pharmaceutics and public health are currently under the spotlight. However, two other areas should be taken a closer look.

First, general consumer goods industry still has huge potential in store. GDP per capita of China reached 10,000 US Dollars last year. In both theoretical and practical sense, such phenomenon indicates that China is entering the high consumption stage characterized by higher proportion of expenditure and lower proportion of savings to income.

After a short decline in second quarter, consumption will bounce back once quarantine ends. In addition, the poverty-stricken areas of China are gradually embracing a moderately well-off society and the low-income groups in rural areas and small cities are exhibiting larger capacity for consumption as well. If and when this trend extends to the entire population of 1.4 billion, the potential is enormous.

Second, industrial restructuring. Not all the manufacturing enterprises are the right choice for investors. Many industries have massive potential, but are shackled by overcrowdedness and excessive competition. As a result, orders are scattered within the industry, making it difficult for enterprises to achieve a scale-based development and stand out. However, there are a small number of well-performing enterprises in each industry. Given the past case of overheated economy and excessive investment, restructuring is imperative for most industries. As enterprises with few orders continue to be wiped out during this pandemic, those in good shape will pick up more orders and become suitable candidate for investment.

Fan Gang, President of China Development Institute

Event >

Innovation of Institutional Integration – Hainan Free Trade Port

On June 1, 2020, the Overall Plan for the Construction of Hainan Free Trade Port was released, making China's Hainan Province the world's largest free trade zone. To better understand its implications, CDI researchers gave an interpretation and analysis of the policies laid out in the plan.

Situated on an island to the south of China's mainland, Hainan Province is opening up to the rest of the world more than ever. The Overall Plan for the Construction of Hainan Free Trade stressed the introduction of a zero-tariff policy, facilitation of the free flow of production factors and the fact that Hainan will be on top of the high level of international economic and trade rules. As the biggest special economic zone in China thus far, Hainan Free Trade Port is likely to become the new face of opening-up. The plan integrates existing opening-up measures in China with Hainan's own characteristics, and these are highlighted and featured below.

To facilitate free trade and investment with highest standards around the globe.

As well as the zero-tariff policy, items that are not exempt from tariffs will be processed with more efficiency and reduced barriers to ease the coming and going of imported goods in Hainan. At the same time, the port will take advantage of negative lists on cross-border services so that foreign service providers are treated the same as their local counterparts. Ultimately, the port will aim to encourage free trade and cross-border services as far as the laws and regulations will allow. In terms of attracting foreign investments, market access will be loosened for foreign businesses and investments by simplifying approval procedures and decreasing operational costs.

To apply globally-competitive taxation policies.

Establishing a high-quality taxation system that is compatible with the port will attract foreign trade and investment, and above all, is essential in order to enhance Hainan's international competitiveness. On one hand, the zero-tariff policy and optimisation of corporate and individual income taxation will be gradually implemented, with the goal of creating a preferable business

environment. On the other hand, in alignment with China's taxation reform, it is necessary to explore simplifying the taxation system, strengthening tax collection and management, and reinforcing tax evasion detection to prevent Hainan from becoming a haven for tax evasion.

To pave the way for cross-border capital flow.

Cross-border capital flow is an important indicator for international free trade ports, and a critical prerequisite for facilitating trade and investment. Based on existing local and foreign currency accounts and free trade accounts, a multifunctional free trade account system will serve as a platform for financial opening-up, which is essential for the development of trade and real economy. Related policies should consider how to better assist cross-border investment and financing. In addition, the opening-up of financial products should be paced to avoid causing instability in the domestic financial market.

To implement transportation policy that is highly open and enabling.

A high-standard free trade port must be facilitated with transportation policies that are highly open and efficient. As Yangpu becomes a port of registry, it is an opportunity to further develop Yangpu Port and construct the new western land-sea corridor as an international shipping hub. Relaxed airspace and airway control, as well as traffic rights, are needed to stimulate domestic and foreign airlines' operation into Hainan. Meanwhile, transportation and customs capacity and movement between Hainan and the rest of China should also be strengthened and improved through the use of digitalised and smart equipment.

To underscore tourism, modern services and high-tech industries.

Taking into account its own features and the resources available, Hainan will include international capabilities, leading technology and innovative ideas that will aim to improve its industry competitiveness. An international tourism and shopping destination will be better able to integrate culture, sports, health care and eldercare in terms of development in the tourism sector. As for modern services, innovation factors will be collected and the role of international shipping hub will be consolidated to form a maritime service system with a global competitive advantage. As for high-tech industry, the emphasis ought to be on the Internet of Things, artificial intelligence, block chain, digital trade, deep sea and space industries, and advanced manufacturing.

