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Inflation up, but not a worry

China's consumer prices beat market expectations in January to hit a three-year high thanks to pickup in consumption and travel activities during the Spring Festival season, but analysts said inflation may ease in February and not become a major concern this year. The consumer price index grew by 2.5 percent year-on-year last month, up from 2.1 percent in December, the National Bureau of Statistics said on Tuesday. The increase is believed to come mainly as a result of the increasing consumption and travel expenses during the Lunar New Year holiday, which began in late January. "The New Year holiday pushed up consumer inflation since prices of food, travel and services rose significantly during that period," said a report by the Bank of Communications. Food prices, which account for about one-third of China's CPI basket, were up by 2.7 percent year-on-year, while nonfood prices increased by 2.5 percent. "The core CPI, which excludes food and energy prices, rose above 2 percent for the first time since February 2014," Bank of Communications analysts said in a research note. "The trend of continually rising core inflation deserves close monitoring." Because of the relatively high base of inflation last February, when Spring Festival fell, the index is likely to ease significantly this month, said Hu Yuexiao, analyst of Shanghai Securities. It could drop to 1.5 percent, Hu said. Consumer inflation for the year is not expected to be high, analysts agreed.

China's producer price index, which gauges factory-gate prices, rose also faster than expected in January, indicating the economic fundamentals are strengthening. PPI rose by 6.9 percent year-on-year in January, a five-year high. The rise was mainly due to the carry-over effect of last year's price changes and rising prices of raw materials and energy products in the global market, said Sheng Guoqing, senior statistician of the NBS. "The rising PPI indicates the country's economic growth is firming up," said the Bank of Communications research note. Policymakers, however, should pay attention to the problem of rising industrial prices encroaching on corporate profits, it said. Data released this month showed China's manufacturing purchasing managers index, which reflects the manufacturing sector's activities, had expanded for six consecutive months as of January. Exports and imports also picked up strongly in the same month, consolidating views that the world's second-largest economy is on firm ground. The stabilizing economic fundamentals have led to discussions on whether the central bank will raise interest rates. The central bank has already started to guide market rates higher through open market operations and a boost in liquidity. China's monetary policy in 2017 has been set to be "prudent and neutral", according to the Central Economic Work Conference late last year. "The central bank is likely to continue on that path in the months ahead, as policymakers battle excess leverage, yuan weakness and capital outflows, and nascent inflationary pressure," Tom Orlik, chief Asia economist for Bloomberg, told Reuters.

Source: XIN ZHIMING: Inflation up, but not a worry, China Daily, 2017-02-16

China Shakes Up Top Economic Team Ahead of Major Power Shuffle; Changes come as China grapples with risks at home and abroad

BEIJING-President Xi Jinping is shaking up his economic team ahead of a major power shuffle as China battles rising financial risks at home and friction with its trading partners. The change, according to people familiar with the matter, involves China's top banking regulator, the commerce minister and the top economic-planning official, who have all reached the usual retirement age of 65. Since coming to power in late 2012, Mr. Xi has eroded the consensus-driven,
collective-leadership model of his recent predecessors, taking personal charge of the military, the economy and most other levers of power. [...] his efforts to clean up the stock markets and attract foreign capital put him on a collision course with state-owned companies looking to go public and other regulatory agencies that have seen their roles diminish. According to the people with knowledge of the personnel shakeup, the leadership is considering letting him oversee a potential merger between the banking and insurance regulatory agencies. Mr. Guo was scheduled to take an evening train to Beijing, according to an official itinerary reviewed by The Wall Street Journal, and attend a meeting Friday at the party's Organization Department, which handles personnel matters.

Source: Lingling Wei; Chun Han Wong: China Shakes Up Top Economic Team Ahead of Major Power Shuffle; Changes come as China grapples with risks at home and abroad, Wall Street Journal (Online); New York, N.Y. [New York, N.Y] 24 Feb 2017: n/a.

Bankers see growth slowing, innovation rising

Chinese bankers forecast the nation's economic growth will be slower in the next three years. Technological innovation will be their new focus, according to a report co-released by the China Banking Association and PricewaterhouseCoopers on Friday. The report was based on a survey of 1,794 Chinese bankers in 2016. The report showed that only 41.2 percent bankers forecast China's economic growth rate will be between 6.5 percent and 7 percent in the next three years, and 54.8 percent of them think the GDP growth rate will be lower than 6.5 percent during the period.

"While the world is facing difficulty in finding a new economic growth driver, China is trying to dissolve excess capacity and develop new sources of economic growth," said Ba Shusong, chief economist at the CBA and the principal author of the report. The report said technological innovation is likely to be the new focus area of Chinese bankers. Some 44.7 percent of them regard it as their top concern. Other big concerns include industry restructuring, ways of financing and the changes in regional economy. "Technological innovation is important for optimizing and upgrading industrial structure and thus boosting the economy," Ba said. The report also showed that 47.2 percent of respondents will increase investment in internet-based finance. And information technology-related risk will likely become their top concern, followed by legal risk and decision-making risk. Blockchain technology is popular among Chinese bankers—75.4 percent of respondents think the technology can be used for payments and settlements. And 51.8 percent believe it is useful for digital currency. Blockchain technology allows parties to carry out direct transactions without using an intermediary. This it does by providing a means for people to share reliable and tamper-proof lists of information known as distributed ledgers or blocks. Given global economic uncertainty and restructuring of China's economy amid domestic challenges, Chinese banks are experiencing pressure of asset quality, said Jimmy Leung, banking and capital markets leader of PwC China. But there are also opportunities for the banking industry to benefit from the nation's supply-side reforms involving differentiated services and the development of financial technologies, said Leung. Chinese bankers also regard debt-to-equity swaps as an effective measure to dispose of nonperforming assets of banks. But there are also some concerns. The survey showed 38.7 percent of respondents think the debt-to-equity swap mechanism cannot be widely implemented and 35.7 percent said the move will increase bank capital consumption.

Source: Cai Xiao: Bankers see growth slowing, innovation rising, China Daily, 2017-02-25
Consumption surges during Lunar New Year holiday week

China saw robust consumption during the Chinese Lunar New Year holiday week, which ran from Jan 27 to Feb 2, according to data released by the Ministry of Commerce. Sales revenue during this period topped 840 billion yuan ($140 billion) in the retail and catering industries, an 11.4 percent increase from last year. Apart from the continuously growing sales of folk culture products, home appliances, digital products and jewelry, the entertainment and leisure sectors also saw growth. “Online grocery shopping, online meal take-away, personally tailored tours and shared services have also seen significant boosts,” said Gao Hucheng, Minister of Commerce. The holiday season has significantly stimulated the supply and demand of festival goods. Both wholesale and retail markets have expanded their stocks, especially of foods, oils, meat, vegetables, dairy products and daily commodities, while various sales promotion events, both online and offline, have successfully raised sales. For example, Beijing hosted a market of products from Tianjin, Hebei province and Beijing. It also offered the opportunity for companies from provinces such as Shaanxi, Henan and Sichuan to introduce their high quality products to the palates of Beijing people. Embracing the Chinese zodiac year of the rooster, gold and silver jewelry with rooster elements have been a hit. For enterprises in Gansu, Hebei and Anhui provinces, sales of roosters-related jewelry have increased by 15 percent, 12 percent and 10.8 percent respectively on a year-on-year basis, according to analysis by the Ministry of Commerce. “This indicates an upgrading trend in Chinese people's shopping habits. The growing acceptance of healthy eating and a healthy lifestyle has accelerated the sales of local products, fresh fruits and vegetables, and healthcare products,” said He Jingtong, a professor of consumption studies at Nankai University in Tianjin.

Digital products, including smartphones and tablets, were the black horses in the market during the Spring Festival sales. In the New-Mark department store in Zhengzhou, capital of Henan province, the sales of telecommunications products saw a leap of 66.7 percent. Spending in the entertainment and leisure sector has also expanded. In the first four days of the national holiday, the national cinema ticket sales hit 2.4 billion yuan. Tickets of venues like the National Theatre and the Shanghai Dramatic Arts Center were also hot.

Source: REN XIAOJIN: Consumption surges during Lunar New Year holiday week, China Daily, 2017-01-30

A Rare Beijing Acknowledgement: Weaning China Off Debt Is Hard to Do

Economists inside and outside China have long warned that China is making little progress bringing down the country's dangerously-high debt levels. Some official voices are now joining in. “Corporate leverage, especially the debt ratios of state-owned enterprises, remains high,” said Yang Kaisheng, a former top Chinese banker and now an adviser at the China Banking Regulatory Commission, at the annual conference of the China 50 Forum, which was founded by Liu He, President Xi Jinping's top economic adviser, and often conducts economic studies on behalf of China's policymakers. Mr. Yang said even as the central government has made cutting debt a top priority in the past year, the economy's overall leverage ratios are going up, not down. In particular, he pointed out, as of the third quarter, debt-to-asset ratios at state-owned industrial companies ticked up to 61.5% from 61.2% a year earlier. "It shows how difficult it is to reduce leverage," Mr. Yang said.
Overall credit has been growing faster than the Chinese economy since the 2008-09 global financial crisis -- at a pace that has alarmed policy makers and investors around the world. Data released Tuesday show total social financing, a broad measure of credit in the economy that includes both bank loans and nonbank financing, reached a record 3.74 trillion yuan ($545 billion) in January. As of the end of last year, total nonfinancial-sector debt stood at 277% of China's gross domestic product, according to a recent study by UBS Group AG, amounting to 205 trillion yuan. Of the 277% figure, UBS estimates that corporate debt accounts for about 164% of GDP, followed by a 68% as represented by government debt and the 45% by household debt. A driving force behind the persistent credit surge is China's continued reliance on debt to fuel growth, which has led to an oversupply of unwanted goods and homes as well as a fast buildup of leverage.

At the economic conference Wednesday, some governmdescribe its plan to cut overcapacity, debt and housing inventory -- has been difficult in reality. One issue policy makers face is "how to create a stable macro environment for reform to take place," said Chen Dongqi, a senior economist at a think tank affiliated with China's top economic planning agency, the National Development and Reform Commission. In the past years, some researchers at the commission and elsewhere have urged China's central bank to aggressively loosen monetary policy to help lower funding costs for Chinese businesses. But instead of loosening, the People's Bank of China recently has shown a slight tightening bias in an effort to control asset bubbles as well as to steady the yuan.


China to keep monetary policy neutral: Central bank official

BEIJING - China should keep its monetary policy stable and neutral, a Chinese central bank official said Wednesday. Yi Gang, deputy governor of the People's Bank of China, made the remarks at the annual meeting of Chinese Economists 50 Forum (CE50) when responding to questions on China's monetary policy. Top officials have set China's monetary policy in 2017 as "prudent and neutral" to keep appropriate liquidity levels and avoid large injections, as the government tries to maintain stable growth while avoiding risks. Yi said that keeping monetary policy neutral meant not being too tight or loose. Chinese banks extended 2.03 trillion yuan ($295 billion) of new yuan loans in January, doubling from a month earlier, a level that Yi described as "very appropriate." In open market operations earlier this month, the central bank raised the lending rates to banks by 10 basis points, a move widely interpreted as a shift towards a more neutral monetary policy. China's GDP grew 6.7 percent year on year in 2016, the lowest in nearly three decades, but within the government's target range. Founded nearly two decades ago, the CE50 is a civil academic organization and think tank that brings together around 50 prominent Chinese economists, including officials and academics.

Source: Xinhua: China to keep monetary policy neutral: Central bank official, 2017-02-16

Chinese banks lend more to agriculture, small firms

BEIJING - Chinese banks strengthened financial support for agriculture, small-and-micro enterprises and affordable housing projects last year. Outstanding agriculture-related loans stood at 28.2 trillion yuan ($4.1 trillion) at the end of 2016, up 7.1 percent year on year, according to a statement posted on the website of the China Banking Regulatory Commission. Outstanding loans to small-and-micro firms hit 26.7 trillion yuan, up 13.8 percent. Lending to affordable housing
projects surged 58.7 percent from a year ago, well above the average loan growth of 12.8 percent. China has channeled more energy into fostering agricultural development and small businesses, with financial support playing a significant role. The People's Bank of China, the country's central bank, said on Tuesday that it would extend a favorable policy that allows banks with big lending to small and agricultural firms to enjoy a lower cash reserve ratio. The statement also showed falling bad loan ratio and better profit of banks last year. Chinese lenders saw the ratio of their non-performing loans fall to 1.74 percent at the end of 2016, slightly down from 1.76 percent a quarter ago. Banks reported faster profit growth thanks to a firming economy. Net profits of commercial lenders increased 3.54 percent year on year, up 1.11 percentage points from a year ago.

Source: Xinhua: Chinese banks lend more to agriculture, small firms, 2017-02-22

**Profits of China brokerages shrink in 2016**

BEIJING - Fifteen Chinese listed brokerages have estimated profit declines for the last year as thin stock trading dragged down their incomes in commission fees. Those brokerages, accounting for more than half of the country's publicly traded securities firms, reported combined net profits of 53.66 billion yuan ($7.8 billion) in their preliminary earnings estimates for 2016, only half of the figure seen in 2015, according to RoyalFlush Information, a financial information service provider. Their total revenues declined nearly 40 percent to 164.87 billion yuan, mainly weighed on by substantial drops in commission fees. Chinese shares were still in the middle of a sluggish recovery from sharp plunges, prompting investors to be more cautious in making transactions, while booming property sales also drained money from the stock market. The benchmark Shanghai Composite Index stood at 3,103.64 points at the end of 2016, down 12.31 percent year on year. Changjiang Securities Co saw the lowest profit decline, while CITIC Securities Co appeared to be the most profitable brokerage. Despite lackluster brokerage charges, securities companies saw expanding asset management and investment banking business last year, which grew 8 percent and 29 percent in terms of net income, respectively, data from the Securities Association of China showed.


**Get Ready for China's Coming Cash Crunch**

The risk of an accident is all the more acute given the Communist Party's policy priorities. Early in 2016, Beijing reacted to a slump in growth by ordering a vigorous monetary and fiscal stimulus. By December, the party's annual Central Economic Work Conference felt either confident enough about the economy or concerned enough about the escalation of debt to give top billing instead to the need to restrain financial risks.

