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China's rust belt need reform

BEIJING - Though the Chinese economy as a whole is restructuring for quality growth, its old industrial heartland seems to be missing the party. The world's second largest economy slowed to a 24-year low of 7.4 percent last year amid efforts to diminish reliance on investment and low-end manufacturing. The country's traditional manufacturing base in the northeast has seen growth slow even more dramatically. Despite a cooling economy, jobs are holding up well and consumption is contributing more to growth for China. But a much steeper slowdown in three northeastern provinces is a disturbing sign that China's rust belt is still stuck in the old growth model as the nation gears up for a transformation. Economic growth of the northeastern provinces of Liaoning, Jilin and Heilongjiang trailed behind the national average last year, at 5.8, 6.5 and 5.6 percent respectively.

The northeast was among the first regions in China to become industrialized last century. State-owned companies have played a dominant role in the region's heavy industry. A revitalization plan helped the region bounce back to lead economic growth after the central government reformed its inefficient state sector in the late 1990s. But weakened overseas demand and falling commodity prices over the past year took a fresh toll on the region's economy and led to a slowdown that once again exposed regional economic problems that previous government rescues have failed to address. In Jilin, a local subsidiary of China's largest state-owned oil producer, PetroChina, reported heavy losses as oil products piled up in its warehouses. In neighboring Heilongjiang, state-owned coal company Longmay is struggling with government subsidies after a whopping 5 billion yuan ($800 million) loss last year. In the coastal city of Dalian in Liaoning province, workers at state-owned Dalian Shipbuilding Industry Co Ltd are busy finishing an offshore oil drilling platform, which the company's deputy general manager Yin Xuelin said is their only order in the past 13 months.

Vestiges of the old planned economy are stalling efficiency gains in the northeast. An underdeveloped private sector cannot cushion the impact of slowing manufacturing activities in the region's state firms. While market-based reforms are granting more freedom to entrepreneurs and boosting productivity in more developed regions, they have progressed slowly here. Foreign equipment in the factories of state firms also points to their lack of proprietary technology, putting these firms at a disadvantage in global competition. It is tempting for officials to blame weak overseas demand and tapering investment for the region's problem. But a consensus has emerged from the local business community that the region needs to cultivate a more supportive environment for innovation and accelerate market reforms.

In an action plan released in August, the State Council, China's cabinet, laid out in broad strokes reforms aimed to reverse the cooling trend in the region. High on the central government's agenda is improving efficiency and competitiveness of the region's state-owned firms by selling stakes to private investors. The government also pledged more support for tech-heavy industries such as robotics, marine engineering and integrated circuits. It also seeks to boost the region's service sector to provide more jobs and address years of unbalanced development. Not all companies in the northeast are reeling in the face of strong economic headwinds. Some with better technology and better responses to market demands have shown flickers of promise. A 19-meter-deep, 15,000-square-meter underground machine tool manufacturing base in Dalian offers a model for the northeast to regain its past glory. "We keep temperature fluctuations here within one degree Celsius because even a minor change in humidity and temperature will affect the precision of machine tool manufacturing," said Yu Dehai, chairman of Dalian Guangyang Science and Technology Engineering Co Ltd. The company's machinery has been exported to Germany, making it a prime contender for major overseas players such as Japan's Fanuc and Germany's Siemens. Yu said his company is planning another 240,000-square-meter underground factory to accommodate waves of orders that have overwhelmed the existing facility. The difference between Yu's company and those struggling to keep their heads above water presents a make-or-break decision for the region: cling to the dated economic system and watch the region's problems turn from bad to worse, or begin a transition that could prove painful but also presents opportunities to reinvent the rust belt into a renewed growth engine. "There are always bad times in the market, but nobody knows what happens next," said a businessman based in Shenyang, capital of Liaoning. "That's when you
need to reform old systems to unleash innovations, which will in turn lead to new territory."
Source: Xinhua: China's rust belt need reform, 2015-02-17

China warns of challenges for global economy in 2015

ISTANBUL - The global economy faces big and crucial challenges with uncertainty and complexity in 2015, a Chinese government official said in an international financial meeting here on Sunday. While addressing financial officials and bankers from more than 40 countries just ahead of the first Ministerial Meeting of the Turkish G20 Presidency, Chinese Deputy Finance Minister Zhu Guangyao highlighted risks for the world economy and called on joint efforts to face the challenges.

"The sluggish global growth is a real challenge faced by all members of G20," Zhu Guangyao said, referring to the downgrade of global economic growth from 3.8 percent to 3.5 percent in January by the International Monetary Fund. Diverging monetary policies and the fall of oil price are risks causing global economic turbulence, Zhu said. The US Federal Reserve completed the asset purchase program and is in the process of normalization of monetary policy, which is expected to raise interest rate in the middle of this year, he said.

Concerning the oil price, he said "it had already been cut down by half since last September," adding that the fall of oil price also drags down the commodity price, which "will have big impact and increase the uncertainties." The slowdown of economic growth in Europe is another risk to the global economy as Greece casts additional uncertainties to Eurozone economy, he said. Talking about the crisis between Russia and Ukraine, the Chinese official said that only through diplomatic channel and political consultation can solve the geo-political risk. "All concerned parties should take constructive and cooperative position to avoid worse situation."

The two-day G20 meeting held in Istanbul provides an opportunity for dialogue between senior officials and private-sector leaders in the international financial community on topics ranging from inclusive growth, job creation, private sector support for infrastructure investment and financial globalization.

Source: Xinhua: China warns of challenges for global economy in 2015, 2015-02-9

Inflation rate dips to 5-year low in January

Inflation at the consumer level moderated to a five-year low in January, led by declining food prices, while deflation intensified in the industrial sector, reinforcing expectations for further monetary easing to stabilize growth. The Consumer Price Index fell to 0.8 percent in January from 1.5 percent in December, the National Bureau of Statistics said on Tuesday. It was the first time that the CPI had retreated below 1 percent since 2009. It was also the lowest level since the global financial crisis in 2008, when the figure bottomed out at a decline of 0.8 percent. Weaker food prices and distortions from the impact of the upcoming Lunar New Year might have dragged down the CPI, according to economists. The Lunar New Year holiday, which falls in January or February each year, sees a surge in consumer spending and widespread business shutdowns, which can produce year-on-year distortions. This year, the holiday starts on Feb 18. In January, food inflation fell to 1.1 percent year-on-year from 2.9 percent in December, while nonfood inflation dropped to a 59-month low of 0.6 percent, the NBS said.

The Producer Price Index also dropped to its lowest level since the global financial crisis. It declined by 4.3 percent from a year earlier, compared with the 3.3 percent fall in December. Plunging world oil prices drove down the CPI by 0.07 percentage point, and they contributed 65 percent of the PPI's drop in January, said Yu Qiumei, a
senior economist at the NBS. The figures also reflected weak underlying demand growth, economists said. “These data help explain last week's decision by the People's Bank of China to cut reserve requirement ratios, which was a helpful but likely insufficient policy move,” said Song Yu, an economist at Goldman Sachs Group Inc. “We expect further easing, with a benchmark rate cut likely before the end of the first quarter.” The central bank cut the amount of cash that all banks must set aside as reserves by 50 basis points, which was the first broad cut since May 2012.

To ease the deflation risk and curb huge capital outflows, Liu forecast that the PBOC is likely to cut the deposit interest rate by 25 basis points in the first quarter of this year. Liu said there may also be another 50 bps cut in the reserve ratios in the second quarter.

Source: Chen Jia: Inflation rate dips to 5-year low in January, China Daily, 2015-02-11

**Balance between stability and growth key to economic restructuring**

BEIJING - China will balance stability and growth to achieve medium-to-high speed growth in 2015 through stabilizing macro-economic policies while deepening economic reform, economists observed. A meeting of the Political Bureau of the Communist Party of China (CPC) Central Committee, chaired by Chinese President Xi Jinping, on Thursday stressed the determination of policymakers to strike a balance between stability and growth in adapting to the new normal of economic growth. China will stabilize and improve its macro-economic policies; maintain the proactive fiscal policy and prudent monetary policy; and continue fine-tuning and targeted regulatory measures in 2015 to secure steady economic growth, said the meeting. The meeting also called for deepening reforms in the investment, financing, pricing and taxation sectors and the continued streamlining of administrative procedures and powers to tackle economic slowdown.

The purchasing managers' index (PMI), the main gauge of manufacturing activity, fell below 50 for the first time since October 2012 in January, and data last week showed exports fell by 3.2 percent and imports plunged 19.7 percent for January. Zhang said the ongoing slowdown would not force China to backtrack on its reform promises, because a lack of reforms could be fatal for long-term development. Furthermore, stability and growth can be mutually reinforcing as the necessary adjustment in economic structure will help promote the steady growth, he added.

According to the meeting, China will step up the management and regulation of investment this year to expand effective investments, improve their profitability, strengthen certain vulnerable areas in economic and social development. In addition, the significance of service sector was also on the meeting's agenda, Zhang said, noting that the consumption and service sector will replace traditional engines of manufacturing and investment to drive economic growth in 2015. "A service sector-led economic structure is the strategic option of China's economic transformation and upgrading," he said.

Source: Xinhua: Balance between stability and growth key to economic restructuring, 2015-02-14

**Policymakers face challenge as deflation pressure rises**

Underlying deflationary pressure has risen in China, with the Consumer Price Index easing to the lowest 0.8 percent last month since November 2009. The trend was even more evident in the decelerating contraction of the Producer Price Index. PPI deflation intensified to a 4.3 percent decline from 3.3 percent in December. Subdued expansion of broad money supply, a glut in the property market and a decline in transport costs caused by plunging oil prices, along with massive excess industrial capacity, are all signs of deflation. They remind policymakers to react appropriately to the situation. Deepening deflation will keep consumers from spending as they wait for still-lower prices, and companies will invest less capital into production as prices keep falling. That is the last situation the government wants to see.

Deflation happened in Japan when the real estate bubble burst in 1991. The impact lingers one-quarter century later. Chinese policymakers have absorbed the lesson from their neighboring country. But at the same time, they are trying to avoid a large monetary stimulus, given that the corporate debt burden is far too heavy in light of
intensifying overcapacity and declining profits. In the context of slower GDP growth, the expected decline in inflation to about 1 percent this year should lead the People’s Bank of China to ease monetary policy further. Two more 50 basis-point cuts in banks’ required reserve ratio and two additional interest rate cuts of 25 bps each are likely, said Chang. So is a willingness to accommodate yuan weakness against the dollar, she said.

Source: Chen Jia: Policymakers face challenge as deflation pressure rises, 2015-02-17

Country Forecast China February 2015 Updater (Feb 2015).

Country forecast overview: Highlights

China’s president, Xi Jinping, appears dominant within the ruling Chinese Communist Party (CCP). Political controls will remain tight in 2015-19, but reforms unveiled in October 2014 to “advance the rule of law” highlighted the government’s ambition of turning the ruling party into a more effective governing outfit. They included plans to make the courts more independent of local officials and to professionalize the judiciary. This approach will be accompanied on the economic side in 2015-19 with financial liberalization, an overhaul of local-government financing and moves to subject state-owned enterprises to greater competition. Although such changes will help to boost productivity, implementation of the reforms is likely to prove challenging amid resistance from vested interests. Mr Xi will extend his existing anti-corruption drive, strengthening his authority but stoking factional tensions within the CCP. China’s growing geopolitical power will generate tension with its neighbours, but the country’s financial largesse will ensure that its global rise continues unimpeached. China used its hosting of the Asia-Pacific Economic Cooperation (APEC) meetings in November 2014 to outline trade and investment initiatives designed to boost its regional standing.

Despite cuts in policy interest rates in 2015, designed to offset the impact of slowing inflation, monetary policy will remain comparatively tight in 2015-19 as the authorities look to rein in excessive levels of credit growth. This will curb economic expansion in the next five years, notably by slowing investment growth. Real GDP growth is forecast to average 6.4% a year in 2015-19. Falling global oil prices and excess local industrial capacity will curb consumer price inflation in 2015. However, as investment slows, the output gap will narrow, stoking higher rates of inflation in subsequent years. Rapid wage growth will add to price pressures.

The renminbi is expected to weaken against the US dollar in 2015, in the first average year-on-year depreciation since 1994. It should rebound in 2016-17 before depreciating again in 2018-19 amid mounting capital outflows. The current account will move into deficit in 2018. Merchandise export growth will slow in 2015-19 relative to its average rate over the previous decade, but import demand growth will be supported by rising domestic consumption. Chinese investment abroad will grow strongly.

Country forecast overview: Key indicators

<table>
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<tr>
<th>Key indicators</th>
<th>2014</th>
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<th>2016</th>
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<tr>
<td>Real GDP growth (%)</td>
<td>7.4</td>
<td>7.2</td>
<td>6.8</td>
<td>6.4</td>
<td>6.0</td>
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<tr>
<td>Consumer price inflation (%; av)</td>
<td>2.1</td>
<td>1.2</td>
<td>2.1</td>
<td>2.9</td>
<td>3.2</td>
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<tr>
<td>Budget balance (% of GDP)</td>
<td>-1.8</td>
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<td>-2.7</td>
<td>-2.9</td>
<td>-2.9</td>
<td>-3.0</td>
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<td>Current-account balance (% of GDP)</td>
<td>2.0</td>
<td>1.8</td>
<td>1.2</td>
<td>0.1</td>
<td>-0.7</td>
<td>-1.3</td>
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<td>Commercial bank prime rate (%; year-end)</td>
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<td>5.2</td>
<td>5.9</td>
<td>6.5</td>
<td>6.8</td>
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<td>Exchange rate Rmb:¥100 (av)</td>
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<td>4.93</td>
<td>5.02</td>
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Country forecast overview: Business environment rankings

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<th>Value of index</th>
<th>Global rank</th>
<th>Regional rank</th>
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<tbody>
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Country forecast overview: China's business environment at a glance

Policy towards private enterprise and competition
2015-16: An overhaul of price controls gives the market a greater role in setting prices for inputs and outputs. A state-owned enterprise (SOE) reform plan is released, promising to open more state-controlled sectors to private firms.
2017-19: Private firms struggle to build market share in SOE-dominated sectors in which they have gained partial access. Some underperforming state-owned assets are sold to private firms amid fiscal strains among local governments.

Policy towards foreign investment
2015-16: As costs in China rise, more low-cost export manufacturing moves to other countries. Other Chinese cities adopt the free-trade zone reforms piloted in Shanghai, but levels of foreign direct investment (FDI) in them are disappointing.
2017-19: Central and western regions of China increase their share of the country's FDI as policy incentives to invest there are maintained.

Foreign trade and exchange controls
2015-16: Restrictions on two-way capital flows are loosened, providing more opportunities for foreigners to invest in local securities. Domestic firms gain better access to overseas capital markets, and acquisitions abroad are encouraged.
2017-19: Capital-account liberalization continues steadily. The renminbi's exchange rate becomes more volatile. If capital outflows accelerate too sharply, restrictions on outbound investments may be tightened temporarily.

Taxes
2015-16: The government expands a pilot scheme to replace the business tax on services with a value-added tax (VAT). Trial property-tax schemes are extended to more cities, ahead of a nationwide roll-out in 2017-19.
2017-19: The tax burden is shifted increasingly from indirect sources to personal taxation, and, notably, to high earners. A more concerted effort is made to enforce compliance among personal and corporate taxpayers.

Financing
2015-16: Problems re-emerge in the state-owned banking sector, necessitating additional government moves to support it.
2017-19: Interest rate liberalization begins to relieve some of the distortions in China's financial markets. Private-sector access to financing improves as the private banks launched in 2015 establish themselves.

The labor market
2015-16: Slowing economic growth creates some slack in the labor market, but shortages of skilled labour persist.
2017-19: Collective bargaining rights are increasingly institutionalized. Flaws in the education system become more evident, and immigration—particularly of unskilled workers from other Asian countries—increases.

Infrastructure
2015-16: The focus of infrastructure investment moves from connecting regions to improving cities. Transport systems and sewage networks are significantly upgraded in China's biggest urban centres.
2017-19: Energy prices move closer to market rates, freeing up funds for investment in electricity infrastructure.
Fact sheet

<table>
<thead>
<tr>
<th></th>
<th>2014&lt;sup&gt;a&lt;/sup&gt;</th>
<th>Historical averages (%)</th>
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<tr>
<td>Population (m)</td>
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<td>Real domestic demand growth</td>
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<td>Inflation</td>
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<td>GDP per head (US$; purchasing power parity)</td>
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<td>Current-account balance (% of GDP)</td>
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<td>Exchange rate (av) Rmb:US$</td>
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<td>FDI inflows (% of GDP)</td>
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<sup>a</sup> Economist Intelligence Unit estimates.

Policy issues: China’s leaders seek continuing economic liberalization and sustainable growth alongside enduring political control. The past emphasis on economic development is now being altered in favor of social priorities, such as addressing environmental degradation, corruption and the rapidly widening inequality of wealth. Another challenge facing the government is to rebalance the economy, which is dangerously dependent on high levels of investment spending. Over the next five to ten years the government will pursue financial liberalization; a program to try to improve the productivity of state-owned enterprises; reform of local government financing; centralization of control over the judicial system; and reform of the household registration (hukou) system. However, it will face intense opposition from vested interests.

Taxation: The standard rate of corporate-income tax is 25%. China has a progressive income-tax system, with marginal rates as high as 45%, but tax evasion is rife. Indirect tax is the main source of tax revenue, but the burden will increasingly be shifted to taxation of personal income, and particularly that of high earners.

