INSIDE XI JINPING’S CHINA

With guest contributors Kerry Brown (King’s College, London), David Dollar (Brookings Institution), Sebastian Heilmann (MERICS), Michael Humphreys (Control Risks), James Robinson (APCO), Andrew Polk (Trivium). Plus, interviews with Steve Tsang (SOAS) and Ning Zhu (Tsinghua).

FORECASTING CHINA’S ECONOMY AND FINANCIAL STABILITY

“The biggest issue I have is with the implicit guarantee that is still prevalent in the China’s economy” — Ning Zhu

HOLDING THE REINS

“We are not seeing a restoration of Maoist totalitarianism under Xi Jinping. We are seeing a strengthening of Leninist control” — Steve Tsang

XI’S ECONOMIC AGENDA

Xi’s agenda has four critical elements: the role of the market, supply-side structural reform, innovation, and the role of state-owned enterprises.

FOREIGN POLITICAL AND ECONOMIC RELATIONS: THE CHINA FACTOR

China’s rise triggers new global systemic competition. Xi Jinping put the world on notice at the Communist Party’s 19th Congress. During his marathon work report that opened the meeting, he announced that China would move toward the “center of the world stage” and become a leading global power by 2050. He also stressed the CCP’s “mission” to make “contributions to mankind.”
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This issue of *Insight* once again offers expert commentary on a range of economic and political factors that will shape the operating environment for American companies in China in 2018. The lineup of writers is impressive and should give you plenty to think about. In that same spirit, although my own stature pales in comparison to the luminaries contributing to this issue, I’d like to share some thoughts about what the Chamber achieved in 2017 and where we are headed in 2018.

If there was one word that guided our actions last year it was “impact.” We wanted our actions to have an impact on your business, on how we engage with members, and on how we function as an organization. We made progress on all three fronts, although there is always more we can do. Let me explain.

Last year was one of great change. A new administration came to power in Washington, DC and an existing administration in China experienced significant leadership turnover, albeit not at the top. The Chamber offered numerous programs on both transitions to ensure that members understood the potential repercussions for their businesses. In the case of the Trump administration, we had early and frequent interaction with senior officials in key departments. This included meetings in China with the Secretary of Agriculture and Secretary of Energy. Similarly, we closely tracked key Chinese policy developments – cybersecurity, internet openness, One Belt One Road, healthcare industry regulations and implementation of environmental regulations, to name but a few. Whether our target was Beijing or Washington, our purpose was the same – to give you the knowledge you need to succeed in China and to improve the business environment for our members.

We also took steps to improve how we function as an organization. We hired a new vice president for operations with a mandate to strengthen our internal systems across the board as well as look at how we engage with members and bring you the best possible programs and services. We rebranded the SME Center as the Trade and Investment Center, with the goal of providing real business support to our members. We reviewed how our system of committees operates and have begun implementing a series of recommendations. And after several years of running at a modest financial loss, we ended 2017 with a slight surplus.

Looking ahead, we are very excited about 2018! We will be offering new options for special services designed for specific groups. One is aimed at CEOs, one will provide more support on policy developments and advocacy, and one is designed to provide more business support to SMEs. This will mean more tailored programming, policy briefs and high-level speakers. We also have ideas about new committees and some specialized forums. We have an exciting schedule of industry conferences and some fresh ideas about ways to increase interaction with the Chinese business community. And we will continue to build out our operations in Suzhou and Nanjing.

In short, we are very clear about our New Year’s resolution for 2018: to make AmCham Shanghai the premier business chamber in China and the voice of American business in China. We thank our members for their support and participation and urge you to tell your friends about the many services and programs AmCham Shanghai offers. Help us grow and become even stronger in 2018.
President Trump has harped on three economic issues with China – currency manipulation, the bilateral trade balance and market access. Of these, only the third is a real issue. The other two are unnecessary distractions.

**Investment restrictions limit American firms**

American firms are well aware of the market access problems. Some of these take the form of straightforward trade protection, such as the 25% tariff on imported cars. Other restrictions are more subtle, such as the prohibition on the use of growth hormones in beef that relegates U.S. beef to a tiny niche market in China. Among the most important restrictions are those on investment. In service sectors such as finance, telecom, healthcare, entertainment and social media it is difficult for U.S. firms to export if they cannot invest in the domestic market.

China has the most restrictions on inward investment of any economy in the G20, which is a club of big developed and developing countries. The OECD calculates an FDI restrictiveness index, both for the overall economy and for individual sectors. China is much more closed than the advanced economies such as the U.S. It is also more closed than the other developing country members, such as Brazil, India, Indonesia, Mexico and South Africa (see Fig. 1, page 7). China is particularly closed in sectors such as finance, telecom, transportation and media.

The U.S. has grappled with this problem for a long time. A fundamental issue is that most of China’s actions are consistent with its WTO accession agreement. When China joined it was a relatively poor developing country and its accession agreement left it a lot of scope to pursue import-substitution policies. Other members of the WTO expected that China would gradually open these protected sectors, but in fact there was no sunset clause and China has mostly disappointed with its very partial opening moves over the years. The Bush and Obama administrations set up high-level economic dialogues, through which over time China has made some modest moves. President Trump has also set up a Comprehensive Economic Dialogue, but so far has been reluctant to endorse the incremental progress that results from such dialogues.

In his work report at the 19th Party Congress, President Xi Jinping once again had some general language about opening up more to foreign investment, especially in services. PBoC Governor Zhou Xiaochuan has been more impassioned, both warning about the risks inherent in the growth of debt relative to GDP but also advocating for more openness to foreign investment to stimulate competition and productivity growth. While Trump was visiting, President Xi said that China would open its market “according to its own timetable and roadmap.” After Trump left, China announced increases in the equity caps in investment banking and insurance, an encouraging step suggesting that there will be gradual opening now that the Party Congress is over.
The bilateral imbalance is a non-issue

Economists generally do not pay much attention to bilateral imbalances for a number of reasons. One powerful reason in today’s world is the expansion of global value chains. About two-thirds of global trade now occurs in value chains that cross at least one border during production, and usually many borders. Figure 2 (below) shows the value chain for China’s exports of electronic and optical equipment in 2011, one of China’s major exports. All the major inputs are identified by country and by sector as production moves through the different stages. The vertical axis measures compensation per hour, an indication of high- versus low-value-added activities. At the beginning of the production process there are inputs from service sectors such as finance, as well as different types of metals. This manufacturing industry is #14. Upstream from China’s input there are sophisticated parts and components from Germany, Japan, the U.S., South Korea and Taiwan. China’s activity is towards the end of the production process – low-wage assembly. Finished products then go from China to developed markets in the U.S. and Europe. At the end of the production chain are service sectors in advanced economies providing transportation and distribution.

China imports a lot of goods and services from upstream producers and then generally gets credit for the whole export when it is sent to the U.S. or Europe. For China’s exports as a whole, a bit more than half of the final cost is Chinese value added. It is possible to recalculate bilateral imbalances in terms of the value added traded among countries. This adjustment cuts the U.S.-China bilateral imbalance in half, while increasing imbalances with some of the upstream economies such as Japan, South Korea and Taiwan. China is moving up the value chain so some of the labor-intensive assembly is shifting to Vietnam and other low-wage countries, with China starting to provide more sophisticated parts. This shift, other things equal, will reduce the bilateral imbalance between the U.S. and China, but nothing of importance will have happened in trade relations. This is one reason why economists do not view bilateral imbalances as useful metrics.

China’s overall surplus has come down

Unlike bilateral imbalances, overall trade balances are important economic variables. A deficit is not necessarily a bad thing, and a surplus, not necessarily a good thing. But overall imbalances indicate whether a country is a net borrower from the rest of the world, or a net lender. I view large imbalances as a bad thing because they are inherently unsustainable, which means there will have to be large adjustments in exchange rates and trade patterns at some point.

Large adjustments tend to be costly and disruptive. Ten years ago the U.S. and China had fallen into a bad pattern in which China had an unsustainable trade surplus above 10% of GDP and the U.S. had a unsustainable deficit of about 6% of GDP. These large imbalances were a contributing factor to the global financial crisis.

As a result of the crisis China’s trade surplus dropped sharply. I feared at the time that the surplus would bounce back quickly with recovery, but in fact that has not happened. One reason is that China’s exchange rate, which had been severely undervalued, was allowed to appreciate by the central bank. Figure 3 (page 8) shows an index of China’s trade-weighted exchange rate, which appreciated by nearly 40% over the ten-year period. Figure 1: FDI Restrictiveness Index, 2016

Figure 2: Supply chain for China’s exports of electrical and optical equipment, 2011
3 also shows the current account, the broadest measure of the trade surplus, relative to GDP. After coming down sharply with the global crisis, it has remained low and was less than 2% of GDP in 2016. The most recent IMF global stability report finds China’s exchange rate to be fairly valued and its small surplus to be normal. I do not want to exaggerate the importance of the exchange rate because other policies are important as well. Some Chinese policies are encouraging consumption and that contributes to a reduction in the trade surplus as well.

The U.S. trade deficit came down after the global financial crisis but now it is rising again. If the U.S. deficit is rising then someone else’s surplus has to be on the rise as well. In this case it is Germany and other parts of Europe that are starting to run very large surpluses, above 8% of GDP in Germany’s case. It should also be noted that the U.S. deficit is largely determined by the country’s own macroeconomic policies. So far this year the U.S. deficit is up more than 9% over 2016. President Trump has trumpeted that his policies, including a large promised tax cut for corporations, are pushing up the stock market and attracting capital inflows. The counterpart to those inflows is a larger trade deficit. If the U.S. follows through with the tax cut, it will increase the fiscal deficit, drive up interest rates and the dollar, and widen the trade deficit. As this happens it would be inaccurate to blame China.

