How to deepen the opening up and the reform of Chinese financial system is a major challenge. Now, three prominent financial mismatches exist in emerging countries including China, especially the countries along the "B&R". The first one is currency mismatch. In particular, there is a lot of trade between Asian countries, all of which is in US dollar, a third-party currency, which means that there must be sufficiently liquid supply of US dollar. This is probably the background that directly drives RMB internationalization, i.e. to solve the problem of payment means, and correct the currency mismatch. The second one is maturity mismatch. The rapid economic development in Asia requires a large amount of capital. However, the amount of capital inflow is relatively small, and the term of such inflowing capital is too short. So the frequent flow of short-term capital leads to significant risks. In fact, the most important function of the AIIB is to correct the maturity mismatch. The third one is structural mismatch. Asia is the region with the world's highest saving rate, and most of the global foreign exchange reserve is in this region. However, most of the savings are borrowed by extraterritorial institutions and then invested in this region again, so that Asia becomes the region with the most "foreign capital" inflow. Therefore, a global-oriented and profound financial market should be established to create a better environment for the "B&R" investments.

CAO Yuanzheng, Chairman of BOC International Research Company

ON ODI MECHANISM

Firstly, be cautious when talking about national interests and strategies. Since many projects concern national interests, they require various kinds of policies, resources and preferential treatments from the state. However, overseas investment projects are primarily the results of market-based commercial decisions, and only when these projects are well-executed commercially, can they bring national benefits. Secondly, learn to use international languages. In view of China's reality, the operation of major overseas projects is undertaken by state-owned enterprises. However, we cannot just copy the operation model of domestic projects to overseas projects, it may involve sustainability issues and potential risks. When ODI is made in a developed country in the name of a state-owned enterprise, the developed country will think that the state-owned enterprise is the Chinese government, and will perform stricter security review for M&A or investment with foreign capital. Thirdly, revere social responsibilities. This does not mean not to pursue interests, but to strike a balance between commercial interests and social responsibilities, so that "going global" is sustainable.

LI Kaimeng, Director of the Research Center of China International Engineering Consulting Corporation

In the process of going global, Chinese enterprises should leverage the strategic link among different countries to realize their investment objectives. The inspirations come from the project of China-Belarus Industrial Park. In order to overcome the obstacles in the project implementation, coordination was required at the Belarus national policy level. For infrastructure investment projects, Chinese enterprises should have long-term investment vision and perspectives. China Merchants Group copied the process of reform, opening up, transformation and upgrading of Shekou

over the past 30 years to foreign countries via the "Silk Road Post" model. In this way, we can see the positive returns from infrastructure projects in a period of ten or twenty years. Strategic coordination should be strengthened with respect to the overseas investment by Chinese enterprises. It is necessary to strengthen the coordination among policy banks, constructors, operators and park developers, so as to avoid vicious competition among Chinese-funded enterprises and projects. The roles of Hong Kong-funded enterprises and private enterprises should be brought into full play. We can make use of the financing capability of the Hong Kong capital market to leverage the advantages of Hong Kong as a financial center. Furthermore, the investments made by a Hong Kong-funded enterprise do not have any sovereignty implications, and the rights and interests therein can be protected according to international commercial rules.

WANG Guowen, Director of the Logistics and Supply Chain Management Department of China Development Institute

Events >

On April 19, at the invitation of the Chinese Bureau of the World Bank, Dr. Wang Guowen, Director of Logistics and Supply Chain Management Department, attended the 6th Grants Program Preliminary Assessment Roundtable of the Global Environment Facility, which was held in Beijing, and delivered a speech entitled "A discussion on the Path of Green Logistics and Supply Chain Development in China: Key Issues and Countermeasures". According to Dr. Wang Guowen, as the century of new energy has arrived, the upstream and downstream of the supply chain will be incorporated into a complete low-carbon supply chain.

On the occasion of the publication of a new book by Prof. Tang Jie entitled "China's Economic Transformation and Development", CDI held the Chinese Economic Transformation Seminar on April 19, and invited Prof. Tang Jie, the author of the book, to share his thoughts on the Chinese economy. Meanwhile, more than 20 scholars attending the seminar commented on the book from various perspectives, and had an in-depth discussion on the transformation and development of the Chinese economy.

Based in Shenzhen and founded in 1989, China Development Institute (CDI) is a non-governmental think tank that develops solutions to public policy challenges through broad-scope and in-depth research to help advance China's reform and opening-up. Based on rigorous research and objective analysis, CDI is committed to providing prospective, innovative and pragmatic reports for governments at different levels in China and corporations at home and abroad. In December 2015, CDI was designated as one of top 25 national leading think tanks in a pilot project of central government which is aimed at promoting the building of new-type think tanks with Chinese characteristics.

