is the massive amount of companies. Underneath them, is corporate debt. It is necessary to merge and reorganize these companies seen in various industries, so as to reduce industrial concentration, reduce the total number, in order to expand the scale and improve efficiency of the industry, and essentially letting the industries better develop. Nonetheless, if no action is taken, it may lead to earlier onset of financial crisis.

We need to treat these financial risks seriously, in each node and all industries, in order to improve the quality and efficiency of our economy as a whole.

Fan Gang, President of CDI

China Shall Actively Respond to Sino-US Trade Frictions

On the current economic situation

Over the past 40 years, China's economy has seen fluctuating high growth, while still in the process of adjustment. There are two views about the current economic situation. Optimists think that a new cycle is coming, while pessimists think that deleveraging and regulation will lead to tight liquidity. I'm not that optimistic, I don't think that China's economy is entering a new cycle now, and a lot of problems remain unresolved, including deleveraging and de-capacity. The resent reduction in reserve ratio released liquidity and restored it to its proper level, which is a neutral policy, and should not be interpreted as expansionary or tightening policy. In this sense, I am also not that pessimistic.

On China's long-term economic development and Sino-U.S. trade friction

United States trade deficit cannot be solved due to two reasons. First, U.S. savings rate is low. Second, as an international currency, other countries need to purchase goods from the U.S. in exchange for dollars, at the same time do not sell goods to U.S. or spend U.S. dollars, thus creating trade deficit. Among these countries, U.S. has the most extensive deficit problem with China due to the huge trade imbalance. In the trade of productions, China's strengths are low and middle end manufactured goods, while Unite States are more advanced in high-tech and arms trade. As economy is booming in China, there are more products to be sold. Meanwhile, export control is tightening in United States, giving China less purchase options. As a result, trade imbalance increases. The United States penalized ZTE, at the same time restricted the export of high-tech products, exacerbating trade deficit. Although the two countries are hoping to reach on an agreement, it is always possible that U.S. will exit the agreement as they have done so multiple times recently. Therefore, Sino-U.S. trade fiction cannot be settled through single negotiation or agreement, but in multiple steps and stages.

On the other hand, it is apparent that U.S. is focusing on restricting China's technology advancement. However, China's technology and economic development is definite, therefore making the problem irreconcilable. China's first stage of economic growth depended on cheap labor, i.e. comparative advantage. The second stage of growth depended on relative advantage or late-mover advantage, in other words learning from knowledge and technology spillover of other

countries. Establishment of joint ventures is a perfect example. Unites States has noticed this trend and may disconnect the learning process. In the future, our researchers may be restricted from visiting the United States.

China's economic development is entering a new stage of independent research and development, with multiple measures in effect simultaneously, such as introducing foreign capital, sending students overseas, conducting online learning and exchanges. In other words, giving play to comparative and late-mover advantages at the same time. Meanwhile, the influence of independent innovation mechanism is growing, which pushes and demands us to move on with technological innovation and reform the innovation system. The recent Sino-US trade friction has been a perfect reality check for China. The development of scientific research in United States is closely related to property rights. The implementation of Bayh–Dole Act ensures that even within national research projects, personal intellectual property rights will be protected. As a result, it serves as incentive for both researchers and operators, and also allows capitalization and globalization of intellectual property rights. We must give play to both national functions, in terms of basic scientific research and underlying technology research, and market's effect, in terms of incentive mechanism for intellectual property.

On the new stage of China's consumption

In the past, low consumption rate and high savings rate were two major economic problems in China. Since 2004, savings rate has exceeded 40%, reached 52% in 2012, and decreased to 44% in 2016. With rising consumption rate, we can expect a general trend which can be attributed to multiple factors. Firstly, the overall income level continues to rise. Secondly, income level of low-income group is growing at faster pace. For example, migrant workers' income growth rate has been at a steady 17-18% since 2007. Ninety percent of the extra one thousand yuan will be used in consumption, which is a huge stimulus on consumption growth. Thirdly, social security. Fourthly, consumer finance and e-commerce. Finally, consumption by retirees, known as negative savings in economics, also begins to grow as a result from the retirement of the first generation that became rich after reform and opening-up.