## Strengthening U.S.-China economic relations

Given that China’s overall surplus and exchange rate are not a problem, and that bilateral trade imbalances are poor metrics, the logical thing for U.S. officials is to focus on the market access issues, which are very real. President Trump has launched a 301 investigation which is likely to find plenty of evidence of China’s unfair trade practices, including IP theft and forced technology transfer. The forced technology transfer is closely related to the restrictions on inward investment. In many cases those restrictions take the form of requirements that foreign investment operate via joint ventures in which they end up sharing their technology and brands on poor terms. This can be a rational decision for an individual company given China’s restrictions. It would be better for Chinese consumers and for U.S.-China relations if the restrictions were removed.

Following the 19th Party Congress, it is reasonable to hope that economic reform will accelerate modestly. A lot has been made in the press about how powerful Xi Jinping is. But the Politburo Standing Committee strikes me as relatively balanced among proteges of the previous three presidents, Xi, Hu Jintao and Jiang Zemin. I do not see the different factions as being more or less reformist. A balanced PBSC creates a good foundation for reform because everyone knows what needs to be done and a unified party is needed for implementation. On the macro side, China needs to rein in credit, allow failing enterprises to close and strengthen capitalization of banks to absorb significant losses that are inevitable given the credit binge of recent years. More important in my view are micro reforms, especially opening up the closed sectors to generate more competition and productivity growth. It would be uncharacteristic of the party to do anything dramatic, but it is plausible that there will be steady, gradual progress in opening up.

How can the U.S. encourage this process? We gave up our only real leverage by pulling out of the TPP. That had good hope of developing norms for investment openness, trade in services and IP protection. Hopefully the TPP11 will proceed, but it will not be as attractive as it would have been with the U.S. at the center. After the 301 investigation documents unfair trading practices, the Trump administration will face a fundamental choice. It can try to develop some WTO cases and continue the CED (Comprehensive Economic Dialogue), recognizing that progress in China will be gradual. Or it can focus through on some of the harsh protection that Trump threatened during the campaign, such as a 45% tariff on imports from China. Given modern value chains, much of the pain from such an approach will hit partners like Japan, South Korea and Taiwan, not to mention U.S. companies. The value added in China’s exports to the U.S. amounts to about 3% of its economy, down by more than a half since the GFC (global financial crisis). The idea that the U.S. has a lot of leverage over China because of China’s sales in the U.S. is out of date.

If the U.S. wants to play hardball with China, a more promising arena would be investment, which is where a lot of our unhappiness with China resides. Members of Congress are considering tightening the CFIUS process in ways aimed at China’s push to acquire hi-tech firms in the U.S. It is more likely in this arena that we will be able to craft something WTO-consistent that does not shoot ourselves in the foot.
A nyone arriving from another planet and observing the 19th Party Congress convened for a week in Beijing from the October 18 would have assumed they were watching something akin to a carefully choreographed piece of theater, or the meeting of a religious cult. The uniformity, the strict focus on the actions and words of one man, and immense effort that went into making sure everything came off looking harmonious, orderly and purposeful would have been the immediate focus of interest. However, had they momentarily cast their eyes on the society within which this event took place, they may have experienced cognitive dissonance. Here was a country full of diversity, entrepreneurial energy, and people going about their lives in a million different ways, all happening in the same place as an event which ostensibly seemed so important and yet had none of the attributes of the wider society around it.

There is purpose to this speculation about what a complete outsider would have made of Beijing last month. What in the end is the real meaning for Chinese people of having ‘Xi Jinping Thought’ written into the Party Constitution – something that has not happened under the name of a specific leader since Mao Zedong in 1945. And what on earth could one make of the phrase that was repeated so often during the Congress – “modernisation of Socialism with Chinese characteristics for the new era.” What was this strange private language these people were speaking to each other, and its link with the wider world around it? Were they just existing in a vacuum? Was there any link at all?

An obvious explanation would be that the whole event was part of a personality cult. That, after all, is what many outside observers focused on. Xi Jinping reigns now with a set of compliant leaders around him, no real successor in sight, his thought written within the Constitution, and his influence seemingly stretching everywhere. Under this line of analysis, the 19th Party Congress harks back to an early age, before the 1978 reforms even, when Mao figured everywhere.

The problem with this interpretation is the fact that the Party gathering this year happened in a China that might just as well be a different country to that prior to the death of Mao in 1976. China’s economy then was 99% in the hands of the state. Only 15% of people lived in cities. The country had next to no international trade and few real diplomatic allies. It was a society in which all forms of news were tightly controlled, very few had phones, even fewer, even towards the end, televisions, and in which only a tiny minority went to university. These days, more than 50% of eco-
onomic activity is from the non-state sector, more than half of people live in cities. China is the chief trading partner of more than 120 countries and is fast approaching the point when it becomes the world’s largest economy. How is it remotely feasible to deploy a heavily personality centred, Maoist style politics of charisma in a place that is so transformed and different to the one that the Chairman reigned over?

Whatever the similarities in style between the 2017 Congress and those prior to 1976, in terms of substance – policy challenges and outcomes – the event this year betrayed just how immense the mountain the country needs to climb in the next few years in Xi’s political report, given on the first day. Even the most vulnerable politicians do not speak for three and a half hours unless they have to – the late Fidel Castro and Hugo Chavez excepting. And whatever the specific contents of Xi’s speech, even the most distracted auditor would have come away with one overriding impression – this administration is facing very, very complicated issues. It has no straightforward policy narrative. It must reform and adjust across almost every realm, from the social welfare system, to handling environmental challenges, dealing with food security and starting to create a more sustainable, mixed economic model less reliant on exporting and manufacturing and more focused on services and consumption. Xi’s epic October 18 oration had no less than 14 core areas for “socialism of Chinese characteristics in the new era” to focus on. These ranged from strengthening the political role of the Party, to upholding core socialist values, to observing ecological values, to playing a positive role in global governance. Surveying these, it was hard not to be drawn in several different directions. Each area might just have well been a discrete venture in its own right. Western politicians like to try to make two, or maximum three key points that they hope their audience might retain in major addresses. More often than not it is good they achieve just one. But for Xi’s audience, in the Great Hall of the People and the wider world, they came away burdened with a massive amount of language and a great deal of aspiration – but no real core policy narrative.

The one constant across all the epic sweep of Xi’s speech, and the linkage between it, the role his personality plays and the aspirational vision that the Congress laid out was the non-negotiable role of the Party. The Party is central, and its rule has to be made sustainable. Without this, chaos threatens. The Party is the stabilizer, the one commonality in all areas and when dealing with all issues. And the whole event in many ways, for all its complexity and large-scale nature, was an illustration of this. It was the Party declaring through the actions of its elite members complete unanimity. It might not have got particularly lucid explanations from delegates if anyone had asked them forensic questions about the details of Xi Jinping Thought. But going by the vote supporting it being added to the Constitution, everyone present at least agreed there was such a
thing, and it needed to exist. Whatever reservations people may have carried around in their private selves during this event, they subscribed to some degree to the need to showcase unity. After the chaotic events of 2012, this was the unity congress. That seemed to be its main underlying message.

That operated to the need to show that unity. After the chaotic events of 2012, this was the unity congress. That seemed to be its main underling message. A large part of the desire for unity must come from the sense of historic mission and opportunity that Xi referred to through the opening moments of his speech on October 18. China’s experience prior to and after 1949 with modernity has been a searing one. Its initial contact with industrialized nations in the 19th century was, in the words of historians in China today, one saturated with humiliation. Even from 1978, the path has been rocky. China remains a country with serious issues of inequality and poverty. But as never before, it is now able to start winning the battle for modernity. A modern

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rized China in its own terms is on the horizon – and not just decades away, but just a matter of years. With the Centennial Goal in 2021, the Party will be celebrating its hundredth anniversary at the same time as it heralds in middle income status. It will be a country with a role and status in the world never been seen in modern history. Telling Chinese people that this great symbolic landmark is at hand is also a good time to remind listeners that only with the Party and its unity and discipline will people get there. That more than anything else is the single message that resonates in the energetic, chaotic, diverse society outside the Congress which probably barely heeded all the other talk about a new ideology and new Thought.

Commitment to that strategic vision also helps to explain the hybrid group of new leaders coming into the Standing Committee. One, Wang Huning, has expertise in foreign affairs. This is recognition of the fact that as a global power now, even in its domestic politics, China needs to shape a new kind of relationship with the outside world. Foreign policy will need to be recalibrated and changed, shifted from the default of being an underdog with a history of victimization, and becoming more akin to regional, and then global, leader. With Wang Yang there is representation from the more liberal wing of the Party, a person who in his provincial leadership in the past took the path of negotiation over coercion in local unrest (Wukan, in 2011) and who is admired as a market-friendly reformer. Li Zhanshu and Zhao Leji are figures who have worked in the central Party bureaucracy, the former for almost their whole career, and no doubt figure as administrative enablers, the figures in charge of implementation of the dozens of promises that have been made since 2012 (60 alone in the Third Plenum 2013 communique!). The same could be said of Han Zheng, survivor for over two decades of the treacherous politics of Shanghai, and someone who is simply able to get things done.

China as a country and a society is moving into the era of high expectations. Chinese people have never been wealthier, lived longer and had greater demands. They want a good environment, good healthcare, good welfare and freedoms to travel, to work and be educated, in ways that were pipe dreams even for the generation before. Dangling a distant future before them in the manner of the past, where it was always pleasure deferred, and sacrifice now, won’t work. The fact that this Congress was so workmanlike, so process driven

Now enshrined in the Constitution
Forecasting China’s Economy and Financial Stability

By Ruoping Chen

What is your forecast for the Chinese economy in 2018?