Foreign trade: China’s trade surplus (in balance-of-payments terms) increased to US$351.8bn in 2013, from US$297.7bn in 2012. Exports totaled more than US$2.1trn in 2013, while imports were worth around US$1.8trn.

<table>
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<tr>
<th>Major exports 2013</th>
<th>% of total</th>
<th>Major imports 2013</th>
<th>% of total</th>
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<tr>
<td>Electrical machinery</td>
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<td>Electrical machinery</td>
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<tr>
<td>Telecommunications equipment</td>
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<td>Office machines</td>
<td>9.9</td>
<td>Metalliferous ores &amp; scrap</td>
<td>8.8</td>
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<tr>
<td>Clothing &amp; apparel</td>
<td>8.0</td>
<td>Professional instruments</td>
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<table>
<thead>
<tr>
<th>Leading markets 2013</th>
<th>% of total</th>
<th>Leading suppliers 2013</th>
<th>% of total</th>
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<tr>
<td>Hong Kong</td>
<td>17.4</td>
<td>South Korea</td>
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<tr>
<td>US</td>
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<td>Japan</td>
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<tr>
<td>Japan</td>
<td>6.8</td>
<td>Taiwan</td>
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<tr>
<td>South Korea</td>
<td>4.1</td>
<td>US</td>
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Outlook for 2015-19: Election watch

Following their appointment in 2013, Mr Xi and the premier, Li Keqiang, are set to serve ten-year terms in office. They will also probably retain until 2022 their positions on the seven-member PSC, in which they are ranked first and second respectively. This puts them in an advantageous position relative to the committee’s other current members, who will serve only single terms, retiring in 2017 in accordance with age limits.
China’s increasing power-projection capabilities and its tendency to adopt a bullying approach in territorial disputes will cause unease among its neighbors. An ice-breaking meeting in November 2014 between Mr. Xi and Japan’s prime minister, Shinzo Abe, suggested that the two countries will seek to improve the handling of their dangerous dispute over the Senkaku islands (known as the Diaoyu islands in China). However, strong nationalist sentiment makes a diplomatic solution unlikely, suggesting that tensions will persist. China’s extensive territorial claims in the South China Sea will also encourage countries in the region to develop closer defense relations with the US.

Although China will continue to have few firm allies of its own in 2015-19, its financial largesse will ensure that its geopolitical rise will continue unimpeded. The country used its hosting of the Asia-Pacific Economic Cooperation (APEC) meetings in November 2014 to outline a series of regional trade and investment initiatives, including an Asian Infrastructure Investment Bank. This will thwart efforts, notably within the Association of South-East Asian Nations (ASEAN), to forge a more critical stance towards China. The country will also deepen support for multilateral institutions that it favors and remain a major provider of credit to developing countries.

However, China will take measures to ensure that its policies in such areas do not aggravate relations with the US, with which it wants to maintain a working relationship. As China’s overseas economic interests expand in 2015-19, it will play a growing role in international security, in fields such as diplomacy, peacekeeping and anti-piracy patrols. However, the country will remain only a minor player in global security affairs compared with the US.

Outlook for 2015-19: Policy trends

The leadership’s policy agenda will focus on implementing the reforms agreed by the CCP in late 2013 towards the overarching goal of reducing government interference in the economy and allowing market forces a “decisive” role in allocating resources. The government hopes that the productivity gains unleashed by these changes will create the conditions necessary for sustainable economic expansion and social stability.

On the economic side, core policies include liberalising exchange rates, interest rates and the capital account. The transition from an investment-driven growth model towards a more consumption-oriented one will also be maintained, as will the push to expand public-welfare provision. The dominant role of the public sector will be preserved, but state-owned enterprises (SOEs) will face increased pressure to raise their productivity as the market is allowed to play a greater role in setting the price of their inputs and outputs. Private investment in SOEs will be encouraged and more competition will be introduced in state-dominated sectors such as banking. Local governments and SOEs may also be encouraged to sell underperforming businesses and assets.

Weaknesses in local-government finances will be addressed through greater allocations from the centre and tighter controls over off-balance-sheet activities. Local authorities will be able to raise more revenue through methods such as the taxing of property and polluters, and will be given more leeway to issue bonds directly. This is part of an effort to shift local governments away from their present overreliance on land sales for revenue.

Social-justice issues, including the relaxation of the one-child policy, are another part of the agenda. Steps have already been taken to abolish the distinction between rural and urban household registration (hukou) in smaller towns and cities; this will be extended gradually to larger municipalities. Although this will narrow the differences between urban and rural access to public services, it remains unclear how improved access to public services for former rural hukou holders will be paid for.

The government has set itself a deadline of 2020 to implement its plans. We are doubtful that the administration will have much success in improving the productivity of SOEs. However, financial liberalisation and local government fiscal reforms will make impressive headway over 2015-19.

Outlook for 2015-19: Fiscal policy

We forecast that the official consolidated budget deficit for both central and local governments will be equivalent to around 2.7% of GDP on average in 2015-19, above the estimated average of 1.6% of GDP in 2010-14. As the central authorities look to reduce local governments’ reliance on borrowing, they will tolerate larger deficits. Under revisions to the Budget Law passed in 2014, more regional administrations will be allowed to issue bonds directly,
in a move that should promote fiscal transparency. Nonetheless, the extent of off-budget fiscal transactions will remain large.

Whereas the central government’s fiscal position remains strong, many regional governments face more straitened circumstances. Their public finances will be strained in 2015-19 by slowing fiscal inflows from land sales, and from contingent liabilities related to troubled local-level SOEs and financing vehicles. However, the central government will ultimately stand behind those administrations that face financial crises. New revenue streams will have to be found in the forecast period and a tougher approach taken to widespread tax evasion. An effective property tax will play a role, but is unlikely to be introduced nationally until at least 2017.

Outlook for 2015-19: Monetary policy
The People’s Bank of China (PBC, the central bank) cut policy interest rates in November 2014, lowering its benchmark one-year deposit and lending rates to 2.75% (from 3%) and 5.6% (from 6%) respectively. We expect a further cut in interest rates in each half of 2015. Nonetheless, these moves largely reflect efforts to maintain the current, relatively tight monetary policy stance in the face of falling inflation. This stance is designed to rein in the credit bubble that developed in 2009-13, so it is unlikely that the cuts will result in much easing of financing conditions for firms.

A further priority for the PBC is the liberalization of interest rates. This was underlined by its decision to announce a further loosening of upper-side caps on deposit rates when it cut policy rates in November. It has also disclosed details of a deposit insurance scheme, which is likely to be introduced in 2015. These moves suggest that full liberalisation is likely to take place in early 2016, in line with the timetable originally set out. After liberalization, benchmark interest rates look set to rise throughout 2016-18. In the next few years, the PBC will probably move towards a system under which one of the main interbank rates is used as a policy rate, with liquidity injections being used to keep the rate at the preferred level.

Outlook for 2015-19: Economic growth
Real GDP rose by 7.4% in 2014, marginally higher than our previous estimate of 7.3%. As a result, and in combination with further downward revisions to our global oil price forecast, we have raised our forecast for economic growth this year to 7.2%, from 7.1% previously. The impact of falling global oil prices in cooling inflation will support real household income growth, helping to underpin private consumption. It will also give the central bank scope to lower interest rates. We expect investment growth to stabilize in 2015, underpinned by a modest upturn in the property market and supportive fiscal policy. The pace of economic growth will slow steadily in subsequent years, to 5.6% by 2019. This represents a structural rather than cyclical shift. It is partly related to demography, as China’s working-age population is now shrinking. However, a more important factor is the need to rebalance after several years during which economic expansion has been overly dependent on rapid credit growth, channeled largely into investment. Although financial deleveraging is still some way off, even reining in credit growth will slow the pace of investment. Much of the slowdown in investment growth will be concentrated in real-estate development. However, household consumption should hold up better amid the financial tightening, supported by rising incomes. Meanwhile, expansion in imports will outpace export growth as local demand rises rapidly.

Although we continue to believe that the Chinese economy will avoid a “hard landing”, there are risks to the forecast. In particular, there is a possibility that recent reductions in interest rates could result in a further surge in property development in 2015. Even though this would raise economic growth this year, it would increase the risk of a property market crash; overinvestment in property already constitutes the biggest weakness within the economy.

Outlook for 2015-19: Inflation
A sharp drop in global oil prices will push average consumer price inflation down to 1.2% in 2015, from 2.1% in 2014. Although domestic price controls mean that global price shifts do not fully transmit into local fuel prices, they will still act to contain increases in prices for food and transportation. The effect from oil will add to the
downward pressures already stemming from overcapacity in the industrial and real-estate sectors. Inflation should accelerate modestly in 2016-19 to 2.8% a year on average as excess capacity is curbed through tighter credit policies and global oil prices rise from their current low. Producer prices will carry on falling in year-on-year terms into 2016 as excess industrial capacity continues to weigh on prices. As excess capacity is gradually eroded, upward pressure on prices will return. These will be boosted by policy-driven increases in utility costs, higher wages and oil price increases. Producer prices will rise by 1.4% a year on average in 2015-19.

**Outlook for 2015-19: Exchange rates**

The renminbi is expected to weaken against the US dollar in 2015, in the first average year-on-year depreciation since 1994. It should rebound in 2016-17 before depreciating again in 2018-19 as the current account enters a deficit. The renminbi’s daily trading band against the US dollar was widened from 1% to 2% in March 2014. Further widening is possible in 2015-19, but the PBC will continue to intervene to smooth volatility, meaning that the band limits will rarely be fully exploited. As the currency’s value moves close to a market-determined level, there will be greater day-to-day volatility, including bouts of both depreciation and appreciation, in the next five years. China’s financial authorities remain committed in the long term to scaling back exchange-rate intervention, as this is tied to policy goals such as rebalancing the economy and internationalizing the renminbi.

**Outlook for 2015-19: External sector**

We expect China’s current-account balance to move from a surplus estimated at the equivalent of 2% of GDP in 2014 to a deficit of 1.3% of GDP by 2019. In value terms, merchandise exports will rise by 7% a year on average in 2015-19, while imports will grow by 9.3% a year. A growing proportion of imports will be used for domestic consumption rather than in export manufacturing.

Despite strong growth in exports of services, driven partly by Chinese companies' work on construction projects abroad, the services deficit will widen dramatically in 2015-19. This will reflect a surge in overseas travel by Chinese tourists and the liberalization of services trade in the next five years. The deficit on the secondary income account will widen, as foreigners remit more earnings from China and as wealthy local citizens send more funds offshore. Controls on inbound and outbound capital flows will be relaxed significantly as the authorities try to make the renminbi an international currency.

**Data summary: Global outlook**

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

Data summary: Gross domestic product, current market prices
### Economic structure (% of GDP at current market prices)

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### Memorandum items

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| a Actual. | b Economist Intelligence Unit estimates | c Economist Intelligence Unit forecasts. | d Includes statistical discrepancy. | e Derived from current-account trade data and national-accounts net exports data. |

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

#### Gross domestic product, at constant prices

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* Economist Intelligence Unit estimates.  
  b Economist Intelligence Unit forecasts.  
  c Actual.
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\[a\] Actual. \[b\] Economist Intelligence Unit forecasts.

Data summary: Growth and productivity

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<th>2011(a)</th>
<th>2012(a)</th>
<th>2013(a)</th>
<th>2014(b)</th>
<th>2015(b)</th>
<th>2016(b)</th>
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<th>2018(b)</th>
<th>2019(b)</th>
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<td>Growth and productivity (%)</td>
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<td>Labour productivity growth</td>
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<td>Total factor productivity growth</td>
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<td>3.3</td>
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<td>Growth of capital stock</td>
<td>13.4</td>
<td>12.7</td>
<td>12.1</td>
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<td>9.1</td>
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<td>Growth of potential GDP</td>
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<td>9.3</td>
<td>7.7</td>
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<td>6.3</td>
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<td>Growth of GDP</td>
<td>10.4(c)</td>
<td>9.3(c)</td>
<td>7.7(c)</td>
<td>7.7(c)</td>
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<td>Growth of GDP per head</td>
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<td>7.2</td>
<td>7.2</td>
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\[a\] Economist Intelligence Unit estimates. \[b\] Economist Intelligence Unit forecasts. \[c\] Actual.

Data summary: Economic structure, income and market size

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<th>2011(a)</th>
<th>2012(a)</th>
<th>2013(a)</th>
<th>2014(b)</th>
<th>2015(c)</th>
<th>2016(c)</th>
<th>2017(c)</th>
<th>2018(c)</th>
<th>2019(c)</th>
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<td>Population (m)</td>
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<td>1,338.9(b)</td>
<td>1,344.6(b)</td>
<td>1,350.2(b)</td>
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<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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<td>5,950</td>
<td>7,314</td>
<td>8,387</td>
<td>9,469</td>
<td>10,350</td>
<td>11,184</td>
<td>12,227</td>
<td>13,317</td>
<td>14,370</td>
<td>15,448</td>
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<tr>
<td>GDP per head (US$ at market exchange rates)</td>
<td>4,460&lt;sup&gt;b&lt;/sup&gt;</td>
<td>5,460&lt;sup&gt;b&lt;/sup&gt;</td>
<td>6,240&lt;sup&gt;b&lt;/sup&gt;</td>
<td>7,010&lt;sup&gt;b&lt;/sup&gt;</td>
<td>7,630</td>
<td>8,220</td>
<td>8,950</td>
<td>9,720</td>
<td>10,450</td>
<td>11,200</td>
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<td>2,079.1</td>
<td>2,614.8</td>
<td>3,019.3</td>
<td>3,424.7</td>
<td>3,810.8</td>
<td>4,145.5</td>
<td>4,601.3</td>
<td>5,108.5</td>
<td>5,639.9</td>
<td>6,190.0</td>
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<td>Private consumption per head (US$)</td>
<td>1,560&lt;sup&gt;b&lt;/sup&gt;</td>
<td>1,950&lt;sup&gt;b&lt;/sup&gt;</td>
<td>2,250&lt;sup&gt;b&lt;/sup&gt;</td>
<td>2,540&lt;sup&gt;b&lt;/sup&gt;</td>
<td>2,810</td>
<td>3,050</td>
<td>3,370</td>
<td>3,730</td>
<td>4,100</td>
<td>4,490</td>
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<tr>
<td>GDP (US$ bn at PPP)</td>
<td>12,133</td>
<td>13,465</td>
<td>15,083</td>
<td>16,667</td>
<td>18,136</td>
<td>19,754</td>
<td>21,459</td>
<td>23,273</td>
<td>25,245</td>
<td>27,187</td>
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<tr>
<td>GDP per head (US$ at PPP)</td>
<td>9,090&lt;sup&gt;b&lt;/sup&gt;</td>
<td>10,060&lt;sup&gt;b&lt;/sup&gt;</td>
<td>11,220&lt;sup&gt;b&lt;/sup&gt;</td>
<td>12,340&lt;sup&gt;b&lt;/sup&gt;</td>
<td>13,380</td>
<td>14,510</td>
<td>15,710</td>
<td>16,980</td>
<td>18,360</td>
<td>19,720</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>28,004</td>
<td>30,778</td>
<td>33,713</td>
<td>36,881</td>
<td>40,387</td>
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<td>Personal disposable income (US$ bn)</td>
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<td>3,037</td>
<td>3,569</td>
<td>4,076</td>
<td>4,557</td>
<td>4,979</td>
<td>5,491</td>
<td>6,039</td>
<td>6,598</td>
<td>7,164</td>
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<td>Growth of real disposable income (%)</td>
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<td>10.5</td>
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<td>6.6</td>
<td>6.0</td>
<td>5.8</td>
<td>5.5</td>
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</table>

**Memorandum items**

| Share of world population (%) | 19.59<sup>b</sup> | 19.45<sup>b</sup> | 19.32<sup>b</sup> | 19.20<sup>b</sup> | 19.08 | 18.95 | 18.84 | 18.72 | 18.61 | 18.49 |
| Share of world GDP (% at PPP) | 13.94 | 14.56 | 15.51 | 16.29 | 16.92 | 17.48 | 17.95 | 18.38 | 18.73 | 19.09 |
| Share of world exports of goods (%) | 9.71 | 9.94 | 10.82 | 11.49 | 12.03 | 12.62 | 12.78 | 12.73 | 12.77 | 12.66 |

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

**Data summary: Fiscal indicators**

**Fiscal indicators**

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<tr>
<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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<td>23.9</td>
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<td>Government revenue</td>
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<td>22.0</td>
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<td>21.9</td>
<td>22.1</td>
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<td>-1.1</td>
<td>-1.6</td>
<td>-1.9</td>
<td>-1.8</td>
<td>-2.5</td>
<td>-2.7</td>
<td>-2.9</td>
<td>-2.9</td>
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*a Actual. b Economist Intelligence Unit estimates. c Economist Intelligence Unit forecasts.*

