Third, unprecedented breakthroughs will be made in building a global financial center through Shenzhen-Hong Kong cooperation. According to the Global Financial Centers Index (GFCI) report published by the City of London Corporation, only New York and London can be called "Global" financial centers. Both Shenzhen and Hong Kong have accumulated huge financial resources, and they are naturally complementary. If their financial resources are integrated, the size of the capital market and the added value of the financial sector will be close to, or even surpass, those of New York or London. Thus, Shenzhen and Hong Kong can turn into a global financial center, which would improve the international financial competitiveness of China's financial sector and its ability to serve the real economy.

YU Lingqu, Research Fellow of CDI

Event Highlight >

Close-Door Meeting of CCF Advisory Committee Held by CDI

Close-Door Meeting of CCF (China Charity Fair) Advisory Committee was held by CDI on September 25, 2016. The theme of the roundtable discussion was "Charity Mechanism and Institution Building". Dr. Guo Wanda, Executive Vice President of CDI, chaired the meeting. 20 philanthropic experts from the UK, Singapore, Japan, Hong Kong and the Chinese mainland shared their ideas about charity mechanisms and institutional design.

Tatsuo Ohta, President and CEO of Japan Association of Charitable Organization, introduced the latest development in Japanese civil sector, namely The Japan Center for NPO Evaluation, and dormant bank account utilization scheme. The first nationwide NPO monitoring organization in Japan, set up in April 2016, is aimed at enhancing NPOs' capabilities by evaluating their activities and management. Japan is also working a bill which is intended to use 60 billion yen from the dormant deposits worth 90 billion yen for supporting charitable activities.

Michael Norton, Director of Centre for Innovation in Voluntary Action, holds that specialists in the charity sector must pivot their efforts from charities themselves to charitable work done by businesses, as the business sector has a greater influence and has the access to funding. He suggests that the government be the actor that forges an environment that incentivizes companies to do positive social work. This policy must also aim to increase compliance, governance and effectiveness of the hybrid business and charity sector.

Isabel Sim, Director (Asia) of Department of Social Work and Faculty of Arts & Social Sciences of National University of Singapore, shared Singapore's unique way of addressing social issues. In Singapore government does not support social causes directly, instead providing support to NGOs, who deliver social welfare for those who cannot fend for themselves. This approach has created a drive for communities to work together to solve the social issues faced locally, keeping charities effective as they are in theory competing for funding from the government. The crucial element of such an approach is providing the training for employees of these charities to adopt modern and effective techniques.

Jenny Hodgson from Global Fund for Community Foundations thinks that the charity sector must step back from its history of compartmentalization of issues such as children, women, environment and instead work toward strengthening communities themselves. The ultimate aim of such an approach is to make the most of the assets that a particular community has access to. Once there is community cohesion, funding becomes more effective as it is put to use by a network rather than an individual.

The 5th China Charity Fair was held in Shenzhen from September 23 to September 25, 2016. Its theme was charity law and poverty alleviation. CDI coordinated 13 meetings of the event which invited more than 230 philanthropic researchers and practitioners to share their ideas.

Project >

In August 2016, Dr. Qu Jian, Vice President of CDI, led a project team to Kenya for research and investigation on the Kilifi Park and the Bomas Convention and Exhibition Center, which are planned to be built with investment from the Wuyi Group. The delegation attended 13 discussion meetings visited seven federal and local government departments, including the Kenya Investment Authority, the Ministry of Devolution and Planning, the Export Processing Zones Authority and the Kilifi County Government. In addition, the project team also had in-depth discussions with Mr. Liu Xianfa, the Chinese ambassador to Kenya, on such issues as China–Kenya relations and the development of Chinese enterprises in Africa.

Event >

On Aug 22, the Sino-Japan Economic Roundtable Dialogue was held at CDI. Dr. Guo Wanda, Executive Vice President of CDI, and other research fellows held discussions with Japanese experts including Mr. Yosuke Tsuyuguchi, Former senior official of the Bank of Japan, Mr. Ohara Atsuji, Associate Professor of International Finance/Development Economics, University of Nagasaki, Mr. Ueshima Kenji, President of China Japan Equity Exchange Co., Ltd. They presented analysis on the current status quo and the future prospect of the Japanese economy with emphasis on rising exchange rates, low inflation, fiscal and financial policy, and on the possibility of further internationalization of RMB, and the potential for further Sino-Japan economic cooperation.