I expect the growth rate will decrease to somewhere between 6-6.5%.

What are the specific indicators that have led you to this forecast?

There are a couple of reasons. One is, broadly speaking, the main engines for China’s economic growth – domestic consumption, exports and infrastructure investment – all seem to be slowing down. If anything, that trend will persist because of the tapering off of Quantitative Easing by the U.S. Federal Reserve and by the gradual cooling of the Chinese real estate sector. Keep in mind that the impressive economic speed that we’re enjoying in 2017 is largely due to two things: one is the lingering wealth effect of the housing boom in 2016, the other is a rebound in industrial production largely due to “supply-side reform” which was intended to cut production of the upstream firms and so the average price levels have increased substantially in 2017.

But that will be tested in 2018 because all those price rises will have to be passed on to downstream enterprises and I’m not too certain that the consuming sector is ready or strong enough to embrace that shock. I think exports are going to cool off because of the strengthening of the RMB, and housing sector and infrastructure are cooling off because of the curbing policy, and the consumption sector is leveling off. Put everything together, and we’re going to get substantially lower numbers than in 2017.
If this does happen, what sectors and industries will experience the biggest shocks or be most affected?

There are several areas. The first is real estate, which has been doing really well for the past 18 months, but it's definitely seeing some softening. Next is construction or infrastructure related areas, which are being greatly constrained by the tightening of local government fiscal capabilities and guidance from the central government that does not allow local governments to borrow as much as they used to. One instance of this is that the proposal to build a subway line in the city of Baotou in Inner Mongolia was rejected by the NDRC, the first example of its kind. This is indicating that the infrastructure sector is going to cool off in 2018. Related to those two areas are two separate areas which are related to the housing sector. One is a fairly broad consumption area: furniture, home decorations, kitchen appliances, things like that. This is one area where we will see some cooling off. The second is anything related to environmental protection. We are already feeling the pinch and many companies have been forced to close because of environmental considerations. This trend will persist due to the agenda of the 19th Party Congress. So general consumption areas and the areas sensitive to environmental protection will cool off considerably.

As to the bright spots, I think environmental protection-related areas are still hot; general health-care and pharmaceuticals are still doing quite well as they relate both to increasing demand and the aging population. There is also the innovation or industry upgrade sector, which means existing companies are trying to do more innovation or “micro-innovation” which will push their business to a higher notch of the supply chain. Those companies are still going to receive government support and see sustainable growth.

Are you seeing any effective progress in the fight against mounting debt? What is your view on the recent set of financial reforms?

I think they will be quite influential. Ranging from the recent changes on peer-to-peer financing, the third-party payment systems, the recent crackdown on the borrowing of consumption credit companies to the recent announcement on the standardization of the regulations on asset management businesses. The regulators are serious about cracking down on shadow banking, off-balance sheet activities, and trying to cool off the burgeoning debt market. It’s going to be very effective in the short term.

What moves has the government made to minimize the risk areas you mention (housing sector and implicit guarantees)?

The government has been aware of the problem since the second half of last year and the Politburo meeting last October. There’s been a lot of discussion about trying to tame the asset bubble, trying to prevent systematic financial risks, trying to stabilize the financial system within China. All the measures we have seen in the past six to 12 months are related to the government’s attempt to contain the debt problem and gradually taper off the guarantees and soft-land the housing bubble. The government is aware of the problem and is trying to compartmentalize the risks. The question is, without fundamentally changing the public’s belief in the housing sector and the belief in the implicit guarantee from the government, can the government do a credible job in squeezing out the speculation and

There are two things worth noting, though. The recent trend is quite encouraging. In 2017 we’re seeing a pause and a very slight reversal in the debt-to-GDP level. This is quite phenomenal in that this has been increasing over the past decade and this is the first time that it has paused and reversed in a decade. The question, though, is whether this trend is going to persist for three reasons. One, the outstanding balance is quite big, so servicing debt can be quite cumbersome. Two, a lot of the improvements last year came from the housing sector boom. Now that the housing sector has been put on hold if not gone into reverse, whatever we have been seeing in 2017 will reverse itself in 2018, and that will have a chilling effect on the debt problem.

The biggest issue I have is with the implicit guarantee that is still prevalent in the China’s economy, as I pointed out in my book China’s Guaranteed Bubble. Local governments believe they will be bailed out if they get into trouble. And investors in the local government debt believe their investment is safe because they believe that local government will eventually be bailed out by the central government. This belief is still there, even though a recent announcement by the PBOC made it very clear they’re trying very hard to break this “刚性兑付” (“firm beliefs in government guarantee and bailout”). It takes a long time for legal frameworks, culture and sentiment to change. That is still something to be resolved before the debt problem can be seriously taken care of.
at the same time not trigger a burst in the bubble or a run in the financial sector.

China has announced that it will lift the foreign-ownership cap on banks and asset management companies. What does that signal in terms of financial liberalization?

It’s an encouraging sign compared to what we currently have. That said, there are two things worth noting. One is, even for current joint venture financial institutions, their market share is fairly small. Even after full-stake ownership is cleared, it’ll be a while before any wholly-owned foreign institutions can play a meaningful role in China’s financial sector. The second thing is that it’s fair to say the foreign institutions do not clearly have an advantage over Chinese domestic institutions. They’re probably more familiar with the overseas markets but they really don’t have any advantage in the client base, the know-how, in their relationship with regulation. It’s a very encouraging time and it definitely helps international institutions but it remains to be seen how effective it will be and how it will materially help the foreign institutions across the board.

Many foreign companies say it is getting more and more challenging to operate in this market – certainly in key sectors. What is your outlook on foreign businesses in China over the next five years?

Let me try to answer the question in a different way. I think the business environment is going to be different in the next five years compared to the past decade in two ways. One, the business environment is going to tighten for financial institutions and businesses regardless of whether it is foreign or domestic. In the financial sector I expect the regulations to keep tightening up, and that’s going to persist for a while and affect foreign and domestic institutions. If regulation on financial innovations and overseas expansion were not to change in the near future, it is not clear how foreign institutions can gain an upper hand in the competition.

The biggest issue I have is with the implicit guarantee that is still prevalent in the China’s economy

They’re thinking of globalization which means more exchange – not just opening up China’s market but also having the foreign countries do the same reciprocally. The government is frustrated with the failures of some of the blockbuster overseas M&A deals by Chinese companies due to security and anti-trust considerations. It is probably still under the impression that its ascent is feared by the West and the West is trying to block and suppress its further development. So this is going to be a “two-way” opening up. China may be more open, but it would be contingent upon the other country or other company opening up as well.

Two is, the business environment will be more challenging for foreign companies because more and more Chinese domestic companies are growing up, so they are gradually leveling the playing field in the way that they have more to offer that can satisfy China’s domestic demands than they could a decade ago. That is also a fact, even without any tightening from the policy side.
As 2017 comes to a close, we now have some critical distance from the 19th Party Congress. That critical distance is helpful in understanding what the enduring policy outcomes of the Congress will prove to be for 2018 and beyond. Most commentary examining the 19th Party Congress has focused on the fact that Xi Jinping has now officially consolidated his grip on power – getting his name written into the CCP constitution and securing a large number of allies on the Politburo. However, from the standpoint of economic and financial policy, other developments were critical.

Updates to the Party constitution at this year’s Congress not only included “Xi Jinping Thought on Socialism with Chinese Characteristics for a New Era,” but they also officially enconced large parts of Xi Jinping’s policy agenda into the law of the land. Understanding the key policy elements that Xi Jinping highlighted at the Party Congress, then, is key to projecting the future development of China’s economy and business environment. In this essay, we focus on four critical elements of Xi’s agenda: the role of the market, supply-side structural reform, innovation, and the role of state-owned enterprises.

The role of the market
To start, in his report to the Party Congress, Xi Jinping addressed one fundamental question that the Party has been grappling with over the past five years: What is the role of the market in China?

Xi discussed the need to “develop an economy with more effective market mechanisms, dynamic micro-enterprises, and sound macro-regulation.” That emphasis on more effective markets came in
What’s more, the requirement to continually pursue SSSR was written into the Party constitution itself.

This emphasis on SSSR tells us two things. First, the five components of SSSR will continue to be the key drivers of economic policy in China over the next five years. These are:

1. Cutting excess capacity
2. Reducing property inventories
3. De-leveraging
4. Reducing costs for business
5. Fixing weak links in the economy – i.e. reducing internal trade barriers between provinces and creating a unified national market

Secondly, the codification of supply-side structural reform at the Party Congress suggests that there will be no major shift in the trajectory of economic policy in Xi Jinping’s second term. SSSR was first introduced at the Party’s Economic Work Conference in December 2015, and since that time has been the key driver of economic policy decisions. The campaign to cut excess industrial capacity was first up, having been articulated in early in 2016. The campaign to de-risk the financial system (i.e. the first stage of the de-leveraging campaign) subsequently began in early 2017.

The upshot is that campaign-style policy implementation is the order of the day. Regulators will work with provinces, cities and enterprises to outline regulatory goals – i.e. reducing interbank leverage to one-third of total leverage at a given financial institution, or cutting "x" amount of capacity for a given producer or province – and formulate detailed plans for implementation.

Regulatory oversight will also be better coordinated to achieve these goals, and government regulators will be backed by the discipline inspection commission (CCDI) to hold Party cadres and government officials accountable. This inspection-driven implementation process is likely to lead to lurching progress when inspections are most intense, followed by periods of reversion when inspectors decamp to Beijing. But overall, implementation should improve thanks to the increased threat of disciplinary action.