## Data summary: Monetary indicators

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<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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<tr>
<td>Exchange rate Rmb:¥100 (av)</td>
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<td>8.10</td>
<td>7.91</td>
<td>6.35</td>
<td>5.80</td>
<td>4.99</td>
<td>4.83</td>
<td>4.93</td>
<td>5.02</td>
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<td>Exchange rate Rmb:¥100 (year-end)</td>
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<td>5.07</td>
<td>5.13</td>
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<td>Real effective exchange rate (av) CPI-based</td>
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<td>111.9</td>
<td>118.1</td>
<td>125.6</td>
<td>131.4</td>
<td>137.6</td>
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<td>138.7</td>
<td>138.3</td>
<td>137.1</td>
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<td>Purchasing power parity Rmb:US$ (av)</td>
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<td>3.51</td>
<td>3.52</td>
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<td>3.50</td>
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<td>Money supply (M2) growth (%)</td>
<td>18.9</td>
<td>17.3</td>
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<td>13.6</td>
<td>11.0</td>
<td>11.3</td>
<td>10.5</td>
<td>10.1</td>
<td>10.2</td>
<td>10.0</td>
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<td>Domestic credit growth (%)</td>
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<td>15.1</td>
<td>15.5</td>
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<td>13.0</td>
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<td>10.5</td>
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<td>Commercial banks' prime rate (%)</td>
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<td>5.2</td>
<td>5.9</td>
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<td>Deposit rate (av; %)</td>
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<td>3.0</td>
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<td>2.4</td>
<td>3.0</td>
<td>3.5</td>
<td>3.8</td>
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*a Actual. b Economist Intelligence Unit estimates. c Economist Intelligence Unit forecasts.*

## Data summary: Employment, wages and prices

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<th>Employment, wages and 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;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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<tr>
<td>The labor market (av)</td>
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<td>Labor force (m)</td>
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<td>-0.2</td>
<td>-0.3</td>
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<td>Unemployment rate (%)</td>
<td>6.1&lt;sup&gt;b&lt;/sup&gt;</td>
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<td>6.5&lt;sup&gt;b&lt;/sup&gt;</td>
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<td>5.9</td>
<td>5.6</td>
<td>5.2</td>
<td>4.9</td>
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<td>Wage and price inflation (% except labor costs per hour)</td>
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<tr>
<td>Consumer prices (av)</td>
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<td>2.6</td>
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<td>2.1</td>
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<td>Consumer prices (year-end)</td>
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<td>4.1</td>
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<td>2.5</td>
<td>1.5&lt;sup&gt;a&lt;/sup&gt;</td>
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### Data summary: Current account and terms of trade

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<th>2012&lt;sup&gt;a&lt;/sup&gt;</th>
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<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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<td>1,972.1</td>
<td>2,147.5</td>
<td>2,282.2</td>
<td>2,419.9</td>
<td>2,613.4</td>
<td>2,814.0</td>
<td>3,020.3</td>
<td>3,203.8</td>
</tr>
<tr>
<td>Imports fob</td>
<td>-1,230.7</td>
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<td>-1,674.4</td>
<td>-1,795.8</td>
<td>-1,818.0</td>
<td>-1,884.2</td>
<td>-2,067.0</td>
<td>-2,320.1</td>
<td>-2,581.3</td>
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<td><strong>Trade balance</strong></td>
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<td>Credit</td>
<td>171.5</td>
<td>184.8</td>
<td>216.2</td>
<td>215.1</td>
<td>186.1</td>
<td>194.7</td>
<td>209.7</td>
<td>227.8</td>
<td>246.0</td>
<td>262.9</td>
</tr>
<tr>
<td>Debit</td>
<td>-194.0</td>
<td>-238.9</td>
<td>-282.1</td>
<td>-331.5</td>
<td>-384.5</td>
<td>-443.0</td>
<td>-508.7</td>
<td>-584.7</td>
<td>-656.1</td>
<td>-714.4</td>
</tr>
<tr>
<td><strong>Balance</strong></td>
<td>-22.5</td>
<td>-54.1</td>
<td>-65.9</td>
<td>-116.4</td>
<td>-198.4</td>
<td>-248.3</td>
<td>-299.0</td>
<td>-357.0</td>
<td>-410.1</td>
<td>-451.6</td>
</tr>
<tr>
<td><strong>Primary income:</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Credit</td>
<td>142.4</td>
<td>144.3</td>
<td>167.0</td>
<td>185.5</td>
<td>198.6</td>
<td>205.2</td>
<td>198.4</td>
<td>188.8</td>
<td>210.2</td>
<td>194.3</td>
</tr>
<tr>
<td>Debit</td>
<td>-168.3</td>
<td>-214.6</td>
<td>-186.9</td>
<td>-229.3</td>
<td>-229.8</td>
<td>-253.7</td>
<td>-259.1</td>
<td>-264.2</td>
<td>-282.8</td>
<td>-259.6</td>
</tr>
</tbody>
</table>

<sup>a</sup> Actual.<sup>b</sup> Economist Intelligence Unit estimates.<sup>c</sup> Economist Intelligence Unit forecasts.
<table>
<thead>
<tr>
<th>Primary income balance</th>
<th>-25.9</th>
<th>-70.3</th>
<th>-19.9</th>
<th>-43.8</th>
<th>-31.2</th>
<th>-48.6</th>
<th>-60.7</th>
<th>-75.4</th>
<th>-72.7</th>
<th>-65.3</th>
</tr>
</thead>
<tbody>
<tr>
<td>Secondary income: credit</td>
<td>49.5</td>
<td>55.6</td>
<td>51.2</td>
<td>53.2</td>
<td>37.4</td>
<td>38.2</td>
<td>39.3</td>
<td>40.1</td>
<td>40.4</td>
<td>40.4</td>
</tr>
<tr>
<td>Secondary income: debit</td>
<td>-8.8</td>
<td>-31.1</td>
<td>-47.7</td>
<td>-61.9</td>
<td>-67.7</td>
<td>-73.1</td>
<td>-79.9</td>
<td>-87.1</td>
<td>-93.9</td>
<td>-101.0</td>
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<tr>
<td>Secondary income balance</td>
<td>40.7</td>
<td>24.5</td>
<td>3.4</td>
<td>-8.7</td>
<td>-30.2</td>
<td>-34.9</td>
<td>-40.6</td>
<td>-46.9</td>
<td>-53.5</td>
<td>-60.6</td>
</tr>
</tbody>
</table>

Terms of trade

| Export price index (US$-based; 2005=100) | 112.8 | 124.1 | 126.8 | 125.1 | 125.3 | 124.3 | 126.5 | 129.1 | 131.4 | 132.7 |
| Export prices (% change) | 2.4 | 10.0 | 2.1 | -1.4 | 0.2 | -0.8 | 1.8 | 2.0 | 1.8 | 1.0 |
| Import price index (US$-based; 2005=100) | 123.5 | 140.7 | 139.8 | 136.2 | 134.0 | 129.3 | 132.6 | 139.0 | 145.2 | 149.7 |
| Import prices (% change) | 13.2 | 13.9 | -0.6 | -2.6 | -1.6 | -3.5 | 2.5 | 4.9 | 4.5 | 3.1 |
| Terms of trade (2005=100) | 91.3 | 88.2 | 90.7 | 91.8 | 93.5 | 96.1 | 95.5 | 92.9 | 90.5 | 88.6 |

Memorandum item

| Export market growth (%) | 13.5<sup>b</sup> | 3.8<sup>b</sup> | -0.4<sup>b</sup> | -2.2<sup>b</sup> | 4.7 | 5.8 | 5.1 | 4.8 | 4.8 | 5.0 |

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

**Data summary: Foreign direct investment**

<table>
<thead>
<tr>
<th>Foreign direct investment</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>
</tr>
</thead>
<tbody>
<tr>
<td>Foreign direct investment (US$ bn)</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<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>282.3</td>
<td>275.0</td>
<td>255.4</td>
<td>283.2</td>
<td>253.3</td>
</tr>
<tr>
<td>Inward direct investment (% of GDP)</td>
<td>4.6</td>
<td>4.5</td>
<td>3.5</td>
<td>3.7</td>
<td>3.6</td>
<td>2.5</td>
<td>2.2</td>
<td>1.9</td>
<td>2.0</td>
<td>1.6</td>
</tr>
<tr>
<td>Inward direct investment (% of gross)</td>
<td>10.1</td>
<td>9.9</td>
<td>7.7</td>
<td>8.0</td>
<td>8.0</td>
<td>5.6</td>
<td>5.1</td>
<td>4.4</td>
<td>4.6</td>
<td>3.9</td>
</tr>
</tbody>
</table>
### Data summary: External debt

<table>
<thead>
<tr>
<th>External debt</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>
</tr>
</thead>
<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>958.6</td>
<td>1,054.3</td>
<td>1,202.7</td>
<td>1,398.0</td>
<td>1,595.0</td>
<td>1,782.7</td>
</tr>
<tr>
<td>Total external debt (% of GDP)</td>
<td>9.4</td>
<td>9.7</td>
<td>9.0</td>
<td>9.2</td>
<td>9.3</td>
<td>9.4</td>
<td>9.8</td>
<td>10.5</td>
<td>11.1</td>
<td>11.5</td>
</tr>
<tr>
<td>Debt/exports ratio (%)</td>
<td>30.7</td>
<td>32.6</td>
<td>31.4</td>
<td>33.8</td>
<td>35.4</td>
<td>36.9</td>
<td>39.3</td>
<td>42.7</td>
<td>45.3</td>
<td>48.1</td>
</tr>
<tr>
<td>Debt-service ratio, paid (%)</td>
<td>3.3</td>
<td>3.4</td>
<td>3.1</td>
<td>1.5</td>
<td>2.7</td>
<td>2.7</td>
<td>2.8</td>
<td>3.1</td>
<td>3.6</td>
<td>3.9</td>
</tr>
</tbody>
</table>

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

Abbreviations

IFS: International Financial Statistics

NBS: National Bureau of Statistics of the People's Republic of China

UNCTAD: UN Conference on Trade and Development


Consumption becomes key driver of China's economy

Domestic consumption surpassed investment to become the strongest driving force of the Chinese economy in 2014, indicating a new growth model has already started forming as the country enters a "new normal" development era, the National Bureau of Statistics said on Thursday. Total consumption accounted for 51.2 percent of gross domestic product growth last year, compared with 48.6 percent from investment. Net exports accounted for just 0.2 percent of the GDP growth, said the NBS report. Xie Hongguang, the NBS deputy director, said: "It means that the consumption-driven growth model has started taking shape, and the economic structure has started improving." According to the official data, in 2013 final consumption contributed half of the nation's GDP growth and 54.4 percent was from investment, while net exports dragged down GDP by 4.4 percent. The NBS report also
said that per capita GDP increased to around $7,400 in 2014, up from $6,900 in 2013. The country's leadership has said it is confident of doubling the 2010 per capita GDP of $4,300 by 2020. Per capita disposable income was 20,167 yuan ($3,200) last year, up by 10.1 percent on 2013.

Economists said that an ongoing steady increase in personal income will support further growth in consumption in the near term, as investment and exports show weaker growth momentum, dragged down by domestic industrial overcapacity, property oversupply and sluggish outboard demand. "Though Chinese consumption is set to decelerate from the previous decade's pace, its share of GDP could rise by another 3 to 4 percentage points by the end of 2020," it said. The flourishing rate of consumption, however, may not be strong enough to resist headwinds from the ongoing property downturn, and the country's GDP growth is likely to continue to drop below 7 percent in the first quarter after it retreated to a 24-month low of 7.4 percent in 2014. "Fixed-asset investment should still remain the key driving force of China's economy although consumption is playing a more important role," NBS director Ma Jiantang has said. The National Development and Reform Commission, meanwhile, may accelerate approvals for new infrastructure construction projects to boost fixed-asset investment, they said.

Source: Chen Jia: Consumption becomes key driver of China's economy, China Daily, 2015-02-27

**Chinese provinces turn to old investment and easing playbook**

Chinese provincial governments have unveiled ambitious investment plans in recent weeks in a bid to shore up flagging growth, even as the central government in Beijing pledges to reduce the country’s heavy reliance on fixed investment. Economists have warned that excessive and wasteful investment is leading to diminishing financial returns in China as well as rising debt and environmental degradation. Beijing says it wants to increase the contribution made to growth by consumption and services while reducing the share generated by construction and heavy industry. Nevertheless, provincial policy makers are counting on the combination of increased infrastructure spending and monetary easing to stabilize growth amid a slowdown in real estate and manufacturing.

Investment contributed 54 per cent to China’s total gross domestic product growth in 2013, the last year for which data are available, far higher than any other major economy. Three poorer provinces in central China — Hunan, Hubei and Shaanxi — have each announced fixed-asset investment targets exceeding Rmb2tn ($320bn) for 2015, which include both government and corporate expenditures. Shaanxi’s Rmb2.2tn target for 2015 would mark an increase of 20 per cent over last year, well above the 15 per cent growth in urban fixed asset investment for China as a whole. Hunan and Hubei’s investment targets both imply growth of 18 and 19 per cent, respectively.

"Maintain a balance between stable growth and structural adjustment,” Hunan’s government said in its annual work report to the local parliament last month.

The planned increases in investment are taking place even as local governments’ fiscal strength is deteriorating. Growth of local fiscal revenue fell to 7 per cent last year, from 13 per cent in 2013, and is forecast to decline further this year. “The property downturn is posing challenges for local government finance, which has typically relied heavily on land sales and property related revenues for investment and construction,” Tao Wang, China economist at UBS, wrote in a note. Analysts say the need to stabilize growth will force policy makers to drag their feet on implementing tough new measures designed to curb local borrowing.

Beijing said in October that local governments will no longer be allowed to take on debt through arm’s-length financing vehicles designed to skirt a ban on direct borrowing. “We think existing local government financing vehicles will be granted a grace period to continue to raise debt to finance ongoing projects,” said Ms Wang.
China to pilot rural land use reform

BEIJING - The State Council has passed a draft decision that will enable rural construction land to have the same rights and market price as State-owned construction land in some areas. The draft decision, pending authorization by the National People's Congress, was passed during an executive meeting of the State Council presided over by Premier Li Keqiang on Friday. According to the draft, in places where pilot reforms will be carried out, the use right of existing collectively-owned rural construction land can be transferred, leased and traded for shares. It will be given the same rights and price as State-owned construction land when traded in the market. The draft decision said that the reform shall be carried out on the condition that public ownership of land won't be changed; China's "red-line" minimum of arable land was not broken and farmers' rights not undermined. The draft decision also said that the authority to approve land for building a rural house will be delegated to lower levels. Townships can approve the use of existing construction land while counties have the power to approve the use of new construction land.

Source: Xinhua: China to pilot rural land use reform, 2015-02-7

China calls commercial insurers to play a bigger role

Commercial insurers are expected to play a more important role in providing medical insurance to a rapidly aging population in China, a top health official said on Friday. The government will encourage the development of various types of commercial insurance to increase people's ability to deal with risks posed by major diseases, Ma Xiaowei, deputy minister of national health and family planning, said at a news conference. "The number of old people in China is increasing fast, and this is putting much pressure on its medical insurance system," Ma said. "A new survey shows the proportion of people age 65 or above who go to a hospital for treatment is more than double that of young people." The number of people age 60 or above reached 202 million in China in 2013, accounting for about 15 percent of its total population, the government said. In the past two decades, the Chinese government has established a vast medical insurance network, covering 1.3 billion people, Ma said.

The government's basic insurance system covers employees and the unemployed in cities, as well as farmers. People pay part of their salaries toward medical insurance, while their employers and the government pays the rest. People pay different rates and have different rates of reimbursement for their medical costs. "Although the network does not provide high-level medical insurance to all the groups covered, it has extensive coverage. It is a most prominent achievement of China's development in the medical and health sector," Ma said. Expenditure of the social security fund, which is managed by the government and includes the medical insurance fund, has been increasing quickly in recent years, Hu Xiaoyi, deputy minister of human resources and social security, said earlier this week, adding that balances of medical insurance funds in some places can barely meet expenditures.

In a document released by the State Council last year, the government at various levels is encouraged to provide more favorable policies to encourage the development of commercial health insurance to meet the diversified needs for health insurance from different groups of people. A dramatic increase is expected by 2020 in the number of people covered by commercial health insurers and the number of commercial health products, the document said.

Source: WANG XIAODONG: China calls commercial insurers to play a bigger role, China Daily, 2015-02-7

Further monetary easing will be 'a trend'

China is heading into a monetary easing cycle this year, and further policy adjustments will be seen in coming months, a government think tank leader said on Friday. The action will be taken to avoid a long-term economic downturn, Li Yang, vice-president of the Chinese Academy of Social Sciences, told China Daily in an exclusive
The government's bottom line for economic growth in 2015 should be 7 percent, and it could be lower next year, as the leadership has shown greater tolerance over the pace," Li said. Further monetary easing is certain to be seen "at the right time" in coming months and will be a trend in the next two to three years. It is not designed to stimulate growth aggressively, but to transform the economy steadily into a "new normal" era of development. "A moderate easing of monetary policy could avoid a sharp rise in unemployment or social instability and is necessary at this point," Li said. According to the academy, GDP growth this year may slow to 7 percent, with consumer price inflation of 1.3 percent.

Premier Li Keqiang will deliver the Government Work Report for 2015 on Thursday. The report is expected to give an assessment of China's economic performance last year and set economic targets and policy objectives for this year. Zhang Ping, deputy head of the Institute of Economic Research at the academy, said that in view of deflation, especially in the manufacturing sector, it will be hard to maintain 7 percent growth in the second quarter of this year if economic deterioration continues, and without any large stimulus measures in the first quarter. In January, the Producer Price Index, which indicates industrial inflation, dropped to its lowest level since the global financial crisis, declining by 4.3 percent from a year earlier, compared with a 3.3 percent fall in December. The PPI reading has remained negative for more than three years. Zhang said that under pressure from deflation, companies' profits have been dropping, increasing commercial banks' nonperforming loans and adding risks to the financial system. To support growth, China's central bank lowered the reserve requirement ratio, the minimum level of reserves banks must hold, by 50 basis points from Feb 5, the first universal cut since May 2012. This followed an unexpected move to cut interest rates in November, the first reduction in more than two years.