Concern about financial risk is understandable. China's total debt has soared since the 2008 crisis as the government has poured money into unproductive investments to sustain growth. The result is that China's nongovernment, nonfinancial debt has ballooned to an estimated 209% of gross domestic product, almost as great as Japan's was at its peak. As the economist Herb Stein once said, "If something can't go on forever, it will stop." China's debt is on course, sooner or later, to confirm Stein's Law.

With the Communist Party's five-yearly National Congress taking place in the autumn, stability might be expected to be Beijing's overriding priority this year. But if the Party has finally
realized that it can no longer delay tackling the economy's financial and economic imbalances, 2017 could yet turn out to be the year of China's debt reckoning.

**China to prevent debt level rise and asset bubbles: Central bank economist**

BEIJING - China's monetary policy will be prudent and neutral in 2017, which will help prevent a rapid rise in debt levels and asset bubbles, central bank economist Ma Jun said Thursday. The policy stance will also help keep economic growth at a reasonable pace and ensure inflation is at a stable level, Ma said in a statement the People's Bank of China sent to Xinhua. According to remarks Ma made at a meeting in Singapore, China is seeking to further open up its bond market and create conditions for inclusion of its bonds in major global indices. Ma said the State Administration of Foreign Exchange was working to improve rules allowing overseas non-central bank institutional investors to participate in the domestic foreign exchange derivatives market. The PBOC will also explore ways to expand trading hours at the interbank bond market and enhance international cooperation on bond market infrastructure, Ma said.
Source: Xinhua: China to prevent debt level rise and asset bubbles: Central bank economist, 2017-02-24

**Guo is CBRC chief, sector upbeat**

The appointment of Guo Shuqing, governor of Shandong province, as chairman of the China Banking Regulatory Commission on Friday, will benefit the financial services sector in terms of reform, risk control and coordination with regulators of related industries, said researchers and economists. Guo, 60, replaces the retiring Shang Fulin, 65, who has been CBRC chairman since October 2011. Born in August 1956, Guo gathered rich experience in economic and financial sectors before his appointment as Shandong governor. He helped design the country's economic reform system in the 1980s and 1990s. He was later named vice-president of the People's Bank of China, the central bank, and administrator of the State Administration of Foreign Exchange in 2001. He went on to become chairman of China Construction Bank Corp in 2005 and chairman of the China Securities Regulatory Commission in 2011. Wu Qing, a banking research fellow with the Development Research Center of the State Council, who received academic guidance from Guo, said as a high-ranking official and a long-term expert on Chinese economic reform and financial regulation, Guo had shown strong administrative skills, which would now strengthen the financial sector. "China still has a long way to go in terms of financial reform, which requires a leader such as Guo, who has courage and insight to take tough decisions based on his knowledge and experience. I believe he is a man with lofty goals who can get the job done," Wu said. Zhou Jingtong, a senior economist with the Institute of International Finance at Bank of China Ltd, said: "Guo's experience as a banker, a provincial governor and head of China's top securities regulator, combined with his deep understanding of macroeconomics, will help him fight against major financial risks, many of which are associated with banks and local governments." Guo's appointment has raised positive market expectations, said Qu Tianshi, an economist at ANZ Group. "His experience at the central bank and the China Securities Regulatory Commission enabled him to strengthen communication with other financial regulators. It will further help improve regulatory coordination among the central bank and the other three financial regulators,"
Qu said. Yang Tao, assistant director of the Institute of Finance and Banking under the Chinese Academy of Social Sciences, said the post of CBRC chairman requires the incumbent to enhance financial regulatory coordination, as financial risks often surface in areas not clearly marked to be under the purview of any sectoral regulator.

Li Xiang contributed to the story.

Source: Jiang Xueqing: Guo is CBRC chief, sector upbeat, China Daily, 2017-02-25

CIRC cracks the whip on Foresea Life

China's insurance regulator on Friday imposed heavy penalties on Foresea Life Insurance Co and several executives including its chairman Yao Zhenhua for illegal investment. The move came after Xiang Junbo, chairman of the China Insurance Regulatory Commission, pledged to punish speculative and illegal activities by the insurers as the regulator seeks to prevent the buildup of systemic risk in the industry. Yao, the business tycoon and owner of private conglomerate Baoneng Group, was barred from the insurance industry for 10 years by the regulator. The CIRC also stripped Yao of his title as the chairman of Foresea Life, a subsidiary of Baoneng. In addition, the regulator imposed a combined fine of 1.36 million yuan ($198,000) on Foresea Life and six of its executives. The regulator said in a statement that Foresea Life had provided fake documents and broke the rules capping the maximum investment in equities including publicly traded stocks at 30 percent of insurers' total assets. The CIRC said in a statement: "The regulator will closely monitor the company's operation and urge it to adopt effective measures to keep its operation intact." On Friday, Yao pleaded for lighter punishment and argued that he was not directly responsible for the malpractice at Foresea Life. Yao gained prominence and drew the regulator's attention for a string of high-profile and hostile investments for the stakes in listed companies, including property developer China Vanke Co Ltd. Zhu Junsheng, an insurance researcher at the Development Research Center of the State Council, said that the punishment by the CIRC reflected the regulator's determination to clean up illegal practices and to prevent the accumulation of risks in the market. He said: "The rapid growth of the insurers and their aggressive investments have exposed serious risks in the system. It is reasonable for the regulator to take such actions and to contain risks."

Source: Li Xiang: CIRC cracks the whip on Foresea Life, China Daily, 2017-02-25

Anti-money laundering bodies vow to expose underground banks

Authorities have pledged to work together to intensify the crackdown on illegal underground banks to maintain financial order and security, Economic Information Daily reported. Police in the northeastern city of Qitaihe, Heilongjiang province, have successfully busted an underground banking network that handled hundreds of billions of yuan worth of illegal transactions. The case involved eight underground banks and more than 80 suspects were arrested. Shu Jianping, head of the anti-money laundering office of the economic crime investigation division of the Ministry of Public Security, said that the Qitaihe case showed that criminals are upgrading their methods and spreading to inland regions from coastal areas. Cases related to underground banks affect several industries, including foreign trade and real estates, Shu added. "Underground banks have been a quick way to transfer money for a long time, for they are anonymous and hidden. Many criminals have taken advantage of the channel to transfer their illegal gains to abroad," said Zhang Niannian, an official with the central bank, the People's Bank of China. The central bank will track and
analyze new methods of crimes, especially in non-financial institutions and sectors, and improve anti-money laundering measures, Zhang said. The Ministry of Public Security will continue to act against illegal underground banks in cooperation with the central bank and the State Administration of Foreign Exchange this year, the newspaper added.

Xinhua contributed to this story.
Source: Anti-money laundering bodies vow to expose underground banks, China Daily, 2017-02-27

**Chinese third-party mobile payments reached $5.5t in 2016: Data**

Driven by the explosive growth of internet finance, China is now witnessing a boom on mobile payment market. Data showed that value of Chinese third-party mobile payments has tripled to 38 trillion yuan ($5.5 trillion) in 2016. With the popularity of mobile payment, the Chinese people can enjoy life without cash or cards as what they need is a mobile device. Even the farmers and herdsmen living in the remotest villages in Tibet can now use their cell phones to purchase daily necessities online since local administrative villages have been completely covered by communication signal.

A survey by Nieslen, a US-headquartered global information, data, and measurement company, showed that about 86 percent of Chinese consumers paid for online purchases with mobile apps, far outnumbering that of other countries. A Financial Times report said that the value of Chinese third-party mobile payments has tripled to 38 trillion yuan in 2016, nearly 50 times greater than that in the US in the same period. About 60 percent of Chinese consumers who use mobile payments enjoy paid via mobile apps every week, although most of those transactions are in small amounts, said the report released by China's Payment & Clearing Association.

Experts pointed out that the mobile payment brings great convenience to the small and micro-businesses. Without complicated procedures or threshold, it can accelerate the transaction efficiency. Such service can also complement the payment systems provided by big financial institutions, experts added. The mobile payments have reached China's urban and rural areas in a balanced way. The third-party payment has not only transformed the consumption habits of Chinese people, but also helped upgrade the online, telephone and other banking services, said Yin Zhentao, deputy director of the Research Center for Financial Law and Regulation under the Chinese Academy of Social Sciences, adding that such services lowered the transaction cost and motivated the vitality of entity businesses as a result. Seeing the business opportunities, quite a number of internet finance companies have begun to test water in the overseas market. Alipay, a third-party online payment platform run by Ant Financial Services Group, an affiliate company of Alibaba Group, is now providing online payment and tax refund services for overseas Chinese tourists by teaming up with local payment agencies and businesses. The platform, at the same time, has inked cooperation deals with payment service providers in countries like the US, the UK, Germany, France, Japan, South Korea, Australia, New Zealand, Russia and Brazil. The "internet finance" has been included in Chinese government's work report for three consecutive years since 2014. It is expected that topics related to the agenda, including risk prevention and development direction, will be discussed at this year's annual sessions of the National People's Congress and Chinese People's Political Consultative Conference as well.

Source: Chinese third-party mobile payments reached $5.5t in 2016: Data, People's Daily, 2017-02-27
China's asset management business scale hits 51.79t yuan

BEIJING -- The total scale of China's asset management businesses stood at about 51.79 trillion yuan ($7.54 trillion) by the end of 2016, data from an industry body showed Friday. The figure amounts to a year-on-year increase of 31.4 percent, according to statistics released by the Asset Management Association of China. The growth rate plunged from an annual growth of 92.2 percent in 2015. In breakdown, fund management companies operated public funds worth about 9.16 trillion yuan, with 3,564 open-end funds. They also managed assets worth nearly 16.89 trillion yuan for segregated accounts. Value of asset management businesses of futures companies stood at 279.2 billion yuan.

Source: Xinhua: China's asset management business scale hits 51.79t yuan, China Daily, 2017-02-4

Securities chief vows to 'capture' manipulators

China's top securities watchdog vowed on Friday to "capture big crocodiles" in the country's stock market, suggesting that a tougher regulatory stance against stock speculation and manipulation will be a priority for the regulator. In a highly anticipated speech at the regulator's annual work meeting, Liu Shiyu, chairman of the China Securities Regulatory Commission, implied that the "big crocodiles" were tycoons who wield capital power to manipulate stock prices and disrupt fair market play. "No one will be allowed to create winds and waves in the stock market. The big crocodiles will not be allowed to suck the blood of small investors," Liu was quoted by Chinese media outlets Caixin and Sina.com as saying. Liu's remarks were seen as the latest evidence of China's increased supervision of illegal market activities. "I think Liu has been frank with his opinion. Increased supervision and regulation have begun and will be one of the themes for 2017," said Hong Hao, chief strategist at BOCOM International in Hong Kong.

The CSRC chief has been known for his outspoken attitude and harsh criticism of the Chinese stock market. He recently condemned the aggressive buyouts of listed companies by those using speculative capital, whom he described as "evil monsters" and "barbarians" in the market. Liu was appointed the country's securities chief in February last year after the stock market suffered a turbulent ride that wiped out massive market value. At Friday's meeting, Liu also said that the regulator's review and approval of initial public offerings by companies is not contradictory to the goal of introducing a registration-based IPO mechanism, which he said remains the "direction" of the capital market reform. Deng Ge, a CSRC spokesperson, said on Friday that the regulator will maintain a normal pace for the IPO approval and will actively increase new share supplies in the market while forbidding companies from using the proceeds for speculative purposes.

Source: Li Xiang: Securities chief vows to 'capture' manipulators, China Daily, 2017-02-11

China private equity industry posts strong growth momentum

BEIJING - China's private equity industry posted strong growth momentum last month, with total assets nearly touching 11 trillion yuan ($1.6 trillion). Chinese private equity firms have assets totaling 10.98 trillion yuan under management at the end of January, a soar of 740 billion yuan from the end of 2016. There were around 18,000 officially registered private equity firms at the end of January, employing more than 280,000 people and managing over 47,500 fund products. The number of private equity firms with assets of at least 10 billion yuan reached 147 at the end of
last month. The rapid development of private capital industry bodes well for China's small and medium-sized enterprises (SMEs) which often have financing difficulty. Chinese securities authority has encouraged small firms to broaden financing channels, including attracting investment from private equity firms. With so many investors now looking for good companies in which to invest, the availability of capital for SMEs is expected to increase in the years to come.
Source: Xinhua: China private equity industry posts strong growth momentum, 2017-02-13

Shanghai to shake up state enterprises ownership

Shanghai has unveiled new measures to reform State-owned enterprises (SOE), including allowing employees of 10 pilot SOEs to hold shares, the 21st Century Business Herald reports. Shanghai plans to help two or three SOEs to publicly list their entire company or their core business assets this year. The city would also promote 10 qualified mixed-ownership models with employees given shares. Two or three scientific research institutes have also been urged to deepen reforms and establish diversified investment and a market-oriented management mechanism. Deepening SOE reform and developing a mixed-ownership economy is the top priority this year. Other major tasks discussed at the meeting included improving State-owned assets operation platforms and incentive mechanisms. Shanghai previously proposed that more than 85 percent of State-owned assets focus on strategic emerging industries, advanced manufacturing, modern service, infrastructure and other major sectors related to social well-being, by the end of the 13th five-year plan period. In 2017, Shanghai will adjust the structure of State-owned assets, increase investment worth of 400 billion yuan ($58.28 billion) to the target sectors, according to the meeting. China has about 150,000 SOEs that hold more than 100 trillion yuan in assets and employ over 30 million people. China published complete guidelines on its SOE reforms in September last year, promising to start mixed-ownership pilots, opening up more industries to private capital, and build modern enterprise systems.
Source: Shanghai to shake up state enterprises ownership, China Daily, 2017-02-17