### Innovation

Another area that received significant attention from Xi Jinping at the Party Congress was the need to innovate. In Xi’s China, innovation means two things – with starkly different implications for MNCs and foreign investors. One is doing big things through state-led investment in everything from “generic technologies to cutting-edge and disruptive technologies.” In these realms – think quantum computing, semi-conductors and space technology – foreign companies and foreign investors are unlikely to be welcome. In these areas, expect state-backed Chinese companies and official research institutions to become increasingly strong global competitors.

This is perhaps one of the most ambitious parts of Xi Jinping’s vision for China. Xi clearly named the areas he wants to dominate: aerospace, cyberspace, transportation and digital technology. In several of these, China is behind, but foreign companies, investors and governments should expect China to make an increasingly aggressive push into each of these areas.

The second aspect of innovation that Xi Jinping has identified is to “make China a country of innovators.” This presents opportunities for savvy money managers and foreign companies alike. Areas like artificial intelligence, the Internet of Things and the shared economy have already garnered interest among domestic venture capital funds. As these early investments mature and technology is commercialized, private equity investments are likely to proliferate.

This is particularly true in areas where entrepreneurial technological innovation can support other government goals, such as increased consumption, better healthcare and improved education. Many MNCs have already begun to expand beyond traditional OEM roles to providing venture capital to green
shoot technologies that are ancillary to their core industries. These types of investments will open opportunities for MNCs to help commercialize early stage technology, and be a channel to showcase good corporate citizenship by supporting China’s drive to produce and finance entrepreneurs.

The role of SOEs

With regard to SOEs, Xi Jinping’s comments at the Party Congress effectively neutered the 2013 Third Plenum document that promised to give the market a “decisive role” in allocating resources. In the section focused on “improving the socialist market economy” Xi’s clear focus was on beefing up the state sector:

“In the state-owned sector, we will step up improved distribution, structural adjustment and strategic reorganization. We will work to see that state assets maintain and increase their value; we will support state capital in becoming strong, doing better and growing bigger.”

Improved distribution of state-resources, structural adjustment of state-resources and strategic reorganization of state-assets is another way of saying that SOEs will continue to get stronger and bigger through domestic mergers and acquisitions.

As that process continues to unfold, China’s state-backed companies will make an increasing push into overseas markets. In fact, Xi could not have made this plainer when he said that SOEs are to become “globally competitive firms” and will be a major tool in China’s ‘new era’ of making the country strong.

Conclusion

When it comes to economic policy in China, what you see is what you get. In other words, the logic for economic policy was laid out way back in December 2015 through the Supply-Side Structural Reform plan. Xi’s remarks at the 19th Party Congress – and the subsequent updates to the Party constitution – only served to further codify that program.

Similarly, the recent trend toward promoting state-driven outcomes, and using market forces only as a means to an end, aligns with Xi Jinping’s long-term economic vision – that trend will remain firmly in place for the foreseeable future. SOEs are key tools to achieving a strong China, and thus they will continue to get bigger and stronger over the next five years.

Support for state-led investment will also be one key element of China’s two-track approach to innovation. The country will double-down on its funding of state-led research and development, while seeking to promote a culture of micro-innovation through public and private funding mechanisms.

For foreign investors and businesses, there is one major implication. It is increasingly important to be seen as helping China to achieve its national aims. Providing funding and capital is no longer enough. Rather, helping China create value is what foreign entities must now seek to do – whether by funding and conducting R&D domestically, helping to commercialize technology that supports broader social aims, or gearing CSR functions toward poverty alleviation efforts, just to name a few.
Many Sinologists have spoken about an increasing centralization of power in China. If this is true, why is this happening? Do you think it will continue and what are the consequences for the center-province dynamic?

Centralization is happening, and it’s because Xi Jinping is a very good Leninist. A Leninist is about exercising control, and democratic centralism is key to how Leninism functions. Xi Jinping wants to make sure the party is very effective as a Leninist instrument. Through this instrument to exercise leadership and control over the country in all respects. He clearly articulated this at the 19th Party Congress, and it’s what he has been doing. So regional autonomy will be reined in a bit through the party instrument that is designed to shadow and superintend the government practically at all levels. But Chinese provinces are Chinese provinces; they will not all totally fall in line. We are not seeing a restoration of Maoist totalitarianism under Xi Jinping. We are seeing a strengthening of Leninist control.

Xi is now the most powerful Chinese leader since Mao. Has he achieved this through force of personality or because the Party sees the need for firm leadership as the economy undergoes a potentially rocky transition?

Xi got where he is because he very carefully outmaneuvered his colleagues. In the run-up to the 18th Party Congress he disappeared for a period, and he only returned after he got his terms accepted by the rest of the leadership. He put himself in an extraordinarily strong position when he started and then launched the anti-corruption campaign. When he launched the campaign, he allowed and perhaps even encouraged his colleagues to see it as gesture politics; that people would think, ‘Oh, Xi is doing this anti-corruption thing and it will last three months.’ In fact he always intended the anti-corruption campaign to be a Party rectification campaign, a campaign that will continue and continue as the key instrument that will enable him to consolidate power, with the added benefit of being very popular with the general public as it contains corruption and reduces the ostentatious display of ill-gotten wealth.

Most of his colleagues didn’t see it in those terms, so they worked with him and cooperated with the anti-corruption cam-
They thought they would wait it out, but they can’t wait it out. Xi has used it very effectively to put away those who resist and to create space to promote those who work with him and towards his agenda. Now we have seen how he successfully used ideas that he floated around earlier to get what he wanted at the 19th Party Congress. In terms of the kind of politics in place in China, Xi has outsmarted most of his colleagues, most of the time.

There are no obvious successors to Xi. Does this mean that he will serve more than two terms?

I would put it in a slightly different way. Whether he serves two terms or more is moot. The clear thing is that he will not hand over power after holding the reins for 10 years. Whether he stays on as General Secretary or becomes Chairman of the Communist Party, it doesn’t matter if he formally-hand over power after holding the reins for 10 years. Whether he stays on as General Secretary or in some other capacity. But by making sure there’s nobody in the Politburo Standing Committee of the right age group to be a potential successor, he is removing the issue of succession from the political agenda. So it doesn’t matter if he formally stays on as General Secretary or becomes Chairman of the Communist Party, recreating that post, in five years’ time.

The idea of the party chairmanship was floated earlier in the summer. Why would Xi float that idea? Because a lot of people in the Communist party are allergic to the idea of a Chairman of the Party, the only chairman people actually remember being Mao Zedong. By floating this idea, he may generate the kind of momentum that would get his colleagues to think ‘perhaps we can just invite and request Xi Jinping to stay on for a third term as General Secretary, since there is nothing to stop him from doing that, there are no rules that prohibit that,’ in order to preempt the prospect that they might have to look at the recreation of the Chairmanship of the Communist Party.

When Xi does eventually step down, do you foresee a swing to a more ‘liberal’ leadership. Or if he stays on, that’s not going to happen?

He will eventually step down: it’s biology – no one lives forever. It will come to a point where eventually Xi will step down. In the sense of holding on to power, one way or another. But if Xi has his way, he will be in power for quite a long time, strengthening the capacity of the Communist party as a Leninist instrument, tightening control across the board and increasing the capacity of the party to function. So we will not suddenly see somebody come in and head in the opposite direction. Not unless something very dramatic happens.

Idea/ideological/political training is getting more emphasis these days – moving to standardized textbooks, a recent press report that foreign educational programs in China will have less autonomy and a general tightening on campus of what can be said. As China moves into an era of lower growth and possibly more social tensions, is this a preemptive move to rev up control mechanisms?

Yes. Don’t forget that when Xi assumed power in 2012, in one of his first speeches he made it very clear that the Communist Party of China, under his leadership, would not make the mistake that the CPSU (Communist Party of the Soviet Union) made in its final decades. Xi meant the CPSU allowed “traitors” like Gorbachev to take power and eventually preside over the dissolution of the party, and made it clear he would not do that.

The strengthening of ideologica/ or political control is about strengthening the capacity of social governance. It’s something Xi believes in and it’s also something he will need to deliver because he is trying to lead China to the ‘new normal’ of lower growth than previously. With the slowing of the growth rate, the risk of social discontent and therefore social instability increases, and to pre-empt that he will need to strengthen the capacity of social governance. That is to be achieved both by strengthening ideological or political education, and simultaneously reinforcing the Party’s capacity to control. So yes, I think that’s a very strong element of it, being used to preempt the risk of any social instability.

State industrial policies like Made in China 2025 seem designed to favor domestic firms over foreign competitors. How do you see the future for foreign companies in China?

In Xi’s 19th Party Congress speech, to use Trumpian language, he sets out to “Make China Great Again” by putting China first. That chimes with the manufacturing strategy. I don’t foresee China suddenly turning anti-foreign and anti-foreign investment, I think they still want them. But the priority now is to put Chinese manufacturing, Chinese businesses and Chinese economic interests first, before foreign ones. The practice in the Opening and Reform era of Deng Xiaoping, which I think officially ended at the 19th Party Congress, of allowing foreign companies and multinationals to enjoy special privileges in China is probably going to be eroded and put an end to. There will be...
more attention paid to supporting national champions, which will be the main state-owned enterprises.

In a recent op-ed you wrote that China must support North Korea because to abandon them would damage the credibility of the party internally. Do you think the Party’s credibility is fragile? Many Chinese don’t seem to care about North Korea.

In terms of the Party’s control, staying power and credibility, I would use the term “brittle”, not “fragile”. It’s very strong, it’s very hard, but it has weak points. And if it’s hit in those weak points, it can disintegrate very quickly. Now, they know that. But it doesn’t mean the Party is particularly fragile in the normal course of events.