Li Xuesong, deputy head of the academy's Quantitative and Technical Economics Institute, said further easing of monetary policy may accelerate capital flows out of China and increase depreciation pressure on the yuan against the US dollar. According to his research, capital outflows reached 319.4 billion last year.

Source: Chen Jia: Further monetary easing will be 'a trend', China Daily, 2015-02-28

Tax break helps small businesses save $17b

More than 100 billion yuan ($16.6 billion) in tax break eased tax and fees burden of small businesses last year, an official with the Finance Ministry said on a Friday policy briefing. Shi Yaobin, deputy minister of Finance Ministry, said the combined tax break for micro and small businesses in China until Dec 31, 2014, was 61.2 billion yuan. Along with more than 40 billion yuan cut on various fees imposed on these firms, they were able to save more than 100 billion yuan last year. The State Council, China's cabinet, on Wednesday decided that from 2015 to the end of 2017, companies with annual taxable income under 200,000 yuan will have their corporate tax rate halved to 10 percent. Previously, the threshold was 100,000 yuan. Asked about the impact of the new expansion in tax break, Shi estimated that about a few million more companies would be able to enjoy the tax break, adding that it is difficult to pinpoint the number given the fluidity of small business. Previous data showed that under the 100,000 yuan threshold, 2.46 million small firms enjoyed the corporate income tax break in 2014. This is the fourth time in the past five years that the scope of tax break for micro and small companies has been expanded. China previously announced tax incentive policies in 2010, 2011 and 2013. However, the total tax eased just represented a tiny faction of China's 14 trillion yuan total fiscal revenue last year. But Shi said it is simplistic to just focus on the absolute number. "You should consider the great role these small firms could play in Chinese economy," Shi said.

Source: Zheng Yangpeng: Tax break helps small businesses save $17b, China Daily, 2015-02-27

Corruption investigation expands to finance sector

Bank of Beijing Co Ltd Board Director Lu Haijun is being investigated for serious disciplinary violations, the bank said in a statement to the Shanghai Stock Exchange on Tuesday. Bank of Beijing received a written notice from Beijing Energy Investment Holding Co Ltd about Lu being investigated because he is the former chairman of the company. The bank said the incident "will not affect its normal operations". Mao Xiaofeng, former president of
China Minsheng Banking Corp, was taken away for investigation on Friday by the Central Commission for Discipline Inspection. Minsheng shares slid 3.2 percent in Shanghai and 3.1 percent in Hong Kong on Monday.

Hu Bin, deputy director of the Institute of Finance and Banking at the Chinese Academy of Social Sciences, said: "The investigations will not affect the healthy development of the financial sector because Chinese banks are market-oriented with a sound corporate governance structure. Their daily operations will not be influenced by individuals."
Source: Jiang Xueqing: Corruption investigation expands to finance sector, China Daily, 2015-02-4

China cuts bank reserve requirement to spur growth

China's central bank made a system-wide cut to bank reserve requirements on Wednesday, the first time it has done so in over two years, to unleash a fresh flood of liquidity to fight off economic slowdown and looming deflation. The announcement cuts reserve requirements - the amount of cash banks must hold back from lending - to 19.5 percent for big banks, a reduction of 50 basis points that would free up 600 billion yuan ($96 billion) or more held in reserve at Chinese banks - which could then inject 2-3 trillion yuan into the economy after accounting for the multiplying effect of loans. The reduction follows a surprise cut to guidance lending rates by the People's Bank of China (PBOC) in November, but that adjustment had negligible impact on spurring productive investment, so many had predicted the more dramatic move that the central bank has now delivered. Officials had previously said they would wait for fourth quarter data to be released before deciding on further easing measures, and that data gave little cause for comfort.

An official survey of China's mammoth factory sector, the purchasing managers index (PMI), showed it shrank unexpectedly for the first time in nearly 2-1/2 years in January, and other indicators have also been worrying, including signs of strengthening capital outflows and a weakening in China's service sector. Policymakers had previously signaled that they were comfortable with slowing net growth in the name of economic restructuring away from capital-intensive manufacturing toward services, but if restructuring attempts set off an economy-wide slide, Beijing would find its options increasingly constrained. External factors contributed to the timing of the decision, economists said, such as deflationary pressures from a recent collapse in energy prices and easing moves by other foreign central banks, though domestic issues were still more important. However, the weak impact of previous stimulus measures has some worried that liquidity tools are losing their effectiveness in China, given that the volume of debt required to produce a unit of GDP is steadily rising, given endemic industrial overcapacity and entrenched economic inefficiencies in the state sector. The bank injected an estimated 644.5 billion yuan into the system through medium-term loan facilities in late 2014, without producing much in the way of stimulation, and swamping the system with money it cannot digest carries other risks. Previous easing moves are already credited with setting off a massive leverage-fuelled rally in Chinese stock markets, which has become as much a cause for concern as celebration, as it highlights the risk that easing would simply re-inflate asset bubbles in stocks, real estate and industrial housing that regulators have been trying to let the air out of for years.
Source: Xinhua: China cuts bank reserve requirement to spur growth, 2015-02-5

China's new yuan loans rise in January

BEIJING - China's new yuan-denominated lending in January hit 1.47 trillion yuan ($239.8 billion), up 289.9 billion yuan from one year earlier, official data showed on Friday. M2, a broad measure of money supply that covers cash in circulation and all deposits, increased 10.8 percent year on year to 124.27 trillion yuan at the end of January, according to data released by the People's Bank of China, the central bank. The narrow measure of money supply (M1), which covers cash in circulation plus demand deposits, rose 10.6 percent year on year to 34.81 trillion yuan. Total private financing stood at 2.05 trillion yuan in January, down 539.4 billion yuan from a year ago.
Source: Xinhua: China's new yuan loans rise in January, 2015-02-14
Venture capital investment hits record high

The value of venture capital (VC) in Chinese companies reached $15.5 billion last year, the highest level since 2006, when the agency, which tracks venture-backed companies, started to collect data. It also doubled the 7.3 billion recorded in 2011. The boom in mobile devices highlights the trend. According to data released by the China Internet Network Information Center in July, mobile Internet has exceeded that of personal computers for the first time. The number of people using mobile online shopping hit 205 million as of last June, up 42 percent from December 2013.

Consumer-related companies led the VC market during the fourth quarter of last year. The top three investments were Xiaomi, the world's third largest smartphone maker, $1.1 billion, DiDi Dache ($700 million) and Kaidi Dache ($600 million). During the fourth quarter VC investment in Chinese companies totaled $6.8 billion, an almost five-fold increase from a year ago. Deals made in China increased 79 percent to 243, compared to 136 a year ago. Last year the median VC investment was $9.8 million, higher than that of 2012 and 2013, but still lower than the $10 million of 2011. "The upturn in the VC market in 2014 is partly due to the relaxation of IPO controls", Benjamin Lavender, chief analyst of Shanghai-based China Market Research Group, was quoted as saying on the Sina Tech website. There were 61 venture-backed initial public offerings (IPOs) in 2014, compared with 15 in 2013, 100 in 2011 and 141 in 2010. Last year, IPO fundraising totaled $7.2 billion, a three-year high. It was however still lower than that of 2010 and 2011. The biggest IPO deal was by Huadian Heavy Industries Co Ltd in November, which raised $244.65 billion on the Shanghai Stock Exchange.

Source:  Venture capital investment hits record high, China Daily, 2015-02-3

China's Financial Hub Shanghai Lifts Bar by Dropping GDP Goal

China's financial power center Shanghai is setting a policy precedent for the country by deciding not to issue an economic growth target this year. Breaking with tradition, Shanghai's mayor, Yang Xiong, said in an annual report on Jan. 25 that the city had ended the practice of setting numerical targets for local gross domestic product (GDP). "Not mentioning the GDP target for the first time in more (than) three decades is a sign that the country's biggest metropolis has shifted its attention from the quantity to the quality of economic growth, and how economic growth can bring real benefits to the well-being of residents," an editorial by the official Xinhua news agency said. Yang said the municipality would maintain steady growth and change its growth model "from investment-driven to innovation-driven." The report to the Shanghai People's Congress stressed technological development, focusing on aircraft engines, brain science and artificial intelligence, Xinhua said. Shanghai is believed to be the first provincial-level government to turn away from annual GDP targets, which have also been a staple of national economic policy and a remnant of central planning.

The official press has been sending mixed messages about the Shanghai precedent, praising it on the one hand while arguing against its application as a model on the other. "Shanghai is wealthy and powerful enough to achieve the shift in focus," the Xinhua editorial said. "But it is impossible for many parts of the country to follow Shanghai's example given the unbalanced economic development." The priority for underdeveloped western and central provinces is "how to catch up with their developed counterparts in the eastern region," it said.


Spring Festival tourism revenue surges, outbound travels hot

BEIJING - China's tourism revenue rose during the Spring Festival holiday and overseas travel has become more popular, the National Tourism Administration said on Wednesday. Tourism revenue reached 145 billion yuan ($23.6 billion), up 14.6 percent from last year. The number of tourists during the holiday topped 261 million across the country, up 12.9 percent, the statement said. Outbound group travel tourists reached 5.18 million, up 10 percent from the same period last year. Thailand remains the most favored destination for outbound Chinese travelers.
Shanghai tops China's disposable income list, gap remains

Per capita urban disposable income in Shanghai, the nation's financial hub, hit 47,710 yuan ($7,611) last year, eclipsing Beijing to secure the first place nationwide, the Guangming Daily reported on Thursday. Beijing and Shanghai are immediately followed by Zhejiang province, all three exceeding 40,000 yuan in 2014 with a growth rate of around 8.9 percent from a year earlier. Gansu province in western China came in at the bottom of the list, with per capita disposable income standing at 20,804 yuan during the same period – much lower than the national average. Data from the National Bureau of Statistics show that China's urban disposable income increased 6.8 percent (adjusted for inflation) year-on-year to reach 28,844 yuan, almost tripling that of rural areas during the same period. The huge income gap between the country's eastern and western regions, urban and rural areas, has been a big headache of the Chinese authority. Experts say income disparity comes not only from unequal opportunities, but also the cost of imbalanced distribution of resources and rent-seeking in China. Growth targets of urban and rural incomes have been lowered this year in 26 provincial regions, in a sign of a more pragmatic outlook on the economic situation. Western areas, in particular, made the biggest reductions. Sichuan and Gansu cut their growth targets by four percentage points, while Shaanxi, Inner Mongolia and Guangxi Zhuang did so by three percentage points, according to Xinhua News Agency. Many provincial-level regions put their residents' income growth target below their economic growth rates which have already been lowered due to lackluster domestic demand and dampened exports. Income growth reduction was a reasonable answer to the "New Normal" situation of China's economy, said the Guangming Daily report, citing Zhang Liqun, a research fellow at the Development Research Center of the State Council, China's cabinet.

Source: He Yini: Shanghai tops China's disposable income list, gap remains, China Daily, 2015-02-27

Wealth of China's super rich to rise in Year of Goat

Ahead of the upcoming Spring Festival that falls on Thursday, also the Year of the Goat, China's ultra-high net worth population will have another successful year. Ultra-high net worth (UHNW) intelligence and prospecting firm Wealth-X has predicted that the wealth of UHNW population, those with a net worth of $30 million and more, is expected to add $80 billion this year, up 5.2 percent than the previous year. 60 percent of them will be living in China's first tier cities Beijing, Shanghai, Shenzhen and Guangdong by the end of this year. Social mobility will also drive an increase in the lowest tier of UHNW (with a net worth between $30 to 49 million) with China's middle class expanding. Wealth-X also said that some changes are going on in this super rich population in China in the Year of Goat. More UHNW people will join in philanthropy, with a 24 percent rise in the number of private foundations established. But luxury spending will decrease by 4 percent in the country amid the government's harsh crackdown on corruption. As the government is relaxing forex control, they will invest more outside China, with a 5-percent growth per person in overseas investments, reaching $7 million.

Wealth-X also released a list of the top 10 richest Chinese individuals in the world, with Hong Kong business magnate Li Ka Shing leading the list with a net worth of $30.6 billion. In second place is Hong Kong tycoon Lee Shau Kee with 26.6 billion, Alibaba's chairman Jack Ma is ranked third, with his net worth surging to $26.5 billion in the wake of the e-commerce giant's 2014 IPO, the largest in history. Pony Ma, head of internet firm Tencent, is the youngest individual on the list at the age of 43. All of the individuals on the list are self-made billionaires, and none of them were born in the Year of the Goat.

Source: CRI (China Radio International): Wealth of China's super rich to rise in Year of Goat, China Daily, 2015-02-18
Quality of CSR activity remains 'relatively low'

A new study, considered by experts as the first to accurately document and report on the corporate social responsibility activities of all kinds of companies in China, private and public, has concluded that the country's overall quality of CSR development remains what researchers described as "relatively low". The Research Center for Corporate Social Responsibility at the Chinese Academy of Social Sciences studied the activities of 100 companies and found that just four had reached a level it considered worthy of "five stars", with scores over 80 on a 100 scale. The average level of quality was a worrying "two stars", with a score at 25.2. The list of companies included State-owned enterprises, private and foreign enterprises that operated in China. The findings come at a time when increasing numbers of companies, including some of the nation's best-known organizations, already claim to have achieved sustainable growth while still operating with credibility and integrity, as required by many CSR standards.

China Resources (Holdings) Co Ltd, Amway China, China Mobile Communications Corp, Minsheng Banking Corp and Canon China were listed by the Research Center as having the best-performing CSR policies. Foreign enterprises, however, were considered as performing better than Chinese State-owned and private enterprises, conducting a lot more higher-quality philanthropic programs. South Korean multinationals topped the list, followed by those from Germany, the United States and Japan. Retailing, petroleum manufacturing and banking were listed as the top three sectors fulfilling their CSR duties well, while the metals, pharmaceuticals, and food and beverage sectors were the worst in terms of social conduct, said the study. "Ensuring the quality of their products, paying taxes in accordance with the law, and being environmentally responsible were the focus of our attention," said Zhong Hongwu, the director at the center, explaining the rankings. Zhong said the center now hopes the release of the report will prompt more companies into improving their management internally, and advance their marketing and branding externally, in accordance with recognized CSR principles.

The report also included figures revealed the amount of money that leading Chinese companies contributed to public welfare undertakings in 2013. Private-sector enterprises each contributed 79.21 million yuan ($12.67 million) on average, the highest of all kinds of companies. State-owned enterprises donated 66.5 million yuan, and foreign companies each put in 27.97 million yuan. Individually, China National Petroleum Corp donated 850.89 million yuan to philanthropic projects, and was ranked top. Dalian Wanda Group Corp Ltd and China Minsheng Bank Corp, were ranked second and third with donations of 438 million yuan and 323 million yuan respectively. The report
praised private enterprises, particularly, for making what it called significant advances in generating economic value through their philanthropic activities, but the quality of those activities did tend to vary across different provinces. Many well-regarded Chinese companies were praised by the report for fulfilling their social responsibilities, not only with contributions to social public welfare but for CSR-related activities that also help drive their long-term growth.

Wei Yaodong, secretary-general of the charity foundation at China Resources (Holdings) Co Ltd, said the company started its philanthropic program in 2008 to help impoverished residents in rural areas build schools and other infrastructure. "We take the living conditions of farmers as one of our main priorities, and when we build anything we always try to protect the local environment and maintain the original ecology," Wei said.

Source: Zhu Wenqian: Quality of CSR activity remains 'relatively low', China Daily, 2015-02-5

New normal' brings new opportunity for low-carbon economy

China's economy has entered a period of new normal, which brings an opportunity for the development of a green and low-carbon economy and environmental protection, industry experts said during an annual event in Beijing last Friday. The World Economic and Environmental Conference (WEC) Annual Meeting on Green and Low-Carbon Transformational Development was held in Beijing on Jan 30. It was followed by an awards ceremony for the 4th International Carbon-Value Award. It was co-organized by the International Energy Conservation and Environment Protection Association (IEEPA), United Nations Industrial Development Organization (UNIDO) and United Nations Educational, Scientific and Cultural Organization (UNESCO). With the theme of "Idea leads low-carbon reform, Innovation facilitates green development", the event brought together high-level officials from governments, international organizations and foreign embassies who shared their insights on low-carbon development, economic growth and environmental protection.

Several experts said during the event that China's "new normal" brings an unprecedented opportunity for the development of a green and low-carbon economy and environmental protection. People should pay more attention to energy conservation and environmental protection. "Energy conservation and environmental protection is not only an industry, a technology, a project and an economic term, also a necessary internal theory for the sustained development of the nation and society", said Jon Li, Secretary General of International Energy Conservation and Environment Protection Association (IEEPA) at his welcome speech. Energy conservation and environmental protection is an important element of green and low-carbon transformation, the construction of ecological civilization and living in harmony with nature, Li added. "It is a broad noun, which involves every industry related to the national economy and people's livelihood. Energy conservation and environmental protection is everywhere, and related to every industry, every enterprise and everyone." Environmental protection is also an economy, Li said. "We should act on our own initiative rather than as a firefighter playing a passive role. We should make environmental protection deeply rooted in all enterprises, products and technologies. Environmental protection is not a public benefit, but the obligation and responsibility we should assume being a human being, an enterprise, an organization even a country. “Environmental benefits are also economic benefits, which is the essence of the win-win development of economic growth and environmental protection. "If we grasped this point, the energy conservation and environmental protection industry will make a significant change to our nation, our society and our living environment," Li added.