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CDI-NERI Macro Outlook >

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Signs of Rebound

GDP rose 6.7% y/y in Q1. Although that is still slower than in Q4 2015, improved main indicators for growth bolster our confidence in future growth. Industrial output rose 6.8% y/y in March, up 0.7 pps from the previous quarter. Fixed asset investment excluding agriculture rose 10.7% y/y in Q1, up 1.4 pps from Q4, and 11.1% y/y, with growth especially strong in March. In Q1, the real estate market heated up, and sales were up 33.1% y/y.

Event Highlights >

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CDI Beijing Annual Meeting on ODI:Strategy, Mechanism and Challenges

On May 7, 2016, China Development Institute (CDI) and Shenzhen Soft Science Development Foundation jointly held the "2016 Chinese Think Tank Forum and CDI Beijing Annual Meeting" which was themed on "ODI: Strategy, Mechanism and Challenges". Here, we will share some great opinions on ODI strategy, challenges and mechanism from this meeting with our readers.

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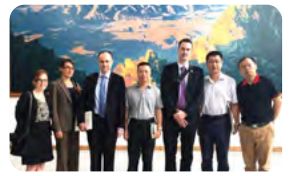
Prof. Fan Gang Addresses 2016 Fifth Financial Street Forum

The 2016 Fifth Financial Street Forum was held in Beijing from May 28 to 29. Prof. Fan Gang, President of CDI, attended the forum and delivered a speech. When talking about the issue of "debt-to-equity swap", Fan Gang said that this method could indeed activate corporate assets, reduce the leverage ratio, and resolve financial risks and economic stagnation. However, if this method is not applied properly, "debt-to-equity swap" will probably turn into resource allocation by the government. Fan Gang said that since resource allocation should be decided by the market, the price should be negotiated by the relevant parties according to the principle of profit maximization, rather than determined by the government.

Dr. Ivan Roberts from RBA Visits CDI

On June 13, Dr. Ivan Roberts, Head of Asian Economies Research Unit, and other economists from Reserve Bank of Australia paid a visit to CDI. Dr. Guo Wanda, Executive Vice President of CDI and Research Fellow Mr. Zheng Yujie and Dr. Zhou Junmin held discussion with RBA delegates on the current situation and future expectation of Shenzhen economy, the supply-side structural reform of Shenzhen, and innovative industries in Shenzhen. To increase the supply of land, education and medical care is the core task of Shenzhen's supply-side reform, according to CDI research fellows.



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Retail sales of social consumption goods rose 10.3% y/y in Q1 in nominal terms, up 0.1 pps from the previous quarter, and rose 10.5% y/y in March.

Exports in dollar terms fell -9.6% y/y in Q1, down 4.6 pps from Q4 2015. Imports fell -13.5% y/y, down 1.7 pps. However the monthly growth of exports in March was 18.7%, indicating a good possibility of further improvement.

In March, CPI rose 2.3% y/y, flat on February. One notable change was in industrial prices, which had been negative and falling for four years, but which turned upwards in March. The ex-factory price index rose 0.5% m/m, and PPI rose 0.3% m/m.

At the end of March, M1 rose 22.1% y/y, up a significant 6.9 pps from the end of 2015, and continue to accelerate. M2 rose 13.4% y/y, which was quite stable. Savings deposits from non-financial enterprises rose 19.4% y/y, up 5.7 pps from the end of 2015 -- a major increase.

The yuan experienced moderate volatility, and appreciation against the dollar reached 6.5 in April, after bottoming out at almost 6.6 on January 7th, mainly driven by the weakening dollar due to the Fed's failure to increase its interest rate. Capital outflow pressure is also diminishing. The exchange regime seems to be shifting from dollar pegging to currency-basket pegging, which means the RMB may still need further depreciating against the dollar soon. The trade surplus is still there, but the exchange rate nowadays is impacted increasingly by capital flows, as China's capital and financial accounts have become more open.

CDI Beijing Annual Meeting on ODI: Strategy, Mechanism and Challenges

Editor's note: At the end of 2015, China's Overseas Direct Investment (ODI) stock exceeded one trillion USD for the first time. In the first quarter of this year, China's non-financial ODI reached 40.09 billion USD, up 55.4% on a year-on-year basis, and became a remarkable factor for China's growth under the sluggish global economic conditions this year. On May 7, 2016, China Development Institute (CDI) and Shenzhen Soft Science Development Foundation jointly held the "2016 Chinese Think Tank Forum and CDI Beijing Annual Meeting" which was themed on "ODI: Strategy, Mechanism and Challenges". Here, we will share some great opinions from this meeting with our readers.