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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Why the IMF Raised Its Growth Outlook

The IMF in June raised its 2016 growth outlook for China to 6.6%, a 0.1 pp uptick from its April projection, even though Brexit prompted the Fund to slice its global growth forecast for 2016 by 0.1 pp, to 3.1%.

Quoted >

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It Is Time to Rethink China's Urbanization Model

It is not necessary to work against the laws of urbanization. China should instead embrace the possibility that several city clusters with populations of dozens of millions, or even over 100 million, may arise.

Yuan Should Weaken as Dollar Set to Strengthen

A gradual devaluation of the yuan should be allowed as the U.S. dollar is set to strengthen, and moves to loosen the nation's capital borders should continue despite outflows.

On G20 Hangzhou Summit: Dealing with Trade Protectionism

"We are in the same boat against the currents", which means that global joint efforts should be made to fight against difficulties of economic growth. China delivered a strong message to the world that it is determined to navigate the course of world economic recovery.

Expert Insight >

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Shenzhen-Hong Kong Stock Connect to Unleash Potential

Shenzhen-Hong Kong Stock Connect marks steady progress toward building a law-regulated and internationalized capital market. It is expected to unleash great potentials.

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Project >

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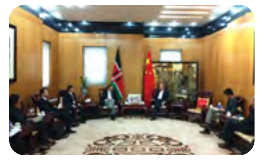
Field-Trip Research and Investigation in Kenya



Event >

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Sino-Japan Economic Dialogue Held in CDI

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Why the IMF Raised Its Growth Outlook

The IMF in June raised its 2016 growth outlook for China to 6.6%, a 0.1 pp uptick from its April projection, even though Brexit prompted the Fund to slice its global growth forecast for 2016 by 0.1 pp, to 3.1%.

The growth upgrade for China shows that the IMF is optimistic about the major reforms underway in China. The Fund's outlook is consistent with our forecast, as China still has plenty of room to lift its fixed asset investment and current structural reforms, including by deleveraging and cutting excessive capacity, which should generate sustainable growth. Other common media concerns, such as the increase in non-performing loans, the increase of government and household debt and yuan instability, are all mentioned. The Fund also notes that the Chinese government is fully aware of the problems, and is taking action to deal with them.

The bad news is that Chinese fixed asset investment was up just 3.9% y/y in real terms in July, down a significant 4.3 pps from Q2. We expect state investment to increase to counteract this declining trend, and to address the slowdown in private investment, since state investment complements private sector investment.

Industrial output was up 6% y/y, in a slight slowdown from Q2. Production and sales of automobile surged in Q2, by about 17%. Retail sales of consumer goods rose 10.2% y/y in nominal terms in July, flat on Q2. Exports fell -4.4% y/y, while imports fell -12.5% y/y, down 5.7 pps.

CPI rose 1.8% y/y, down for three consecutive months, and down 0.5 pps from April. Producer prices continue to recover. The ex-factory price index of industrial products fell -1.7% y/y, and PPI fell -2.6% y/y, down 0.9 and 0.8 pps from June.

Financial and monetary indicators showed divergent trends in July. M1 increased 25.4% y/y, up 0.8 pps from June, and up a significant 18.8 pps from July 2015. But other financial indicators failed to perform well. M2 rose 10.2% y/y, down 1.6 pps from June, and down 3.1 pps from 2015. Loans from financial institutions rose 12.9% y/y, down 1.4 pps from June, to their lowest level since 2006. The main reason behind this divergence is the inconsistency of monetary policy.

Quoted >

It Is Time to Rethink China's Urbanization Model

At the 2016 Boao Real Estate Forum, Prof. Fan Gang, President of CDI said that for many years China's urbanization model has been limiting the development of large cities while encouraging the development of small towns and that it is time for China to rethink.

Prof. Fan Gang suggests that it is not necessary to work against the laws of urbanization, and China should instead embrace the possibility that several city clusters, or city belts, with populations of dozens of millions, or even over 100 million, may arise and turn away from the preferential policies that encourage the development of small towns.

Western countries industrialized over the span of 200 to 300 years. In the process, rural laborers migrated to big cities and retired people returned to their hometowns to enjoy the rural life they had forgone in search of opportunity in the cities. With

this return they brought back social security and high income, which drove development of small towns and rural villages. Today, the urbanization rate in these countries is roughly 80%, while the development of small towns and villages is very stable. In contrast, the industrialization process in Japan, South Korea and China, was completed in a short time, a mere one or two generations. Drawing comparisons to Western countries, Prof. Fan Gang argues that the

stages will be as follows: big cities develop first, resulting in rural areas losing their population. After a number of generations of people retiring, people begin to return to their hometowns and the populations of small cities stabilize. Instead of driving the development of towns and small cities, we should protect the ecology, history and culture of these areas and prepare for the future population back-flow from current citification.