Source: Yu Xiaoming: 'New normal' brings new opportunity for low-carbon economy, China Daily, 2015-02-2

China's household cooking consumes too much energy

Chinese dama (middle-aged housewives) can become the world's model energy savers if only they spend less time at the kitchen stove. A survey has found that, on average, Chinese homes spend as much as 4.5 times the amount of energy on cooking meals as German or British homes, or about 2.5 times the amount used in French homes. Preparing stir-fry dishes with high-temperature oil or boiling meat overnight uses far more energy than
merely mixing salads and reheating packaged food in micro-waves, the survey by Beijing's Renmin University of China concluded. Each stove in the kitchen of a Chinese home is used on average more than two times a day and for 32 minutes on average each time, the survey found. More than 70 percent of electric cookers and more than half of microwave ovens are used at least once a day in China, according to the survey.

However, in overall terms, homes in developed countries still consume more energy than those in China. Cooking ranks next to heating in China's home energy use, according to the survey, which was aimed at finding out the amount of energy used in an average home for cooking, heating, cooling and other purposes. Chinese homes spent about 327 kilograms of standard coal equivalent on cooking in 2010. Energy use by rural families is more inefficient than in urban homes, as many rural people still use materials such as firewood and straw and bottled liquefied natural gas, the survey found. It was based on 1,450 household interviews in 26 provinces and was the first residential energy consumption survey in China, according to Wei Chu, a main author and an associate professor at Renmin University School of Economics. The survey was conducted from December 2012 to March 2013. Sixty-four percent of the samples came from cities and the rest from towns and counties.

Apart from cooking, average home energy use in China is much lower than that in Western countries. For instance, electricity use per person in China only accounts for half the world average and less than one-tenth of that in the United States, according to the survey. Home electricity use per person in China stood at 382.9 kilowatt hours in 2010, compared with the 726 kWh world average and 4,677.9 kWh in the US during the same period. Heating usually accounts for the largest share of home energy use in China, similar to most countries. This proportion is expected to increase as more families in southern regions install heating systems. Electricity use for appliances in China only accounts for about one-tenth the figure in the US, the survey found.

Source: Lan Lan: China's household cooking consumes too much energy, China Daily, 2015-02-10

**Robust e-commerce boosts consumer sentiment in emerging markets**

The Credit Suisse Research Institute's fifth annual Emerging Consumer Survey - a detailed study profiling consumer sentiment and its drivers across the emerging world - was published on Monday. To undertake the project, Credit Suisse partnered with global market research firm Nielsen to conduct nearly 16,000 face-to-face interviews with consumers across nine economies, Brazil, China, India, Indonesia, Mexico, Russia, Saudi Arabia, South Africa and Turkey. The survey provides positive support for the outlook of e-commerce across the countries surveyed, with feedback indicating that e-commerce across the nine could become bigger as a share of total retail sales than in developed economies. Among the reasons are the relatively underdeveloped "bricks and mortar" retail sector, especially in more rural areas and the rapid increase in the share of consumers with smartphone-related Internet access creating new levels of spending. The survey estimates that this could lift total annual online retail sales across the surveyed markets to as much as $3 trillion, which would have an effect on companies across multiple sectors including retail, finance, security and technology.

More widespread Internet use and increasing spending power are factors driving the trend toward e-commerce. It is most accepted in China, with 65 percent of respondents claiming to have made a purchase online during the past six months. This compares to less than 40 percent for the other countries. However, momentum in relation to the share of online shoppers across the other countries is stronger. For example, the share of respondents in India that have used the Internet for online shopping increased to 32 percent from 20 percent in 2013. The survey also shows that more than 70 percent of Chinese consumers, who are younger than 30 years old, shop online. This is a much higher percentage than in other countries; but as far as growth momentum is concerned,
countries such as India have started to accelerate, with the share of younger people shopping online almost doubling compared to 2013. "Our survey provides a unique and detailed analysis of consumer sentiment in the emerging world. While many are actively scrutinizing the macro outlook for emerging markets amidst the current volatility, the bottom-up analysis in our survey highlights how far from uniform consumer sentiment is," said Stefano Natella, Global Co-Head Securities and Analytics Research at Credit Suisse. According to Giles Keating, Credit Suisse's Global Head of Research for Private Banking and Wealth Management, the survey shows the contrasting impact of the oil price collapse on emerging markets. Consumer sentiment in Russia and key Latin American economies is under pressure, in contrast to India where the consumer looks robust, helped by reforms.

Source: Liu Zheng: Robust e-commerce boosts consumer sentiment in emerging markets, China Daily, 2015-02-5

**Top 10 Chinese innovators in 2014**

China's innovators are focused on Internet, intelligent manufacturing and new energy, according to a Forbes China report. In the fields of telecoms, media and technology, China is forging its own path, while in intelligent manufacturing and new energy the country is set to surpass the United States. Let's take a look at China's top 10 most innovative people:

1. **Jia Yueting**, founder, chairman and CEO of LeTV: LeTV was the fourth-largest Internet video sharing platform in the third quarter of last year with 9.43 percent market share, according to Analysys International. The company aims to build a unique ecosystem including content, distribution and user-end consumption.
2. **Li Hejun**, board chairman and founder of Hanergy Holding Group Ltd: Hydropower company Hanergy has more than 6 gigawatts of installed hydropower generation capacity, 131 megawatts of wind power and total thin-film solar generation capacity of 3 gigawatts, according to its official website.
3. **Lei Jun**, founder and CEO of Xiaomi Corp: Xiaomi Corp, a four-year-old startup headquartered in Beijing, has become the world's third-biggest smartphone maker and is challenging Apple and Samsung Electronics Co Ltd as well as domestic rivals such as Huawei Technologies Co Ltd.
4. **Peng Lei**, CEO of AliPay, the online payment platform affiliated with Alibaba: Peng was one of the 18 co-founders when Alibaba was established in September 1999. Due to Alibaba's dominant market position in e-commerce, Alipay has emerged as the online payment processing leader in China. It clears 80 million transactions per day, including 45 million transactions through its Alipay Wallet mobile app.
5. **Wang Tao**, founder of DJI: DJI is a Chinese technology company producing commercial and recreational unmanned aerial vehicles (UAVs). It has grown from a single small office in 2006 to a global workforce of nearly 2,500. In 2013, DJI's sales soared to 800 million yuan ($127.92 million), a nearly 80-fold increase from three years earlier.
6. **Wang Jian**, president of BGI: BGI, founded in 1999 with the vision of using genomics to benefit humanity, is now one of the world's largest genomics organizations. In 2007, its headquarters was relocated to Shenzhen. It operates non-profit genomic research institutes and sequencing application commercial units.
7. **Wang Chuanfu**, chairman, president and CEO of BYD: During the first half of last year, carmaker BYD posted explosive growth, selling vehicles powered by new forms of energy, principally electric cars. That division saw revenue surge more than 10-fold to 2.7 billion yuan. The automaker currently has around a 37 percent share of China's new energy vehicle market.
8. **Wang Wei**, president of SF Express: The privately held SF Express is one of the largest couriers in China. As of July last year, SF Express had nearly 290,000 employees, 12,000 vehicles, 15 aircraft and 9,100 service centers in the Chinese mainland and overseas. The company launched sfbest.com, a food e-commerce site, in May 2012 to deliver fresh and frozen goods to customers.
9. **Zhang Lei**, chairman of Envision Energy: Envision Energy is a leading global provider of smart energy technology and services, including research, sale of smart turbines and wind farm software and technological services. Envision Energy is the largest offshore turbine supplier in China.
10. Zhang Xiaolong, senior vice president of Tencent Holdings Ltd: WeChat was created by Zhang Xiaolong, who independently developed email client Foxmail in 1996. Tencent's popular mobile messaging app WeChat ranked No 1 in China with 383 million monthly active users in December, according to a report by Analysys International.
Source: Top 10 Chinese innovators in 2014, China Daily, 2015-02-25

China's R&D expenditure surges
BEIJING - The sum spent on research and development (R&D) in China rose 12.4 percent year on year in 2014, an encouraging trend as the country has vowed to seek innovation-led growth, an official report indicated on Thursday. The Economic and Social Development Report 2014 from the National Bureau of Statistics showed 1.33 trillion yuan ($216.8 billion) was spent on R&D last year, 140.6 billion yuan more than in 2013. The expenditure accounted for 2.09 percent of China's GDP last year, inching up 0.01 percentage points from 2013, when the ratio exceeded 2 percent for the first time. Intellectual property watchdogs accepted 2.36 million patent applications in 2014 and granted 1.3 million patents.
Source: Xinhua: China's R&D expenditure surges, 2015-02-26

China to step up construction on major transport infrastructure
BEIJING -- China will maintain the scale and intensity of major transportation infrastructure construction in 2015 to buoy growth. The National Development and Reform Commission (NDRC) said that more railway lines, particularly in the central and western regions, will be put into operation this year, which will stabilize economic growth and improve people's livelihoods. The NDRC will continue to encourage social capital through preferential measures to attract investment in major transportation infrastructure in 2015. In 2014, the NDRC approved 34 billion yuan ($5.56 billion) for transportation infrastructure, which included railways, roads, airports and waterways. China had more than 110,000 kilometers of railways by the end of 2014, 15,800 kilometers were high speed rail (HSR), making it the HSR world leader.

Institutions like the Asian Infrastructure Investment Bank (AIIB) display China's efforts to boost global infrastructure investment. The AIIB is an opportunity to show to the world that "China has done a great deal of putting real hard money on the table," Bessma Momani, senior fellow of the Center for International Governance Innovation in Canada, told a press conference on the sidelines of the G20 Summit. Bessma said that the 20-member grouping should concentrate on increasing competition, combating tax avoidance, boosting trade and spurring employment to achieve the goal of lifting G20's collective GDP by 2 percent by 2018. Among these measures, "one of the things that is most durable and easiest to implement is infrastructure investment," she said, adding that given the current global political landscape, "the challenge is to figure out who is going to take on this big infrastructure spending." Bessma said she remained pessimistic that these bilateral separate banks would be warmly greeted by many of the Western countries thinking of the Asian Monetary Fund and more recently the BRICS Development Bank. "All these tend to be resisted by many countries in the West." Last month, a total of 21 Asian countries inks a memorandum of understanding on the establishment of the AIIB with an expected initial subscribed capital of $50 billion.
Source: Xinhua: China to step up construction on major transport infrastructure, 2015-02-25

Vice Premier encourages Yangtze River economic belt
BEIJING - Chinese Vice-Premier Zhang Gaoli has urged development of the Yangtze River economic belt as it serves both regional and national economic growth. Scientific planning and better coordination should be realized in developing the Yangtze River economic belt, which holds "strategic significance" in China's regional economic landscape, said Zhang while presiding over a meeting on developing the belt, held in Beijing. Eleven provinces and municipalities are included in the Yangtze economic belt -- Shanghai, Jiangsu, Zhejiang, Anhui, Jiangxi, Hubei, Hunan, Sichuan, Chongqing, Yunnan and Guizhou. The belt along China's longest river covers more than 2 million
square kilometers, one fifth of the country geographically.

In developing the Yangtze economic belt, the central government shall work closely with local governments, Zhang said, stressing on environmental protection. The government must strike a balance between industrial transfer and environmental protection. Low-level and polluting projects should be avoided. The development of Yangtze River economic belt should work together with China's "Belt and Road" Initiative, which promises improved openness, Zhang said. The "Belt and Road" refers to the Silk Road Economic Belt and the 21st Century Maritime Silk Road initiative created by China to better cooperate with countries in Asia, the Middle East and Europe.

Source: Xinhua: Vice Premier encourages Yangtze River economic belt, 2015-02-7

Chinese premier promotes development in central, western areas

BEIJING - Chinese Premier Li Keqiang has urged central and western provinces to speed up economic growth efforts during a three-day visit to western China. Li visited a local market, a village and an economic zone and talked with local people in an ethnic minority town and the capital city of Guizhou province ahead of the Chinese Lunar New Year. The premier extended New Year greetings to people from all walks of life. Li urged local governments to improve economic, medical, and ecological and infrastructure conditions as consumption in rural areas was crucial to expanding domestic demand. Li also said the government would improve education aid policies; roll out guidelines to facilitate sector growth in central and western areas; and encourage more migrant workers to return home. These regions can be new engines to power national economic growth and they should seek an innovative development model by facilitating industrial upgrading and supporting emerging sectors, Li added.

Source: Xinhua: Chinese premier promotes development in central, western areas, 2015-02-17

China eyes Tianjin as innovation engine

The central government is stepping up efforts to build Tianjin into the country's new economic growth engine through innovation. To achieve that goal, Tianjin, a northern port city only an hour's drive from Beijing, set up a national innovation demonstration zone in the Tianjin Binhai Hi-tech Industrial Development Area on Friday. Cao Jianlin, vice-minister of science and technology, said during the opening ceremony that this is just the first step, but it is one that officials hope will set an example for the reform of the national science and technology system. "More work needs to be done to explore new methods for innovation in Tianjin and drive the upgrading of traditional industries," he said. The port city plans to forge several strong industrial chains to move up the ladder of high added-value industries such as information technology, intelligent equipment manufacturing, alternative energy and advanced batteries. It has set an ambitious goal of generating revenue of 3.5 trillion yuan ($560 billion) by 2020 and 8 trillion yuan by 2025 in the demonstration area.

Yan Yulian, president of ebogame, an online games developer that got its start in the industrial park in 2010, said that the company generated 60 million yuan in sales last year, compared with having no revenue at all a year earlier. It aims to double revenue this year. "It all grew out of the establishment of such a demonstration area," Yan said. "It is definitely good news, as companies can get tax breaks, financial service support and other technical assistance."

Tianjin also has rich human resources with about 750,000 technical personnel in natural and social sciences, including 22 academicians from the Chinese Academy of Sciences and Chinese Academy of Engineering, Liu said. The move to set up the zone comes after President Xi Jinping stressed earlier this month his view that it is essential to accelerate the integration of the Beijing-Tianjin-Hebei region to transfer some of the capital's functions to other regions and further develop the heavily populated region. Liu said that thanks to the integrated development plan, Tianjin is now at the forefront of policy experiments in science and technology reform, environmental policy and urban renewal. "It is only a matter of time before Tianjin becomes a new driving force of economic growth in
China," he said.

Source: Lyu Chang and Li Xiang: China eyes Tianjin as innovation engine, China Daily, 2015-02-28

Local govs pave way for new wave of small firms

Yu Xu, a migrant worker in Dongguan, Guangdong province, was able to start a business two years earlier than he expected after the local government simplified its commercial registration procedures. Since last April, e-commerce companies in Dongguan have been allowed to register their offices at the location of Dongguan Thunion Cluster Registration Hosting Co Ltd. The change has saved local entrepreneurs, especially those running small businesses, money that would otherwise have been needed to rent an office or a brick-and-mortar store. Dongguan Thunion undertakes the registration procedures on behalf of companies, which is a big help for new business owners, said Yu, who started an online business selling industrial lubricants in May that has only five employees. "I gave the hosting company my identity card and registration documents and received the business license a few days later," he said. "It would have taken me a long time to do it myself." Dongguan Thunion is China's first such company. It is also an innovative initiative of the local government to lower the threshold for people to start micro-sized and small businesses. Dongguan is one of the four pilot cities in Guangdong designated by the State Administration for Industry and Commerce in 2012 to reform their commercial registration systems. The other three are Shenzhen, Zhuhai and Foshan. The reforms were expanded nationwide last March.

Another part of the reform is the concept of a zero-capital company, meaning that companies can be formed without paid-in capital. "The biggest barriers to startups are capital and having an office for registration, as well as other items for approval needed to get a business license," said Zhang Zhiyun, an official in charge of commercial registration at the Dongguan Administration for Industry and Commerce. "Reforms have reduced the paid-in capital required for registration to zero, and many items that were needed prior to license approval can now be submitted afterward," Zhang said. "We also made a breakthrough in allowing multiple business licenses to be registered at one address." Dongguan Thunion is a breakthrough initiative, with which the city hopes to "stimulate the vitality of the e-commerce industry", Zhang said.

As a manufacturing base in the Pearl River Delta, Dongguan has an edge in developing e-commerce, based on its vast supply of products and well-developed logistics industry. "Dongguan has well-made products, but it doesn't have established strong brands of its own. E-commerce can help original equipment manufacturers in the city to transform and upgrade by selling their originally designed products online to gradually build their own brands," said Lin Jianqiang, managing director of Dongguan Thunion. "Online marketing costs much less than traditional marketing through physical stores." Lin said that his company is popular among young people, especially college students. In the first six months of its existence, Dongguan Thunion helped 258 startups get business licenses, and about 20 of those were founded by college students. The company offers registration and bookkeeping services for student-run companies for free, while charging other clients 1,000 yuan ($160) for these services. "Students are able to focus on marketing, which is the core of e-commerce and where they can make good use of their creativity," Lin said.

Addressing the World Economic Forum Annual Meeting 2015 in Davos, Switzerland, on Jan 21, Premier Li Keqiang said that to foster a new engine of growth, China will encourage mass entrepreneurship and innovation, which is "a gold mine that provides a constant source of creativity and wealth". "Excessive regulation discourages innovation, and healthy competition is the way to prosperity. We will deepen reform of the administrative system," Li said. As one way to support small companies, they are being offered tax breaks. Businesses with annual taxable incomes below 200,000 yuan will now be eligible for a 50 percent income tax cut, according to a statement released after the State Council's executive meeting on Wednesday, which was presided over by Li.