Will the Chinese abandon the North Koreans? I would say no. I preface that by saying “in general terms” because I can imagine a scenario in which the Chinese would. If the Trump administration started a full-scale trade war with China because they wouldn’t fix North Korea, then the Chinese would fix Korea, even if it meant causing the North Korean regime to implode. A full-scale trade war is an existential challenge to the Communist Party’s capacity to stay in power, and they will not allow that to happen.

That’s an extreme scenario, because a full-scale trade war would mean that millions of jobs in the U.S. would be lost and perhaps hundreds of billions of dollars of U.S. investments in China put at risk and potentially wiped out. We won’t see that, even under a Trump administration. So short of that, why would the Communist Party of China want to appear to work with the Americans to put pressure on a fraternal, Leninist regime whose existence has always depended on solidarity and support from the Chinese state because the Communist Party of China requires so?

If the Party works with Americans to bring North Korea to heel, it raises questions. Is Xi still putting China first? If Xi plays second fiddle to Trump, then it seems the Communist Party is not that powerful, strong and patriotic. If the Chinese Communist Party would allow a fraternal Leninist Party in North Korea supported by China to collapse under American pressure, then people might even ask questions about the commitment made in his 2012 statement that he would not make the mistake the CPSU made – presiding over the collapse of another Leninist regime.

Yet some Chinese academics now say that North Korea needs to be brought to heel.

Absolutely. Don’t forget it was only a few years ago that Deng Yuwen, who was working as one of the editors at Study Times, a journal of the Central Party School, first raised that same argument, and he lost his job. All these academics and public intellectuals are now saying similar things to what Deng Yuwen had said before because they have permission to do so. Who could have given that permission? If Xi Jinping had not wanted those ideas to be aired, those ideas could not have been aired. The fact that Xi allowed those ideas to be aired not by the Party but by academics, think tankers and so-called public intellectuals, is in some ways flying a kite and an effective way to allow and encourage the foreign media and the international community to think that China is potentially renewing its options and policies on North Korea.

Is it also a way of signaling to the North Koreans that they should toe the line?

It will certainly have the effect of encouraging the North Koreans to think so, but I think the effect will be very limited. The North Koreans have a system very similar to the Chinese one. They know that if Xi is fe- verishly looking at different options, he’s not going to broadcast them to the rest of the world. It will be done as a top-secret operation within the party policymaking apparatus. You won’t see Professor A and Professor B debating which is the better option to deal with North Korea in the Global Times.

What will be the most profound change in China over the next 10-15 years?

That depends on how you look at the risks and challenges that China must overcome in the next ten years or so. There’s the demographic issue, a need to break through the middle-income trap, a need to manage the debt problem, not to mention rebalancing the economy. With a 10 to 15 year timeframe it’s very likely that Xi will still be in charge, moving in the same direction and more successful. If so, then we will see the China model clearly established and strong, and probably China pushing that model – that’s the biggest change we will see.

Until now, even though Xi has said there is a China model, we haven’t seen any effort by the Chinese government to say that this is a better model than what others have, or that it is something that others should learn from and perhaps imitate. If we work on a linear projection of how incredibly powerful and successful China will be in, say, 15 years, I’d be surprised if China will not export its model by then. That’s the successful scenario. If you have the opposite scenario, then all those factors could seriously challenge whatever administration is in control in China. Xi is promising the Chinese people that tomorrow will be better than today. If he can’t deliver on that promise, then you will see the kinds of challenges that we haven’t seen for 25 years.

Which challenges should China be most wary of?

The most serious challenge China faces in the next five to 15 years is not one of the above challenges, but the way Xi is consolidating his power. He has in effect reduced scope for internal debate on policy. Who within the Party and the government is now going to say, “With the greatest respect General Secretary, what you have just outlined as a plan or a policy sucks. And these are the reasons why this policy will be counterproductive or not work.”

I think this is a very serious challenge because one of the good things about the last 20 years or so of the Reform and Opening period was the scope for internal debate. Sometimes we get over distracted by the so-called factions, but when Jiang Zemin was leader there were other voices. When Hu Jintao and Wen Jiabao were in charge there were lots of other voices.

Xi is moving to a situation where people learn to think in the same way. He is creating a system of moral hazards that encourages groupthink. We have seen what groupthink lead to in democracies in the last 20-30 years. Groupthink is not system specific. If it can happen in a democracy it can happen in a Leninist system, maybe even more so. We have a system in China which requires the Party and the leadership to get it right to deliver China to the promised land that Xi outlined at the 19th Party Congress. It can’t afford to make major mistakes or muddle through, which is what we see time and time again in democracies – but they can survive because there’s not much expectation that they will always get things right. In China there is that expectation, and that’s why it’s the single biggest challenge that China will have to face and the one I am most concerned about.
For thousands of years Chinese people have thought of themselves as the Middle Kingdom. Being in the “middle” has connotations of political, economic and cultural power, yet in recent centuries, Europe and more recently the U.S. were the centers of global power. China’s New Economic Silk Road and the Belt and Road Initiative (BRI) are names for the strategy to re-establish China as the Middle Kingdom. Announced by President Xi Jinping in 2013, the BRI plans to improve connectivity and economic cooperation between China and all points west and south. It aims to achieve this through the construction of infrastructure along six land and four maritime corridors, terminating in key centers in Europe, the Middle East, South and South East Asia and Africa.

In addition to such infrastructure as roads, rail, IT networks, pipelines, ports and airports, the BRI also establishes cultural exchanges, city-to-city and university-to-university linkages as well as tax advantageous zones to promote trade. According to a China Development Bank announcement from 2015, the equivalent of US$ 890bn has already been reserved for BRI projects. Additional funds were pledged by President Xi at an international forum on BRI in Beijing in May.

New high quality infrastructure is needed and welcomed by governments in all regions for obvious reasons. What could go wrong?

The BRI is breathtaking in its ambition, scale and audacity, but it will have to contend with:
- Technical engineering challenges;
- Geopolitical issues;
- Community and security issues;
- Financial sustainability issues.

BRI land corridors will traverse vast mountain ranges, plains and deserts where extremes of climate, gradient and isolation will test machines, materials and designs. While not to be underestimated technical engineering difficulties may end up being the least significant of these challenges.

BRI weaves its way through many areas that have historically fallen under Russian influence. For the time being Russia seems to be accommodating BRI but most of the Central Asian projects are yet to start. India is opposed because part of BRI travels through territory in Kashmir which is under dispute. In October the Trump Administration supported India’s position. The strategic implications of BRI are yet to be fully acknowledged or responded to by geopolitical stakeholders. BRI’s scope and scale in time and distance risks direct and indirect chal-

By Michael Humphreys
China tends to establish BRI projects via government to government agreements and has already successfully concluded over 60 such agreements. However, the actual on-the-ground implementation of these projects is reliant on China’s large state owned (SOE) construction companies. Building on someone else’s land and staying friends is fraught. While technically proficient, Chinese construction sector SOEs will also be required to deal with provincial and local governments, and communities in recipient countries. In many regions, these sub-government entities do not take orders from central governments. Big infrastructure projects tend to create winners and losers in local communities as some gain jobs and contracts and others miss out. Big projects also consume scarce local resources such as land, water, power, road space and skilled labor creating tensions with local communities. When this happens, losers tend to bite back in forms that range from non-cooperation, to regulatory changes and in extreme cases violence. These types of issues have already delayed and in some cases caused cancellation of projects.

In addition to community pushback and regulatory issues, the BRI has attracted attention for the financial burden it places on recipients of infrastructure projects. For example, loan terms in the China Pakistan Economic Corridor have been the subject of much investigation by Pakistan’s press, concerned that the country’s outflows to service loans will be larger than inflows from an operational Economic Corridor. In Laos, one of Asia’s poorest countries, the US$ 7bn cost for the China-Laos railway was more than half its 2015 gross domestic product, according to Reuters. China’s Development Bank has provided much of the finance and claims that loans are at lower rates than could be obtained from commercial banks. While this may be true, there is a risk that some countries will struggle to pay back the loans, particularly if hit by unexpected economic catastrophes, widespread insurgency or large scale natural disasters.

Large infrastructure projects always attract controversy even when being constructed by local companies with the support of local governments. Resolving issues always requires communication, negotiation and compromise. Leading infrastructure companies will require the organizational mechanisms to work out compromises with foreign stakeholders on the ground. This will mean changes to organizational structure and financial modelling. There are many examples of successful Chinese-led projects and these tend to be oil and gas sector projects such as pipelines and refineries and energy investor projects where the Chinese party finances and provides technical expertise, while local companies are sub-contracted to carry out construction. One of the subordinate aims of BRI was to soak up overcapacity in China’s construction sector. Many BRI projects are largely constructed using Chinese labor. Sub-contracting to foreign local companies is counter to this aim and may also impact on financial modelling. On top of loan repayments, recipient countries will be required to maintain infrastructure for decades. This will require skills transfer, technical support and careful financial modeling if it is to work.

Finally, there has been much focus on security for Chinese workers building projects. The Pakistani government, for example, has provided 15,000 troops to protect Chinese workers. In other countries security is provided by hiring local private or public sector security organizations. Security is a spectrum with physical aspects such as guards, walls and electronic security at one end, and problem solving by communication at the other end. Over-reliance on physical security measures often isolates Chinese companies from the communities which need to use and pay for the infrastructure. The resulting lack of communication tends to build mistrust, leading to negative outcomes. Sophisticated modern infrastructure relies heavily on cutting edge computer technology during construction and operation, particularly in power generation, rail and communication systems. Without attention to information security, BRI projects are potentially vulnerable to cyber-attacks from competitor nations, disaffected stakeholders and criminal elements.

Over time the BRI holds great promise. Improved connectivity and modern infrastructure has the potential to enhance the lives of millions but political, social, security and financial sustainability risks must be overcome. So far, despite some delays and a few project cancellations, BRI is achieving its objectives. We are starting to see green shoots of new road, rail, port and power generation operations in Pakistan, South East Asia and Africa.

