

Dysfunction/Stagnation in Advanced Economies and China: Challenges and Opportunities

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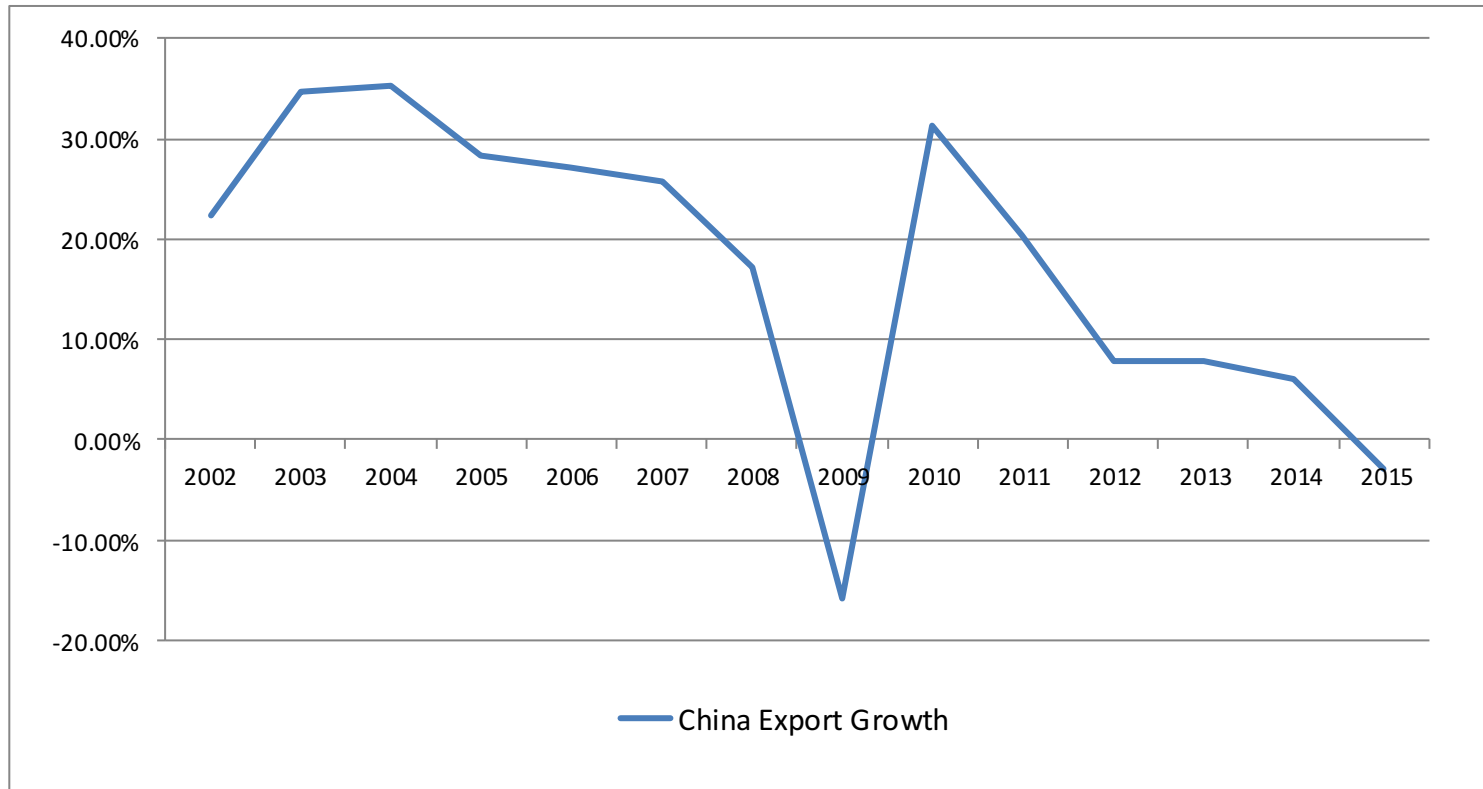
I. Challenges

- 1. Aftermath of GFC
 - Global trade growth declining
 - Global economy slowing down