Guo Huazhong, general manager of a hi-tech equipment designer and manufacturer based in Foshan, said he is encouraged by the local government's support of small and medium-sized enterprises in terms of funding and talent recruitment. Guangdong Ruizhou Technology Co Ltd, founded by Guo in 2004, sells originally designed
numerical-control cutting machines that handle flexible materials to manufacturers of shoes, clothes and automotive interiors to help them upgrade their production lines. Guo moved his company into the Hantian Science Park in Nanhai district, Foshan, in 2009. He used his patents as collateral for a loan of 3.5 million yuan, with the local government as the guarantor, to meet the capital threshold to enter the park.

Guo's company has about 120 employees, mostly recent college graduates. However, he said that SMEs cannot compete with big companies in recruiting staff and need more government help. The government of Nanhai district has offered a creative solution, according to Guo. It collects technical problems from SMEs and invites students from the country's top universities such as Peking University and Tsinghua University to solve these problems during school vacations. "It kills two birds with one stone. We can solve our practical problems more easily with students' access to their schools’ data. At the same time, we can find the right talent for our company.”

Source: Xu Jingxi in Dongguan and Foshan, Guangdong: Local govts pave way for new wave of small firms, China Daily, 2015-02-28

China's non-manufacturing PMI drops in January

BEIJING - China's service sector activity slowed in January, but is still a robust economic driver, an official monthly survey showed on Sunday. The purchasing managers' index (PMI) for the non-manufacturing sector retreated to 53.7 in January from 54.1 in December, according to a report released jointly by the National Bureau of Statistics (NBS) and the China Federation of Logistics and Purchasing (CFLP). The index saw the lowest reading since last February but is still expanding. Majority sub-indices also dropped. The sub-index for the construction industry fell slightly to 56.9, while that for services slipped to 52.9 in January from 53.3 in December. The new order sub-index for the entire non-manufacturing sector retreated to 50.2 in January, down 0.3 percentage point from the previous month. "The index, although retreating month on month, still remained at high levels and indicated strong impetus of the service sector that has become increasingly significant in driving the economy,” said Zhao Qinghe, an NBS senior statistician. Zhao said services related to residential consumption began rising as the Spring Festival approaches, with sectors of retail, telecommunications, software and postal service growing steadily.

China's burgeoning service sector has begun to replace the traditional engine of manufacturing to drive economic growth. The added value from the tertiary sector accounted for 48.2 percent of the GDP in 2014, the NBS data showed. The PMI samples 1,200 non-manufacturing enterprises of various sizes nationwide. It tracks activity in sectors including services, construction, software, aviation, railway transport and real estate.

Source: Xinhua: China's non-manufacturing PMI drops in January, 2015-02-2

Retail sales surge during China's Lunar New Year holiday

BEIJING - China's retail sales for the week-long Spring Festival holiday continued to grow steadily as businesses rushed to take advantage of the nationwide shopping spree, data from the Ministry of Commerce (MOC) showed on Tuesday. Shops and restaurants across the country pocketed 678 billion yuan ($111.1 billion) in sales volume, up 11 percent from last year's holiday period, the MOC said in an online statement. Sales of traditional festival-related goods saw rapid growth, but that of high-end gifts such as tobacco and liquor cooled due to the government's ongoing austerity campaign, according to the ministry. As a bright spot in the consumption market, many businesses have launched promotional events through social media forums such as Weibo and WeChat to boost sales. Meanwhile, falling gold prices boosted jewelry sales, with the Sheep-themed accessories most favored by consumers. Major jewelry stores in Shanghai reported daily sales of over 200,000 yuan during the period. In the catering market, fair-price family reunion dinners stood out as businesses cut prices to cater to the masses amid the austerity campaign. The Spring Festival, or Chinese Lunar New Year, which fell on Feb 19 this year, is traditionally a time for family reunions. Businesses experience a boom during the period as people swarm to shops and restaurants.
China encourages private capital to invest in elderly care industry

BEIJING - China announced Wednesday it would encourage private investment in the elderly care service industry to help with its aging population. Investors are encouraged to run elderly care facilities, including nursing homes and recreation centers, according to a document issued by the Ministry of Civil Affairs, together with nine other government departments. It said that private investors could cooperate with the government to build and develop facilities. The government will also increase investment in this sector. More than 50 percent of welfare funds collected through lottery sales should be channeled to elderly care and no less than 30 percent should be used to support private-owned services, according to the document. It also required health authorities to support the establishment and operation of clinics inside elderly care facilities.

People aged 60 and over accounted for 14.9 percent of China's population by the end of 2013, higher than the United Nations' 10 percent threshold for an aging country, according to the Ministry of Civil Affairs. It is estimated that the aging population in China will reach its peak in 2030.

Casino grows as Chinese find paradise

Tough crackdown on Macao gambling has some gamblers making a search for new alternatives. Paradise Co, South Korea's largest operator of casinos for foreigners, is increasing gambling space to cater for a boom in Chinese visitors, even as China cracks down on overseas casinos marketing to its citizens. Paradise will expand floor space at three of its five foreigner-only casinos including doubling the size of gaming areas at its casino on Jeju Island, as Chinese gamblers who comprise more than two-thirds of its visitors pack its halls, Vice-Chairman Lee Hyuk-byung said in an interview.

China announced on Feb 6 it would stop foreign casinos from luring its citizens to gamble overseas including through offices set up in the country, the latest in a slew of policies linked to an anti-corruption campaign that has hit gambling revenues in Macao. Seoul-based Paradise does not market directly to gamblers in China as that is illegal, and it mainly relies on word of mouth, Lee said on Feb 5, prior to China's announcement. There is not enough information about the latest policy and Paradise has not seen any impact on its operations, said Shim Hye-jeong, an investor relations official at the company after China's announcement. There has been a surge in the number of visitors from China to South Korea over the past two years, Lee said. "If you visit our casinos, it isn't full on the weekdays, but on the weekends from Friday afternoon to Sundays, it's fully packed," Lee said. "This means we cannot provide all the gaming needs of our visitors. By expanding, we can." "Korean casinos may actually benefit, as their success at attracting Chinese punters appears to be due to South Korea's proximity to China, not marketing capabilities," he wrote.

Paradise will spend $26 million on the expansion, Lee said. The operator will add 26 gambling tables at its casinos, mostly for baccarat card games, bringing the total to 252, according to the company. Baccarat games are a favorite of China's gamblers. The expansion by the South Korean operator comes as Macao's casino revenue slumped for an eighth straight month in January, for the longest losing streak on record. Paradise in 2014 posted its first profit decline in three years, according to Bloomberg. Chinese tourists to South Korea are increasing as South Korean pop culture gains popularity and travel restrictions ease, Lee said. Mainland gamblers formed 67 percent of the company's high rollers last year, growing from 46 percent in 2010, the company said. Chinese accounted for 77 percent of the total mass gamblers last year, up from 50 percent in 2010, it said.

About 6.1 million Chinese mainland travelers went to South Korea last year, an increase of 42 percent, according to data from the Korea Tourism Organization. South Korea last year approved construction of its first foreign-owned casino as Asia's fourth-largest economy tries to emulate Macao and Singapore in attracting more tourism spending from China. Paradise is Korea's largest foreigners-only casino operator with almost 50 percent
market share, the company said, citing data from the Korean Casino Association. Grand Korea Leisure, a state-run casino operator, ranked second with a 42 percent share.
Source: Xinhua: Casino grows as Chinese find paradise, 2015-02-11

China's manufacturing activity rises to four-month high in Feb

BEIJING - China's manufacturing activity improved slightly in February thanks to increased output and new orders, according to HSBC's preliminary purchasing managers' index (PMI) released on Wednesday. The HSBC flash manufacturing PMI for February rose to a four-month high of 50.1 from a reading of 49.7 in January, HSBC said in the report. The output sub-index stood at 50.8 in February, up from 50.3 in January, representing a five-month high, according to the monthly report. "Today's data point to a marginal improvement in the Chinese manufacturing sector going into the Chinese New Year period in February. However, domestic economic activity is likely to remain sluggish and external demand looks uncertain," said HSBC chief China economist Qu Hongbin. "We believe more policy easing is still warranted at the current stage to support growth," Qu added. China's economy grew 7.4 percent in 2014, the weakest annual expansion in 24 years, but still in line with market expectations.
Source: Xinhua: China's manufacturing activity rises to four-month high in Feb, 2015-02-25

China's Jan manufacturing PMI falls to 28-month low

BEIJING - Chinese manufacturing activity continued to wane in January as a key index dropped below the 50-point mark for the first time since October 2012, marking increasing downward pressures on the economy, official data showed on Sunday. The manufacturing purchasing managers' index (PMI), a key measure of factory activity in China, posted at 49.8 in January, down 0.3 percentage point from December, according to the data jointly released by the National Bureau of Statistics (NBS) and the China Federation of Logistics and Purchasing (CFLP). The reading, falling for four consecutive months, surprised the market as many institutions had forecast the PMI would rebound slightly. Of all the five sub-indices, four dropped in January except that for delivery time. Those for employment and raw material inventories remained under the 50-point mark, while the other three sub-indices, including new orders and production, stayed in the expansion zone.

In terms of the surveyed enterprises, the PMI of large manufacturers posted 50.3, down from 51.4 in December but still expanding. The PMI of medium and small enterprises, although still in a state of contraction, rose 1.2 percentage points and 0.9 percentage point respectively in January, moderate improvement from the previous month. The indices stood at 49.9 and 46.4.
Source: Xinhua: China's Jan manufacturing PMI falls to 28-month low, 2015-02-2

China producer prices continue declines

BEIJING - China's producer price index (PPI), which measures inflation at wholesale level, dropped 4.3 percent year on year in January, the National Bureau of Statistics said on Tuesday.
Source: Xinhua: China producer prices continue declines, 2015-02-11

Real estate registry program remains 'work in progress'

On Sunday, the Provisional Regulation on Real Estate Registration will take effect, and there is renewed speculation that a property sell-off looms as corrupt officials scramble to unload property acquired with illicit gains. However, a closer look at the regulation itself and interviews with experts suggest that much of the talk is just hype. The regulation, containing 35 articles, makes it clear that the goal is to end a patchwork system overseen by various agencies and standardize the registration procedure. The Ministry of Land and Resources has the mandate to guide and supervise real estate registration nationwide. Every government jurisdiction at or above the county level has been directed to establish a special agency to be responsible for registration.
A conference held by the ministry in mid-February said that most provincial governments have already established a single agency for registration, while consolidation work at the sub-provincial and county level is advancing. To facilitate the implementation of the regulation, a detailed version of the implementation rule will be announced soon. All this suggests that for now, institution-building is the priority of policymakers, while levying tax or exposing illegal property holdings - which is what many feared - is not what the authorities have in mind. A "unified information platform" will be established, and it will become fully operational by 2017, said Wang Guanghua, an official with the land ministry who is in charge of the matter, when the regulation was passed on Dec 22. Without a "unified information platform", it will be difficult to levy property tax on a national scale, which means a nationwide property tax will not materialize before 2017, although such taxes can be imposed within cities.

Work on a unified registration system was initially led by the Ministry of Housing and Urban-Rural Development. By 2012, the ministry had integrated housing information in 40 cities. But plans to expand it to 500 cities were delayed for various reasons. A section of the regulation stating that the nation aims to achieve "real-time intercity information sharing" means that the housing ministry's work has been superseded by the new system. "Real-time intercity information sharing' is the meat of the regulation," said Li.

However, a commentary by the People's Daily on Friday claimed that the property tax has yet to materialize, but not because the authorities lack sufficient information on property holdings. Rather, there is a concern over the "social impact", it said.

Source: Zheng Yangpeng: Real estate registry program remains 'work in progress', China Daily, 2015-02-28

How China’s political purge felled Kaisa

Kaisa, which has a Hong Kong listing and billions of dollars in overseas debt, was until December seen as a relatively successful developer, with rising sales and a healthy cash cushion. But in the space of just a few weeks, the company descended into chaos after the local government imposed a sales ban at some of its projects. The entire senior management team has since left, debts to both banks and bondholders have gone unpaid, while the company’s assets have been frozen across the country. For those that have raced to lend money to China’s heavily indebted property sector, Kaisa’s woes represent a serious reality check. Many investors are dumbfounded by the speed at which things went wrong, making it harder to know precisely what lessons should be drawn.

In the darkened salesroom of Kaisa Foresea Plaza apartment complex, which is finished but mostly empty, had not seen a customer for nearly two months. Employees confirmed this, saying the government in China’s southern boomtown of Shenzhen ordered a halt to their sales in December. “Kaisa’s owners have run to Hong Kong and the government has frozen all the company’s assets because of their ties to Zhou Yongkang [China’s disgraced former head of internal security] and his son,” said Lin Jinwei, a local real estate agent from a rival company who was waiting at the entrance looking for potential customers to take elsewhere. Kaisa itself has not explained why the Shenzhen government decided to suspend its sales. But according to five people who claim knowledge of the matter, the government froze its projects and launched an investigation into the company as a direct result of the detention in October of Jiang Zunyu, the man in charge of Shenzhen’s police, courts and state security apparatus. State media have reported that Mr Jiang’s family had accumulated 42 homes and more than Rmb200m ($32m) in cash and securities, even though his official salary is less than $12,000 a year. Mr Jiang was previously the Communist party secretary in charge of Shenzhen’s Longgang district, where the majority of Kaisa’s developments are located. He was also earlier in charge of administering state-owned land and resources in the city of 15m people and had close ties to Mr Zhou, the most senior official to face corruption charges since the founding of the People’s Republic in 1949. Mr Jiang and Mr Zhou’s son, Zhou Bin, were also close to the three brothers, surnamed Kwok, who founded Kaisa, according to a person who runs a company that supplies most of its products to Kaisa. Corruption is endemic in real estate so if the Communist party’s anti-corruption campaign is really going after the sector then it could be a disaster for many companies. These people all said the three Kwok brothers, including Kaisa’s ex-chairman Kwok Ying Shing, fled to Hong Kong around the time Mr Jiang was detained. From there they
negotiated a deal under which they plan to sell their 49.25 per cent stake in Kaisa to rival Chinese developer Sunac for $587m.

On February 6, Sunac said it would make a formal buyout offer for the rest of Kaisa, apart from the 30 per cent held by insurer Sino Life, which has declined to sell its share. The Kwok brothers could not be reached for comment. Kaisa and Sunac both declined to comment on the allegations. Some bankers have argued the allegations of political intrigue and possible corruption that triggered the upheaval for Kaisa should not deter investors from the broader sector. But market participants, officials and observers in Shenzhen are not so sure. “It is just a fact that property deals in China rely on close collaboration between wealthy property developers and poorly paid officials who have all the power and control all the land,” said one lawyer who has worked for Kaisa and several other developers in Shenzhen. “Corruption is endemic in real estate so if the Communist party’s anti-corruption campaign is really going after the sector then it could be a disaster for many companies.”

The speed with which Kaisa collapsed once its sales were halted should also give investors pause for thought. Chinese property companies have become some of the most active borrowers in Asian debt markets, raising more than $80bn in offshore bonds and syndicated loans in the past two years alone, according to Dealogic. This is partly because they have difficulty raising money from domestic banks and investors, who are put off by ballooning overcapacity and falling sales and prices. Until December, Kaisa appeared relatively healthy compared with many of its peers, with $1.5bn in cash as of June 30 and sales of about $4.4bn in the first 11 months of last year. However, Kaisa said on Monday that it now has Rmb65bn of outstanding debts — more than double the amount as of June last year. About a fifth of that money is owed offshore, while more than half is claimed by “non-bank financial institutions”, a reference to China’s shadow banking system.

The company has already opened talks with creditors over a restructuring of its debts, a step Sunac set as a condition for its buyout offer. Despite those concerns, the delay in offshore bond sales caused by the Kaisa debacle has already proved brief, with a number of heavily oversubscribed deals completed in the past two weeks. Bankers say the launch of quantitative easing in Europe in recent weeks has only increased the appetite of international fund managers for the interest rates of 8-15 per cent that many Chinese developers are offering. “High-yield offshore bonds have been the drug of choice for Chinese property developers for the last couple of years,” said one Hong Kong-based banker who has worked on numerous such deals. “But even though they are absolutely last in line to recoup anything if things go bad, global investors continue to pile in because they are just so hungry for yield.”

Source: Jamil Anderlini in Shenzhen and Josh Noble in Hong Kong: How China’s political purge felled Kaisa

RMB second most used documentary credit currency

BEIJING -- China's currency the Renminbi (RMB) strengthened its position as the world's second most used currency for documentary credit transactions, according to the Society for Worldwide Interbank Financial Telecommunication (SWIFT) on Thursday. The Renminbi's share of activity for documentary credits has increased from 7.3 percent in January 2013 to 9.4 percent in January 2015, behind the US dollar, the share of which is nearly 80 percent. "Letters of credit and documentary collections are widely used instruments to finance trade across Asia," said Andre Casterman, Global Head, Corporate and Supply Chain Markets at SWIFT, "China's position as one of the main exporting and importing countries in the world is supporting the increasing use of the Chinese currency." The RMB held its position as the fifth most used payment currency in the world with an activity share of 2 percent. China, Singapore and Hong Kong remained the top three countries using the RMB for documentary
credits, with nearly 95 percent of all RMB documentary credit transactions. A letter of credit is a document from a bank guaranteeing that a seller will receive payment in full as long as certain delivery conditions have been met. Source: Xinhua: RMB second most used documentary credit currency, 2015-02-27

Trade numbers take big hit in January

China's foreign trade stumbled by 10.8 percent to 2.09 trillion yuan ($341 billion) on a year-on-year basis in January, pushing the country to accelerate the pace of restructuring. The country's exports slid 3.2 percent to 1.23 trillion yuan and imports slumped 19.7 percent to 860 billion yuan, expanding the trade surplus by 87.5 percent to 366.9 billion yuan, according to General Administration of Customs data released on Sunday. The sharp import decline was led by a drop in foreign commodities as coal tumbled by nearly 53.2 percent, refined oil dropped by 37.6 percent and steel slid by 14.7 percent from the same month a year earlier.