We are now facing two turning points. First, high-tech investment has become critical after entering the stage of independent innovation. Second, the ones that are considered as emerging industries in China are developing rapidly, such as growth in general consumer goods, leisure, fitness, health care, medical treatment, vacationing, spiritual and cultural consumption. The return on both aspects are considerable, making them ideal and important areas for investment. In this sense, China will not lack investment opportunities.

Fan Gang, President of CDI

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 >

Exit from the Integrated World May Be Costly

The U.S.-China trade war may be short-lived. The exit of U.S. firms from the Chinese outsourcing labor market will give its competitors a greater advantage in improving their balance sheets, and consequently in profit, R&D expenditure and TFP -- and in the end, more wins.

Insights >

Prevention and Control of Financial Risk from National and Macroeconomic Perspective

Prof. Fan Gang gave a speech at the first Summit Forum on Financial Risk Prevention which was held in Shanghai. During which, he analyzed the significance and influence of prevention and control of financial risk from macroscopic perspective.

Independent Innovation and Consumption Updating are Two Key Points for China's Long-term Economic Growth

In terms of the recent Sino-US trade friction, Prof. Fan Gang thinks that it can be solved, only not with a single agreement, but step by step with multiple negotiations. In the long run, China should strengthen incentive mechanism for technology innovation to better foster independent innovation.

News >

Prospect and Opportunities under Sino-US Trade Friction

One May 7, 2018, CDI and AmCham jointly organized a timely event titled "Dagger Drawn: What does U.S.-China Trade Standoff Mean for You?" in Hong Kong. The panel discussion focused on the current U.S.- China trade tension and the impact on business in the region. During the discussion, the panelists talked about the prospects of the trade war and the possibility to avoid it. CDI expert and fellow panelists stated that two countries have significant difference on culture, social structure, institution as well as two different economic systems. To solve the friction, two countries need to establish an inclusively frequent communication and docking mechanism on the basis of equality and mutual benefit. Moreover, China's future economic, industry and trade development should serve to strive win-win result for both countries. CDI expert pointed out that there are still rooms for transnational companies to expand in China, even under the current moment. Companies should well study and interpret the national strategic planning for development to seek opportunities.

Events >

Pan-Beibu Gulf Think Tank Summit

In recent years, China and ASEAN have strengthened political mutual trust, and yielded fruitful results in pragmatic cooperation in all directions, at various levels and in a wide range of fields. Both sides have actively promoted the construction of a comprehensive connectivity model and realized the transformation of regional cooperation, which is conducive to China-ASEAN cooperation.

The Belt and Road Initiative provides an important cooperation platform for the upgrading of China-ASEAN relations.

ASEAN is a key region and area of interest for BRI construction, with numerous cooperation projects underway. The construction of a tighter China-ASEAN community with shared future will bring valuable opportunities for the development of both sides.

BRI has promoted connectivity between China and ASEAN member countries.

Many ASEAN member countries are in need of substantial infrastructure investment, which requires a diversified investment and financing mechanism. As important financial supporters of BRI, Asian Infrastructure Investment Bank (AIIB) and Silk Road Fund can meet the financing needs of ASEAN countries, and can also optimize cost sharing mechanism and avoid various risks of cross-border construction.

With the development of BRI construction, there will be more personnel, and cultural and educational exchanges between China and ASEAN countries, which will facilitate understanding between the two sides.

China and ASEAN countries should strengthen connectivity and promote the transformation of regional cooperation

First of all, infrastructure connectivity is a key factor in promoting mutually beneficial cooperation between China and ASEAN countries. The China-Indochina Economic Corridor, a transnational economic corridor between China and ASEAN, still faces backward infrastructure development in land-sea connectivity. The two sides should further strengthen intergovernmental communication, and

enhance institutional cooperation, e.g. establishing an infrastructure construction committee, in order to facilitate land-sea connectivity policy communication. On the other hand, both sides should be committed to building a multi-level financing system through the cooperation of various financial institutions and innovate investment and financing methods in order to establish a new diversified investment and financing model that can mobilize the effective participation of public and private sectors, providing diversified financing arrangements for infrastructure projects along the BRI.