Yuan Should Weaken as Dollar Set to Strengthen

In a Bloomberg Television interview on the decrease of China's foreign-exchange reserves and the yuan devaluation, Prof. Fan Gang said a gradual devaluation of the yuan should be allowed as the U.S. dollar is set to strengthen, and moves to loosen the nation's capital borders should continue despite outflows.

Although China's economy has bottomed out with housing and manufacturing improving, it is "natural for investors to look outside for opportunities" as China is still struggling to remove excess capacity. Additionally, Brexit added downward pressure on the yuan. China should encourage private sector capital flows, allowing qualified domestic individuals to invest overseas, and moderately widen the FX-conversion quota for the public, he said.

On G20 Hangzhou Summit: Dealing with Trade Protectionism

In a CCTV studio interview about "G20 Summit Opens" on September 4, prof. Fan Gang gave an analysis of topics at G20 Hangzhou Summit. He says that trade protectionism should be properly dealt with as it could be one of the major obstacles in the way of common prosperity.

President Xi Jinping mentioned twice that "we are in the same boat against the currents" in the keynote speech at the opening ceremony of the Hangzhou G20 Summit, which means that global joint efforts should be made to fight against difficulties of economic growth, financial institution reforms and instability. This speech delivered a strong message to the world that China is determined to navigate the course of world economic recovery.

Before G20 Leaders' Summit was established during the financial crisis in 2008, G20 meetings of Finance Ministers and Central Bank Governors were held to discuss international monetary policies and financial institutions. As the world needs to fight the crisis together, two promises have been made by the G20 leaders during the first meeting in Washington. The first one was that we need microeconomic policies to stimulate the economy, and the second one was that we should keep our

market open, which was the lesson learnt from the Great Depression during the 1930s. At that time, people just closed the door. It is good for G20 that countries honored their promises and kept doors open, at least for the worst time of the crisis in 2009 and 2010. However, some countries have turned to protectionism because they still have domestic problems and fear competition from foreign countries. China is now confronted with excess capacity and has even had to laid off a lot of migrant workers. However, China don't blame competition just like what some other countries did. When they see foreign products, they think that it is why they lost their jobs. That's a kind of frustration and sentiment which caused protectionism, nationalism and very strong localism.

Global economic growth needs developing countries. Even though their growth rates have been slowing down, some emerging markets are still major contributors to the global economy. Developed countries have to have developing countries being on the table to deal with global issues. All countries should seek economic restructuring, instead of blaming competition from other countries for their own problems.

Prof. FAN Gang, President of CDI

Epert Insight >

Shenzhen-Hong Kong Stock Connect to Unleash Potential

"The basic preparation for the Shenzhen-Hong Kong Stock Connect has been completed and the State Council has approved the implementation plan for the program," Premier Li Keqiang said on August 16, 2016. The initiative for the interconnection between the stock markets of the Chinese mainland and Hong Kong marks steady progress toward building a law-regulated and internationalized capital market.

In recent years, China has taken a series of reform measures to explore the further opening of the financial sector, including: expanding the investment quota of RMB Qualified Foreign Institutional Investors (RQFII) and Qualified Foreign Institutional Investors (QFII), opening the free trade account for Shanghai free trade zone (FTZ), promoting the inclusion of RMB in the SDR basket, and launching Shanghai-Hong Kong Stock Connect. All of these steps have contributed to RMB internationalization. In comparison with the above measures, however, Shenzhen-Hong Kong Stock Connect has its unique advantages and is therefore expected to unleash great potentials.

First, Hong Kong's position as the global RMB offshore financial center and Asia's wealth management center will be further consolidated. Shenzhen-Hong Kong Stock Connect will allow international investors seeking high returns to use Hong Kong as a platform to invest in China's most dynamic enterprises listed on Shenzhen Stock Exchange (SZSE) which is featured by SME Board and ChiNext. This will in turn promote international wealth management institutions to continue their agglomeration in Hong Kong.

Second, Shenzhen's role as the innovation center for science and technology industry will be promoted. Shenzhen-Hong Kong Stock Connect focuses on long-term, institutional arrangements for connectivity. In this way, SZSE ChiNext will learn from successful experience of the American NASDAQ to improve its internationalization, regulation, and marketization. Thus, a more mature ChiNext, with stronger service ability, will support Shenzhen as an innovation center.