Exports fell by 4.4 percent to the European Union, 10.9 percent to China's Hong Kong region and 20.4 percent to Japan. Shipments to Russia plunged 42.1 percent. China's yuan fell 2.5 percent in 2014 and has lost another 0.6 percent so far in 2015, providing some relief to exporters after four years of uninterrupted appreciation. China became the world's largest merchandise trader in 2013, but its foreign trade showed significantly compared with the levels that prevailed before the 2008 global financial crisis. That crisis had a lasting impact on demand in the United States and the EU. At the same time, rising domestic costs have made China's products less competitive. In the past half decade, China has also been losing its advantages — including skilled labor, sound infrastructure and industrial facilities — as many industries and orders move to other markets such as Southeast Asia and India. "As external markets will not fundamentally improve for the rest of this year, China must speed up its restructuring of regional trade and value chains, including expanding the global use of its currency, and facilitating regional trade through more free trade agreements and connectivity programs," Zhang said.

Source: ZHONG NAN: Trade numbers take big hit in January, China Daily, 2015-02-9

'Qualcomm fine' shadow looms over TPP talks

Qualcomm Inc's decision to pay a record fine of $975 million for antitrust violations in China is likely to increase trade tensions and hamper negotiations on a key trade pact in the Asia-Pacific region, experts said on Tuesday. On Monday the United States-based chip maker agreed to pay the largest corporate fine ever in China for anti-competitive practices, ending a 14-month investigation against it by the National Development and Reform Commission. The "unfair" and "excessively high" royalties Qualcomm collected from Chinese smartphone makers were the key factors that led to the historic fine, the NDRC said.

Talian Chi, professor and Carl A Scupin Faculty Fellow at the University of Kansas School Of Business, said: "The settlement is likely to add to the trade tension between China and the US and may also complicate the negotiations on the Trans-Pacific Partnership. One of the issues that has bogged down the TPP negotiations is the objection by some developing countries to the US insistence on stringent rules for the protection of patents. I suspect that the US negotiators are trying to prevent any potential TPP partners from using antitrust rules in their future bargaining with US multinationals." However, Robert Atkinson, president of the Information Technology and Innovation Foundation think tank in Washington, said the Qualcomm case could actually prove beneficial to the TPP. "If anything this and other similar actions by the Chinese government will increase support (for TPP) because it will be seen as a way to better exert pressure on China to curtail these kinds of practices that discriminate against foreign firms. As far as US-China bilateral relations are concerned, this action will only heighten the concerns held by the US government over Chinese economic policies," he said.

Chi said: "Any firm possessing proprietary technology has monopoly power, but such monopoly power is often protected by the government under the patent system." "Given the monopoly status of Qualcomm over its technology, the negotiation of the licensing fees is inevitably subject to its bargaining power relative to that of its Chinese licensees. The governments of some developing countries do try to boost the bargaining power of their
domestic firms by limiting the maximum royalty rate in licensing contracts via domestic legislation. This type of government policy is unlikely to work for a small country, but China is the largest cell phone market in the world and is thus better able to get concessions from foreign firms."

Qualcomm will also offer licenses to its current 3G and 4G Chinese patents separately from licenses of its other patents, and it will provide patent lists during the negotiation process. Qualcomm said it plans to continue to grow its investments and expand collaborations in China, including with China's mobile operators, handset and device suppliers, and within the Chinese semiconductor sector. Chi said the Chinese government may be trying to alter the balance of bargaining power between Qualcomm and its Chinese licensees.

Source: Paul Welitzkin: 'Qualcomm fine' shadow looms over TPP talks, China Daily, 2015-02-12

China sees volatile capital flows in 2015

BEIJING - China's cross-border capital flows will remain volatile this year amid uncertainties both at home and abroad, the country's forex regulator said on Sunday. As China gradually moves to make its foreign exchange mechanism more market-oriented, the structure of "trade surplus and capital outflow" will become increasingly normal, the State Administration of Foreign Exchange (SAFE) said in a report. Meanwhile, easing monetary policies in some major economies will put emerging markets under growing pressure from capital outflows, SAFE noted.

China's capital account deficit widened sharply in the last quarter of 2014 to $91.2 billion, compared with the third quarter's $9 billion. The widening deficit fanned concerns of massive capital outflows from the country as economic growth slowed. The SAFE reiterated that the capital outflow remains "moderate and within the limit" and the liquidity in the foreign exchange market remains "ample".

Source: Xinhua: China sees volatile capital flows in 2015, 2015-02-16

"Capital account opened' for firms in free trade zone

The long-anticipated detailed rules for capital-account transactions, which will allow companies operating in the China (Shanghai) Pilot Free Trade Zone to borrow abroad under a simpler regulatory regime, have been released. The new process may help FTZ-registered companies cut their financing costs in half. The announcement of the rules on Thursday means that the capital-account has effectively been opened for companies in the FTZ, said Zhang Xin, deputy head of the Shanghai Head Office of the People's Bank of China. The rules will allow FTZ-registered enterprises that borrow abroad to choose the length and currency of the loan. FTZ-registered enterprises that seek financing overseas will be monitored by the PBOC during and after the financing process, but they will no longer need to seek prior approval. "The detailed rules actually return many rights and initiatives to enterprises, enabling them to make their own financing decisions, while regulators just help to monitor the risks," said Zhang. "The new rules will benefit enterprises when doing foreign trade and overseas mergers. The new rules significantly reduce the time needed for completing the procedures, which could be as short as half an hour." "For a one-year yuan-denominated loan, the financing cost could be half of what it used to be," said Wang Jianxin, head of the FTZ branch of Shanghai Pudong Development Bank Co Ltd.

The banking regulators promised a freer environment for financing to support foreign trade after the FTZ opened in September 2013. Financial and nonfinancial enterprises registered in the FTZ will be able to borrow up to twice their capital base, which will be double the previous cap. "For trading firms like us, the new rules have given us more freedom and space to obtain the financing that suits us best," said Zhang Lei, finance director of an FTZ-registered wine trader. The more liberal financial policies in the FTZ have already helped companies registered there reduce their financing costs. PBOC data showed that so far, 120 overseas yuan-denominated financing deals with a combined value of 19.7 billion yuan ($3.2 billion) have been arranged.

Source: Wu Yiyao In Shanghai: 'Capital account opened' for firms in free trade zone, China Daily, 2015-02-17
Free trade agreement with S. Korea one step nearer completion

China and South Korea on Wednesday initialed a bilateral free trade agreement as both sides are hoping to increase trade, according to a press release from China's Ministry of Commerce. The ministry said negotiations have concluded and both sides have confirmed all the details. "China and South Korea have agreed to work for the official signing of the China-South Korea FTA within the first half of this year. The government of South Korea will implement it as rapidly as possible by getting approval from the parliament," said a press release issued by South Korea’s Ministry of Trade, Industry and Energy. Under the FTA, which was initialed and exchanged with China's Ministry of Commerce in Beijing, the two agreed to offer preferential treatment to each other's financial companies and establish a joint organization to deal with bilateral business issues. South Korea has set a goal of bilateral trade with China of $300 billion in 2015. China is one of the world's fastest-growing economies, whose GDP expands more than 7 percent each year, the South Korean ministry said, noting that South Korea has gained a chance to make inroads into the large, fast-growing market by initialing the pact. "The deal will be a new stimulus and growth engine for the South Korean economy," said Zhao. Under the pact, South Korea will eliminate tariffs on 79 percent of all products, or 9,690 items, from China within 10 years after the implementation of the treaty. In return, China will remove tariffs on 71 percent of all South Korean products, or 5,846 items.

Number of Chinese tourists to S. Korea surged 41.6 percent year-on-year to reach 6.13 million in 2014, spending a total of 18.6 trillion won ($16.9 billion) with an average of 3.03 million won per person. Bilateral trade increased 2.8 percent year-on-year to stand at $235.4 billion last year, among which exports to S. Korea were valued at $90.1 billion – up 8.5 percent year-on-year. Top on the exports' list are mechanical and electrical products (43.2%), base metals (16.3%) and chemical products (7.8%). China has become S. Korea's largest trading partner, largest source of imports and No 1 export market. S. Korea is now China's fourth-largest trading partner after the European Union, the United States and Japan. After beauty products, most popular S. Korean products in China are smartphones, home appliances, cars and fashion.

Sources: S. Korea Customs, China News Service, Korea International Trade Association
Source: ZHONG NAN: Free trade agreement with S. Korea one step nearer completion, China Daily, 2015-02-26

China promises protecting legitimate interests of foreign firms

BEIJING - China reaffirmed its commitment to protect the legitimate interests of foreign businesses after US business lobbies called for a set of new Chinese cybersecurity regulations to be overturned. "The Chinese government will protect the legitimate interests of foreign companies in accordance with law," Foreign Ministry spokesperson Hong Lei said at a daily press briefing on Friday. The new regulations would require technology vendors working with Chinese banks to hand over source code and adopt Chinese encryption algorithms, according to reports. Hong's comments came days after the U.S. Chamber of Commerce and 16 other U.S. business lobbies, via letters, called on the White House to overturn new Chinese cybersecurity regulations. The letters were sent to U.S. Secretary of State John Kerry, U.S. Trade Representative Michael Froman and other officials.

The Foreign Ministry spokesperson stressed China's adherence to the win-win strategy of opening up, saying the strategy has resulted in the wide application of information and communication technology (ICT) and promoted economic and social development in the country. "That also creates a huge market for the companies from the United States and other countries," Hong said. "China welcomes and supports foreign companies expanding their market shares in China," Hong said, calling on them to jointly research and produce with Chinese firms.

Source: Xinhua: China promises protecting legitimate interests of foreign firms, 2015-02-6

Draft foreign investment law aims to clarify status of VIE

On Jan 19, the draft of China's Foreign Investment Law was released for a public comment period that runs until Feb 17. An official explanation was also released that highlights the key points for interpretation. One of the most significant changes in the draft legislation is the adoption of a de facto review of the variable interest entity, or
VIE, structure of corporate ownership. This is a workaround structure that is used by foreign and Chinese investors in many industries where foreign direct investment is restricted or prohibited in China. The current draft legislation states that domestic entities controlled by foreign investors must be engaged in non-prohibited industries. Previously, VIE structures were used to enable foreign investors to invest in almost any industry, even prohibited ones.

The VIE structure is also called the Sina Structure, because it became well-known after Sina Corp’s 2000 listing. Under a VIE structure, a Chinese entity holding all the necessary licenses to operate a business in a restricted or prohibited industry is de facto controlled by a wholly foreign owned enterprise through contractual arrangements. The profits of the domestic entity flow back to the controlling WFOE or joint venture. This arrangement enables foreign investors to engage in Chinese industries that they would otherwise be excluded from by law. The VIE structure was never expressly prohibited or sanctioned under Chinese law. However, it has been widely used by foreign investors despite its ambiguous legal status. There has never been an express prohibition or any other legislation seeking to regulate the VIE structure until the draft Foreign Investment Law was released. The draft law tries to address this legal ambiguity by requiring the identification of the de facto owner of the domestic entity engaging in the business operations for the VIE. Contractual or trust arrangements and other VIE structure arrangements are prohibited to circumvent relevant foreign investment restrictions.

While the fate of VIEs with foreign investors is uncertain, these new procedures are good news for entities with domestic investors. The inherent defects and potential legal and regulatory risks endemic to the previous VIE model will vanish, to the extent that the de facto investors are domestic, since they will be considered identical to domestic investors. No foreign investment restriction/prohibition will apply. They would no longer be in a gray zone and the domestic de facto investors will no longer need to worry about not having the support of authorities.

Foreign investment will be welcome in more industries. We believe this approach would be very helpful to revitalize the economy. However, industries on the negative list will not be open to foreign investment. This line of thinking is consistent with that behind the national security review. Therefore, the VIE structure might be less popular in the future as it will be less feasible for foreign investors to bypass government review and regulation and invest in such prohibited industries.

The author is a partner of Dacheng Law Offices in Shanghai.

Source: Shi Jinjuan: Draft foreign investment law aims to clarify status of VIE, China Daily, 2015-02-17

Overseas investors to be given wider access

Many expect the draft of the new Foreign Investment Law, released by the Ministry of Commerce on Jan 19, to remove major barriers for foreign investors granting them easier access to the Chinese market. In this context, institutional innovations in the draft to improve foreign investment in the country are worth noting.

To begin with, the draft, if it is passed, will replace the existing case-by-case approval system with one in which foreign investors shall enjoy "national treatment", that is, they can make investments on the same terms as Chinese investors without being subjected to approvals or sectoral restrictions, except in areas on the "negative list" (industries in which foreign investment is restricted or prohibited).

Last year China overtook the United States as the world's top foreign investment destination, making a new Foreign Investment Law necessary. Promoting both the "negative list" and national treatment models through legislation, the draft promises to make foreign investment in China simpler and smoother. Besides, the draft, if passed, will allow the market to play the decisive role in allocation of resources and thus create a level playing field for foreign and domestic investors.

Second, based on China's experience of foreign capital management over the past three decades, the draft introduces the "actual control" test to regulate foreign enterprises. In other words, foreign companies in China that are controlled by overseas investors will be deemed foreign, but those under actual control of Chinese investors will be considered domestic. The reporting mechanism outlined in the draft, including initial, subsequent and periodic
reporting obligations, will no longer require troublesome pre-approval in most foreign investment cases. In other words, foreign investment on the "negative list" will have to ask for permission, while all investors must "report" investment to the government no matter whether they are on the list or not. If this change comes into effect, it would help better supervise and protect overseas investment in the country.

More importantly, the draft introduces a "new normal" in the market, that is, zero tolerance for violation of rules such as those to illegally acquire super-national treatment. If passed, the draft will bring to an end the variable interest entity, or VIE, which allows foreign investors to bypass the Chinese government's restrictions on foreign ownership of businesses in certain sectors. But on the whole, investors will face fewer restrictions. Also, a draft joint ministerial mechanism to conduct security reviews on foreign investment conforms to international practice. Unlike many countries, China has not had a foolproof reviewing system to protect its security. In fact, it has a weak link in China's overseas capital management since it launched the reform and opening-up in the late 1970s.

For instance, facing increasing non-traditional security threats, including environmental pollution and cyberattacks, China has struggled to prevent hostile overseas takeovers of domestic enterprises because of its flawed security review mechanism. And many Chinese companies have become victims of Western trade protectionism measures over the past decades because of lack of a proactive domestic review mechanism. Therefore, it is more than necessary to establish a ministerial mechanism to mitigate (rather eliminate) foreign investments that have the potential to undermine China's national security. According to the draft law, foreign investors will have to gain security clearance from the government for latent security dangers, and those rejected will not be allowed to appeal against the decision. More such improvements in the law, which the draft promises, will better protect China's national security and make it significantly more competent in the global economic game.

The author is a researcher on American studies with the Chinese Academy of Social Sciences.

Source: Liu Hui: Overseas investors to be given wider access, China Daily, 2015-02-6

Pollution, unclear regulations major hurdles for US firms in China

Chronic air pollution and unclear regulations are the major obstacles for most of the United States-based companies operating in China, a survey said on Wednesday. Of the 477 companies that participated in the annual business climate survey conducted by the American Chamber of Commerce in China, 53 percent said that they experienced difficulties in hiring senior executives to work in China because of the country’s chronic air pollution. This is the first time that air pollution has been cited as a reason by most of the companies that have participated in the survey's 17-year history. This year’s report, conducted in partnership with Bain & Co, also said that 65 percent of the companies considered non-transparent, unclear and inconsistent regulations as the greatest barrier for their ability and willingness to invest in China.

James Zimmerman, chairman of AmCham China, said: "Member companies are committed to the market, but continue to weather a challenging business environment as China continues on a path of economic reform and sustainable development." Regulatory concerns were highlighted as inconsistent and unclear regulations were found to be the second-biggest business challenge, after labor costs. About 57 percent of the respondents felt foreign firms were being targeted in investigations over pricing, anti-monopoly and anti-corruption probes by regulatory authorities. "Our companies appreciate the complexities and difficulties that the Chinese leadership is confronted with as it balances its economy and implements its reforms," said Zimmerman. "Nevertheless, much work lies ahead for all of us this year and beyond as the Chinese economy continues to mature."

The more challenging business environment faced by US companies has resulted in the highest number since the 2009 recession, 31 percent, having no investment expansion plans in China for the coming year.
Stephen Shih, a partner at Bain and co-author of the survey, said: "Business in China is at a turning point, and companies with interests here will have to decide whether to continue pursuing growth and investment in China, or whether to prioritize other growth opportunities." However, progress in the economic restructuring to "the new normal" of slower, more sustainable growth driven by consumption is being seen favorably by US companies. Growth in domestic consumption was cited as a key opportunity for business by almost half of the companies.

