countries and emerging economies, as well as a helpful supplement to the global financial system," Li said while meeting NDB President KV Kamath in Beijing. The NDB opened in Shanghai on Tuesday to finance infrastructure projects, mainly in BRICS countries -- the emerging economies of Brazil, Russia, India, China and South Africa. "We are ready to work with other partners to improve governance structure, and build the NDB as a professional, efficient, transparent and green 21st-century multilateral development bank," Li said. He expressed hope that the NDB can aid the industrialization of developing countries, and help with global connections. The NDB will have an initial authorized capital of $100 billion, and initial subscribed capital of $50 billion equally shared among the five founders. Kamath told Li the NDB will exploit potential for economic growth and industrial cooperation among BRICS countries in an innovative way, to achieve common development. Li noted that China's economy posted 7-percent growth in the first half of 2015 in the face of various challenges, and the country also witnessed growth in employment and people's income. He attributed these achievements to three
factors: a deepening of reform and encouragement of entrepreneurship and mass innovation, structural adjustment expanding domestic demand, and attracting more foreign investment. The Chinese government is confident and capable of properly handling risks and challenges, to achieve medium-high growth and push the Chinese manufacture to the medium-high end of the value chain, the premier said.
Source: Xinhua: Chinese premier hails BRICS bank, 2015-07-24

First Silk Road Cities Cooperation Forum bears fruit in Venice

VENICE - Key agreements and fruitful talks were the harvest of a forum held in Venice on Thursday about the role of China-proposed Belt and Road Initiative in strengthening relations between cities in China, Italy and other countries on the Silk Road route. A memorandum of understanding for a database to gather basic information of each city along the Belt and Road, and another one between the Venice port and the Ningbo port, were among the agreements signed at the first Silk Road Cities Cooperation Forum hosted in the hometown of traveler Marco Polo. “In fact Marco Polo had crossed both the road and maritime Silk Road, but what is important today is that the European-Asian relations continue to be crucial,” Paolo Costa, Chairman of the Venice Port Authority, said. Based on the agreement, the two ports will exchange information, technologies and projects including the “innovative idea of an offshore port” in Venice which would boost capacity of the existing onshore port and connect Venice with other Italian ports as well as with the heart of central and eastern Europe, Costa explained to Xinhua in an interview on the sidelines of the forum.

In ancient times the Silk Road played a fundamental role in connecting the cultures of Asia and Europe and bringing their civilizations closer, while fostering commercial and economic exchanges. The Silk Road Economic Belt, together with the 21st-Century Maritime Silk Road, commonly known as the Belt and Road Initiative, were proposed by Chinese President Xi Jinping in 2013. The initiative bring together countries in Asia, Europe and even Africa via overland and maritime networks, with the purpose of boosting infrastructure building, financial cooperation and cultural exchanges in those regions. Hao Yaohua, President of Silk Road Cities Alliance, stressed the indispensable role of cities along the Belt and Road in realizing the “five cooperation priorities”, or policy coordination, facilities connectivity, unimpeded trade, financial integration and people-to-people bonds of the Belt and Road. The Silk Road Cities Alliance, which aims to support cooperation between cities along the route, co-organized the forum with Priorita Cultura (Culture is Priority), an association promoting culture as a tool for international dialogue, chaired by former culture minister of Italy Francesco Rutelli.

The forum, attended by Italian Foreign Minister Paolo Gentiloni, was the second event of two days dedicated to the role of Belt and Road and related "cultural diplomacy." An exchange program in the food sector, a project on strategic cooperation in cultural infrastructures as well as a collaboration plan in sport along the new Silk Road route were among the memorandums of understanding signed at a conference held at the world exposition in Milan on Wednesday. Earlier this week, the Chinese delegation led by Li Zhaoxing, former Chinese Foreign Minister and currently the President of China Public Diplomacy Association, a non-profit organization comprising relevant institutions and personalities in the field of public diplomacy, was received by Italian President Sergio Mattarella in the presidential palace in Rome.
Source: Xinhua: First Silk Road Cities Cooperation Forum bears fruit in Venice, 2015-07-24

More Chinese firms in Fortune 500

China has now been home to the world's second-largest number of Fortune 500 companies for five consecutive years. According to this year's Fortune 500 list, the number of shortlisted Chinese companies rose for
the 12th year in a row to 106, with six more entering for the first time, including Shaanxi Coal & Chemical Industry Group Co Ltd, China Everbright Group Co Ltd and HNA Group. The United States still has the largest number, 128, unchanged from last year. US retail giant Wal-Mart Stores Inc claimed top spot again with sales revenue reaching $485.65 billion in 2014. Second to Wal-Mart is China's State-owned oil giant China Petrochemical Corp, better known as Sinopec Group, with a total sales revenue of $446.81 billion in 2014, which pushed last year's runner-up Royal Dutch Shell Plc into third.