China eases restrictions on stock index futures trading

BEIJING - The Shanghai-based China Financial Futures Exchange (CFFEX) announced late Thursday that it was easing restrictions on domestic stock index futures trading in a “sound and orderly” way. In a move to “facilitate market functions”, the CFFEX said. It will double the maximum limit on daily stock index future trading from 10 lots to 20 lots from Friday. Hedging transactions will be excluded from this restriction. The CFFEX will also reduce margin requirements for non-hedging transactions on Hushen 300 index futures and SSE 50 index futures from 40 percent of the contract value to 20 percent from Friday’s clearing, while that for CSI 500 index futures will be cut to 30 percent. The margin requirement for hedging transactions will be kept at 20 percent. Commission fees for intra-day position closing will be lowered to 0.092 percent of the transaction volume from the previous 0.23 percent. Regulators tightened stock index future trading in 2015 to curb speculation and stabilize the market following a stock market plunge. China launched the stock index futures in 2010 to boost the capital market, allowing investors to hedge risks and ease fluctuations in market.
Source: Xinhua: China eases restrictions on stock index futures trading, 2017-02-17
**Pension funds of seven Chinese regions entrusted for investment**

BEIJING -- Seven Chinese provincial-level regions, including Beijing and Shanghai, have started entrusting their pension funds to the National Council for Social Security Fund (NCSSF) for investment. A total of 360 billion yuan ($52.33 billion) is being transferred from scattered bank accounts operated by local authorities to the NCSSF for centralized asset management, the Economic Information Daily reported on Tuesday. The move is the latest effort by China to improve returns of its vast locally managed pension funds, which have traditionally been parked in banks or used to purchase treasury bills. Unlike governments, the NCSSF is allowed to invest in a variety of financial products, including bonds and equities. The fund saw a 15-percent investment return in 2015, with total entrusted assets worth 1.9 trillion yuan. Brokerage GF Securities estimates around 2 trillion yuan in pension funds nationwide could be used for investment, about half of the total balance of the country's pension fund accounts as of the end of last year. Wang Zhongmin, vice chairman of the NCSSF, said the specific amount of available funds still cannot be determined due to uncertainties from local authorities. The State Council issued guidelines to loosen investment rules on pension funds in the summer of 2015, greenlighting their entry into the stock market, which had been suffering from plunges. The move has been closely watched by the capital market, which calls for more long-term institutional investors to stabilize the market. The government's priority remains stable asset growth, avoiding bold investments as the proportion of pension funds in stock-related investments is limited to 30 percent. "Liquidity and safety should still be first," said Dong Dengxin, a financial researcher with Wuhan University, who advised a cap of 10 to 15 percent for equity investment during the preliminary stage. Rather than giving an immediate boost, analysts believe pension funds will bring long-term benefits to China's A-share market, optimizing the structure of investors and curbing market volatility.

Source: Xinhua: Pension funds of seven Chinese regions entrusted for investment, 2017-02-21

**Securities watchdog stresses strict supervision**

BEIJING - China's securities watchdog has said it will attach greater importance to supervision in the capital market to guard against risks and protect the rights of investors. Liu Shiyu, chairman of the China Securities Regulatory Commission (CSRC), said the CSRC would be strict in market supervision in 2017 in order to maintain market stability. The CSRC is working with the Ministry of Public Security, the Supreme People's Court and the Supreme People's Procuratorate in cracking down on market fraudsters, and drafting judicial interpretations of supervision policies. The CSRC issued 218 penalty notices in 2016, up 21 percent year on year, and confiscated 4.28 billion yuan ($626 million), nearly triple the amount the previous year. The Chinese securities watchdog has also strengthened its cooperation with overseas counterparts, dealing with 178 international cases in 2016. To prevent market risks, the regulator will keep a close eye on financial conditions both at home and abroad and be prepared," CSRC assistant chairman Xuan Changneng said in January. Xuan said that progress was made in capital market regulation last year thanks to action against wrongdoing and a vibrant market. "The stock market in 2016 was much steadier compared with a year earlier. Only seven trading days registered changes beyond two percent from March to December last year, and the benchmark Shanghai Composite Index gained 15 percent in the period," he said. "The two stock exchanges both saw fluctuations of less than 10 percent in the second, third and fourth quarters." IPOs and refinancing by cash raised 1.33 trillion yuan last year, up 59 percent. IPOs hit a five-year high, according to
Xuan. "The bond market also flourished, with non-financing enterprises issuing 2.87 trillion yuan of bonds last year, up 170 percent," he said. "While financial risks were generally controllable, challenges remain," said Lai Xiaomin, president of China Huarong Asset Management, a major state-owned asset management company. Lai highlighted the buildup of non-performing loans, a slower economy, shortage of liquidity and squeezed profit space as major risks. He called for better corporate governance structure to hold directors and supervisors responsible, while stepping up regulation and granting greater authority to regulators.

In July last year, the CSRC announced its decision to delist a company from China's stock market following fraud during its IPO, the first time authorities have taken such action. "It is said to be the most severe penalty yet for IPO fraud in China. The company will be barred from relisting," said CSRC spokesperson Zhang Xiaojun, declaring "zero tolerance" for IPO fraud. Previously, delistings were mostly for failure to meet profitability requirements. The tougher regime is in answer to persistent calls for an effective delisting mechanism. Under the current scheme, IPOs are limited in number and require approval from market authorities. While it is difficult for companies to go public, it is not much easier to delist them due to opposition from shareholders and local governments. Though some companies performed poorly or were caught fabricating financial data, many of them clung on to their status through mergers and acquisitions or by becoming shells for other companies unwilling to go through the tortuous IPO pipeline. By the time regulators changed the delisting rules in July 2014, only 78 companies had been delisted from the two bourses since 1993, when delisting was formally introduced. It is said that, so far, nearly 70 companies revoked their IPO applications unasked, daunted by the regulator's strict IPO supervision.

Source: Xinhua: Securities watchdog stresses strict supervision, 2017-02-21

China to tighten stock market supervision

BEIJING - China will tighten supervision of stock markets to prevent systematic financial risks, said an official with the country's securities regulator on Sunday. "We will fully implement compliance risk management, standardize investment banking business and keep enriching financial products," said Li Chao, deputy head of the China Securities Regulatory Commission (CSRC) at a press conference. Li noted that stock markets fluctuations in 2015 were a painful lesson for regulators. In 2016, regulators stopped the expansion of some financial companies and dealt with illegal acts, Li said. Regulators imposed more than 200 administrative measures against securities firms, fund managers and others who were found to be acting improperly, he added.

The insurance regulator said Saturday that it had restricted stock trading by Evergrande Life, a unit of property conglomerate Evergrande Group, for one year due to irregular operations. On Friday, the insurance regulator barred Yao Zhenhua, chairman of Foresea Life Insurance, from the insurance industry for 10 years for irregular market operations.

Source: Xinhua: China to tighten stock market supervision, 2017-02-27

Chinese groups seek funding from overseas

Chinese companies have borrowed more money from the international bond market than from domestic investors this year, breaking with tradition as authorities in Beijing focus on curbing capital outflows. Banks and other corporate borrowers have been quietly encouraged to raise money offshore in other currencies, limiting the need for Chinese companies to sell renminbi
to finance overseas investments. Borrowing more outside the mainland also allows for the possibility that companies will remit some of the cash back home, bolstering the Chinese currency in the process. Led by banks and property developers, corporate China has raised $26.1bn from offshore bond sales compared with $21bn at home, according to Dealogic. Chinese companies have also been prompted to seek foreign-based funding by the higher interest rates that policymakers have introduced this year. Banks have long been among the most active in raising money in other currencies to support expansion overseas. This month the Hong Kong units of Bank of China and ICBC tapped investors for $4bn in two, three-year dollar-denominated deals, while China Construction Bank’s European arm raised €500m. The flood of deals beyond the mainland also suggests a measure of corporate confidence that China has the renminbi’s depreciation under control, bankers say, since borrowers’ liabilities would increase sharply if the currency were to plunge. Last year the renminbi weakened 5.8 per cent against the dollar in offshore markets and 6.5 per cent onshore. So far in 2017, the offshore rate has gained 1.7 per cent as the dollar’s rally has paused.

“There is a combination here of China encouraging borrowing offshore and people making judgments that the depreciation story may not be as severe as they thought,” said CG Lai, head of global markets for Greater China at BNP Paribas. Mr Lai added that the early year uncertainty over the direction of Chinese interest rates also damped domestic activity as borrowers and investors faced tighter monetary conditions than expected. The People’s Bank of China surprised markets by tightening a series of money market rates after the weeklong lunar New Year holiday. “January was extremely uncertain but people are now more comfortable that China is not changing its policy to ‘tight’ straight from ‘easy’, but is more neutral,” said Mr Lai. Those jitters were enough to push onshore yields far higher, with three-year corporate bonds averaging 5.56 per cent this year compared with 4.63 per cent in the last quarter of 2016. Bankers do expect corporate China’s borrowing patterns to revert to type, with borrowing in the mainland outstripping foreign activity. ‘This is temporary because the onshore bond market is experiencing something of a market correction with a significant shift in the yield curve,’” said one banker.

Source: Jennifer Hughes, Don Weinland in Hong Kong: Chinese groups seek funding from overseas, Finacial Times, February 28, 2017

China’s social security fund sinks $260m in 12 companies

China's national social security fund is among the top 10 shareholders of 12 listed companies, buying up 1.78 billion yuan ($259.2 million) in shares, according to a Securities Daily analysis. The fund holds 24.5 million and 17.41 million shares in commercial real estate company Future Land Group and Super Shine respectively as of the fourth quarter of 2016. The fund also holds more than five million shares in each of HuangShan NOVEL, Huangshan Jinma, Jianmin Group, Porton Fine Chemical, Lier Chemical, Wuhan Sanzhen Industry Holding, Anhui Xinli Finance and Guanhao Biotech. Gosun Holding and Guangdong Dowstone Technology also listed the social security fund among their top investors in the fourth quarter. Four companies that were invested by the fund in the fourth quarter also have top shareholders including the State-owned China Securities Finance Corp and Central Huijin Investment. The stocks of Future Land, Dowstone Technology and Lier Chemical have subsequently risen by 23.6 percent, 6.8 percent and 4.75 percent respectively so far this year, while Porton Fine Chemical’s stock has dropped 4.7 percent.
**China further opens bond market to overseas investors**

BEIJING - China opened its foreign exchange derivatives market to overseas non-central bank institutional investors on Monday. The investors are allowed to trade forwards, forex swaps and options over the counter with banks, according to a circular released by the State Administration of Foreign Exchange (SAFE). Access was granted in light of the increased presence of overseas institutional investors, which held bonds worth 870 billion yuan ($126.6 billion) by the end of 2016, up 83.4 billion yuan from 2015, SAFE said. China will deepen the opening-up of its foreign exchange market by creating more trade tools and allowing more participants, SAFE said.

Source: Xinhua: China further opens bond market to overseas investors, 2017-02-28

**China's consumption to maintain strong growth in 2017**

BEIJING - China will maintain strong growth in consumption this year with deepening supply-side structural reform, Commerce Minister Gao Hucheng said Tuesday. The trend will persist between 2016 and 2020 and feature more online retail sales and consumption of more quality goods and services, he said at a news conference, citing stellar growth in these sectors. Retail sales, a key indicator of consumption, have been growing at double-digit rates annually for years, he said, adding e-commerce has facilitated the spike in consumption. The volume of online retail sales rose 26.2 percent to hit 5.2 trillion yuan ($755.3 billion) in 2016 over the previous year, he said. Consumption is shifting gears with Chinese consumers buying more expensive and premium products. Over 28 million automobiles were sold in China last year, up 13.7 percent year on year, while new-energy vehicles posted growth of 53 percent, he said. Consumption of services is growing faster than that of goods thanks to rapid expansion in sectors such as catering, housekeeping and care, he added. Consumption has become the primary driver of China's economy since 2014, contributing 64.6 percent to China's GDP growth in 2016, up 4.9 percentage points than in 2015, Gao said. The ongoing supply-side reform will narrow the discrepancy between the supply of goods and services and shifting market demands, unlocking more potential. Retail sales of consumer goods are expected to jump by 10.2 percent year on year to exceed 37 trillion yuan in 2017, contributing more than 70 percent of the country's economic growth, according to an earlier report issued by the China General Chamber of Commerce. In 2017, China will forge ahead with the supply-side structural reform by improving the supply structure and consumption environment, the minister said.

Source: Xinhua: China's consumption to maintain strong growth in 2017, 2017-02-21

**Changing labor demand shows China manufacturing hub upgrade**

GUANGZHOU - In the busy spring recruitment season in China's manufacturing hub of Guangdong, job vacancies in the traditional manufacturing sector decline, but the demand for technical personnel increases. The general demand for labor in manufacturing has been surpassed by other sectors and tends to decline further, according to a local major recruitment agency. "I thought it would be good if my son found work as a manager in a factory in Guangdong but, unexpectedly, he tried jobs as a courier and a seller of phones and even real estate," said Liu Guangli, a migrant worker from Central China's Hunan province. To the father's growing
astonishment, the son then resigned from his job in Guangdong and went back to Hunan to start his own business with friends. Development of China's central and western regions is one factor in the dwindling flow of migrant workers into Guangdong, as there are now many opportunities in their home provinces. Some manufacturers have moved inland to reduce costs.

Another factor is the growing demand for technical personnel and declining need for unskilled or semi-skilled workers, a result of the use of robots, automated assembly lines and the growth of high-tech companies. "We automated about 70 production lines, which means 60 to 70 percent fewer workers," said Liu Jiwen, vice president of a Shenzhen producer of phone parts. Liu's company once experienced labor shortages, which prompted him to invest heavily in reducing his demand for assembly workers. Dongguan city, also in Guangdong, is in the same boat. In December 2015, the city's enterprises employed an average of 31 workers each, or 5.3 million workers in total. By December 2016, that average had fallen to around 27. High-tech firms need high-quality staff. The number of high-tech companies in Guangdong's Pearl River Delta region, a manufacturing center, reached 18,880 in 2016, up 78.8 percent over 2015. Vacancies for skilled and technical personnel accounted for 18.2 percent of the total in the province last year, up from 15.5 percent in 2015. Thanks to transformation, the proportion of skilled workers in factories in Hengli township of Dongguan, jumped from 15 percent in 2013 to 35 percent last year, said Liu Yingqiang, deputy head of the local human resources bureau. Companies are doing more to keep workers happy in order to prevent job-hopping. "Compared with 2016, the salaries of unskilled workers are almost unchanged, but intermediate technical workers see salaries rise," said Li Hanzhang, director of the Guangzhou human resources market service center.