The services sector was the most optimistic concerning investment environment, difficulty in approvals and how welcome foreign firms were in China. A lot of hopes hang on the bilateral investment treaty, in discussion since 2008, that is expected to deepen economic ties between China and the US. "The BIT represents a major opportunity to improve the regulatory environment, which can enhance the ability of US companies to invest and innovate and compete in China for the benefit of the country’s economy," said Zimmerman.

Source: Mu Chen: Pollution, unclear regulations major hurdles for US firms in China, China Daily, 2015-02-12

CHINA DRAFT LAW WOULD REVAMP INVESTMENT REVIEW, CONTROL TEST

A draft law unveiled by Beijing last month could dramatically reshape the regulatory environment for foreign investors in China by creating a new investment review body, scrapping a "catalog" of sectors for which investment is welcome or restricted, and introducing a new way for Beijing to test and limit foreign control of Chinese firms. Chinese Ministry of Commerce (MOFCOM) spokesman Sun Jiwen on Jan. 22 announced Beijing's plan to consolidate its three existing foreign investment laws governing equity joint ventures, non-equity joint ventures and fully owned foreign enterprises into one law governing its entire investment system. According to an unofficial translation of the draft law's explanatory statement, the new legislation is being positioned "as the law that further deepens the systematic reform, widens reform and opening up, facilitates foreign investment and regulates foreign investment administration." There are many unanswered questions about what the changes in the new law will mean in practice and how it would be implemented. But lawyers working in China and U.S. business sources described the review mechanism, the scrapping of the catalog and the new control test as having potentially major ramifications.

The review mechanism -- which would evaluate proposed investments for potential national security concerns -- would replace what has until now been an ad hoc process with a more concrete and possibly more predictable one, akin to the Committee on Foreign Investment in the U.S. (CFIUS). However, the scope of what it will examine is broad under the draft law's language, and leaves open that investments could be barred for industrial policy reasons. The draft law does not include a proposed negative list yet, and sources speculated it could be influenced by the U.S.-China negotiations toward a bilateral investment treaty (BIT). Deputy U.S. Trade Representative Robert Holleyman this week said China would likely submit its first proposed negative list offer in those talks within the first quarter of this year. The new control test under the proposed law would serve as a yardstick to determine whether a proposed investment could be allowed or would be barred under the restrictions laid out in the negative list. It sets out new definitions for what constitutes foreign control of a Chinese entity in a way that legal sources said could end up curtailing or prohibiting a currently permitted structure that allows foreign investors to circumvent China's sectoral restrictions by establishing a series of indirect relationships with a Chinese company.

Comments for the first draft of the law are due on Feb. 18, but the law itself may not be implemented until as
late as 2018, one informed source said. The draft has not received its first of three readings in the National People's Congress, China's legislature, and might not be implemented until after the U.S.-China BIT is concluded, one business source speculated. One source said the BIT will not be implemented until at least 2017. Perhaps the most significant development in the draft law is its establishment of an "actual control" test for investments which could capture a type of investment structure known as a variable interest entity (VIE) that Beijing has left untouched under the three existing foreign investment laws.

The draft itself says the joint conference can evaluate 11 specific factors, including the impact on China's leading position in technologies involving national security, the impact on the stability of the Chinese economy and "any other factor that the Joint Conference believes necessary to be considered." The process can yield one of three outcomes, according to the unofficial translation: approval of an investment if it is found not to endanger national security; conditional approval; or complete disapproval of the investment.

China is said to be seeking a broad national security exception in its BIT talks with the United States since it currently uses its case-by-case process to regulate inbound investment (Inside U.S. Trade, Aug. 18, 2014). The negative list treatment is also a central part of the law's reforms, as it will eliminate the current investment catalog which places foreign investment into three categories: prohibited, restricted, and encouraged. Under the current system, any industry not listed under one of those three categories is open to unrestricted investment, sources said, though this is a rare occurrence given how comprehensive the catalog is. According to the draft law's explanatory statement, most prospective investors under this new regime "will not need any approval when entering China," but will still be subject to Chinese reporting requirements.

Source: CHINA DRAFT LAW WOULD REVAMP INVESTMENT REVIEW, CONTROL TEST
Inside US Trade33.6 (Feb 13, 2015).

Qualcomm fine is a sign of tech risks in China

In the past decade, foreign technology companies have plowed billions into China in the hopes of tapping into a fast-growing market. Now that the country has the world's most Internet users and its largest smartphone market, foreign companies are bumping into regulatory hurdles. For foreign companies, it is a sign of the times. The Chinese government has put many foreign businesses operating in the country under heightened scrutiny for any sign of corruption, monopolistic practices and tax evasion. George S. Davis, Qualcomm's chief financial officer, said the company was disappointed with the size of the fine. The penalty will knock 58 cents a share off the company's earnings for the year. But for all its difficulties, the Chinese market -- and the potential for profit -- is just too big for companies to ignore.

Settling the investigation, Qualcomm said, sets the stage for future growth. The company's chief executive, Steven M. Mollenkopf, said that "we're still at the front end" of the Chinese market, in terms of selling smartphones. He also added that the agreement would enable Qualcomm to work closely with Chinese companies like Xiaomi, an innovative maker of software-rich phones, as they expand into markets such as India and the United States. "We've had a number of strong partnerships," he said. "Now we are better positioned." Even so, the ruling opens a new front in the economic conflict between China and the United States.

During the yearlong investigation into Qualcomm, Chinese officials made little effort to hide their position. In a recent trip to Washington, Lu Wei, the Chinese Internet czar, pointed out that half of Qualcomm's revenue came from China. Mr. Lu said foreign companies could not expect to simply make money from China without being its "friend." In a news conference on Tuesday, the commission sought to defend its $975 million fine against Qualcomm, saying that the punishment was not designed to "protect any industry, but more importantly to restore market competitiveness." In an official statement, the regulator, the National Development and Reform Commission, said that it had gathered proof that Qualcomm had taken unfair advantage of its dominant market position for chips that support cellular technology. In particular, the commission said, Qualcomm based royalties on the sale price of a smartphone, rather than the patents themselves, included expired patents in licensing agreements
and insisted that smartphone companies give permission to use their intellectual property free in cross-licensing agreements. Qualcomm customarily demands cross-licensing agreements from its customers, in part to avoid patent disputes, but also so it can offer clients' patents along with its own to other customers, giving it an edge in the market.

The investigation into Qualcomm also coincides with new initiatives by the Chinese government to bolster the nation's fledgling semiconductor industry. Though China produces many of the world's electronic devices, it is heavily reliant on foreign companies to design and produce the chips that run those devices. In 2013, China imported $232 billion of semiconductor products, eclipsing even the amount spent on petroleum. To help address the imbalance, Ma Kai, a vice premier, is leading a task force charged with making China's chip industry a world leader by 2030. The task force is estimated to have $170 billion in government support to spend over five to 10 years, according to a June report by McKinsey & Company.

The new ferocity of investigations is leading foreign tech companies to rethink their strategies in the Chinese market. "Most of the leading American tech companies feel like they're in the cross hairs here," said Daniel H. Rosen, a founding partner of the Rhodium Group, an economic research and advisory firm. "One of the strategies they've contemplated is cooperating with a powerful Chinese player to inoculate themselves from being boxed out of the marketplace." In September, the chip maker Intel, a rival of Qualcomm, seemingly took that approach, agreeing to invest $1.5 billion in Tsinghua Unigroup, a state-run company that emerged from relative obscurity last year to spend $2.7 billion to acquire two major Chinese chip design companies. Analysts say Beijing plans to make Tsinghua Unigroup into a national champion for chip design. While almost half of Qualcomm's revenue comes from the Chinese market, that revenue has dipped in recent months. It has said that is partly because it has been unable to collect full royalties from companies in China.


Jan FDI inflow jumps 29.4%

BEIJING - Foreign direct investment (FDI) in the Chinese mainland jumped 29.4 percent in January from a year earlier, settling at $13.92 billion, the Ministry of Commerce (MOC) said on Monday. The pace of growth quickened from a 1.7 percent increase in 2014, as investment in the country's service industry continued to pick up steam. A total of $9.18 billion, around 66 percent of the FDI, went into China's service sector last month. FDI into the manufacturing sector reached $3.95 billion, accounting for 28.4 percent of the total, said MOC spokesman Shen Danyang.

China's outbound investments will soon outgrow inward foreign direct investment (FDI), said Zhong Shan, China's International Trade Representative and vice-minister of Commerce at the State Council's first weekly briefing on Jan 16. Nonfinancial outward direct investment reached $102.9 billion, up 14.1 percent from 2013, the first time it topped the $100 billion mark, maintaining China's position as the third-largest global outbound investor, Zhong said. On current trends, China's outward investment is set to continue to grow faster than its utilization of foreign investment, which will make China a net investor, he added.

In 2014, China's actual use of foreign investment stood at $119.6 billion, an increase of 1.7 percent over the previous year, growing faster than other major economies, including the United States, the European Union, Russia and Brazil. This marked the 23rd consecutive year that China was the leading developing country in attracting foreign investment, according to Zhong.

Investment in developed countries from China also saw rapid growth. China's investment in the US rose by 23.9 percent, and in the EU by 1.7 fold, both much faster than overall outward investment growth, Zhong said. China spent 64.6 percent of its total investments in the service sector, with investment in the sector up 27.1 percent than that of 2013, while investment in mining dropped by 4.1 percent, representing a declined share of 18.8 percent, based on Zhong's report. "Going forward, we will focus on implementing the strategy of 'One Belt, One Road' as
we further step up outbound investment and encourage the relocation of advantageous industries and excess capacity of countries along 'One Belt, One Road,'” Zhong said.

Source: Xinhua: Jan FDI inflow jumps 29.4%, 2015-02-16

**China still darling of foreign investors**

BEIJING -- Even as growth slows and labor costs skyrocket, foreign investors keep pouring capital into China. Politically and economically stable, with a huge pool of still relatively cheap labor and improving infrastructure, China remains the powerhouse of global production. An expanding local market of increasingly rich consumers has attracted companies from around the world who want a piece of the pie.

For the first time since 2003, China has replaced the United States as the top destination for foreign direct investment - investor confidence indeed. For most, it is not just about a competitive manufacturing base, it is about proximity and access to China's vast army of prospective customers. True, China is losing some labor-intensive manufacturers to lower cost countries, but high-end products are blossoming as investment shifts to more sophisticated sectors. China's industrial clusters of raw materials and skilled labor, suppliers and logistics, designers and factories, all in one location, are hard to find in other countries. While labor costs have risen in the developed coastal regions, interior provinces and smaller cities remain much cheaper and are now more accessible than ever due to better infrastructure. As China strips away red tape, opens up more sectors and ensures equal treatment for foreign and domestic firms, it continues to present tremendous opportunities for foreign businesses.

Source: Xinhua: China still darling of foreign investors, 2015-02-18

'The dark side of China's offshore investment

Weighing up all the factors at work, China's domestic economy will most likely be OK in 2015. There will be some areas, like Internet-based small enterprises, that will probably see great progress. But there will be a dark side. And that will be about the money. It is not that Chinese companies are short of working capital or investment. The country is right now one of the few economies with an abundance of money. Since the 1990s, China has been an expert in postponing a full-fledged domestic economic crisis, and in the process, either mitigated or suppressed its would-be impact. The biggest uncertainty, however, lies outside China, in the financial validity of its long-term commitments across the globe. This is because, in overseas investment, China is still a new player and has yet to be equipped with enough experience and skills. Since more than half a century ago, China has tended to see its outbound investment not as a pure economic activity, but as a mixture blended with political significance, say a kind of friendship with humanitarian aid benefits, to countries that were ignored by the traditional major powers of the world. Since the outbreak of the global financial crisis in 2008, thanks to China's rich export income and dollar reserve, it has invested quite ambitiously in some overseas assets, from energy and mineral resources to logistic infrastructure. But now, with changing global market prices—partly because of a change in China's own demand structure—and changing politics in recipient countries, some of that investment is in danger of being wasted. The money used to buy resources at prices set a few years ago can still be regarded as an insurance of their supply. But if that money is expropriated by state leaders who don't want to honor their predecessors' treaties, they could be completely lost. This year, as many Chinese are just beginning to realize, this loss of money may bring along not just bad financial results but humiliation to the State-owned enterprises and financial institutions in question.

More importantly perhaps, money shouldn't be seen only as money, especially when it comes from the public sector, either as investment by SOEs or as government-backed loans. The same money could have been diverted to support the domestic social security system, such as its still underdeveloped medical and retirement services, and education and job training programs. Poor overseas investment would inevitably cut into China's overall development. Here officials may learn a serious lesson: Making the right investment decisions is not easy. Cross-border investment, which means putting money somewhere outside Chinese sovereignty, is particularly risky. The truly responsible type of investment is always to go to where there is a strong rule of law and a good system of
credit. Otherwise, however willingly China would like to offer its help to a country, it had better do it by playing a part in a group framework—such as to rely on the authority of an international treaty. Now that the aftermath of the financial crisis may linger for a very long time, China should be all the more cautious about using its precious money.

The author is editor-at-large of China Daily.


**Top 10 outbound M&A deals by Chinese companies 2014**

Chinese companies grew increasingly active in overseas deal-making activity last year, according to data from Thomson Reuters. The value of announced mergers & acquisitions (M&A) involving Chinese companies soared to record highs and amounted to $396.2 billion so far this year, a 44.0 percent increase compared to last year. China's overseas acquisitions in Europe grew 90.8 percent to $17.7 billion compared to last year ($9.3 billion). This is the highest deal value since 2008 driven by State Grid International Development Ltd's pending acquisition of a 35 percent stake in CDP Reti Srl. This marks the strongest-ever annual period for China-involvement announced M&A since records began in 1982.

Here are the top 10 outbound M&A deals involving Chinese companies in 2014.

No 10 Hua Capital Management Ltd and Shanghai Pudong Science & Technology Investment Co Ltd, acquired OmniVision Technologies Inc, a US digital imaging device manufacturer. Deal value: $1.22 billion

No 9 China Life Insurance Co Ltd acquired the 10 Upper bank street office building in London. Deal value: $1.352 billion

No 8 Fosun International Ltd acquired insurance businesses of Caixa Seguros e Saude SGPS SA of Portugal. Deal value: $1.412 billion

No 7 Hony Capital (Beijing) Co Ltd acquired British pizza restaurants operator, PizzaExpress Ltd. Deal value: $1.54 billion

No 6 Jiangsu Changjiang Electronics Technology Co Ltd acquired STATS ChipPAC Ltd, a Singapore based manufacturer of semiconductor packaging and testing equipment. Deal value: $1.71 billion

No 5 China National Chemical Corps acquired Blue Star Andysu Nutrition Group Co Ltd, a manufacturer of chemicals and wholesaler of feed additive. Deal value: $1.89 billion

No 4 Anbang Insurance Group Co Ltd of China acquired the Waldorf Astoria New York, an owner and operator of a hotel, from Hilton Worldwide Holdings Inc. Deal value: $1.95 billion

No 3 National Social Security Fund of China agreed to acquire 5.005 percent stake of Citic Pacific Ltd, a Hong Kong listed manufacturer of steel products. Deal value: $2.167 billion

No 2 State Grid Corp acquired a 35 percent stake in Italy based electric utility company CDP Reti Srl from Italian state-owned Cassa Depositi & Prestiti SpA. Deal value: $2.81 billion

No 1 COFCO Corp and Hopu Investment Management Co Ltd acquired a 51 percent interest in Noble Agri Ltd, a Hong Kong based wholesaler of agriculture products, from Noble Group Ltd. Deal value: $4 billion

Source: Sun Chengdong: Top 10 outbound M&A deals by Chinese companies 2014, China Daily, 2015-02-3

**Risks rise for Chinese companies' overseas M&As**

While Chinese companies have been making headlines for their global hunt for investment projects and acquisitions, a slew of troubled overseas deals have exposed increasing risks and potential losses behind these high-profile cases, experts said. On Wednesday, the Mexican authorities confirmed that they have received the official document filed by the Chinese side seeking compensation for losses in its bid for the scrapped $3.75 billion high-speed rail project, according to Mexican media reports. The deal would have been the largest single overseas construction deal won by a Chinese-led consortium. The compensation that China has demanded will likely be valued at 100 million yuan ($16 million), Chinese media reports said. Cheng Jun, partner of the Beijing-based
Zhong Lun Law Firm, said that a lack of understanding of the foreign legal and political environment is one of the main reasons for the failure of such deals. "Some Chinese companies tend to believe the verbal promises made by officials from the host country during the negotiation process. This exposes them to the default risks from the other side," Cheng said. Lack of in-depth due diligence and insufficient knowledge about counterparty transactions have also led to huge losses in some overseas Chinese merger and acquisition deals, he said.

Political risk is another major factor that led to the failure of some overseas investment deals. Among the 120 failed outbound deals between 2005 and 2014, about 25 percent were due to political reasons, a recent report showed. Though China became a net capital exporter last year with total outbound direct investment reaching a record $102.9 billion, a majority of the deals were loss-making, some experts said. Xu Hongcai, an economist at the China Center for International Economic Exchanges, said: "Lack of talent familiar with international practices has also been a major shortcoming for Chinese companies in overseas markets."

Source: Li Xiang: Risks rise for Chinese companies' overseas M&As, China Daily, 2015-02-12