Due to the global economic slowdown, the total profit made by all the Fortune 500 companies actually fell 14.76 percent to $1.67 trillion in 2014. The threshold for being included in this year's list, however, rose by 0.49 percent to $23.72 billion of sales revenue. In the sub-list of the most profitable companies, 13 out of the 50 finalists were from China. Industrial & Commercial Bank of China Ltd topped the list with total profits of $44.76 billion last year, better than Apple Inc and Exxon Mobil Corp. State-owned grain trader COFCO Corp, meanwhile, saw its position rise the most, jumping from 401 to 272. China Merchants Bank Co Ltd enjoyed the second-best growth rate, with its position rising to 235 from 350. Notably, the majority of the shortlisted 106 Chinese companies were State-owned, with 47 directly under the control of the State Assets Supervision and Administration Commission. Worrying too, 13 Chinese companies found themselves in the sub-list of “the top 50 companies which suffered the greatest losses”. Leading that list was Aluminum Corp of China Ltd, which lost $1.76 billion last year. Despite many growing in size and scale, the ability of some Chinese giants to make a profit was also noted. Exxon Mobil's sales revenue was much smaller than Sinopec's, for example, but its profit is at least six times the size. Renowned economic commentator Wu Xiaobo recently highlighted the difficulties being felt by the growing crop of mobile and technology firms, for instance, which could also be applicable to many other Chinese companies. "The traditional advantages of the 'made in China' manufacturing equation of large scale plus low cost is becoming unreliable and worthless for many."


**Foreign investors to boost China local government bonds: Fitch**

BEIJING - The Chinese central bank's recent move to open the interbank bond market to certain foreign institutional investors will diversify the investor base and is likely to boost aggregate demand for local government bonds, said Fitch Ratings. This will benefit the ongoing local government debt-for-bonds swap program and have significant positive implications for local government credit, said Fitch, one of the Big Three rating agencies. The central bank on July 14 allowed foreign institutional investors, including central banks, international financial institutions and sovereign wealth funds, to invest in China's onshore interbank bond market. The onshore market is estimated at around 35.3 trillion yuan ($5.7 trillion) by the end of May, according to the central bank, with government bonds accounting for about 30 percent of the total outstanding. Fitch said these reforms would facilitate the swap program initiated by the Ministry of Finance (MoF), which aimed to lower the financing costs of local governments by converting high-cost debt into municipal bonds. The swap is significant for local government credit and will reduce liquidity risks by extending debt maturities and lowering financing costs. The MoF has initiated two rounds of swaps thus far, of 1 trillion yuan apiece. Fitch expects another 1-trillion-yuan debt swap in 2015, bringing the total to 3 trillion yuan. The scale of the debt swap is such that demand from onshore investors may not meet the substantial increase in government bond supply. It is notable that a large proportion of local government bonds thus far are held by big commercial banks, and the take-up from other onshore investors has been relatively limited. Therefore, opening the interbank bond market to foreign investors will help diversify the investor base for the local government bond market at a time when significant new supply is coming, according to Fitch. Investing in local government bonds on the onshore interbank market will allow foreign institutional investors to gain quasi-sovereign mainland China exposure. Fitch maintains that Chinese local government bonds will continue to have an implicit sovereign guarantee. The agency maintains though, that the increase of aggregate demand through foreign investment is likely to be a gradual process, and the market for local government bonds

Fitch maintains that Chinese local government bonds will continue to have an implicit sovereign guarantee. The agency maintains though, that the increase of aggregate demand through foreign investment is likely to be a gradual process, and the market for local government bonds
will continue to be dominated by onshore investors for the short to medium term.
Source: Xinhua: Foreign investors to boost China local government bonds: Fitch, 2015-07-25

Yuan hit by turmoil in the market

Ripple effects from the stock market plunge have put the yuan under pressure and prompted the government to introduce more measures to restore stock exchange stability. However, the sharp decline in share prices should have a limited impact on the overall financial system and the real economy, according to experts. The offshore-traded yuan declined for three consecutive trading days to 6.2279 yuan per US dollar on Tuesday, the lowest level since April 13. In the forward exchange market, the currency suffered its biggest daily fall in four months as foreign funds pulled money out of Chinese mainland stocks on signs that the central government may not be able to stem the market rout. Meanwhile, the uncertainty over whether Greece will leave the eurozone will continue to strengthen the US dollar in the short term, putting more depreciation pressure on the yuan. Investors bet on a drop to 6.4064 yuan per US dollar in a year’s time, a 3 percent depreciation from the current value. This indicated concern over further financial risks arising from the stock market turmoil.
Source: Xinhua: Yuan hit by turmoil in the market, 2015-07-9