Source: Xinhua: Changing labor demand shows China manufacturing hub upgrade, 2017-02-24

China’s Landmark One-Child Policy Reversal Doesn’t Seem to Be Working

The scrapping of China's one-child policy in late 2015 was supposed to fix some looming problems. Foremost, China's rapidly aging population. People were not having enough kids, so the population as a whole was aging a lot faster than a vibrant economy's population should. By 2050, Western and Chinese demographers predicted China will have 349 million people older than 65—more than the entire U.S. population. The sheer size of the aging population looks poised to be a serious drag on the country's productivity. But according to new surveys that contradict earlier rosy reports, the ending of China's restrictions on child-bearing doesn't appear to be reversing the trend. New reports suggest birth rates barely budged last year in major provinces like Jiangxi and Shaanxi. Even more concerning, birth rates in China's poorest regions in the far west actually fell in 2016, as incomes in those regions ticked upward, offering evidence that, similar to their Western counterparts, families are having fewer as they get a little richer.

What's more, earlier reports suggesting that 2016 had seen a mini-baby boom may have had more to do with fleeting cultural forces, rather than a genuine behavioral shift. In January, the National Health and Family Planning Commission agency said 18.5 million babies were born last year, the highest number since 2000. That was a nearly 12% increase from 2015, a year hampered by the still-in-effect one-child policy and a weak Chinese zodiac sign (the sheep) that encouraged some parents to hold off on trying to conceive. Almost half of those new babies in 2016 were second children, which officials at the family planning commission—long known as the abortion police, for their harsh methods to control birth rates—said proved the efficacy of the one-child policy change. Instead, as the new data suggests, it most likely proved a temporary birth spike. A
spike was natural. Some couples were waiting for the government change so they could avoid being fined for having a second child. Many more were waiting until 2016 so their child could be born in the auspicious year of the monkey, according to the Chinese zodiac calendar.

The maternity wards at hospitals in Beijing and elsewhere said demand had increased by at least 50% in late 2016 compared to the year before—but nurses say it was the the auspicious zodiac sign, rather than a policy change, that couples most often said drove their decision, if anything. China's slowing birth rates are rapidly becoming an urgent issue—no longer solely in the purview of demographers and academics. A rapidly aging population will hamper the country for decades to come, unless the government can engineer a miracle that so far has eluded it.


China Plans New Crackdown on Heavy Industry

With 2016’s official growth targets safely ‘met’, the pendulum of China’s policy-making seems to be swinging back to choking pollution from choking its own citizens. Reuters cites a draft edict from the Ministry of Economic Protection that wants to force steel, aluminum, fertilizer and drug plants in 28 cities across five regions. The measures would cut capacity by at least 30% in the affected regions. On experience, rival power centers in government will use any signs of a slowdown in growth to dilute the measures as much as public opinion will allow, but the news is a good reminder of the constant tension between the forces that are really driving Chinese economic policy. Reuters

Source: Source: China Plans New Crackdown on Heavy Industry, CEO Daily: Alan Murray, Geoffrey Smith; FORTUNE, Feb 13, 2017

Bailian eyes new era in shopping

Shanghai retail conglomerate Bailian Group is pinning its hopes on a partnership with e-commerce giant Alibaba Group Holding Ltd to reshape the city’s shopping landscape. Bailian announced on Monday that it had established a strategic partnership with Alibaba to share data and technology, and introduce a new pattern of consumption at the conglomerate's 4,800 bricks-and-mortar stores. Ye Yongming, chairman of Bailian, the country's leading retailer by revenue, said that once the partnership bears fruit, "convenience stores are likely to offer some of the greatest potential for growth, with double-digit growth rates". Latest statistics showed that during the first half of 2016, the group had 25.1 billion yuan ($3.65 billion) in sales, down by 2.58 percent year-on-year. On Monday, Bailian's shares soared by 10 percent to close at 17.82 yuan. "We think it's high time to combine online and offline retail to innovate a new pattern of shopping experience that will benefit both consumers and small and medium-sized enterprises, which has always been our objective," said Jack Ma, Alibaba chairman.

As part of the deal, Alibaba and Bailian will co-design physical stores that merge offline and online shopping and services. They will also aim to deliver enhanced customer services through technologies such as geolocation, face recognition and big data-driven sales and customer management systems. On the payment's front, Alipay, the digital payment app owned by Alibaba affiliate Ant Financial Services Group, will be made available at all Bailian stores, while Bailian's indigenous shopping cards Safepass and OK Card will be integrated with the e-wallet. Alibaba dubbed the omni-channel model "New Retail", which CEO Daniel Zhang said would not only
change the relationship between merchants and customers, but the traditional models of manufacturing and supply chain management. Alibaba is pushing hard to combine its Tmall and Taobao platforms with bricks-and-mortar stores, most notably last month in its offer to privatize Chinese shopping mall operator Intime Retail Group Co Ltd.

Source: XU JUNQIAN and HE WEI in Shanghai: Bailian eyes new era in shopping, China Daily, 2017-02-21

China says equal protection to domestic, foreign trademark owners

BEIJING - China said on Friday it gives equal protection to the owners of trademarks both home and abroad. Foreign Ministry spokesperson Geng Shuang made the remarks at a routine news briefing when responding to a question on reports that the Chinese government has approved US President Donald Trump to register trademarks under his name in China's construction industry. Chinese trademark authorities have always given equal protection to the legitimate rights and interests of trademark owners from home and abroad, Geng said. "Application for trademark registration is examined in accordance with laws and regulations."

Source: Xinhua: China says equal protection to domestic, foreign trademark owners, 2017-02-18

China takes fintech sector by storm

The announcement, made on Thursday by Chinese fintech firm Ant Financials' payment arm Alipay, is the latest milestone in Chinese fintech companies' overseas expansion. Last month Alipay collaborated with Finnish mobile payment provider ePassi to begin taking mobile payments for shopping and services on Finnair’s flights, marking the first ever mobile payment service in air. "In the fintech and mobile internet sectors, China is a global leader thanks to business, innovation, market size and population density", said Alexander Yin, chief financial officer of TCG, parent company of the Finnish mobile payment provider ePassi. The fintech sector grew rapidly in the wake of the 2008 financial crisis as the downturn cast traditional banking models into doubt. China's strong start-up culture, significant venture capital availability and need for alternative financing have all contributed towards its fintech boom. A 2016 report by KPMG - a professional service company and one of the Big Four auditors - and the Australian investment firm H2 Ventures notes that five of the world’s top 10 fintech firms are Chinese. Ant financial topped the list. Another report by EY noted China has eight of the world's 27 fintech unicorns - start-ups worth more than $1 billion - and last year received more than 2 billion pounds of investment. The UK has signed an agreement with China to help cross-border fintech investment in November 2016. The Irish Minister for Financial Services Eoghan Murphy also recently led a delegation of fintech firms to visit China in search of opportunities along the Belt and Road countries. Other notable Chinese fintech firms expanding into the UK include big-data firms Wind Financial Information and BBD, both of which established London operations last year. BBD, known for its innovative data analysis algorithms, is now developing indexes specific to the UK and European markets, with one index assessing credibility and risk profile of UK crowd funding platforms and companies, expected to be launched in the second half of 2017. Wind Financial Information, dubbed the "Chinese Bloomberg terminal", is eyeing opportunities to sell its data on Chinese and Asian asset classes including equities, bonds, funds and commodities to European investors. Thomas Zhang, General Manager of Europe at Wind Financial Information, said: "We are seeing more interest in China's markets from global institutional investors. If China's A-share
is admitted into the MSCI index one day, there will be a further boost to the global demand for China-related financial data.

Source: Cecily Liu in London: China takes fintech sector by storm, China Daily, 2017-02-3

**Xiaomi’s New Processor Won’t Save Its Smartphone Business**

Xiaomi joins the world’s top smartphone makers, but the move may come too late. Xiaomi, the formerly hot Chinese smartphone startup now struggling with declining sales, announced today that it is manufacturing its own chipsets for phones. How important is this, really? The move would let Xiaomi join the ranks of Apple, Samsung, and Huawei (which hold the world’s top three smartphone market share positions) as the only smartphone makers who create their own processors. But how much impact you think it will have probably depends on how you felt about Xiaomi’s chances before. The company hasn’t raised new money since late 2014, when it shocked the world’s tech community with a $45 billion valuation. If it were to raise money today, it would likely be at a far lower valuation. In 2015, Xiaomi’s revenue was flat, and in 2016 smartphone shipments were so disappointing the company chose not to release figures about them. A recent push into ‘smart’ household products looks disappointing if not doomed. And the most notable news surrounding the company over the last few months was the departure of one of its best-known employees, Hugo Barra, for Facebook.

Xiaomi’s founder Lei Jun said at a press event Tuesday, “The ability to create its own chipsets is the pinnacle achievement for any smartphone company.” The Xiaomi processor had been in the works for just over two years. While processors are important for optimizing battery performance, speed, and the overall function of a smartphone, they don’t by themselves drive sales of smartphones. And in its home country, Xiaomi is facing competitors who have leapfrogged past it over the past year and a half by copying the very model of online-selling and inexpensive components that Xiaomi once used to surpass rivals, including Apple. In releasing its processor now, Xiaomi may be too late to win over new fans with the better performance of its smartphones. In China, Xiaomi’s market share plummeted during the third quarter by 42%, to rank fourth overall, behind Oppo, Vivo, and Huawei. Its plan for worldwide relevance has also been sidelined. Once the third largest smartphone maker by market share, Xiaomi has fallen outside the top five, replaced by another Chinese maker, Huawei, which has used a massive telecom network business to expand smartphone sales around the world, gaining the market presence that many thought Xiaomi once might achieve. Still, Xiaomi processor, called Surge S1, is being celebrated in China. Beijing’s local government supported it financially, Lei Jun said Tuesday, and China’s central government has for years pushed for the creation of an indigenous semiconductor industry. But the processor means little to the rest of the world, where Xiaomi continues to struggle under the weight of expectations.

Source: Scott Cendrowski: Xiaomi’s New Processor Won’t Save Its Smartphone Business, FORTUNE, Feb 28, 2017

**Xiaomi launches smartphone with own chip Pengpai S1**

Chinese tech firm Xiaomi launched a chip wholly developed by its subsidiary Pine Cone Electronics, and a version of its flagship device, the Mi 5c, which is powered by this chip, the Pengpai S1, in Beijing on Tuesday. Lei Jun, founder of Xiaomi, said the chip, developed under the goal of keeping a balance between performance and energy consumption, took over 28 months.
This was much shorter than other chips, as the company, as a smartphone vendor, could develop the chip while also developing end products, he added. Generally, it takes $1 billion and over 10 years to develop a chip, as the fingernail-size part, which integrates more than 1 billion components, is very complicated. But the company decided to develop its own chip and saw it as a necessity for a smartphone vendor, with the ambition to be the champion in the sector, to own key parts such as the chip. He disclosed that the company started R&D on key technologies on the chip, the screen, the camera, the battery, the connector and artificial intelligence in recent years.

During the process, the 7-year-old company was granted 3,612 patents, among which 1,767 pieces were granted overseas. Lei added that the company has applied for more than 16,000 patents. It generally takes two to three years for a patent to be granted. "We named Pine Cone's first chip Peipai S1, to show our full excitement when we saw it could make a phone call on Sept 24, 2015, and light the screen on Sept 26, 2015." Xiaomi became the fourth company in the world to manufacture the whole smartphone plus the chip after Apple, Samsung and Huawei. Lei said technological innovation will help Xiaomi remain the "coolest company" to its Mi fans.

However, Jin Di, research manager at IDC China, said the newly released chip is a big milestone for Xiaomi itself and can showcase its strong R&D capacity, but it is hard for the chip Pengpai S1 to be labeled as a technological breakthrough, as the chip industry worldwide is rather mature. Jin said that because huge amounts of money might have been needed in R&D in the early stages, the chip might not affect Xiaomi’s profitability in the short term, but it is unpredictable in the end. But Xiaomi's capacity in chip-making will surely facilitate its advancement in the smart home sector, she added. Lei said that his company is not launching a chip that only exists in planning but is one that has entered mass production. The Mi 5c will be available as of March 3, at a price tag of 1,499 yuan.

Source: Song Jingli: Xiaomi launches smartphone with own chip Pengpai S1, China Daily, 2017-02-28

**Rail cargo volume continues to rise in January**

**BEIJING** - China's railway freight volume continued to rise in January, pointing to stabilizing economic activity, official data showed Wednesday. Rail cargo volume grew 10.4 percent year-on-year in January to reach about 311 million tons, marking the sixth consecutive monthly rise, data from the National Bureau of Statistics showed. China's rail cargo volume started to increase in August after a six-month subdued period. Overall, rail cargo volume fell 0.8 percent year-on-year in 2016 to reach 3.33 billion tons. In addition to GDP, rail cargo volume, electricity consumption and lending are important indicators of economic expansion as they represent the vigor of economic activities. Chinese banks extended 2 trillion yuan ($291 billion) of new yuan loans in January, doubling from a month earlier, with more going to industrial firms than the property sector.

Source: Xinhua: Rail cargo volume continues to rise in January, 2017-02-22

**Agricultural reform key to China's prosperity**

**BEIJING** - China's first central document of 2017 promises to maintain the drive to resolve rural issues on the road to a moderately prosperous society by 2020. The Central Committee of the Communist Party of China and the State Council released a document on supply-side structural reform in the agriculture sector on Sunday. The first policy statement of year is widely referred to
as the "No 1 Central Document." For the past 14 years, it has been devoted to agriculture, farmers and rural areas. Rural areas should make greater strides toward a moderately well-off society by raising agricultural efficiency and farmers' incomes, and promoting green production, the document said. "China's countryside should be a fascinating place. Agriculture is an attractive sector and farming should be an admirable occupation," said Tang Renjian, deputy director of the central rural work-leading group.