Chances of success for Chinese companies and their foreign partners will be improved by deeper research into project risks during the feasibility stage and a focus on risk management, including stakeholder management, during project implementation. Relatively small investments in these areas could significantly improve the chances of China realizing its dream of once again becoming the Middle Kingdom.
China’s rise triggers new global systemic competition

Xi Jinping put the world on notice at the Communist Party’s 19th Congress. During his marathon work report that opened the meeting, he announced that China would move toward the “center of the world stage” and become a leading global power by 2050. He also stressed the CCP’s “mission” to make “contributions to mankind.” This language represented a substantial change in tone and a clear break with previous Chinese leaders’ approach of keeping a low profile in international affairs.

Under Deng, the mantra that China needed to “get rich first” was used to fend off demands for a greater Chinese role on global issues from international conflict resolution to global economic governance or climate change policy. Many observers expected that Beijing would eventually follow former World Bank president Robert Zoellick’s call to become a “responsible stakeholder” within the Western-led global order.

Xi Jinping has decided that the time has come for China to step out of the defensive. But his expansive ambition reaches beyond integrating his country into existing global governance structures: Xi plays in the offense, which means that he wants to reshape the global order to match his vision. Far from accepting Western tenets of open markets, political pluralism and universal human rights, Xi’s political report at the Party Congress, which he delivered on October 18, marked the starting point for open systemic competition between China’s authoritarian state-guided economy and “Western” market-driven democracies.

China sees liberal democracies in decline

The timing for Xi’s challenge could not be more opportune for China. Around the world, China is seen as a superpower in the making, whereas Western countries are perceived as disunited and mired in decline. The Chinese leadership is watching closely as the United States is turning away from global leadership and as European nations struggle with major political and societal challenges, from populism to regional independence movements.

Long gone are the days when the collapse of the Soviet Union and its Eastern European satellites in the late 1980s and early 1990s symbolized the “end of history.” Today, China is out to prove that its top-down technocratic leadership system is better suited to bringing order to a chaotic world of rapidly changing security threats, fragile financial markets, technological revolutions and restless populations.
China is backing up its claims with a show of military, diplomatic, economic and technological strength as well as with a global push to promote China’s experiences and agendas in developing and emerging countries. Since Xi came to power in 2012, China has greatly expanded its global footprint in the security arena, from assuming an increased role in UN peacekeeping missions to assertively stating its territorial claims in the South China Sea. Xi has made it clear through a series of speeches and policies that enhancing the combat capabilities of the People’s Liberation Army via organizational restructuring and technological upgrading is of utmost importance to China’s global security and status.

Under Xi, China is reshaping the language and pecking order in the UN and other international organizations. China managed to delete references to human rights on several occasions, and it succeeded in injecting Xi’s concept of building an international “community of shared destiny” in a UN Security Council resolution this year. In multilateral contexts, Chinese leaders emphasize China’s willingness to work with other countries to face global challenges, including inequality and security threats such as terrorism, climate change and cyber attacks.

Globalization on China’s terms

Echoing his previous speech at the World Economic Forum in Davos in January 2017, Xi regularly presents China as a champion of free trade and globalization. But it should be clear by now that China defines these concepts on its own terms. The Chinese government is busy building up national champions in key technology sectors, and it steers overseas investments of state-run and private companies into strategically important targets while limiting foreign market access in these sectors at home.

In line with its strategic goals, China is working to redirect hitherto Western-dominated international organizations by changing them from the inside (most visibly in the UN system) or by launching alternative organizations such as the Asian Infrastructure Investment Bank. China has recently overtaken Western governments and private organizations as an investor and donor in many African and Latin American countries. Chinese aid comes with much fewer strings attached than that of Western donors. Chinese advisors on the ground help design the urban infrastructure in developing countries – preparing the ground for Chinese companies eager to sell the necessary hardware. Training classes, engineering services and project financing are often offered as package solutions.

The Belt and Road Initiative (BRI) has become China’s most ambitious vehicle for international economic cooperation. Connecting Europe and Asia through a vast infrastructure and data corridor requires massive investments in rail, roads, shipping and communications infrastructure. For many state-owned Chinese companies, these projects provide an opportunity to export their overcapacities or to invest overseas with government backing. The geopolitical reverberations can be felt all the way to Europe. The eagerness of Eastern and Southern European governments to attract Chinese investment has made it very hard to form a cohesive and effective China policy within the European Union.

An increasingly confident China exports more than goods and services and invests in more than hardware. Under Xi Jinping, China has started an unprecedented public diplomacy push to promote its political and economic model. This represents a distinct shift from previous Chinese leaderships, which were mostly focused on shielding China’s own citizens from allegedly harmful Western ideas via censorship and repression of dissent. These methods are still being used – and in fact refined with the help of new technological surveillance capabilities.

The China Path as a model for developing nations

The difference is that they are no longer justified as a necessary evil but as a prerequisite for economic strength. The message to other developing nations is that emulating the “China Path” of economic success, social stability and national strength requires a unified and effective authoritarian government. Pluralistic Western values and systems of government are criticized as increasingly chaotic and self-destructing. Western conceptions of democracy and markets are framed and rejected as impediments to economic modernization in developing and emerging countries.

Overall, the expansion of China’s public diplomacy and transnational influence is striking. Around the world, the agenda of China’s party-state is being promoted via new communication channels and formats, via media cooperation, entertainment projects or educational organizations such as the Confucius Institutes.

It is of course too early to tell which ideas and concepts will win this new round of systemic competition. Even within China, the Western lifestyle has not lost its attractiveness in the societal mainstream, and the Chinese cultural industry has a long way to go before it can match the influence of Hollywood worldwide or South Korean pop culture in East Asia. But Chinese products and viewpoints are seeping into our markets and classrooms in high volumes and at high speed.

Let’s remember that it took China no more than 20 years to rise to a global economic power after the launch of its reform and opening policies in the 1980s. At the start of the new millennium, China had cemented its reputation as an economic giant, but it was still considered a political dwarf. Another 20 years down the road, this image is no longer valid.

In the absence of a sudden economic downturn or a profound breakdown of political and social stability, we should expect that China’s influence on global institutions, including market rules and technology standards, will become inescapable very soon. Moreover, the gravitational pull of the Chinese market is bound to increase in the near future since many path-breaking technologies and business models as well as regulatory approaches for the digital world will be pioneered in China. Rather than assuming Western superiority, governments and businesses around the world will have to adjust their global strategies to Chinese priorities, innovations and standards. Welcome to the era of China-led globalization.

Politely known as the knock-on effect
As consultants who are closely engaged in many public affairs and government issues, my colleagues at APCO and I have generated 15 “watch-outs” we expect to be important for multinationals navigating China’s business and policy landscapes in 2018. This list accompanies a deeper analysis we just published entitled “Doing Business In The New Era,” available at goo.gl/VEQ7F9.

1. Beautiful China

In 2018, the apparatus of central, provincial, municipal and district government will turn to realizing President Xi’s pledge to build a “beautiful China” with a greater emphasis on sustainable development. In his speech delivered at the 19th Party Congress, Xi set 2035 as a target date for safeguarding the environment. Equally, manufacturers should anticipate more rigorous environmental inspections and tightening standards. Businesses that contribute low-carbon technologies, as well as pollution control, waste disposal and a “circular economy” will be well-placed. Creating a “beautiful China” will not depend on environmental stewardship alone. Xi also called for higher-quality schools, world-class universities, modern hospitals and high-quality healthcare. Foreign businesses that align their agenda with the “Beautiful China” priorities percolating the bureaucracy will be well-placed over the coming years.

2. Financial Stability

Curbing of financial risk and fostering stability will continue to be top goals for government in 2018. The newly launched Financial Stability and Development Committee (FDSC), headed by Ma Kai, will take on the role of policy formulation for exactly this purpose. Aside from managing systemic financial risks, it will also deliver an inter-agency regulatory framework and act as a macro supervision body for monitoring financial activities. To force improvements by domestic incumbents, in 2018 we should start to see regulators crack open the financial sector, allowing registration of foreign-led joint ventures in certain financial, securities and asset management service sectors (although there will be a three to five-year runway for full implementation).

3. Ideological Discipline

Tightening control through ideological purity has been a feature of the past five
years. This campaign for ideological discipline will intensify in 2018. Official KPIs will be further realigned to support national and party priorities. Party involvement in education, culture and commerce will intensify. And the new China Central Commission for Discipline Inspection super ministry, the National Supervision Commission, will act as an all-powerful arbiter of conduct and political correctness. At the same time, there will be devolution of government powers of oversight and social support to carefully screened industry associations and NGOs, opening interesting new avenues for engagement on policy issues.

4. Overcapacity

With their political security assured, Xi and his colleagues look set to focus on quality over quantity in driving economic growth and further accelerating “supply-side reforms” in 2018. This likely means a slowdown in production of raw materials, such as coal and aluminum; reduced investment in non-strategic infrastructure; and heavier government support for value-added industries, such as IT and robotics, healthcare and new materials all of which are part of the Made in China 2025 agenda. It also means additional streamlining and consolidation of inefficient SOEs and strategic opening-up of more sectors to private sector competition, and in some cases foreign competition.

5. Electric Vehicles

In 2018, China will continue to outperform all other markets in EV technology and deployment. At around 500,000 in 2017, sales of EVs in China already surpass the U.S. and EU combined, and China produced 43% of EVs worldwide in 2016. The government will seek to advance Chinese leadership in the industry in 2018, building on new regulations announced in September 2017 that require automakers to obtain a “new-energy vehicle score” of at least 10% beginning in 2019. Additionally, China plans to extend a tax rebate on the purchase of EVs to further incentivize EV adoption. Such policies form part and parcel of a wider effort to dilute the smog that cloaks many of China’s metropolises, while also enabling China to innovate in a key industry of tomorrow. Some analysts forecast China will sell more than a million EVs in 2018, with the industry being led by China’s domestic champions BAIC and BYD.