China pledges to stabilize RMB exchange rate

BEIJING - The State Council, China's cabinet, pledged on Wednesday to stabilize the exchange rate of the yuan at a reasonable and balanced level. It also pledged to facilitate renminbi settlement to help enterprises avoid risks in cross-border trade, according to a statement released after an executive meeting of the State Council presided over by Premier Li Keqiang on Wednesday. The cabinet also stressed providing more support to small and micro enterprises, as well as the development of emerging market.
Source: Xinhua: China pledges to stabilize RMB exchange rate, 2015-07-16

China’s holdings of US Treasuries rise for third month

WASHINGTON - China's holdings of US Treasury securities rose for the third month in May, while Japan continues to cut its holdings to a year low. China added $6.9 billion of the treasuries to $1.2703 trillion in May, the highest level since June 2014, the latest data from the Treasury Department showed on Thursday. The country has increased its US treasuries holdings for three months running. Japan, which had overtook China as the biggest foreign holder in February before trading places again in March, cut its holdings by $1 billion to $1.2149 trillion in May, the lowest since April 2014. In May, the overall foreign holdings of US Treasury securities reached $6.1348 trillion, down from a revised $6.1384 trillion in April.
Source: Xinhua : China's holdings of US Treasuries rise for third month, 2015-07-17

China raises gold reserve for first time in six years

BEIJING - China's gold reserves rose nearly 60 percent to 1,658 tons at the end of June from the previous figure released the end of April 2009, when the amount was 1,054 tons. Gold prices have retreated from a historic high in recent years and the central bank gradually accumulated the reserves through various channels, said the People's Bank of China (PBOC) on Friday. The channels include domestic scrap gold, production storage and trade in domestic and overseas markets. China is the world's largest gold producer and a major consumer.
Source: Xinhua: China raises gold reserve for first time in six years, 2015-07-18

Deficit hits $104b in first half

The country saw intensified net capital outflow in the first six months as the foreign exchange settlement deficit increased, according to official data released on Thursday. Chinese banks bought foreign exchange worth 5.31 trillion yuan ($855 billion) in the first half and sold the equivalent of 5.96 trillion yuan, resulting in a net sale
of 647.4 billion yuan, the State Administration of Foreign Exchange said. This compares with a 383.8 billion yuan deficit in the second half of last year. Administration spokeswoman Wang Chunying said flows of capital in and out of the country have become more balanced in recent months, despite a high level of volatility in the first half. "There has been no large and continued capital flight so far," Wang added. The foreign exchange settlement had a surplus of 12.9 billion yuan in June, compared with a 7.8 billion yuan surplus in May and a 106.2 billion yuan deficit in April, the administration said. Wang said risks may arise from possible moves by the US Federal Reserve to raise interest rates, but they will be "containable". "Normalization of the Fed's monetary policy will increase pressure on China's capital outflows, but we are confident we can meet the challenges," Wang confirmed that the appreciation of the dollar was one of the most important factors behind the flow of capital out of China in the first quarter, but the market's expectations regarding the yuan's exchange rate remained stable in the second quarter. Uncertainties created by the Greek debt crisis may influence China's cross-border capital flows because of resulting fluctuations in global foreign exchange markets, something that the administration will monitor closely, she added.

Source: CHEN JIA: Deficit hits $104b in first half, China Daily, 2015-07-24

Foreign money pours into Shanghai FTZ

SHANGHAI - Foreign investors have been flocking to the Shanghai Free Trade Zone (FTZ) as reforms in China's economic testbed keep gaining momentum. The Shanghai FTZ has attracted foreign investment worth $23.5 billion in the first five months this year, Shanghai Municipal Commission of Commerce said on Wednesday. The money was five times the amount registered in the same period last year, the commission said. The Shanghai FTZ was launched in September 2013 to test reform policies. Foreign investors set up businesses in the Shanghai FTZ as reforms have adapted FTZ regulations in trade and finance to international standards, said Shang Yuying, director of Shanghai Municipal Commission of Commerce. The commission said reform policies in engineering, tourism, and telecommunications have been particularly effective.