Building the somewhat moderately prosperous society China's leaders envisage by 2020 means doubling 2010 GDP and residents' incomes, while lifting the whole population above the poverty line. The urban-rural income gap continued to narrow last year, with per capita disposable income of rural residents rising 6.2 percent compared to only 5.6 percent among the urban population, according to the National Bureau of Statistics. The gap remains considerable however, with the per capita income of urbanites 2.72 times more than that of their rural counterpart. This disparity was highlighted in the document, with "continuing weak growth in the incomes of agricultural workers" listed as one of the prime issues to be addressed through supply-side structural reform. A better deal for farmers, along with ensuring food security, is central to the planned reform, Tang said. During the reform process, it is imperative that national grain security be guaranteed, according to the document. Output dropped slightly in 2016, ending a 12-year rising streak, but still the second highest year on record. China has entered a stage of rapidly rising customer expectations. Consumers want their food to be of high quality and they seek greater choice. As Tang said, the basic objective of agricultural reform is to provide safe, edible food. In pursuit of safer, more sustainable, higher quality products, there must be no increase in use of pesticides and fertilizers. Better quality control and production that is more systematic will ensure the safety of produce. A chain of innovation centers will be created, and clean production that uses less water will be promoted and polluted soil be rehabilitated.

Little can be achieved without financial support and professional expertise. Fiscal support for agriculture and rural areas should show moderate growth and loans will be made easier to obtain, according to the document. Public private partnerships, subsidies and special rural development funds are just some of the ways the government will encourage investment, Tang said. Migrant workers will be encouraged to return home and start their own businesses. Careers in agriculture will be made more attractive through professional training for farmers and managers. There will be incentives for college graduates, entrepreneurs and returned students from overseas to bringing their technological and managerial skills to rural areas. If the right people can be attracted to start businesses in the countryside, it will lead to the fast development of new industries and new ways of making money, according to Tang.

Source: Xinhua: Agricultural reform key to China's prosperity, 2017-02-7

China eyes more rural infrastructure investment with PPPs

BEIJING - China will use public-private partnerships (PPP) to boost under-funded rural infrastructure and narrow the urban-rural gap, according to a State Council guideline. A dynamic financing program that enlists multiple public and private entities will be established by 2020, said the guideline made public on Friday. Under the program, government spending will be complemented by PPPs to maintain steady investment growth, while State-owned enterprises and other private market players will be encouraged to sponsor the projects. China has launched many rural infrastructure projects over the last few years but the generally underdeveloped infrastructure
in rural areas is holding back the goal to build a moderately prosperous society in an all-round way by 2020. To improve water, road, electricity and communication facilities in rural areas, the government has promised some 3.4 trillion yuan ($495.2 billion) between 2016 and 2020, said Tang Renjian, deputy director of the central rural work-leading group. Only one third of this fund has been secured, however, meaning private investment and PPPs will need to step up, he said, in an earlier elaboration of China's first central policy document in 2017 on rural issues. PPPs will stimulate investment as the country ensures moderate growth in fiscal support for agriculture and rural areas, Tang said.
Source: Xinhua: China eyes more rural infrastructure investment with PPPs, 2017-02-18

China's January PMI slightly down to 51.3

BEIJING -- China's manufacturing sector expands for the sixth month in a row, adding evidence that the world's second largest economy is stabilizing amid uncertain global outlook. The country's manufacturing purchasing managers' index (PMI) came in at 51.3 in January, 0.1 percentage points lower than that recorded in December, according to data released Wednesday by the National Bureau of Statistics (NBS). NBS statistician Zhao Qinghe said January's reading remained at a high level since 2012 and pointed to steady expansion of the manufacturing sector. The sub-index for production was 53.1, 0.2 percentage points lower than that recorded in December. The sub-index for new orders was down 0.4 percentage points to 52.8. Zhao attributed the deceleration of production and new orders to the Lunar New Year holiday, which slashed workdays. In addition, advanced manufacturing expanded faster than other sectors, as the sub-index for high-tech sector picked up by 1.9 percentage points to 55.7, remarkably higher than other sectors.
Source: Xinhua: China's January PMI slightly down to 51.3, 2017-02-1

Analysts: Use investment review process to push China on trade practices

Trade policy analysts testified before the U.S.-China Economic and Security Review Commission on Jan. 26 that U.S. government agencies should have broader discretion to review Chinese direct investment in the United States, as a means of pushing for reciprocal market access and implementing the national interest standard established by the Committee on Foreign Investment in the U.S. "As long as China restricts U.S. investment in China, largely in ways to take technology, the federal government should feel few constraints to use stricter investment review as a tool to achieve better behavior from the Chinese government," Robert Atkinson, president and founder of the Information Technology and Innovation Foundation, testified at the hearing. Experts at the hearing also called for tightening what they say are loopholes that allow Chinese state-owned enterprises to "claim immunity" from being sued in the U.S.

"Recent attempts by Chinese SOEs to claim immunity have predictably triggered efforts to tighten loopholes, while firms place higher risk premiums on dealing with Chinese investors," Thilo Hanemann, an economist who leads the Rhodium group's global trade and investment efforts, said in a Jan. 26 testimony. Hanemann called for more attention to "state-directed collusion" and the possibility for new approaches for "screening inward investment." "Lawmakers should further review and, if necessary, close potential loopholes that allow companies to escape accountability," Hanemann said.
Analysts: Trump needs to balance enforcement, negotiations with China

The new Trump administration must balance enforcement of trade rules and holding China accountable for imbalances it creates in the bilateral economic relationship with efforts to strike new deals and conclude outstanding negotiations if meaningful positive outcomes are to be accrued during his tenure at the White House, according to analysts and former government officials. Furthermore, the U.S. and China should downsize and reorient the bilateral Strategic and Economic Dialogue and Joint Commission on Commerce and Trade with the goal of producing more actionable outcomes as opposed to rhetorical promises, they said, speaking at a Feb. 7 event unveiling a new report on how the U.S. should approach China authored by a task force of experts from the Asia Society, the University of California-San Diego's School of Global Policy and Strategy China Center and the Annenberg Retreat at Sunnylands. The urge for the Trump administration to pursue a balanced and rethought relationship with China comes at a time when Beijing is backing policies that make it more difficult for foreign companies to operate in China and are inconsistent with once-promised economic reforms, former U.S. Trade Representative Charlene Barshefsky said. Other analysts have voiced concerns that President Trump's harsh rhetoric toward China on the campaign trail -- including his promise to label the country a currency manipulator and impose a 45 percent tariff on goods from China -- will not be moderated in office due to the personnel with whom he has surrounded himself. One "self-inflicted" wound on the China front that the Trump administration has already committed was its withdrawal from the Trans-Pacific Partnership, Barshefsky said. The path forward requires the Trump administration on one hand to focus its trade enforcement efforts at broader Chinese policies that are discriminatory with the goal of ensuring a reciprocal bilateral economic relationship, while at the same time looking to negotiate new agreements and finish talks started by previous administrations, Barshefsky said, echoing the report. For example, the Trump team should conclude negotiations for a Bilateral Investment Treaty, she said. Sources however have noted that the administration has had no contact with key stakeholders on the BIT. The U.S. can also be more aggressive in ensuring its investment relationship is reciprocal with China, as that area is not fully covered by WTO rules, giving the U.S. some breathing room in how it manages that aspect of the bilateral economic relationship, Barshefsky said.

Source: Caporal, Jack: Analysts: Trump needs to balance enforcement, negotiations with China, Inside US - China Trade; Arlington17.6 (Feb 8, 2017)

US at risk of misreading China

In place of a trade war that benefits no one, the US would do better to negotiate trade deals with China that encourage the globalisation and liberalisation of the latter's economy. In the last three weeks, there have been enough major lurches in US policies - via the active use of the United States President Donald Trump's executive powers and controversial appointments - to warrant early assessment of Trumpism, so as to prepare ourselves for what the next four years could bring to Asia and the world. Perhaps more importantly, Mr Trump's aggressive geopolitical approach may suggest a shift away from the US as a unifying global force to one that is inward looking, putting at risk US support for post-war global institutions such as the International
Monetary Fund, World Bank, Nato and World Trade Organisation. China has successfully established the Asian Infrastructure Investment Bank - against great and ultimately futile diplomatic efforts by the US to persuade its allies not to join - with the aim of filling funding gaps for infrastructure projects in Asia that it felt were never going to be bridged by existing institutions such as the ADB and World Bank, which have in turn met China's influence with suspicion. The US also seems to mistakenly view the Regional Comprehensive Economic Partnership, a proposed multilateral trade pact, as a China-led rival to the US-led, and seemingly doomed, TPP. The RCEP is in fact a South-east Asian initiative which has found support from regional countries, including Australia, Japan and India. With the TPP looking dead in the water, it would naturally mean that the RCEP is now more important for the region than it was before. The US has to accept the ratification of RCEP and not read it as a sign of Asia's lurch away from the US and towards China. Source: Idris, Nizam: US at risk of misreading China, The Straits Times; Singapore [Singapore] 09 Feb 2017.

Study: China Will Overtake the U.S. as World’s Largest Economy Before 2030

In this time of intense angst about America’s greatness (or, as some argue, loss of it), weak economic growth, and perhaps waning U.S. influence in the world, here’s a perspective you won’t hear much: America’s economy will not be the world’s largest for much longer, and that’s something for Americans to be proud of. In yesterday’s note I fleetingly mentioned a new study by PriceWaterhouse Coopers forecasting that China’s economy will be bigger than America’s before 2030 (maybe well before then) and India’s will also be bigger before 2050. The U.S. will rank third, and in fourth place, the researchers speculated, could be Indonesia. China, India, the U.S., Indonesia—do you notice anything about that list? Tomorrow’s ranking of countries by GDP is today’s ranking by population.

That fact tells us something important. GDP, after all, is just population times productivity. The U.S. has long been the No. 1 economy with the No. 3 population because the productivity of our labor and capital has been so enormously greater than productivity in China or India. What is happening, simple yet profound is that other countries are catching up to our productivity. China and India still have a very long way to go, but obviously, they need not match us to exceed our GDP; with populations over four times ours, they only need to achieve one-quarter of our productivity. That is what they are in the process of doing. Why should we Americans be proud of that? Because this is what we wanted, and we were right to want it. In 1950, the year after Mao’s communist revolution, China’s economy was actually 49% bigger than Japan’s. But by 1977, the year before Deng Xiaoping famously released China from doctrinaire communism, Japan’s economy had rocketed ahead to be 63% bigger than China’s withering economy. U.S. policy under administrations of both parties had consistently been to encourage China to liberalize its economy. We figured it would be good for us, and it has been. It has also been stunningly good for the Chinese people, 800 million of whom, according to the World Bank, have been lifted out of poverty by China’s market-based reforms.

India’s economy was being strangled by socialism until a crisis forced it to open up in 1991, again with U.S. encouragement, and again, hundreds of millions of the country’s poorest have benefited, according to the World Bank. Of course, U.S. policy was not the only factor or the main factor in the transformation of these economies. Nevertheless, we tried to help it happen, and it happened. One result is that differences in national productivity are diminishing, so that
population and GDP more nearly align, and the world is dramatically less poor. That trend is unlikely to stop anytime soon, which means we will indeed be No. 3 eventually. America will have a hard time celebrating that development. However, it’s an inevitable part of the more prosperous world we’ve been working toward for decades. Sign up for daily insights, updates, and opinion on leadership and leaders in the news at the Power Sheet.

Source: Study: China Will Overtake the U.S. as World’s Largest Economy Before 2030, FORTUNE, Feb. 9, 2017

**Trump has Phone Conversation with Chinese President; Kellyanne Conway Criticized for Endorsing Ivanka Trump's Products; President Trump Announces Pending Tax Reform Plan**

Japan's prime minister, who was the only world leader to meet with Mr. Trump before his inauguration, showed up at the White House today. At the White House today, a warm embrace for Japan's Prime Minister Shinzo Abe not long after President Trump took a flamethrower to the Ninth Circuit Court of Appeals on Twitter, calling their ruling last night, quote, "a disgraceful decision". Sources say the White House may give up on the idea of lifting the temporary restraining order against the immigration ban and may not appeal the case to the Supreme Court. Instead, the White House will focus on fighting to prove the constitutionality of the ban in federal district court in Seattle. The White House is also weighing the option of writing a new executive order that would create specific carve-outs for legal permanent residents and possibly visa holders already in the country that would allow them to come and go. The other day, he had a group of senators including a number of Democrats over to the White House for a session on discussing the Supreme Court nominee Judge Neil Gorsuch. Took her all the way back to the rear of the plane which is where the press sits and basically conducted a press conference, a mini press conference about a number of the issues that came up in his press conference with Prime Minister Abe and that have come up on the number of other issues over the last few days. Republicans have promised to repeal and replace Obamacare, finish tax reform, and confirm a Supreme Court justice -- all big-ticket items when Washington is deeply polarized. Will Congress especially the Democrats in the Senate follow the President's lead? REGAN: Because you're going to have the Elizabeth Warrens out there that are going to say, look, this is just a tax cut that's going to do nothing but enrich corporations and line the pockets of the fat cats that don't need to be lined anymore. Despite his move to seek disciplinary action for Trump advisor Kellyanne Conway after she publicly promoted Ivanka Trump's products, there is concern whether as chair of the GOP House Oversight Committee, Chaffetz will investigate potentially questionable dealings in the Trump administration. President Trump in a news conference today with Japan's prime minister taking a much more subdued tone in reacting to the ninth circuit court of appeals decision last night blocking his travel ban. [...] what I want to see is this White House have the legal teamwork with the national security team, the Homeland Security team, and the communications team to really roll out well the next step, because this issue, the issue of immigration and terrorism, this is going to be the issue of the Trump presidency, and they've got to get it right. Tim, let me switch subjects on you and let's turn to Kellyanne Conway, because this continues to be a controversy, going out on television yesterday from the White House briefing room, counselor to the president, and saying people should go out and buy Ivanka Trump products because some department stores were dropping her lines from the store. President Trump talking up his plan for a major business
tax reform at a White House meeting yesterday, and we are back now with our panel for the Friday lightning round. Today President Trump made a pivot to Asia and he met with the prime minister of Japan, spending the weekend with him, but perhaps more importantly he finally talked for the first time since he became president with Chinese President Xi and backed off his equivocation on whether or not we would honor the One China policy. Actually, in a counterintuitive way I believe that it was a winning week for Donald Trump and I would say he's the winner. Because they got three cabinet members passed, including one that required a tie-breaking vote.