Source: WTO

➤ China export growth declining



Source: China Ministry of Commerce

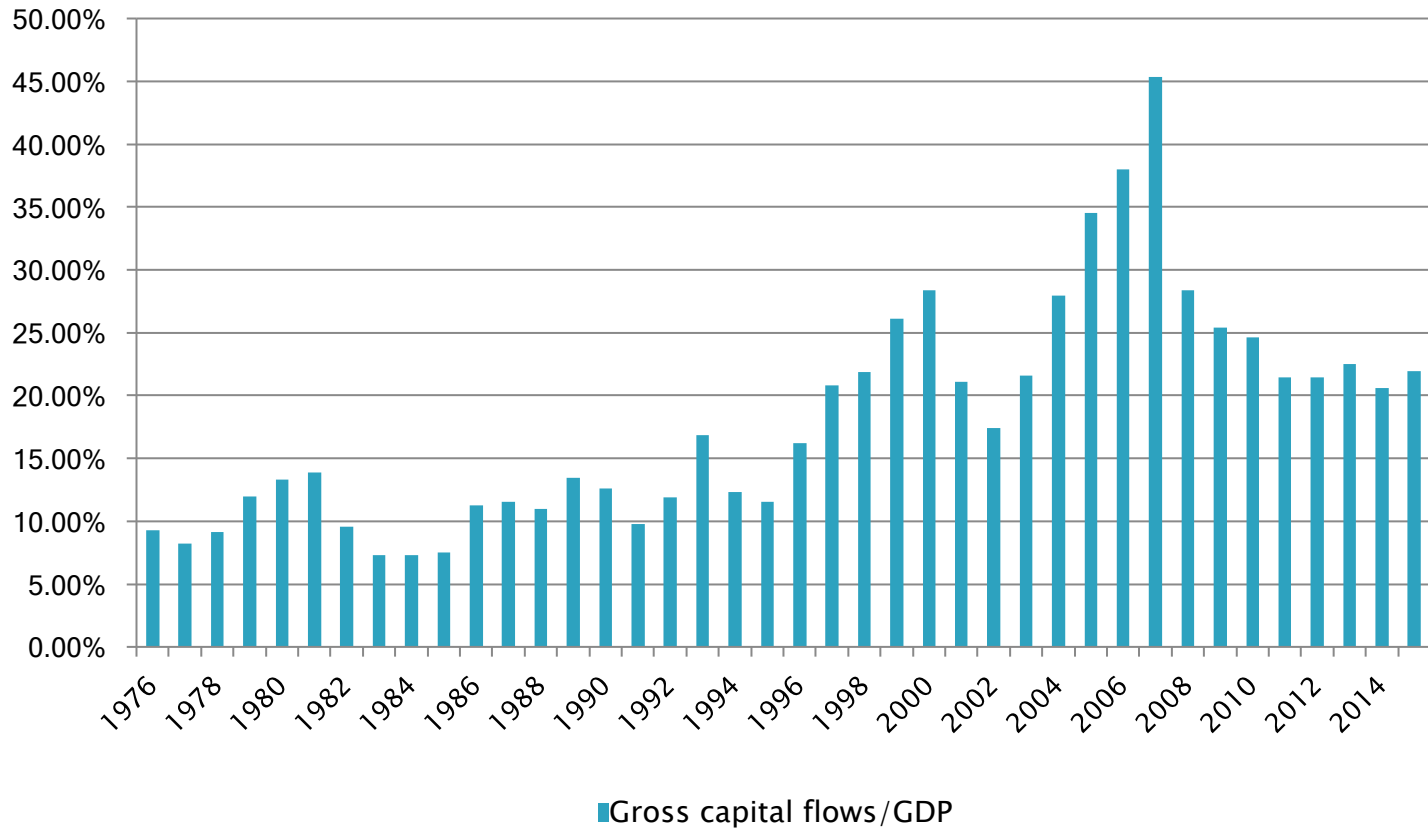
➤ China economy slowing down



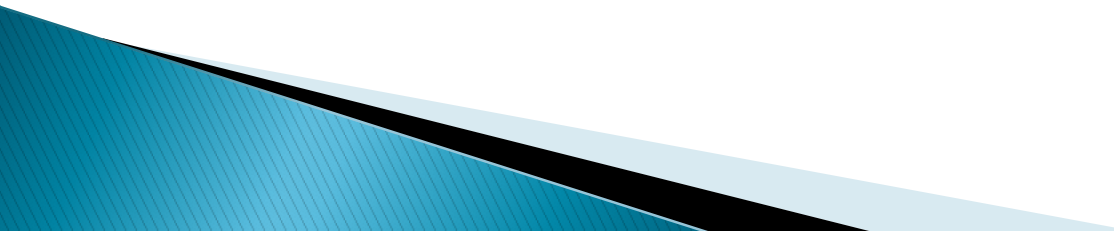
Source: China National Bureau of Statistics

- External factors are part of reasons why Chinese economy has been slowed down while it is in transition due to many domestic factors.

➤ Under great fluctuation of cross-border capital flow



- 2. Protectionism: Reflection of Populism in Economy
 - Trade disputes with China increased
 - ✓ the largest target of trade remedy investigations
 - China encounters 37 trade remedy investigations in first half of 2017(28 anti-dumping, 4 countervailing, 5 safeguard measures), totaling 5.3 billion US dollars.
 - ✓ EU and US refusing the implementation of Article 15
 - Article 15 of “Protocol on the Accession of the People’s Republic of China” allows WTO members in using “alternative country” in anti-dumping investigations against China
 - It should be terminated by December 11, 2016.
 - While in May and July of 2016, EU and US expressed their intention of refusing implementation of the clause.

- Tighter examination of China's M&A
 - ✓ **U.S:** More strict review and examination of Chinese enterprises from Committee on Foreign Investment in the U.S.(CFIUS), which has postponed some M&A deals in the U.S.
 - ✓ **Euro:** Recently, France, Germany and Italy also asked the EU to introduce measures to limit foreign investment, especially in China.
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➤ More China's M&A denied

- ✓ The data from London investment bank Grisons Peak showed, from the middle of 2015 to the end of 2016, a total of nearly 40 billion US dollars of the Chinese acquisition plan was denied.
- ✓ A recent case: the application of an Chinese-funded private equity firm(Canyon Bridge Capital Partners) acquiring U.S Lattice Semiconductor (LSCC) was denied.

➤ Result

- ✓ ODI of China dramatically declined this year

From Jan to July, 2017, China's ODI totaling 57.2 billion US dollar, dropped by 44.3% from last years' same period.

➤ Misconception: global imbalance

- ✓ “Global Imbalance=Current Account Imbalance” is misleading
- ✓ China and other countries with large trade surplus have been strongly criticized, while in fact cross-border capital fluctuations have greater impact on global financial stability.