ON ODI STRATEGY

Opening up has become one of the key strategies for China. In recent years, a series of important strategies have been adopted in China's opening up process, including "Belt and Road" (B&R) initiative, establishment of the AIIB, inclusion of RMB into the SDR, and free trade zone pilot projects. The strategic implications of China's opening up have further deepened. The new measure of two-way opening up has been established, which emphasizes both "bringing in" and "going out".

XIANG Huaicheng, Chairman of China Development Institute, and former Minister of Finance

In the "13th Five-Year Plan" period, China's foreign strategy basically involves well-defined regional orientation and industry orientation. With respect to regional orientation, the countries along the "B&R" are the strategic focus, and the specific fields include capacity transfer of the infrastructure, energy and manufacturing industries; Africa is also the strategic region, where the key fields are industrialization and infrastructure construction; with regard to developed countries, the main focus is in the fields of brand, network and technology. With respect to industry orientation, we will focus more on relatively advantageous industries which involve equipment manufacturing, surplus capacity, and "manufacturing plus service", such as steel, building materials, chemical engineering, textile, and machinery. In the "13th Five-Year Plan" period, more enterprises will "go global" due to the cost increase in China, and the availability of more combined superior resources overseas. More emphasis will be placed on the upstream-downstream integration during the transfer of surplus capacity, and also on the combination of "Made in China" and "China Service". We need to cultivate some multinational companies which truly live up to international standards in terms of corporate management, core competitiveness building, and modern corporate system. A large number of export-oriented small and medium-sized enterprises which are capable of adapting to the new changes in the global market should also be developed.

ZHANG Wei, Vice President of Chinese Academy of International Trade and Economic Cooperation Institute, Ministry of Commerce

Currently, the ODI of Chinese enterprises has five important effects on China's structural adjustment, optimization, and upgrading. The ODI of Chinese enterprises enters the international market, which is achieved by means of M&A investment. It can bring important strategic assets to improve the international competitiveness of Chinese enterprises, and lay a solid foundation for the emergence of Chinese multinational companies. With the gradual reduction in China's traditional competitive advantage in terms of labor, the only choice for Chinese enterprises is to expand their industrial presence in neighboring countries, which allows resources to be allocated to the important high-end manufacturing and service industry to drive domestic industrial transformation and upgrading. As 60% of the world's recoverable oil reserve and over 80% of the world's natural gas is concentrated in the "B&R" region, outward investments in the area have profound significance for ensuring the supply sources and channel security. ODI helps deepen foreign relations and integration at the capital level. An interest structure where "you and I are integrated with each other" will take shape, and the relevant parties are bound into a community of common interests and destiny. We should also increase the participation by Chinese enterprises in the global value chain. Based on the foreign trade data, there is a significance difference between the returns received by China and developed countries in the global value chain. With the improvement of China's brands, and technologies, to improve China's position in the global value chain is a matter that concerns China's economic transformation and upgrading.

ZHAO Jinping, Director-General of the Research Department of Foreign Economic Relations, Development Research Center of the State Council

ON ODI CHALLENGES

Firstly, the overall investment environment in a considerable number of host countries is bad, due to their low economic development level, unsound market system and constantly-changing policies, which increase the difficulty for China's ODI. Secondly, it is hard for Chinese enterprises to raise capital in the international market, due to various factors such as the poor development conditions of the financial system and low internationalization level of the credit system of the host countries, and the fact that the internationalization level of RMB is relatively low. Provided that the capital account is not fully open, and RMB cannot be freely converted. Even though RMB is included in the SDR basket, there is still a long way to go before it truly becomes an internationally priced currency for transaction settlement. Thirdly, outward investment projects are mainly supported by funds from policy banks and some foreign-aid funds, and it is necessary to integrate such policy-oriented financial support to form synergetic forces.

BI Jiyao, Director of Institute of International Economic Research, National Development and Reform Commission

According to the World Bank's blacklist, from January 12, 2009 to September 1, 2015, the World Bank punished a total of 654 enterprises or individuals, including 38 from China. What is the problem with these Chinese enterprises? In general, they all violated the purchase terms, and failed to perform their compliance responsibilities. In fact, the major challenge for Chinese enterprises that intend to go global is not the traditional commercial risks, but the non-traditional and non-commercial risks. Non-commercial risks include geopolitical risk, social responsibility risk, environmental responsibility risk, and the compliance and anti-corruption risk ignored by many enterprises. In the process of going global, many Chinese enterprises do not have a sufficient understanding of the new competitive environment and competition rules of modern industrial and commercial culture, and therefore lack soft competitiveness. Global companies are strengthening their corporate compliance culture, thereby changing the global competition rules for enterprises. Therefore, Chinese enterprises are facing severe challenges. If they can understand the new ways and new rules of global competition, they have the potential to achieve leapfrog development.

WANG Zhile, Director of Beijing New Century Academy on Transnational Corporations