Source: Xinhua: Foreign money pours into Shanghai FTZ, 2015-07-2

China's foreign trade remains lackluster, but outlook brightens

BEIJING -- China's foreign trade volume continued to drop in the first half (H1) of the year, but an unexpectedly strong exports rebound in June was an encouraging sign for the pressured economy, official data showed on Monday. Total foreign trade dropped 6.9 percent year on year to 11.53 trillion yuan ($1.89 trillion) in the first six months of 2015, slipping further from a 6-percent decline in the first quarter, according to data from the General Administration of Customs (GAC). Exports rose slightly by 0.9 percent from a year ago, but imports slumped 15.5 percent, weighed down by a gloomy global climate and feeble domestic demand. The trade surplus expanded 1.5 times to 1.61 trillion yuan, data showed. GAC spokesperson Huang Songping described the situation as "grim and complicated" under the sluggish global economy during a press conference. Huang attributed the import decline to shrinking domestic demand hurt by unsolved industrial overcapacity as well as falling commodity prices in the global market. "Cheaper commodities dragged down China's import growth by 10.4 percentage points," Huang said. The crude oil price has slumped around 50 percent and iron ore has dropped over 40 percent from last July. Despite an economic slowdown, China maintained a strong appetite for commodities. In H1, its crude imports gained 7.5 percent year on year to 163 million tons, and soybean imports climbed 2.8 percent to 35.16 million tons.

Exports were less troubling due to mild growth but were still plagued by anemic external demand. The world is still trying to drag itself from the mire of the financial crisis with depressed trade and lowered demand in both developed and emerging economies, Huang said. Exports were also curbed by rising salaries of Chinese workers and the appreciation of the yuan, Huang said. The official exchange rate of the yuan against the U.S. dollar, the euro and the yen strengthened by 0.2 percent, 6.9 percent and 2.2 percent respectively during the past 6 months. Although China was still far from breaking its downward spiral in foreign trade, there were some encouraging signs
in June. Exports rose 2.1 percent from a year earlier, ending a three-month losing streak, and the decline in imports narrowed to 6.7 percent from an 18.1-percent slump. The trade surplus jumped by 45 percent to 284.2 billion yuan, the GAC data showed. China has encouraged high-tech sectors to replace simple processing and focus more on exports to emerging economies to offset shrinking demand from developed ones. Exports to Southeast Asia, India and Africa grew by 9.5 percent, 10.7 percent and 12.9 percent respectively in H1. Trade with countries covered by China's Belt and Road Initiative was even more robust, as exports to Bangladesh, Pakistan, Israel and Saudi Arabia saw average growth of 17 percent. But Huang said China still faces difficulties as trade with the European Union and Japan, two of its major trading partners, tumbled and the global economy remained dim.

Source: Xinhua: China's foreign trade remains lackluster, but outlook brightens, 2015-07-14

China passes fresh policy support for trade growth

BEIJING - After a disappointing trade sheet for the first half of the year, the Chinese government has stepped up support for the sector with a fresh package of policies, which are expected to nourish the nascent recovery seen in June. At a State Council executive meeting on Wednesday, the government pledged to further facilitate trade growth by improving the business environment and easing burdens on trade companies. Specific measures include improving clearance efficiency at port customs, encouraging imports of advanced technology and equipment, key components and foreign consumer goods with great domestic demand, as well as regulating administrative and service fees for import and export links. The move came after data on Monday showed China's foreign trade dropped 6.9 percent year on year to 11.53 trillion yuan ($1.89 trillion) in the first six months, slipping further from a 6-percent decline in the first quarter. Sluggish external demand, high export costs due to yuan's appreciation, downward pressure on domestic economy and the plunging commodity prices are major drags on trade growth. The official exchange rate of the yuan against the US dollar, the euro and the yen strengthened by 0.2 percent, 6.9 percent and 2.2 percent respectively during the past 6 months. To help enterprises avoid risks in cross-border trade, the government stressed it will stabilize the exchange rate of the yuan at a reasonable and balanced level, and facilitate renminbi settlement. But in some areas, government efforts may only have limited impact. For example, Chinese exporters are facing increasing challenges from their peers in both developed and emerging countries as the former are attracting advanced manufacturing back home and the latter are catching up with their low costs. This will require Chinese enterprises to constantly upgrade their technologies and brands to remain competitive, according to Bai Ming, a senior researcher with a Ministry of Commerce think tank.

Seeing opportunities in the sectors, the State Council highlighted support for cross-border e-commerce and foreign trade service companies, in addition to the previous plans to advance manufacturing prowess and promote industrial cooperation. Signs of recovery have already emerged. In June, China's exports rose 2.1 percent from a year earlier, ending a three-month losing streak, and the decline in imports narrowed to 6.7 percent from an 18.1-percent slump.