II. Opportunities

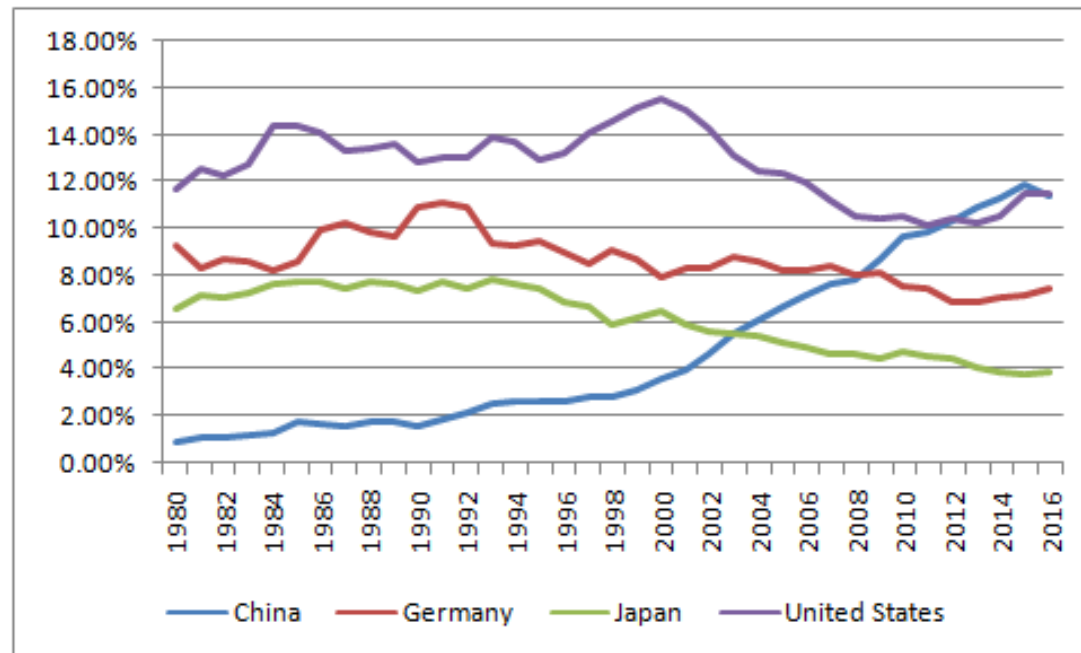
- 1. Policy Responses to the Challenges
 - Two “continuations”
 - ✓ Continuation of open policy
 - President Xi’s speeches in Davos and G20 Summit
 - a. Support globalization
 - b. China’s determination of continuing open policy
 - More FTAs set up and RCEP promoted
 - State Council’s document No.39 with 22 detailed measures in encouraging more FDI
 - E.g.
 - a. Negative list of foreign investment in whole China
 - b. Encourage FDI in M&A
 - c. Reconfirm that Profits, dividends and other investment income of foreign investors, can freely remit in RMB or foreign exchange

- More cautious on capital account opening up
- Patient and serious trade negotiations with U.S. and other countries
- Lawsuit to WTO
 - a. On December 12, 2016, China formally proposed lawsuit to the WTO.
 - b. New trade regulations was finally reached in EU recently.
 - treating all WTO members equally in determining whether there is an antidumping
 - allowing exceptional investigation in case of "severe market distortions"(e.g. government over-intervention)

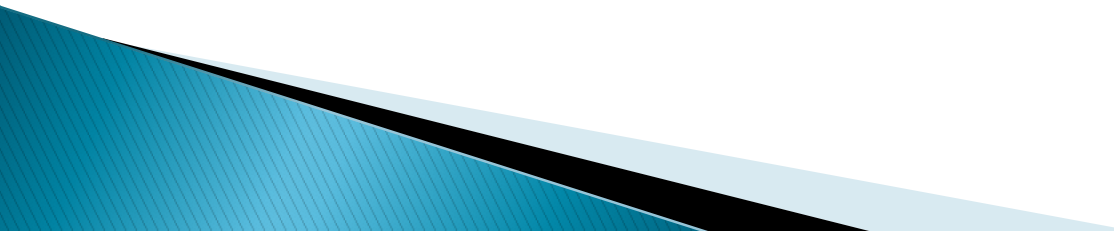
- ✓ Continuation of domestic economic reform
 - SOE
 - Capital market
 - Land system
 - Hukou system(population registration)

- 2. China is moving towards a leading position
 - Became the second largest economy in 2011
 - Largest foreign trader of goods in the world