Source: Trump has Phone Conversation with Chinese President; Kellyanne Conway Criticized for Endorsing Ivanka Trump's Products; President Trump Announces Pending Tax Reform Plan


What Trump Reaffirming the 'One China' Policy Means

The bilateral relationship between the United States and China, the world's largest economies, is often called the most important in the world. Thus, many held their breath when, before his inauguration, President Donald Trump appeared to adopt a combative stance toward the Chinese regime. Newly appointed Secretary of State Rex Tillerson said, according to Reuters, that the United States needs to "send China a clear signal that, first, the island-building stops and, second, your access to those islands also is not going to be allowed," referring to China's building of artificial islands with military capabilities in the disputed waters of the South China Sea.

However, when Trump and Chinese leader Xi Jinping spoke in their first telephone call on Feb. 9, the U.S. president seemed to avoid controversy and confrontation. In an "extremely cordial" phone call, "President Trump agreed, at the request of President Xi, to honor our 'One China' policy," the White House said in a statement. The language and phrasing of the statement suggests that a deal of some sort had been brokered between Trump and Xi, analysts say. Trump has left himself ample room for future negotiations, while Xi will presumably continue to focus on pressing domestic matters.


China Just Took a Big Swing at North Korea's Economy

China said Saturday it would ban North Korea coal imports for the rest of 2017 — a move that will likely strain already rocky relations between the two allies. Coal is North Korea's financial lifeline, according to The Washington Post, which reported on the announcement. The commodity is North Korea's single largest export item, while North Korea is China's fourth largest supplier of the fuel. Although the world's second largest economy did not explain the cut-off, China has been under international pressure to help moderate North Korea's increasingly aggressive actions since Kim Jong-un took over the hermit kingdom in 2011. China's ban could help put international sanctions aimed at North Korea's nuclear weapons efforts into fuller force.

North Korea's recent ballistic missile test and the apparent assassination of Kim Jong-un's half-brother, Kim Jong-nam seemed to be a tipping point for China. Kim Jong-nam died in Malaysia earlier this week, though he had been living in the former Portuguese colony of Macau.
The city is now a special administrative region under China, and experts say Kim Jong-nam received protection from the Chinese government as a result.

Source: Lucinda Shen: China Just Took a Big Swing at North Korea’s Economy, FORTUNE, Feb 18, 2017

**Common values lead the way on Belt and Road**

This should be the beginning of a busy year for Wang Guiguo. This year he wants his idea of building a modern legal structure for China's new-age Silk Road initiatives to come to pass. Wang, who is the president of the Hong Kong-based International Academy of the Belt and Road, and is a professor of international law in Beijing, Hangzhou and New Orleans in the United States, published a book in October—about the dispute resolution mechanism for the new Silk Road initiatives proposed and led by China. The new Silk Road project, which cover both the Silk Road Economic Belt and the 21st Century Maritime Silk Road, is called the Belt and Road Initiative. This year, beginning with US President Donald Trump withdrawing the US from the 12-nation trade deal Trans-Pacific Partnership, the need is becoming more acute, Wang said, for China to work with other countries to structure their own free trade systems and related legal mechanisms. "In fact, how to build a fair, all-round and workable dispute resolution system for international trade and investment is a common task for governments and legal professionals," Wang said. Whether or not the US or any other country stays in or leaves a free trade pact won't affect the need, he said. "Globalization is not going to stop," Wang said. That is also why ideas such as international dispute settlement and international dispute tribunals are more often heard from judicial forums in Europe, he said.

Since 2013, after the Belt and Road Initiative was proposed by President Xi Jinping, China has signed partnership agreements with some 40 countries in the world. Overall, the Belt and Road Initiative covers 60 percent of the world population and one-third of the global GDP (around $2 trillion). For the past decade or so, it has shown the fastest growth of all regions. Owing to their diverse legal systems and practices, the implementation of the Belt and Road-related agreements will inevitably give rise to many issues in the governing of trade and cross-border investment, Wang said. Last year, upon the publishing of the book that he edited, with contributions from more than 40 legal experts from different countries, Wang's academy also held a forum in Hong Kong. An official from the Supreme People's Court of China spoke at the forum and declared support from the central government to Hong Kong to become a regional dispute settlement center. Wang argued that the now defunct TPP, although it did contain some words on disputes between investors and their host nations' governments, "was actually less perfect a dispute resolution model than it was branded". None of the dispute resolution mechanisms available in the world today is perfect, he said. Most importantly, they are incomplete in terms of appeal, compensation, or mediation and reconciliation in cross-border investment disputes and rulings. They have a lack of efficiency and accommodation of the digital technology, he added, "in such things as an online tribunal, for example". Now with its new Belt and Road Initiative, China should work with its partners to develop a dispute resolution mechanism to better incorporate common law foundation and some "Eastern values" in practice, those about dispute mediation and reconciliation in particular, Wang stressed. In the meantime, China and partners in its Belt and Road Initiative will be open to adopt the useful experience from other dispute resolution designs in the world. Wang said he hoped to see an effort to build up a comprehensive, unified arbitration
mechanism that works also well with the civil law system, which most Belt and Road nations are familiar with. "Unlike trade disputes, which can be settled in a unified mechanism of the World Trade Organization, investment disputes are handled differently by different tribunals, even in similar cases," Wang said. The International Center for Settlement of Investment Disputes is a product of the Washington Convention on the Settlement of Investment Disputes of 1965. It deals with disputes between states and nationals, especially corporate entities from other states. But it doesn't have an appeal system. "Developing countries would need a court of appeal to ensure the fairness of the rulings," he said.

Source: Xinhua: Common values lead the way on Belt and Road, 2017-02-21

The generation gap on China

China has the largest generation gap regarding views of the United States of any of the countries surveyed by Pew, with close to 60 percent of Chinese people between 18 and 29 - more than double the number of those over 50 - holding a favorable view. There's no doubt that China's economic boom has caused painful dislocation for many hard-working Americans, and that policies to help those U.S. workers transition to new jobs haven't kept pace. China has also disappointed many of the most buoyant hopes that the country's economic reforms would lead its political system to become more open and democratic. If the United States under Trump stops trying to build a constructive, cooperative relationship with China, it will only become easier for Xi's lieutenants to isolate Chinese liberals from their friends around the world and prevent the next generation of independent reformers and internationalists from engaging with outside influences. The right path isn't dovishness or toadying but rather policies that seek to achieve a constructive U.S.-China relationship based on both the premise of U.S. strength and an understanding that we will need to work with China to solve major global problems. This surely should include greater reciprocity in the economic domain, especially pushing China for greater openness to U.S. investment, resolve against any military challenges and vigorously protecting U.S. interests and values.


How Much More China’s Foreign Reserves Can Fall

Now that China's pile of foreign reserves has dipped below $3 trillion, the first time its been below that level since 2011, how much lower can it fall before the country should worry? The good news for China is that forces driving down reserves for the past two years have recently been dissipating. The biggest force is the movement of the U.S. dollar. It has turned weaker in 2017, which has slowed the Chinese yuan's fall in relation to the dollar and given China's central bank a rest from spending its stockpiled U.S. dollar reserves to prop up the value of the yuan.

Capital outflows are also slowing down. In other words, less money is leaving as rich people transfer stockpiles of cash out of the country; Chinese companies buy foreign companies; or, simply, Chinese companies and people inside China exchange their yuan for greenbacks as insurance. There were $45 billion in capital outflows in January, according to Capital Economics, down from $61 billion in December and more than $100 billion last January.

These two factors—a weaker dollar and slowing outflows—mean less foreign reserves are being spent. That may continue for several months. "I he various capital flow management
measures introduced by the authorities in recent months, including the latest ones announced just before the Chinese New Year, will likely mitigate outflows in the near term,” Goldman Sachs analysts in Hong Kong wrote yesterday. These capital flow management measures are already working: one narrow definition of outflows—known as payments—fell to $900 million in December, according to data from China's State Administration of Foreign Exchange, compared to an average monthly exodus of more than $25 billion in 2016. If the same factors that caused huge foreign reserve drops before ramp up again—the dollar takes off under President Trump and China's capital outflows rise to crisis mode—China likely has a big enough stockpile of foreign currency to weather a couple more storms. China Economics says the country will be fine until the figure falls to $1.8 trillion; other economists cite an IMF formula predicting a similar minimum threshold. Three trillion, it turns out, is still a lot of cash for China to play with.

Source: Scott Cendrowski: How Much More China’s Foreign Reserves Can Fall, FORTUNE, Feb 8, 2017

Global Economy: Yuan outflow, forex reserves plunge worry China

China's foreign exchange reserves are falling. The authorities are desperately trying to expunge anxiety from the markets. Since autumn last year, Chinese currency authorities have tightened checks on direct investments made overseas and on currency exchanges in a bid to stem the capital outflow. Sun Huayu, head of the Research Institute of International Finance and Business at Jinan University, said, "Based on the experience of the Asian crisis, China learned it was necessary to ensure stability through its own strength," meaning it deems it necessary to maintain sufficient foreign reserves at all times. Foreign exchange reserves also represent a resource the administration of Chinese President Xi Jinping can use to exert political strength internationally.


China's January exports up 15.9%, imports up 25.2%

BEIJING - China's trade started 2017 with a strong rebound, with exports and imports both up significantly, but the rise of trade protectionism will be a growing restraint on China's future exports growth. China's yuan-denominated exports rose 15.9 percent year on year in January, up from 0.6 percent in December, while imports increased 25.2 percent, up from 10.8 percent, customs data showed Friday. Foreign trade volume reached 2.18 trillion yuan ($314.166 billion) in January, up 19.6 percent year on year. That led to a monthly trade surplus of 354.53 billion yuan, down 2.7 percent from a year earlier, according to figures from the General Administration of Customs (GAC). Foreign trade with the European Union, China's biggest trade partner, climbed 14.1 percent year on year in January, GAC data showed. In
the same period, foreign trade with the United States, China's second-biggest trade partner, rose 21.9 percent, and that with ASEAN, its third-largest trade partner, increased 18.8 percent. Overseas-funded firms recorded a trade volume of 915.57 billion yuan, up 13 percent year on year. Private firms and state-owned enterprises (SOEs) posted a much stronger growth, with their trade volume rising 21.3 percent and 36.7 percent, respectively, in January. Exports of machinery and electronics surged 16.6 percent year on year in January, accounting for 56.1 percent of the total exports volume. Meanwhile, imports of primary commodities, including iron ore and crude oil continued to grow in January, featuring general price rises, according to GAC.

"The rebound of trade data was partly due to the low base of January last year," said Deng Haiqing, chief economist with JZ Securities. However, that was not the only reason, Deng said, noting that some economic indicators since this year had actually showed that China's exports and imports were starting to warm up. Since the start of the year, positive changes and bright spots continue growing in the Chinese economy, a sign the economy is stabilizing amid an uncertain global outlook. China's manufacturing sector has expanded for the sixth month in a row with the country's manufacturing purchasing managers' index (PMI) coming in at 51.3 in January, according to National Bureau of Statistics (NBS) data released Feb. 1. The indices for exports and imports edged up to 50.3 and 50.7 respectively, staying above the 50 demarcation line for three straight months. A separate survey of the service sector also showed steady growth, with non-manufacturing PMI up by 0.1 to 54.6 in January. Tom Orlik, Chief Asia Economist of Bloomberg, forecast that the outlook for China's exports was positive, citing a number of factors including China's own manufacturing investment growth and rebound in US demand. "China's own manufacturing investment growth has bottomed out and returned to a moderate rising trend, suggesting factories gearing up for slightly higher output," said Orlik in a research note. However, the new year will also bring new challenges and uncertainties to China's foreign trade. In addition to the extended world economic downturn and China's restructuring efforts, which could hamper trade growth in some traditional sectors, the rise of trade protectionism will be a growing restraint on China's exports. "The global trade [situation] is deteriorating and will become even grimmer in 2017," said Wang Hejun, head of the trade remedy and investigation bureau under the Ministry of Commerce, who predicts that Chinese steel and aluminum products will continue to be the main targets of trade investigations. Chinese exporters suffered a record 119 trade remedy investigations initiated by 27 countries and regions last year, a 36.8 percent increase from 2015. Weighed on by trade remedies, China's full-year exports in 2016 dropped 2 percent in yuan-denominated terms, and imports increased slightly by 0.6 percent, customs data showed. Its trade surplus dropped 9.1 percent. "Trade friction is normally sporadic and played under WTO rules, resulting from normal international trade activities, while trade wars lay aside trade rules and usually involving large trade sums," Wang said. "We do not want trade wars. ... but we will be well-prepared for and are capable of defending our own rights and interests."

Source: Xinhua: China's January exports up 15.9%, imports up 25.2%, 2017-02-10

**Shanghai free trade zone slated to become free port**

Shanghai has moved to deepen reforms by reinventing its pilot Free Trade Zone (FTZ) into a world-class free port, Shanghai Securities News reported on Tuesday. Such an ambition would be accompanied by plans to further relax import cargo controls and streamline customs clearance in accordance with international practice. "Free trade port means beyond the current model of
bonded areas. It will take three to four years to re-design a comprehensive set of rules and revise related regulations,” Zhu Min, deputy director of Shanghai municipal Development and Reform Commission, told the newspaper. The free trade port will be located within the Yangshan and Pudong airport zones, which together with Waigaoqiao logistics park, Lujiazui financial area and Jinqiao technological zone, constitute the country’s first pilot FTZ, a testing ground for numerous economic reforms. The port aims to offer quality coastal services and transparent supervision that are side-by-side with the world's most advanced free trade ports, according to the newspaper. In a proposal to the session of the CPPCC municipal committee, Fang Huajin, vice president of the Shanghai International Port Group, said he hopes there would be tariff cuts in the FTZ. However, Sun Yuanxin, deputy director of the Research Institute for the Shanghai FTZ at the Shanghai University of Finance and Economics, said the chance of a significant tariff cut is slim given the potential scale, while the free trade port will more likely try to improve trade services and provide policy support to the high-tech sector.