Source: Xinhua: China passes fresh policy support for trade growth, 2015-07-16

Chinese entrepreneurs turn to e-commerce to beat foreign trade slump

FUZHOU - As China's foreign trade slows, entrepreneurs are turning to online sales to push their products across borders. "We are selling our products on both aliexpress.com, a subsidiary of Alibaba, and eBay, with online sales revenue accounting for 20 percent of our total output in 2014," Bao Chengbin, deputy manager of Chinahanji Power Co Ltd, a manufacturer of diesel engine parts in southeastern Fujian province, told Xinhua over the weekend. The company's turnover surpassed 200 million yuan (about $33 million) last year with exports accounting for about half, said Bao. "Social networks, including apps and online chat tools like Wechat, have helped us communicate promptly with customers abroad and cut costs since we don't have to make overseas phone calls as we did before," said Bao. As more companies seek to expand their presence in foreign markets through e-commerce, new business opportunities have emerged for companies like ISofStone, an online service provider that helps small- and
medium-sized enterprises (SMEs) do cross-border business. "We aim to bring SMEs together to improve their ability to bargain with foreign customers on price and ask banks to provide better service," said Wang Shaokai, general manager of IsoftStone Fujian. The local government is also encouraging companies to strengthen themselves through opportunities in cross-border e-commerce, said Wu Hairui, deputy chief of the Bureau of Commerce in Putian, a city in Fujian province. Chinese Premier Li Keqiang chaired a State Council executive meeting in June to promote cross-border e-commerce as China's foreign trade continues to decline.

Total foreign trade dropped 6.9 percent year on year to 11.53 trillion yuan ($1.89 trillion) in the first six months of 2015, slipping further from a 6-percent decline in the first quarter, according to data from the General Administration of Customs (GAC). More than 200,000 companies are running cross-border e-commerce businesses in China with more than 5,000 online shopping platforms, Wu said, quoting official data. The trade volume for China's cross-border e-commerce pilot cities surpassed 3 billion yuan by the end of 2014, the GAC data showed. E-commerce exports totaled 2.04 billion yuan in 16 pilot cities, including Shanghai and Beijing, in the 18 months starting in July 2013, while imports totaled 1.01 billion yuan. Cross-border e-commerce has grown substantially since the GAC established a pilot program offering preferential policies in 2012 to import businesses in seven Chinese cities, including Shanghai, Chongqing, Hangzhou, Guangzhou and Shenzhen. GAC spokesperson Zhang Guangzhi said at the start of this year that the authority was promoting a national unified system for e-commerce trade clearance to improve efficiency and cut costs. Alibaba Group has already prepared payment platforms for cross-border transactions and the local government of Putian is drafting a plan to help local enterprises take advantage of the platforms, according to Wu, who had just returned from a business trip to the e-commerce giant's Hangzhou headquarters. "I believe the boom for cross-border e-commerce is around the corner, thanks to concerted efforts from both the government and the private sector," said Wu. Cross-border e-commerce, which brings the Internet together with foreign trade, will help expand consumption, promote the upgrade of the export-oriented economy and create new economic growth, according to a statement released by the Chinese cabinet.

Although the market is promising, bottlenecks still exist. More talent and capital are needed and the efficiency of customs should be improved, said local entrepreneurs in Fujian. China will improve customs clearance processes, offer tax reductions and exemptions, and encourage cross-border electronic payments to boost the industry's development, the State Council announced in a statement in June.
Source: Xinhua: Chinese entrepreneurs turn to e-commerce to beat foreign trade slump, 2015-07-20

High-tech products face more probes

Trade remedy measures against high-tech and high value-added product exports from China rose significantly in the first six months of the year, despite an overall slowdown in the number and value of trade friction cases. About 37 trade remedy cases were filed against Chinese companies between January and June, including 32 anti-dumping cases. Fourteen countries and regions, mostly G20 members, initiated investigations against Chinese products, down 30 percent year-on-year, the Ministry of Commerce said on Tuesday. The United States launched six trade remedy probes against Chinese products in the past six months. Countries from Latin America filed about 14 cases during the period, up 27 percent from the same period a year ago. Shen Danyang, spokesman for the ministry, said because India and the Eurasian Economic Community focused on investigating cases initiated last year, the number of probes decreased in the first half. "We noticed that China's high-end products such as photovoltaic products, tires, wind turbines and smartphones had encountered more trade investigations over the past three years," Shen said. "China has been deploying more resources and manpower to enhance its negotiating abilities after several such cases occurred in recent years." However, the value involved in the probes amounted to $3.5 billion, down 34 percent on a year-on-year basis. Hardware, chemicals and the light industries are the areas that saw the most investigations.