Main countries' trade proportion in global trade volume

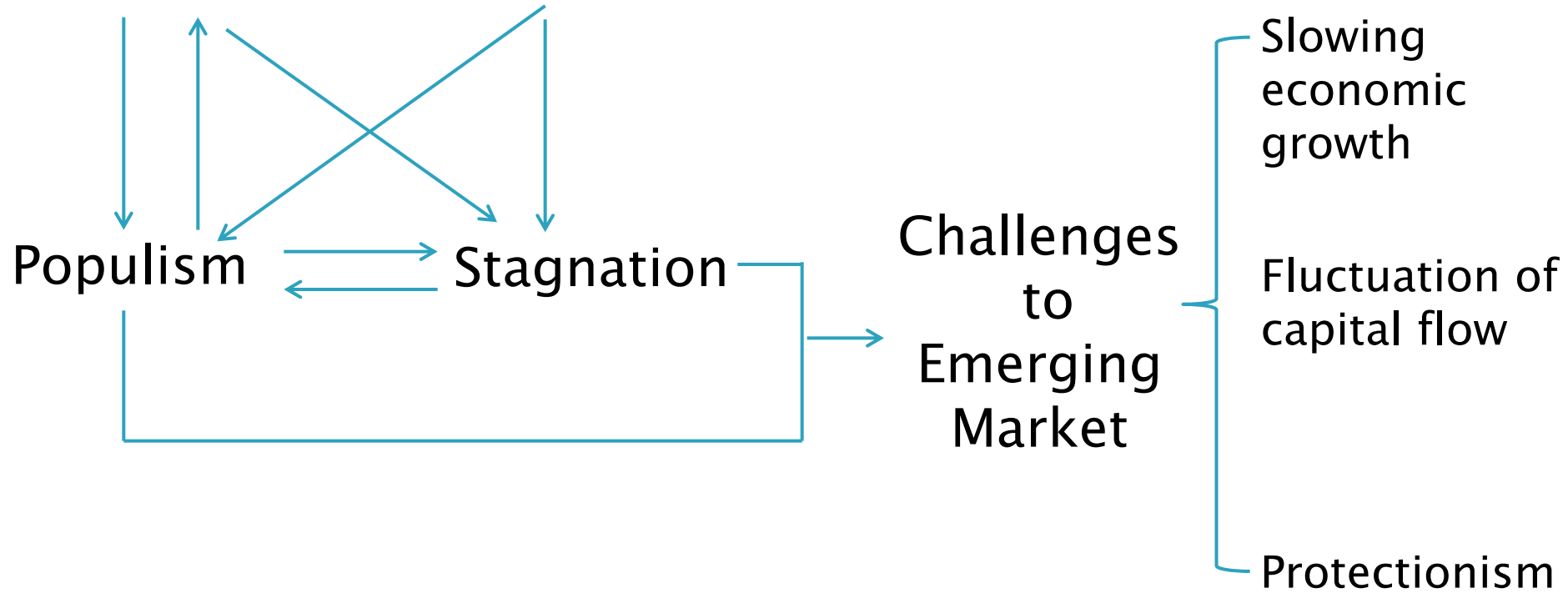


Source: WTO

- Initiate AIIB and NDB (Brics bank)
 - RMB into SDR basket at the end of 2016
 - Belt & Road Initiative
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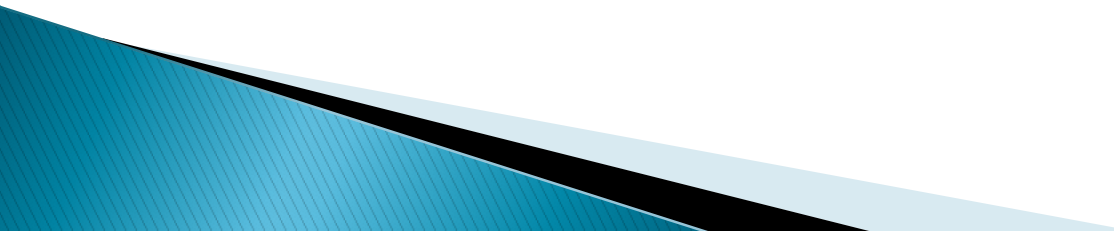
III. Summaries

● Dysfunction → GFC



- Challenges can be turned into opportunities if they are dealt correctly.

- Mixture of policies carried out.
 - open door policy
 - ✓ attract more FDI
 - ✓ participate global product chain
 - ✓ integrated gradually into financial globalization
 - domestic economic reform
 - ✓ let market play decisive role while government play effective role
 - ✓ build up more prosperous, rigorous, and equal society
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- Some observations beyond economy
 - complain about integration of globalization has been dramatically reduced under outside pressure of protectionism/populism
 - complacency has risen since outbreak of GFC, which became barriers for further economic and political reforms.
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Thank you!