Source: Dai Tian: Shanghai free trade zone slated to become free port, China Daily, 2017-02-10

**Foreign trade rises 19.6% in January**

China’s exports to markets along the Belt and Road Initiative, including Russia, Malaysia and India, surged in January, indicating that their ongoing industrialization and infrastructure development continued to stimulate economic exchanges with China, experts said on Wednesday. Exports to the three countries grew 39.1 percent, 22.8 percent and 18.1 percent, respectively, on a year-on-year basis, according to the Ministry of Commerce.

Zhang Yunling, director of the academic division of international studies at the Chinese Academy of Social Sciences, said from a global perspective, upgraded consumption, manufacturing capacity and infrastructure cooperation have become the biggest highlights of projects related to the trading route initiative. Cai Weici, a senior adviser at the China Machinery Industry Federation, said: “The countries, mostly emerging economies, have growing demand for Chinese products, in particular construction machinery, building materials, passenger vehicles, consumer goods, and industrial and energy equipment.” Exports to the European Union climbed 13.6 percent in January. Exports to the United States and Japan rose 17.2 and 18 percent, respectively. China's foreign trade rose 19.6 percent year-on-year to 2.18 trillion yuan ($317.5 billion) in January. Wang Dongtang, deputy director-general of the Ministry of Commerce's department of foreign trade, said: “Uncertain and unstable factors are increasing. Difficulties facing China's foreign trade are not short term.” The rise of trade protectionism and sluggish overseas demand are potential curbs on China's future export growth, he added. However, Wang said, China's foreign trade fundamentals have not changed and the country retains advantages in this regard.

Source: ZHONG NAN: Foreign trade rises 19.6% in January, China Daily, 2017-02-16
China, Britain agree to promote global free trade

BONN, Germany - China and Britain agreed to safeguard global free trade mechanism and promote free trade as foreign ministers of the two nations met on Thursday. Chinese Foreign Minister Wang Yi met his British counterpart Boris Johnson on the sidelines of the Group of Twenty (G20) foreign ministerial meeting held in Germany's western city of Bonn. Wang said Chinese President Xi Jinping held the first meeting with British Prime Minister Theresa May last year on the sidelines of the G20 summit in the eastern city of Hangzhou, during which the two leaders reaffirmed the "Golden Era" of bilateral relations between China and Britain. As 2017 marked the 45th anniversary of the establishment of Sino-British ambassadorial level diplomatic relation, China is willing to work with Britain to review the experience and map out plans, Wang said. Through close high-level exchanges, both nations look to guide the general direction of the "Golden Era" and enrich the content of the "Golden Era", to lift the "global comprehensive strategic partnership for the 21st century" between the two countries to a higher level, he said. Wang said China, together with Britain, would respect each other's core interests and major concerns; promote flagship cooperation including the nuclear power station projects at Hinkley Point. The two countries will also join hands in maintaining global free trade and build an open world economy, said Wang. Johnson said the two countries share many common interests and should maintain the good momentum of bilateral relations and expand British-Sino cooperation in an innovative way. Britain will strengthen strategic cooperation with China on international affairs, promote bilateral and global free trade, and make the world more stable and prosperous, he said. Johnson reiterated that Britain will stick to the one-China policy and support the principle of "One country, Two systems" in Hong Kong.

Source: Xinhua: China, Britain agree to promote global free trade, 2017-02-17

China to respond if US introduces border tax: minister

BEIJING-- China will make careful evaluations and respond accordingly if the United States unveils a detailed plan on the proposed border-adjustment tax, Commerce Minister Gao Hucheng said Tuesday. China is aware of a recent proposal within the US administration concerning a border tax on imports, said Gao at a press conference when answering a question on US President Donald Trump's posts on Twitter. All countries should abide by international trade rules when formulating trade policies, the minister said. He said China does not want to comment on remarks made by US presidential candidates during the election campaign; instead, it would rather focus on the new administration's attitude toward trade ties with China. Speaking of the Regional Comprehensive Economic Partnership (RCEP), Gao said there has been substantial progress in negotiation, but there were still some difficulties to be solved. China will continue to play a constructive and positive role in the negotiation and make joint efforts with all parties to reach agreements on the remaining issues and conclude the RCEP talks at an early date, he said. Launched in November 2012, the RCEP talks involve ASEAN and its six major trading partners -- China, Japan, the Republic of Korea, India, New Zealand and Australia -- with an aim of facilitating expansion of regional trade and investment.

Source: Xinhua: China to respond if US introduces border tax: minister, 2017-02-21
China to provide more opportunities for foreign companies

BEIJING - China is committed to opening wider to the world and providing more investment opportunities for foreign companies, according to a Foreign Ministry spokesperson Tuesday. Spokesperson Lu Kang made the remarks at a routine news briefing, adding that China will create a more favorable, ordered investment environment and a level playing field for foreign investments. European Union Trade Commissioner Cecilia Malmstrom said Monday that she agreed with Chinese President Xi Jinping's remarks at the World Economic Forum in Davos last month that no one would emerge as a winner in a trade war. However, she also said that China's big challenge this year would be to match the rhetoric with reform. Lu said that after nearly 40 years of reform and opening-up, China had become a main engine of growth for the world economy and that cooperation between China and the EU had been fruitful. "China always upholds trade and investment facilitation, and opposes all kinds of protectionism," Lu said, hoping that the EU would view China's opening-up with a historical and long-term perspective. He said that China was the second most popular investment destination in the world, citing a world investment report released by the United Nations last year. The investment in China from 28 countries in the EU achieved a year-on-year growth of 41.3 percent in 2016, according to Ministry of Commerce statistics. Hailing the bright future of China-Europe economic cooperation, Lu said China would make joint efforts with the EU to safeguard the open and free multilateral trading system.

Source: Xinhua: China to provide more opportunities for foreign companies, 2017-02-8

China FDI inflow down 9.2% in January

BEIJING - Foreign direct investment (FDI) into the Chinese mainland dropped 9.2 percent year on year in January 2017 on high comparison base and holiday factors, new data showed Thursday. FDI inflow stood at 80.1 billion yuan ($12 billion) last month, lower than 81.42 billion yuan in December 2016, the Ministry of Commerce (MOC) said in a statement. The drop was mainly due to high base figure in the same month of 2016, MOC spokesperson Sun Jiwen said at a press conference. "Meanwhile, Spring Festival holiday factors also led to the decline," Sun said. Spring Festival, China's Lunar New Year, fell in January this year but was in February last year.

Source: Xinhua: China FDI inflow down 9.2% in January 2017-02-16

Making China FDI-friendly again

The Chinese economy is on the threshold of a new era of consumption-led growth that will be driven by increased foreign direct investment or FDI in strategic sectors, according to business leaders and industry experts. Thanks to governmental resolve to attract more FDI, segments newly identified as key to sustained growth—automation, digitalization, financial services, railway equipment, environmental technology and renewable energy—are expected to benefit. In January, the central government released a document outlining 20 measures to spur investment activities that have been sluggish. Among the measures are opening up of manufacturing, services and financial industries to FDI. Foreign businesses will be encouraged to bid for infrastructure projects through local franchises. Eager to enhance the country's profile as an FDI destination, the National Development and Reform Commission, the country's top economic planner, recently took an unprecedented step. It delegated power to provincial governments to approve proposals for foreign investment up to $300 million in areas not in the negative list, which specifies sectors where
foreign investors are barred. Foreign companies will also be entitled to participate in bidding for government procurement contracts, as long as their products are made in China. The government will also allow them to go public and issue bonds in local markets to diversify financing channels.

"Pushed by rising labor costs and weak global market demand, China is planning to have its growth depend more on domestic consumption and less on exports," said Zhang Yunling, director of International Studies at the Chinese Academy of Social Sciences in Beijing. Zhang said companies from Europe, Japan and the United States have already discovered that it is time to invest more in China's research and development or R&D, design, science and technology or S&T businesses.

New growth points will present themselves as the economy becomes more sophisticated. Under government policies, foreign companies will be encouraged to invest in high-end, smart and green manufacturing; set up R&D centers; and strengthen cooperation with domestic peers. They will also be allowed to join national S&T programs. Things have already started happening on this front. For instance, Germany's Siemens AG opened an industrial facility at its Wuhan Innovation Center in Hubei province last month. It will work together with local companies to build digitalization laboratories, intelligent water-testing laboratories, industrial hardware and software platforms, and expert networks from a long-term perspective. "The Wuhan facility will be geared to the situation and needs of local industries to provide such services as innovation project incubation, professional training and technical consulting for small and medium-sized enterprises," said Zhu Xiaoxun, senior vice-president of Siemens China. The company kicked off the Siemens China Innovation Center initiative in China last year, focusing on research in the field of digitalization. Under the program, Siemens has opened innovation centers in Qingdao, Wuhan and Wuxi to develop digitalization technologies in the country. China is now intent on persuading global corporate majors to emulate companies such as Siemens. "The government had noticed that the country's capacity to attract FDI had in recent years been challenged by a number of elements, including the monopoly of State-owned enterprises and disappearing cost advantages of domestic production," said Ma Yu, a researcher at Beijing-based Chinese Academy of International Trade and Economic Cooperation. Worse, changing global political scape—the Trump administration is keen to restore health of the manufacturing sector in the US; many countries in Europe will go to polls later this year—and slower economic growth in both Africa and South America, can affect global capital flows. So, China must further revise its negative list to better protect investment
from developed markets, as well as offer their companies the right to acquire or merge with domestic companies, instead of building only Chinese-dominated joint ventures, Ma said.

Industries not on the negative list are expected to treat overseas and Chinese companies equally. Such measures have acquired a competitive dimension of late. Neighboring countries such as Vietnam and Thailand have been initiating their own moves to entice more foreign investment to their shores," said Huo Jianguo, former president of the Chinese Academy of International Trade and Economic Cooperation. China believes any drop in FDI due to competition from the neighborhood may prove temporary. The Ministry of Commerce has repeatedly said that "because of its huge market size, industrial infrastructure foundation and logistics network, China is, in the long term, the most attractive market for global companies." Such confidence stems from the effectiveness of measures adopted so far. Johnson Controls Inc, the US-based manufacturer of energy storage, building equipment and control systems, will open its second global headquarters with a capacity for 1,200 employees in Shanghai in April. "The Chinese government is seeking new solutions to improve energy efficiency and cut carbon emissions to design healthier environments in its cities," said Trent Nevill, vice-president of Johnson Controls and president for the company in the Asia-Pacific region. "With incentives put in place and high demand from the market, we can experience fast growth in our energy efficiency solutions." The US company experienced fast growth in its battery business in China over the past five years, thanks to surging demand for replacement and original equipment manufacturing. It invested $200 million to build a plant in Shenyang, capital of Liaoning province, to produce batteries for start-stop vehicles. This type of vehicle battery can help automakers meet increasingly strict fuel economy and emissions regulations. It will be a primary focus for the new facility. The Shenyang plant is scheduled to launch in late 2018 and will produce 6 million batteries annually, with the majority for start-stop vehicles.

Source: ZHONG NAN, MA XUEJING and SU JINGBO: Making China FDI-friendly again, China Daily, 2017-02-20

FDI to get boost, new commerce chief vows

China's newly appointed minister of commerce vowed on Monday to further boost foreign direct investment and let foreign companies play a bigger role driving local manufacturing and service industries. Zhong Shan, who replaces Gao Hucheng, spoke of the importance of pilot free trade zones and supply-side reform at a national conference to attract FDI. "A total of 114 innovative ways to get things done have been duplicated as a result of experiments that have taken place in the country's four FTZs, including Shanghai and Guangdong," he said. The experiments have included allowing foreign firms to run healthcare and education businesses, and removing restrictions on foreign financial institutions like securities and fund management companies. Products such companies manufacture in China also will be treated fairly in government
procurement, he said. Such measures will be promoted nationwide and are expected to further drive FDI, said Li Gang, vice-president of the Chinese Academy of International Trade and Economic Cooperation in Beijing. "FDI management has taken a major leap from case-by-case approval to negative-list management," said Zhong. "International business interactions also have been accelerated by national economic and technology development zones and economic cooperation areas along the borders in Jilin and Yunnan provinces." The negative list specifies sectors off-limits to foreign investors, meaning overseas and Chinese companies in sectors not on the list should be treated equally. China attracted $489.42 billion in foreign capital in the past four years, and annual FDI from high-tech enterprises rose by 11.7 percent year-on-year on average from 2013 to 2016, according to the ministry. Foreign-invested businesses contributed almost half of China's foreign trade volume, even though they accounted for less than 3 percent of the total number of enterprises. "But now China is facing heavy pressures from other countries in attracting FDI," Li said. Li said China must become an innovative economy and create new growth points to encourage foreign companies to invest in its high-end and service industries.

Zheng Yiran contributed to this story.