Trade disputes extended into sectors like hardware, food, pharmaceuticals and mining products in 2014. China's trading partners including the US, Canada and Australia launched 27 cases involving $2.32 billion against
China's steel exports. Sang Baichuan, director of the institute of international business at the University of International Business and Economics in Beijing, said that the value of affected exports between January and June "accounted for a larger share in overall exports than the average level over the past decade, showing intensified trade friction involving Chinese products". "China will continue to face frequent trade frictions and there is no reason to be optimistic about the prospects if we look at the country's international trade environment and the resurgent protectionism in the world," said Sang.

Source: ZHONG NAN: High-tech products face more probes, China Daily, 2015-07-22

China boosts foreign trade amid restructuring efforts

BEIJING - A slew of recent measures to bolster China's foreign trade will lend steam to the slowing economy and help domestic exporters climb up the value ladder, also paving the way for deepened financial reforms, experts have said. China will support exports and imports by taking steps like offering tax refunds for exports, reducing tariffs on popular consumer goods and opening more duty free shops at ports, according to a guideline issued last week by the State Council, the country's cabinet. It urged governments at all levels to implement measures to prop foreign trade, saying a new round of opening up at a higher level is "a pillar to a better quality, more efficient economy." More efforts should be laid on creating an easier business environment for foreign trade companies, creating new export business models, supporting equipment to "go global" on the back of financing services, providing better export credit insurance to help small exporters open new markets and facilitate exporting large and complete sets of equipment, it noted.

Exports are one of three economic drivers and China's fast growth in past decades to a large extent hinged on exports. Despite the process of moving the economy away from reliance on credit expansion, investment and exports, it will take time for new growth engines to fully emerge, and supporting measures have been taken to arrest the economic downturn. The string of targeted measures was announced on the heels of the publicity of subpar Chinese export figures. Exports rose slightly by 0.9 percent in the first six months from a year ago, weighed down by feeble external demand, devaluation of major currencies and a lack of domestic exporters' competitiveness, said Shen Danyang, the Ministry of Commerce spokesman, predicting the latest measures can help inject vitality into companies, spur innovation and stabilize foreign trade. Economists have long been arguing for increasing exports of high-end products like sophisticated machinery rather than clothes and other low value-added products, which will be a boost for China's industrial upgrading and broader restructuring efforts.

The market-oriented renminbi exchange rate formation mechanism should be improved, the daily trading band of yuan against the US dollar will be further widened, and the exchange rate should be kept at a stable and reasonable level to help firms avoid risks, noted the guideline. China loosened its grip on the yuan-dollar exchange rate in March 2014, widening the daily trading band to two percent from one, a major step forward in the country's exchange rate regime reform. The daily trading band may be widened to three percent in the next two months, and market forces will be given a more prominent role in exchange rate formation, reducing technical barriers to yuan inclusion in the International Monetary Fund's (IMF) special drawing rights (SDR) basket, noted a latest report from China International Capital Corporation (CICC).

Source: Xinhua: China boosts foreign trade amid restructuring efforts, 2015-07-28

SOE reform to open door to foreign capital
China has been pressing ahead with plans to expand mixed ownership of State-owned enterprises to boost economic efficiency. This is expected to produce unprecedented opportunities for foreign companies. Last year, the government identified two SOEs to implement a pilot ownership reform: China National Building Material Group and China National Pharmaceutical Group Corp. In the long run, roughly 50 percent of China's SOEs could be opened for mixed ownership, according to Zhou Fangsheng, deputy director of the China Enterprise Reform and Development Society, a body under the State Council's State-owned Assets Supervision and Administration Commission. Mixed ownership would mean that large SOEs, which have traditionally held monopolies in many strategic industries, could form joint ventures using non-State capital. Zhou said sources of non-State capital include domestic private investors, foreign investors, and SOE employees. He added that SOEs at both central and local levels offer opportunities for foreign investors. The commission covers 113 non-financial central SOEs and 98,554 local government-owned companies. Central enterprises controlled about 53 percent of all SOE assets by the end of last year, totalling 91 trillion yuan ($14.63 trillion), according to the Ministry of Finance. Mixed ownership would provide an opportunity for foreign enterprises to enter some industries blocked to private investors, Zhou said. "It's possible that foreign capital could become the largest shareholder of an SOE through the mixed-ownership reform, but don't expect it to become a majority shareholder," he said. "Allowing State capital, non-State capital and employees to each hold one-third of the shares is a suitable proportion for the next step in mixed-ownership reform." Some monopolized industries such as the electricity sector and railways, or companies closely related to security such as producers of military goods, are not suitable for mixed-ownership reform, he said. The planned reform, which was still being finalized, was likely to identify the industries that would qualify. "The degree of openness for domestic private capital will be higher than foreign capital," Zhou added.