6. Mega Cities

Against a backdrop of urban sprawl in its premier (and smoggy) metropolises, in 2018 China will pursue increasingly well-coordinated regional development plans and create urban mega city clusters that organize population centers. The most widely touted city clusters include Jing-Jin-Ji, Yangtze River Delta (YRD), Pearl River Delta (PRD), and the grandiose plans for the Xiong’An New Area, all of which provide models for the future of urban technologies and development. This city cluster planning outlines a new vision of China’s approach to urban planning, where urban development is consolidated to focus on economic productivity, minimize commutes, reduce environmental footprints and be more inclusive of China’s migrant workers.

7. Artificial Intelligence

Most of today’s biggest firms by market capitalization are in the tech sector. Chinese firms have captured leadership positions, and the country’s emerging strength in all things tech will continue in 2018. The sector is an important driver of Made In China 2025 and the President’s agenda for security and control. Artificial Intelligence is critical to this effort. According to Xi, China’s new sustainable development model moving into 2018 will rely on the “further integration of the internet, big data and artificial intelligence” with the real economy. This builds on the July issuance of the “Next Generation Artificial Intelligence Development Plan” by the State Council, which sets out an ambitious roadmap for the sector’s development through 2030. Chinese firms such as Baidu, iFlyTek and Tencent are hard at work developing answers to projects like Google’s “DeepMind” AI platform, and are hiring from both the U.S. and China’s growing base of highly-trained engineers. Foreign MNCs in these sectors should anticipate even tighter techno-nationalist competition from domestic titans, which are unencumbered by the privacy concerns that are slowing industry development in the West.

8. Sharing Economy

Despite several high-profile bike sharing bankruptcies, China’s sharing economy looks set to continue growing domestically and internationally in 2018. Companies like Tujia – China’s answer to Airbnb – have raised hundreds of millions of dollars in investment funding. And firms like Didi Chuxing, Ofo and Mobike are being warmly received in some international markets. The industry is being fueled by a heady mixture of government support (as offered by Li Keqiang in his 2016 Work Report), widely available payment technologies from WeChat and Alipay, low-barriers to entry, eager venture capital and hungry consumers. That said, some see a bubble that might burst in 2018, particularly as regulation catches up with this runaway industry.

9. Entertainment

The 2017 movie Wolf Warrior 2 became the second highest-grossing film in a single market – over US$800 million in China alone – and is emblematic of a blockbuster year for China’s entertainment industry, with movie sales registering 11.6% year-on-year growth. In 2018, Western media and content companies will increasingly Sinicize their TV, gaming and movie content as the price of participation in this rich market. At the same time mobile entertainment is booming, with mobile-based gaming revenues in China set to exceed $25 billion in 2017, and livestreaming penetration exceeding that of the US. Through Internet+ policies, the initial roll-out of 5G mobile technology, continuing dominance by a few players, and the behind-the-scenes direction of the Party, 2018 will see continued entertainment industry growth – but with increasingly Chinese characteristics.

10. Energy Security

Unlike the U.S., China is still dependent on foreign sources for its energy – an appetite that is destined to account for 28% of global energy demand by 2035. In 2018, government and state-owned enterprises will continue their push to acquire foreign energy assets. A Chinese-led consortium is thought to be the leading contender for a significant stake in Saudi Aramco ahead of its expected 2018 public offering, and Pres-
11. Cyber Security

With rising scrutiny of social media in the West, in 2018 Beijing will sharpen its confidence and control of the Chinese Internet on the grounds of cyber security. Following the nationwide implementation of the Cyber Security Law in June 2017, both Chinese and foreign firms will continue to go through pains to adapt to China's new cyber regime – by on-shoring data and servers to China, for instance. Increasingly stringent content restrictions were imposed on Tencent ahead of the 19th Party Congress, and WhatsApp and Skype faced wholesale shutdowns, providing WeChat VoIP platforms an uncontested market for international calls. For its part, Apple has ceded to censorship to maintain its footing in the world’s largest mobile commerce market. However, it remains unclear if compliance and deference alone will do the trick for U.S. tech companies. Beijing is keen to promote its own domestic champions in the IT field and become a "world-class science and innovation country" in 2018 and beyond. Re-invigorated calls for "cyber sovereignty" at the Wuzhen World Internet Conference just last December are part and parcel of this strategy, and China's policy rhetoric around "cyber security" provide the strategy's foundation. Foreign businesses should expect China's cyber security regime to continue to tighten in 2018.

12. Healthy China

In 2018, China will push to improve the health and well-being of its nearly 1.4bn people. Xi first announced this intent in October 2016 when he unveiled the "Healthy China 2030" initiative, the country’s first national-level medium to long-term strategic plan for national health and wellbeing. Agencies across the bureaucracy are aligning around the initiative. The China Food and Drug Administration has proposed changes to current clinical trial requirements which require localized trials regardless of those already administered internationally, and in October 2017, the State Council issued its "Opinions on Deepening Reform of Review and Evaluation Mechanisms to Further Encourage Drug and Medical Device Innovation." Massive investment is also underway in hospitals, clinics and medical technology. The relatively active reform agenda for healthcare related sectors suggests foreign companies will face a steadily opening business environment as China strives to improve the health of its people by 2030.

13. Belt and Road Initiative

2018 will be a pivotal year for the Belt and Road Initiative, as it looks to bounce back from cancellations of projects in Pakistan and Nepal and overcome lingering concerns about its overall financial viability. The initiative's new inclusion in the Party Constitution secures institutional support and underscores its centrality to myriad government priorities. Chief among these is rebalancing development towards the outer provinces through the roll-out of advanced infrastructure to secure key energy and shipping routes in Central and Southeast Asia. We can expect that the Belt and Road Initiative will remain a central part of Chinese foreign policy as Xi seeks to expand China’s international influence and craft international standards for next generation technologies and infrastructure. The superior soft skills and experience of international MNCs – particularly in local negotiation and stakeholder engagement – will make MNC participation increasingly attractive to the large Chinese SOEs that are able to secure capital for these mega projects.

14. Economic Globalization

Despite the great wave of commentary proclaiming China as the new champion of globalization that emerged following Xi’s speech at Davos in January, many failed to notice the key distinction that separates China's overtures from more traditional defenses of globalization – the focus on "economic". China’s interest is rooted in a pragmatic realization that the continued growth of the domestic economy is reliant upon smooth access to foreign markets, not some conviction in globalization as a way to foster harmony and cultural cohesion between nations. China’s increased willingness to play an active role on the international stage is no doubt part of its attempts to ensure that this access continues and expands in a way that primarily benefits domestic companies. Nevertheless, this cannot be fully achieved without some degree of reciprocity – the Belt and Road’s success is contingent on the perspective that its benefits are not unbalanced, and recently announced financial reforms may suggest that the government is aware of the need for equilibrium.
The Chamber in 2017

Advocacy and Government Relations

In 2017 the Chamber continued its advocacy efforts by engaging with the U.S. government as well as various Chinese government entities, including the central government, Shanghai government and many Yangtze River Delta cities’ officials. These included meetings with Agriculture Secretary Purdue and Energy Secretary Perry. Our annual Washington Doorknock resulted in meetings with over a dozen Senators and Representatives as well as senior Administration officials and think tank experts. In December, Chamber President Ken Jarrett was invited to meet Li Qiang, the new Party Secretary of Shanghai, and report on the concerns and wishes of the foreign business community. Whenever invited, we provided comments on draft Chinese government legislation.

Our advocacy in China has focused on general issues of market access and regulatory transparency, but we were also active on internet and cybersecurity issues, capital controls and enforcement of environmental regulations.

In addition to meetings with government officials, the Chamber advocated through media outreach, garnering more than 60 mentions in influential outlets such as Bloomberg, the Financial Times, Reuters, The New York Times and The Wall Street Journal, among others. Additionally, we maintained our policy of writing op-eds for The Wall Street Journal, where we aim to influence and inform the trade policy debate and raise awareness of the concerns of U.S. companies operating in China.

More Relevant Programming

Over the past year the Chamber tailored its event programming to match new economic and political trends and events. We gave a series of programs and panels about the Trump administration, the 19th Party Congress and the
Chinese economy. In response to concerns about China’s new cybersecurity policies, several legal and corporate experts spoke about the laws’ implications for our members. The new environmental crackdown triggered a supply chain committee meeting that attracted a large manufacturing audience eager to know what the new policy meant – and will continue to mean – for factories in the future.

In a country where technology is expanding and morphing daily, our first InnoTech conference updated members on the role of technology across several industries. Nanjing Next and the SME Conference formed part of the Chamber’s growing outreach to these important member constituencies. Our new Sports & Entertainment Committee was founded in response to the continuing growth of China’s sports and leisure sector, while we gave AmCham members a chance to showcase their sporting prowess at our first and very successful AmCham Corporate Sports Day.

As ever, the Chamber strives to keep members not only engaged but engaged in ways that suit changing needs. A major development was a new website that consolidated several legacy sites. Concomitant with the website launch was delivery of a modern event registration system, featuring new payment options.

Our new Weekly Briefing email, replete with policy, economic and business news, has garnered praise and we will continue improving it over 2018. Equally important has been an expanded delivery of video interviews as well as our new podcast series featuring well-known business figures and prescriptive business content.