In addition, optimizing cooperation mechanism will promote regional economic transformation and upgrading. First, establish new institutional arrangements, such as trade facilitation, elimination of border trade barriers, and optimization of trade structure, to promote China-ASEAN regional economic integration and achieve inclusive growth. Second, strengthen coordination of regional cooperation mechanisms among the Lancang-Mekong Cooperation, Great Mekong Subregion Cooperation, and China-Indochina Peninsula Cooperation, to avoid redundant construction and waste of resources. Third, promote the cooperation of emerging industries between China and ASEAN and increase R&D budgets for innovation through policy communication between the two sides in order to strengthen economic relations between China and ASEAN.

Give full play to China and ASEAN think tanks' role of "intellectual support" and "people-to-people connectivity"

The exchange and cooperation between China and ASEAN think tanks is an important part of BRI. Think tank's in-depth research reports are crucial for the materialization of BRI projects. Its support on regional planning, policy research, mechanism design will facilitate China-ASEAN cooperation.

Looking forward, China and ASEAN think tanks should serve as a bridge between the government and the public to promote people-to-people connectivity in areas such as policy communication and academic research, expanding the consensus while narrowing the cognitive gap between the countries.

CDI-NERI Macro Outlook >

Exit from the Integrated World May Be Costly

Chinese economic growth was stable in Q1. GDP was up 6.8% y/y, flat on Q4. Industrial output was up 6.8% y/y, and up 0.6 pps from Q4.

Investment rose 7.5% y/y in Q1, up 1.7 pps from the lowest growth rate of 2017. However, the price-adjusted investment growth rate rose only 1.2% y/y. Assuredly, private investment recovered strongly, and rose 8.9% y/y, up 4.7 pps from Q3, reaching its highest rate since 2016. In Q1, real estate investment grew 10.4% y/y, up 6.3 pps from Q4 - its highest growth rate since 2015.

Retail sales of consumption goods were up 9.8% y/y in Q1 in nominal terms, and 8.1% y/y in real terms. Although both figures were only slightly lower than in Q4, these were among lowest growth rates since 2004.

Prices are declining, amid tightening monetary policy. CPI was up 2.1% y/y in March, down 0.1 pps from January-February. In March, producer price growth continued to fall rapidly. The ex-factory price index of industrial output was up 3.1% y/y, down 0.6 pps from February. This is the fifth consecutive

decline. PPI was up 3.7% y/y, down 0.7 pps from February. Monetary policy is still tightening, and financial regulation is stricter, intended to reduce financial risk. In March, M1 rose 7.1% y/y, down 4.7 pps from the end of 2017, and down 11.7 pps from last March.

Though exports were up 14.1% y/y in Q1, up 4.9 pps from Q4 and up 8.5 pps from Q3, and imports were up 18.9% y/y, China and the United States are in a trade war. On March 22nd, U.S. President Donald J. Trump signed a memorandum to apply tariffs of $50 billion on Chinese goods. In a quick response, China raised its tariffs on 128 U.S. products, with implementation beginning on April 2nd. Both countries indicated that they plan to hike tariffs on the other's exports far more.

The U.S.-China trade war may be short-lived. The exit of U.S. firms from the Chinese outsourcing labor market will give its competitors a greater advantage in improving their balance sheets, and consequently in profit, R&D expenditure and TFP -- and in the end, more wins. Take the U.S.'s Apple vs. South Korea's Samsung, for example. China's large state capacity, as seen from the state sector's sizable share of the economy and better government budget situation, will make growth both feasible and stable, as greater state capacity means better macro management ability. Too, the share of exports in Chinese GDP growth has declined steadily over the years.

Insights >

Prevention and Control of Financial Risk from National and Macroeconomic Perspective

Financial risk and debt risk are very serious problems, which should be approached carefully without unnecessary exaggeration since they are still controllable and do not entail immediate financial crisis.

First, the risk in lack of government regulation. Certain basic problems that should have been controlled through financial market regulation are only regulated after lengthy delay, and until being proposed on the Central Committee meeting. As a result, market risk escalates. Such situation should be prevented and resolved.

Second, financial risk in the government. After implementing the stimulus policy in 2009, local financing platform's annual total amount of financing rose from RMB one trillion to seven trillion. With

the steep increase, we need to tighten control on this type of government financing risks.

Third, risk in state-owned enterprises. The debt ratio of state-owned enterprises is relatively high, reaching 68%. In addition, there are many "dead" enterprises, which are difficult to handle.

Fourth, risk in private enterprises. One contributor to the overheated economy seen in recent years