Source: ZHONG NAN: FDI to get boost, new commerce chief vows, China Daily, 2017-02-28

**Chinese ODI comes close to $200b in 2016**

China's overseas direct investment is estimated to soar 40 percent to a record $189 billion in 2016 from the previous year, according to a study released by the US consultancy Rhodium Group and Berlin-based Mercator Institute for China Studies. Europe emerged as a key investment destination, as the country's investments in the EU jumped 77 percent to over 35 billion euros, with Germany grabbing 11 billion or 31 percent of the total, according to the report. Chinese investors have shown particular interests in advanced manufacturing and service sectors, it noted, citing last year's mega deals including the acquisition of KUKA, Skyscanner and the cinema chain Odeon. Such trends coincided with China's latest move to warn against State-owned enterprises' outbound investments in mining or heavily polluting industries. Although official full-year ODI data is not yet available, Rhodium Group expects the increase will cement "China's role as one of the top direct investor nations globally". However, the report also noted China is implementing more "stringent reviews" outbound investment deals with the goal of cracking down on illegitimate transactions, which are to blame for putting increasing downward pressure on the renminbi. The country's top State-owned assets regulator plans to further enhance the accountability and risk control of overseas acquisitions by the SOEs, according to documents released early last month. Unreasonable cases may still exist as the outbound investments soar, and such risks, once unguarded, may backfire on both sides. Therefore it's necessary to appeal for prudent investments, said Xu Shaoshi, head of the National Development and Reform Commission, at a press conference in January, adding that "the overall support for Chinese firms going global hasn't and will not change".

Source: Dai Tian: Chinese ODI comes close to $200b in 2016, China Daily, 2017-02-3

**Chinese money could flow away from U.S., experts fear**

Los Angeles Daily News (SCNG) In downtown Los Angeles, the cranes are signs of a boom in Chinese real estate investment that's poised to reshape the city's skyline and market thousands of high-rise condos to wealthy buyers in Beijing and Shanghai. Likening the U.S. trade deficit
with China to rape, Trump has threatened to label China a currency manipulator and floated the idea of putting a 45 percent tariff on Chinese imports. Signals from the White House suggest that Trump is eager to take a more aggressive stance toward China. Since taking office, he has repeatedly ruffled diplomatic feathers in Beijing, even going so far as to suggest that the U.S. would use sensitive issues like Taiwan's independence and the South China Sea as bargaining chips to get China to change its trade policies. On Tuesday, he renewed his claim that China is manipulating its currency, telling a gathering of pharmaceutical executives that China and other trading partners "take advantage of us with their money and their money supply and devaluation."

Amid those concerns, some economists and investors remain hopeful that Trump will use his business expertise to push for better trade deals, and force China to open its markets further to U.S. firms. Nationwide, about 45 percent of foreign residential homebuyers were Chinese last year, accounting for $27 billion in property sales, about a third of which took place in California, according to the National Association of Realtors.

"International buyers have played an important role in pushing property values up," said Ling Chow, a Pasadena real estate broker and former director of the West San Gabriel Valley Association of Realtors. In some areas of Southern California, Chow said, up to 99 percent of available homes are marketed to Chinese buyers. "Especially in locations with good school districts, we're seeing a lot of new construction going on in communities."


**China sees record outbound financial assets expansion in 2016**

BEIJING - China saw record expansion of outbound financial assets in 2016 as domestic investors bought overseas assets. Outbound direct investment grew by $211 billion in 2016, up 12 percent, according to the State Administration of Foreign Exchange (SAFE). Overseas securities investment grew by about $100 billion, up about 30 percent, while foreign deposit, loan and trade credit more than doubled. China continued to see strong inbound foreign direct investment, attracting about $153 billion, while inbound securities investment more than quadrupled, the statement said. The capital and financial account registered a deficit of $37.6 billion in 2016 but is expected to narrow in 2017. The SAFE expects increasing foreign investment and more rational overseas asset allocation by domestic investors.

Source: Xinhua: China sees record outbound financial assets expansion in 2016, 2017-02-9

**Report: China's Ant Financial seeks to raise US$3B for overseas deals**

Ant Financial Services Group, an affiliate of Alibaba Group Holding Ltd., is in discussions to raise approximately US$3 billion in debt to fund overseas investments and acquisitions, CNBC reported, citing "a source close to the matter." The Chinese company, which runs payment platform Alipay, is raising funds in U.S. dollars rather than yuan to fund the US$880 million purchase of U.S. payments company MoneyGram International Inc., the source said. A spokesperson did not confirm the amount being raised.

Ant Financial was valued at about US$60 billion after a US$4.5 billion funding round in 2016. This was raised in yuan from investors in China, but raising debt in U.S. dollars now will make it easier for the company to make foreign investments and acquisitions. The company has been looking to expand to Europe, the U.S. and a number of Asian markets, as part of a global
expansion push. It has invested in several companies including Ascend Money of Thailand and India's Paytm Payment Bank.


China's ODI down 35.7% in January

BEIJING - China's non-financial outbound direct investment (ODI) dropped 35.7 percent year on year to 53.27 billion yuan ($7.73 billion) in January this year, official data showed Thursday. Chinese companies invested in 983 overseas enterprises in 108 countries and regions in January, according to the Ministry of Commerce (MOC).

Source: Xinhua: China's ODI down 35.7% in January 2017-02-16

Belt and Road M&A deals hit $494b

The value of capital projects and M&A deals in seven core infrastructure sectors across the 66 economies in the Belt and Road Initiative reached nearly $494 billion in 2016 and China contributed one-third of the total value in the period, according to PricewaterhouseCoopers. The global auditing firm may be bullish about the long-term prospects for M&A activity involving infrastructure investment in Belt and Road economies. In its first report regarding investment across seven core infrastructure sectors in Belt and Road countries, PwC said the total capital project value had increased by 2.1 percent to $401.3 billion last year while the total M&A deal value plunged by 48.7 percent to $92.5 billion in the same period. These infrastructure sectors involve utilities, transport, telecoms, social, construction, energy and the environment. China registered an increase of 14 percent in average project value last year while average project value was 47 percent higher in the same period. Since 2013, the value of invested projects across the region had registered a compound annual growth rate of 33 percent, PwC data revealed. Gabriel Wong Yiu-wo, PwC's head of corporate finance for the Chinese mainland and Hong Kong, said: "There was a rise in project dollar value as governments battled to revive growth. However, M&A activity points to a decline in volume and dollar terms, reflecting a flight to quality and renewed focus on project economies.” Unveiled by President Xi Jinping in 2013, the Belt and Road Initiative aims to connect China with more than 65 economies through unimpeded trade and financial integration. The total investment amount envisaged in a first phase of the Belt and Road Initiative is estimated to be roughly $240 billion. Wong noted: "We expect that mainland investors are likely to be more prone to invest in capital projects while remaining on the sidelines at the M&A deal level. The hike in construction costs, overcapacity and downgrade of sovereign debts in 2016 also paint a bearish picture for M&A deals.”

Source: OSWALD CHAN in Hong Kong: Belt and Road M&A deals hit $494b, China Daily, 2017-02-16

Australia chasing lost Chinese investment: Regulation

Shanghai | China's crackdown on the wave of outbound investment that has driven demand for Australian real estate and resource firms will top the agenda when officials head to Beijing next week. Treasurer Scott Morrison and Trade Minister Steve Ciobo are also planning to reassure their Chinese counterparts that Australia has improved its systems after the botched bidding process for the country's largest electricity distribution network, Ausgrid, last year. Two Chinese
bidders were barred at a late stage from taking part on national security grounds. "We will be telling our Chinese counterparts that we are open for investment that's consistent with our national interest," said Mr Ciobo, who will arrive in Beijing on Monday for the Australia-China Strategic Economic Dialogue. He said the creation of a Critical Infrastructure Centre to carry out risk assessments and keep a register of sensitive assets would "bring more commercial certainty".

From China, Australia is seeking clarification on new government measures to control surging capital outflows. In November, the State Council flagged greater scrutiny of mergers and acquisitions worth more than US$10 billion and deals more than US$1 billion if they are outside either a company’s "core business" or a real-estate investment by a state-owned enterprise. There is concern this scrutiny could slow down deals or prevent some bidders from competing for infrastructure assets in Australia. "Of course there have been recent developments in China in relation to investment priorities and rules for state-owned enterprises," said Mr Ciobo. "There will be a chance to clarify some of those initiatives."

New figures suggest China's tightening measures - aimed at stemming outflows and reducing pressure for devaluing the yuan - are already having an impact. The Ministry of Commerce announced this week non-financial overseas direct investment dropped more than 35 per cent to 53 billion yuan ($10 billion) in January compared with a year ago. Chinese investment in overseas property slumped 84 per cent. Pan Gongsheng, head of the State Administration of Foreign Exchange and deputy governor of the People's Bank of China, said the recent tightening was in response to a surge in outbounds investment last year, which was up 44 per cent to a record of more than 1 trillion yuan. "If outbound FDI shows an extraordinary change within a relatively short period, this needs to spark our close attention," he told China Business News this week in a rare interview. "Some enterprises' outbound FDI is carried out with a strong element of blindness." China's foreign exchange reserves dropped below US$3 trillion in January for the first time in almost six years. That was down from a peak of US$4 trillion in June 2014, a drop that has been largely a result of the central bank being forced to intervene heavily to support the yuan in the face of a stronger US dollar. MinterEllison partners Chris Carr and Bi Chen said last week that funds sourced within mainland China for outbound transactions would be subject to additional scrutiny and discretionary approval of SAFE. This means while legitimate transactions will go ahead, deals could take longer to complete or even be suspended.


**China’s Cash-Rich Investors May Be Losing Their Cachet**

For years, cash-rich Chinese investors have been highly sought after the world over. Now, their cash is losing its cachet. China’s increasing efforts to prevent capital from leaving the country are eroding the confidence of domestic and foreign investors about getting deals done inside and outside of the world's second-biggest economy. Chinese bidders had become ubiquitous in deals in the past two years and were welcomed, said Severin Brizay, head of UBS. Get Term Sheet, Fortune’s daily email about deals and dealmakers. "Clients were asking if it would be possible to make sure they are involved. Now, we are seeing the reverse: some clients are asking if we can do it without Chinese bidders because of the domestic challenges they face," he said. Dealmakers said many Chinese firms are unable to close deals because they cannot secure official permission to transfer
yuan into foreign exchange. This follows a series of measures by authorities since late last year to tighten restrictions on capital outflows and rein in what officials have called "irrational" outbound investment. The Institute of International Finance estimated capital outflows surged to a record $725 billion last year and it expects even higher outflows this year. The yuan fell more than 6.5% last year against the dollar, its steepest decline since 1994, prompting the central bank to spend hundreds of billions of dollars in reserves to prevent the slide from turning into a slump.

China's foreign exchange regulator, the State Administration of Foreign Exchange, did not respond to requests for comment. The measures by authorities have had a dramatic impact. Overseas direct investment (ODI) by Chinese in December fell almost 40% from a year earlier to $8.41 billion, the lowest monthly level in 2016. In January, overseas property purchases by Chinese corporations plunged. Global stock index provider MSCI expressed concern about the capital outflow measures and China shelved plans for a new crude futures contract because potential foreign participants were worried they would not be able to take yuan profits out of the country. Chinese conglomerate and cinema chain operator Dalian Wanda's proposed $1 billion purchase of U.S. entertainment group Dick Clark Productions Inc collapsed over problems getting currency out of China and regulatory approval, online website The Wrap said on Monday. In another case, a Chinese investor was unable to get permission from authorities to exchange yuan into $30 million to close a U.S. deal, a consultant involved in the project said. The planned $100 million investment in a U.S. residential property portfolio fell through. "Sellers nowadays will request certain proof," said Jeffrey Sun, a Shanghai-based partner at the legal practice of Orrick, Herrington and Sutcliffe. "From the sellers' side, the worry is justified." Still, while Chinese regulators are putting proposed deals under greater scrutiny, it does not mean they are shutting the door on outbound investment, lawyers said. Regulators will approve deals if they make economic sense, Sun said. For example, a steel manufacturer buying a soccer club "is unlikely" to be approved, he said.

Fund managers that help Chinese invest abroad, such as China Orient Summit Capital, are changing tack. The firm had been raising money in China for funds to target U.S. and European real estate. It is now looking to raise money in offshore markets, an executive at the company said. China Orient Summit Capital declined a request for a formal interview. Companies are also looking to avoid the approval process for buying foreign exchange if they have access to funds outside of China, lawyers and bankers said. "Every deal at this point is looking for some way to identify offshore funds rather than deal with the capital controls," said an M&A lawyer in Shanghai, who declined to be identified. Chinese companies raised a record $111 billion in offshore dollar bonds in 2016, according to data from Dealogic, up from $88 billion in 2015. Some of those funds would have been earmarked for overseas investments, said Ivan Chung, associate managing director at Moody's ratings service. Chinese conglomerate HNA Group announced about $20 billion in outbound deals last year. Thomson Reuters data shows it raised at least $17.05 billion in loans abroad in 2016. Overall, China's outbound investment hit a record last year but could have been much higher, said the Rhodium Group, a consultancy that tracks direct investment from China. It said a record 30 deals worth $74 billion and involving Chinese companies were canceled in the United States and Europe in 2016. "Right now everybody is thoroughly freaked out by capital controls," Daniel Rosen, a Rhodium partner and adjunct professor at Columbia University, said. In the past, Chinese investors have tended to find ways
around capital controls, he said. "It won't take them long," he said. "The people that really want to come here, I don't think it's going to stop them."
Source: Reuters: China’s Cash-Rich Investors May Be Losing Their Cachet, FORTUNE, Feb 21, 2017

**Lawmakers Urge Closer Look at Chinese Investment**

Previous attempts to significantly expand the CFIUS review process have been defeated in favor of nurturing the U.S.’s traditionally open investment policy. But the confluence of booming Chinese investment, a convergence of anti-China Republicans and antitrade Democrats, and the possibility of strong support from Mr. [Donald Trump], could tip the scales this time, according to a recent report by law firm Covington & Burling LLP, which saw "a greater chance now than at any time in the last decade of potential legislation to amend CFIUS."

A year ago he sent a letter cosigned by 45 other members of Congress calling for CFIUS to rigorously vet a planned $22 million deal for investors led by China's Chongqing Casino Enterprise Group to buy the Chicago Stock Exchange, which handles less than 1% of U.S. equities trading. The lawmakers said they feared the deal could enable the Chinese government to manipulate U.S. equity markets, a charge the exchange has denied.

Some Republicans concerned about Chinese investment might find common ground with Democrats like Mr. [Chuck Schumer], who said the government should "use all tools at its disposal to protect the U.S. economy and American jobs, and that includes expanding the authority of CFIUS to review, investigate and block deals where the U.S. gets the short end of the stick."