The Third Plenum of the Communist Party of China's 18th Central Committee in November 2013 set the agenda for a new round of SOE reform, and the concept of mixed ownership was strongly endorsed. In March, Premier Li Keqiang also listed the promotion of mixed ownership as one of the seven tasks to accelerate SOE reform in his annual Government Work Report. Chinese leaders have vowed to formulate measures for non-State capital to participate in the investment projects of central government enterprises and for non-public enterprises to participate in franchising. However, the pace has been relatively sluggish, according to experts. China's SOE reform has stagnated during the past decade, while SOEs have been increasingly criticized for their low efficiency. The productivity gap between State-owned and private companies has widened since the financial crisis in 2008, with
an average return on assets for State entities at about 4.6 percent compared with 9.1 percent for private companies, according to estimates last year by Gavekal Dragonomics, an economic research company in Beijing. Andrew Batson, the company's China research director, said mixed ownership did not imply an embrace of mass privatization, but added: "As the economy slows further and financial pressure on local governments increases, privatization should become more acceptable." Local governments have moved more quickly than central authorities in implementing SOE reform, as they needed to find new sources for revenue and lower their liabilities. More than 20 provinces and municipalities have announced local reform plans, including promoting mixed ownership and restructuring State capital. However, some private business leaders have raised concerns that they would have no influence as board members of mixed-ownership firms. In addition, a policy memorandum from the Paulson Institute, a think tank on China-United States relations, warned that improvements in performance would not automatically follow private investment in China's State-controlled companies. "The prospects for a mixed-ownership economy will ultimately depend on the State's willingness to cede control—not just ownership—of some of the nation's largest enterprises to private interests," the memorandum said.

Source: LAN LAN: SOE reform to open door to foreign capital, China Daily, 2015-07-29

19,470 firms sign up for three new FTZs

Nearly 19,500 companies have been attracted to China's three new pilot free trade zones, many involved in the country's fast-growing services and financial sectors. A total of 19,470 enterprises started operations in the zones by the end of June, said Tang Wenhong, director-general of the Ministry of Commerce's department of foreign investment administration. Tianjin, Guangdong and Fujian were added to the pilot free trade zone list in April, after the first FTZ, the China (Shanghai) Pilot Free Trade Zone, was unveiled nearly two years ago. The sites are being created to simplify the often-cumbersome trade approval system and encourage innovation and internationalization. Tang said plans are afoot to further increase the nation's flexibility to compete with more established trade rivals in the Asia-Pacific region, and the FTZs will continue to play a central role in that process. FTZ refers to an area within which goods can be imported, processed and re-exported without the intervention of customs authorities. Foreign investors, from sectors in which trade is still restricted elsewhere in the country, also have the chance to set up facilities in the zones.

"The three new FTZs have duplicated the practices of the Shanghai FTZ," said Tang. "The companies within them are enjoying an administration regime, trade regulatory model, financial systems and other reforms and innovation benefits on offer to investors." Guangdong FTZ's principal goal is to increase trade cooperation between the Chinese mainland and Hong Kong and Macao. The zone has further removed and relaxed a number of market access limits for investors from both regions, including restrictions on equity ratios and limits on business volumes. The Tianjin zone is designed to promote a more coordinated development of Beijing, Tianjin and Hebei province. It plans to focus on shipping services and finance, with policies regarding ship registration and other areas of maritime law and arbitration being fine-tuned and improved to allow the port city to compete better with other international shipping hubs such as Hong Kong and Singapore. In Fujian province, meanwhile, FTZ officials are striving to deepen cross-Straits economic cooperation, with the zone expected to become a demonstration area for intensified economic cooperation with Taiwan, and a focal point for goods setting out on the 21st Century Maritime Silk Road, along with nearby Guangdong province. The modern Maritime Silk Road begins in Fujian and Guangdong, before heading south into the ASEAN region. From the Straits of Malacca, it then turns west to South Asia, the Persian Gulf and Europe. Official numbers from Shanghai FTZ show it attracted 4,599 registered enterprises between January and May.