With Chinese companies increasingly looking outbound for business opportunities, we continue to attract Chinese affiliates keen to learn about the U.S. business environment as well as engage U.S. companies. To keep up with a fluid business environment, our SME Center has been renamed the Trade and Investment Center. Last, we continue to review the role of our committees, seeking answers to their improvement and, where necessary, their relevance.
CHAIR’S REPORT
Board Chairman Ker Gibbs thanked BOG members who attended the Secretary Ross reception in Beijing held during President Trump’s visit.

2018 BUDGET PRESENTATION
Vice President Helen Ren briefed the Board on the proposed FY2018 Budget. The proposed budget will be a break-even budget with expected revenue of around RMB 32.5 million. She touched on the Chamber’s plans to provide more segmented services and revise membership prices to reflect a new package of enhanced services. Board members asked for a three-year budget projection to provide a clearer picture of the Chamber’s overall financial situation.

BUDGET APPROVAL
The BOG approved the FY2018 budget proposal.

MEMBERSHIP SERVICES
Shilpi Biswas provided an overview of revised membership pricing for 2018 and an update on new segmented services programs for next year.

NEC BYLAWS REVISIONS
The BOG unanimously approved two revisions to the Nominations and Elections Committee Bylaws – the first on BOG candidate eligibility and the second on election auditing procedures.

THANK YOUS
Chamber President Kenneth Jarrett expressed appreciation to the 2017 Board for its support and assistance throughout the year. In particular, he thanked outgoing Board chair Ker Gibbs for his leadership these past two years and outgoing Board members Mike Crotty, Tim Huang and Glen Walter for their many contributions to the Chamber’s work.
2017 AMCHAM SHANGHAI CSR AND SUSTAINABILITY FORUM

AmCham Shanghai held its annual CSR and Sustainability Forum on November 7, 2017. Attended by about 150 CSR and business leaders, this year’s Forum focused on how sustainability stands out as a dynamic and effective approach for development in the face of a stagnating global economy, resurfacing “de-localization” and other governance challenges. The Forum also announced the winners of the 2017 CSR Awards. They are: General Motors China (CSR Leadership), Shanghai Disney Resort and L’Oréal China (CSR Engagement), Citi China (CSR Innovation, Foreign Companies), JD.com (CSR Innovation, Chinese Companies and JVs), Project Hope (CSR Innovation, Social Organizations).

Han Xiuyu, director of the China Academy of International Trade and Economic Cooperation at the Ministry of Commerce, and John Wang, senior VP and president of Greater China for Philips Lighting, delivered keynote addresses. The forum also featured four interactive sessions on creating sustainable brands, CSR in the digital age, value-based partnerships and aligning global and local sustainability goals.

AmCham Shanghai also released a booklet of CSR Case Studies at the Forum. The booklet is a compilation of 10 CSR programs implemented by international businesses operating in China, and will be a resource for other sustainability-focused organizations.

AMCHAM SHANGHAI HOSTED ITS INNOTECH 2017-2037 CONFERENCE

On November 15, AmCham Shanghai hosted InnoTech 2017-2037, inviting speakers and guests from leading companies on the front lines of technological change to outline what lies ahead in Chinese private-sector innovation over the next two decades.

The opening keynote was delivered by James Li, Founder and CEO of E.J. McKay Group, who discussed the Chinese grand strategy for technological growth. The first panel focused on smart manufacturing with representatives from GE, Siemens, Honeywell and Corning highlighting some of the new trends in Industry 4.0. Steve Meszaros, VP of Supply Chain China at GE, said that as automation and “smart manufacturing” continues to grow, “smart workers” will not be sufficient as companies will also need “smart materials” and “smart processes” to maximize the effects of connectivity.

During the second panel on providing satisfaction in the retail and service industries, Charles Xu of SF Group explained how logistics in China has overcome many challenges to arguably surpass the U.S. in delivery speed and efficiency. Eric Wu, of Auchan Retail China, discussed the importance of dual-format retail with the concept of “两线” or “two lines” having both online and offline channels for reaching customers. Even if future physical retail stores are unmanned and use facial recognition or other technologies to monitor shop security, having an offline presence will still be critical to retail success.

The afternoon panels covered health and lifestyle technologies as well as a broader discussion on the societal impacts and future of humanity in the era of smart everything. The closing keynote featured JP Gan of Qiming Venture Partners, who projected that entire socio-economic models will need to change in an idyllic future where instead of us working on technology, technology will work for us.

AMCHAM SHANGHAI PANEL DISCUSSES TRUMP’S CHINA VISIT AND ITS IMPACT ON U.S.-CHINA ECONOMIC RELATIONS

On November 17, AmCham Shanghai and the U.S.-China Business Council (USCBC) held a joint breakfast discussion on the outcomes of President Trump’s visit to China. Panelists included Rob Schmitz, Shanghai correspondent for NPR, David Frey, Partner at KPMG, and Haibing Zhang, Director of the Institute for World Economy Studies at Shanghai Institutes for International Studies.

USCBC’s Owen Haacke provided opening remarks, commenting on the roughly US$250 billion of deals announced during Trump’s visit and elaborating on what objectives USCBC is prioritizing. The event also featured an interactive element, with audience members electronically voting on a series of questions about Trump’s China trip. These ranged from rating the president’s performance and his impact on U.S.-China relations to concern over the ongoing 301 investigation and future trade tensions.

The session closed with questions from the audience, who raised issues such as the role of North Korea in U.S.-China relations, whether the Trump administration’s trade policies align with the interests of U.S. companies doing business in China, and whether we should expect to see increased reform and market opening in the near future.
AmCham Shanghai’s 16th Annual Shanghai Government Appreciation Dinner

Claire Reade, senior associate at CSIS, reviews latest developments in Trump-China policy.

Xiaomi Co-Founder Feng Hong discusses the future of Chinese electronics.

Opiate of the masses
Month in Pictures

AmCham Shanghai Chairman Ker Gibbs, U.S. Consul General Sean Stein, Shanghai Vice Mayor Xu Kunlin, U.S. Ambassador to China Terry Branstad, AmCham Shanghai President Kenneth Jarrett.

AmCham Shanghai's 2017 CSR and Sustainability Forum

Members converse on China's market economy status.

AmCham Shanghai 2017 CSR and Sustainability Forum

A briefing on Trump's China visit.

AmCham Shanghai Suzhou Center Annual Dinner & Suzhou Industrial Park Recognition Dinner

AmCham Shanghai's Innotech Conference 2017-2037

AmCham Shanghai
Esoterica

China by the Numbers

Wolf Warrior vs. GDP
Wolf Warrior 2’s box office takings in China: US$880.1 million. GDP of:
- The Gambia $965 million
- Vanuatu $774 million
- Tuvalu $34 million

By Any Other Name
- There are 93 million people named Wang in China
- If the Wang clan inhabited their own country it would be the world’s 15th most populated nation
- Germany would follow with 82 million people

Cave Dwellings
- 35 million people in China still live in caves
- Population of Saudi Arabia: 32 million

Deaths
Every day 3,000 people:
- Die from cigarette smoking in China
- Die from malaria in Africa
- Die from air pollution in India
- Default on federal student loans in the U.S.

Single
On Singles Day 2017, Chinese consumers produced approx. 176,000 US tons of packaging waste, which is the equivalent of:
- The gross tonnage of the world’s 10th largest ship: Royal Caribbean’s Liberty of the Seas
- The amount of corn Colombia bought from the U.S. in 2014
- More than the record amount of cargo ever handled in one month at London Heathrow Airport

Stature
- Average height of a Dutch male: 183cm (6ft)
- Average height of a Chinese male: 164.8 cm (5.4ft)

- Kunming, China is home to Dwarf Empire, a theme park where the main attraction is all the employees are of short stature

Gender
- By 2020, there will be 24 million more marriageable men than women in China
- In Jing’an, men can take dating classes. The package includes a haircut, style advice, WeChat profile photos, advice on approaching women and personal hygiene.
- In 2015, female stockings covered in fake male hair became a fashion trend to deter unwanted attention from men

Money
- In 2017 a Sotheby’s Chinese scroll sold for $34.91 million
- 27 million people live on under $1 dollar a day in China
- China’s 20 richest people have a combined net worth larger than the GDP of Hungary

Booming and Building
- A new skyscraper is built in China every five days
- China used more cement in 2011-2013 than the U.S. did in the entire 20th century
- All of China’s railways lines put together could loop around the earth twice. China’s railway length, under operation, totals 93,000 kilometers

In the Classroom
- A 2013 Educational Ministry survey showed 1/3 of China’s population can’t speak Mandarin
- No one has ever gotten a perfect score on the gaokao, the 9-hour Chinese college entrance exam
- Chinese students can get seven years in jail for cheating on exams

On the Plate
- China uses 45 billion chopsticks per year
- China’s annual instant-noodle consumption would feed all of Algeria three meals a day for a year
- Half the world’s pigs live in China
- In 1996, China produced 600,000 tons of mushrooms, becoming the world’s largest producer

\[\text{Gillet-free day}\]

\[\text{Guess who’s going to Beida}\]
Tianjin Economic-Technological Development Area

“A time-honored front runner among all the national-level development zones in terms of comprehensive performance” — MOFCOM

China's most admired industrial park — the Fortune Magazine

One of the six most dynamic cities and regions in China — UNIDO

TEDA is China's first national-level development zone with its GDP exceeding 300 billion yuan.

We have trade connections with over 180 countries and regions globally.

Our actually utilized overseas investment has accumulated to $56.4 billion US dollars.

Our import & export value in 2016 was $35 billion US dollars.

We are home to 91 of the Fortune 500 Companies, which combined invested 282 projects here.

We are also one of China's biggest production bases of cell phones, IC chips, automobiles, digital audio-video products, electronic components, instant foods, insulin products, enzymes, and wind turbines.

www.TEDA.GOV.CN

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