Source: ZHONG NAN: 19,470 firms sign up for three new FTZs, China Daily, 2015-07-28

The New Mission for Multinationals

Not long ago, many observers worried that ever-expanding multinationals many of which had revenues...
exceeding the gross domestic products of smaller countries were going to take over the world. But as globalization marches onward, powerful local companies are increasingly winning out against multinational competitors. This is especially true in emerging markets, where multinationals are assumed to enjoy superiority and CEOs are counting on growth. In China, the ice cream, laundry detergent and appliance markets provide interesting examples of this phenomenon. Despite the presence of multinationals in these markets, the market-share leaders are local companies. A similar pattern is being repeated in other emerging markets. The authors note, however, that in some cases multinationals have been able to resist the market gains of local competition, whether through first-mover advantages or by acquiring the leading local players and nurturing their local identity and strengths. For decades, multinationals were able to make good returns by acting as efficient global conduits for assets that were difficult to transfer, including intangibles such as product designs, technologies, management systems and company cultures. Transfers within the multinational company were more efficient than obtaining those assets through open-market transactions. However, a number of forces have been eroding that advantage. First, in the drive to reduce costs, established multinationals increasingly focused on activities with the highest returns. This meant that lower-value activities were outsourced and often offshored to emerging economies, creating global markets in which local companies can also source components and services. The result is that once-closed value chains have been opened up, enabling local players to source plug-and-play modules that can be combined to create products very similar and sometimes superior to those of foreign multinationals. If multinationals are to succeed against local competition in emerging markets, the authors write, they need to move beyond the credo of integrate globally and adapt locally. They will need to create new advantages in target markets by integrating their businesses with the local commercial networks and the society itself. They will need to help shape local markets, rather than just adapt to them.


Right time for SMEs to invest abroad

Small and medium-sized enterprises from China should shed their fears about intense competition and cash in on the golden period for investment in the United States, industry experts said on Tuesday. Favorable government policies and a conducive investment environment are also aiding the "going global" efforts of Chinese SMEs, said Michael Gordon, chairman and CEO of USAChina Investments Group. "The biggest challenge for SMEs is to find financing channels, and in the US we have many tools to customize financial plans for businesses that are growing," said Gordon, a former adviser for the Zhou Enlai Peace Institute in Beijing, which fosters US-China trade relations with high-level government support from both countries. At the same time, the policy has been shifting to give more support to SMEs and help them go global.

Three years ago, 80 percent of the investment from China to the US was from State-owned enterprises, but today that landscape has completely changed and about 70 percent of the transactions are by privately owned companies, Gordon said. "They are not necessarily small companies, but private companies looking for a wider variety of investment opportunities. So we can see the diversification happening," he said. Official data show that about 45 million Chinese SMEs contribute to 55.6 percent of the country's GDP, and over 65 percent of all new jobs in both countries are created by SMEs each year. But less than 10 percent of the bilateral trade came from SMEs. "There is room for growth in cooperation of SMEs from both countries, that are complementary in many fields," said Gordon, adding that industries such as healthcare, clean technologies and aviation have the maximum potential for growth.

Though more business opportunities are expected from the SME cooperation, Chinese firms still have a long way to go before they can make inroads in the US markets. A previous poll last year shows that a majority of Americans believe China poses the greatest threat to the US economy. The US government has shut down many Chinese merger and acquisition deals in US companies. One example is the aborted attempt by State-owned China National Offshore Oil Corp to buy US oil company Unocal in 2005. Gordon said that the US government
disallowed less than 5 percent of the Chinese deals in America, which is a normal practice that China would also do in the case of US investments. "China has things that are off-limits and strategic and so does the US," he said. "Sorting those lists out so that people can be clear about what they can or cannot participate is very important for the long term relations."

Source: LYU CHANG: Right time for SMEs to invest abroad, China Daily, 2015-07-15

**China outbound direct investment surges in H1**

BEIJING - China's outbound direct investment (ODI) increased sharply in the first half of 2015, thanks to less government restrictions, an official with the Ministry of Commerce (MOC) said Thursday. China's non-financial ODI grew 29.2 percent in the first six months to $56 billion, said Zhang Xiangchen, deputy international trade representative with the MOC. "We are very confident that China will accomplish or probably outperform the annual target of 10 percent ODI growth," said Zhang. ODI in manufacturing jumped 63.1 percent to $5.09 billion. China revised an ODI regulation last October, streamlining procedures and allowing domestic enterprises to invest in more sectors abroad. "The government is trying to create an easier environment for enterprises to explore overseas markets," said Zhang. China became a net capital exporter for the first time last year when ODI outnumbered foreign direct investment (FDI). ODI grew 14.1 percent in 2014, sharply eclipsing the 1.7 percent FDI growth.

Source: Xinhua: China outbound direct investment surges in H1, 2015-07-17