To prioritise the safe and sound flow of data in the overall institutional design.

Proposals to improve infrastructure, communications market access and cross-border data services are suggested in Hainan to encourage the collation and cross-border movement of data. Next, communication resources and businesses will be further opened-up to accelerate the development of a digital economy, while data flow and information security will both be safeguarded by institutional innovation.

To improve regulation and government service to achieve sustainable development.

Comprehensive regulatory measures and service systems will ensure that preferential policies can be applied to companies that choose to settle in Hainan as well as protecting their interests and legal rights while facilitating trade and investment. In the meantime, the establishment of a legal system will create a sound environment, based on the law of Hainan Free Trade Port as well as local legislation and commercial dispute settlement mechanism.

Based in Shenzhen, Guangdong Province, China Development Institute (CDI) is a non-governmental and market-oriented think tank which was founded in 1989 on approval from the Chinese State Council. CDI was designated as one of the 25 China Top Think Tanks in 2015.

CDI develops solutions to public policy challenges through broad-scope and in-depth research to help advance China's reform and opening-up. CDI is committed to providing proactive, innovative and practical research and consultation for China's central and local governments and businesses at home and abroad. Its research and consultation is centered on macro strategy, regional economy, urbanization, industrial development, business strategy and decision-making.

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NEWSLETTER

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CDI representative speaks at webinar of BRICS collaborating more effectively against COVID-19

Dr. Liu Muyun, CDI Guest Research Fellow and Director of the National and Local Joint Engineering Laboratory of Personalized Cellular Therapy, participated in the virtual session of BRICS collaborating more effectively against the global pandemic as a panelist.

Dr. Liu Muyun shared Chinese experience in containing COVID-19 and its impact on Chinese individuals and businesses, and then she pointed out that the new normal of post-COVID-19 would be like strengthening regulation on cross-border flows of people and goods, creating supply chain resilience, building remote business models and supporting healthcare IT infrastructure.

The panelists, healthcare sector business leaders from the BRICS countries, agreed that BRICS should collaborate more effectively by sharing COVID-19-related information and knowledge, making special allocations for medical supplies and pharmaceutical products, and mobilizing funds to cope with the global pandemic.

Insights >

"Probable information" and "regretless action"

How can we cope with uncertainty during the initiate stage of pandemic? We should release "probable information" and take "regretless actions" instead of missing the window of opportunity, which is what we learn in the COVID-19 pandemic from the perspective of economics.

Big change and China's economy

At "Global Venture Capital Conference 2020" held in Qingdao on 9th May, Prof. Fan commented on the big change and China's economic future.

CDI Macro Outlook >

Moving toward pre-pandemic levels

The National Committee of the Chinese People's Political Consultative Conference (CPPCC) convened the annual two sessions on May 21st. Although for the first time the government did not set a clear annual growth target, we expect the implicit growth target is 1.8% for now, given the projected deficit and inflation numbers.

The economy is quickly recovering, as the pandemic has come under control. In April, industrial output growth turned positive, and was up 3.9% y/y, and up 5 pps from March, down only 2 pps from the pre-pandemic level, in Q4 2019. Investment was up 0.8% y/y, and up 10.3 pps from March, mostly driven by expansionary state investment.

Consumption decreased less. Retail sales of consumption goods fell 7.5% y/y, up 8.3 pps from March. Exports were 4% y/y, comparable to the pre-pandemic level. Imports fell 6.1% y/y after seasonal adjustment, down 5.4 pps from Q1. Decreased imports are in line with overall weak domestic demand.

CPI was up 3.3% y/y after seasonal adjustment, down 1 pps from March. We expect CPI to fall further this year, led by large declines in food-related categories.

Monetary policy shows strong support for the economy. M2 was up 11.1% y/y, and M1 increased 5.5% y/y, up 1 and 0.5 pps from March. RMB loans from financial institutions were up 13.1% y/y, up 0.4 pps from the end of March.

China's housing prices rose at a slightly faster pace in April. According to the National Bureau of Statistics (NBS), average new home prices in 70 major cities rose 0.5% in April from March, a pace not seen since October 2019, and following a 0.1% increase in March. The strong housing market lends support to macroeconomic and financial stability; for example, around 50% of loans in China are directly or indirectly linked to the real estate market. Strong housing investment also shows investor confidence amid domestic pandemic and global economic uncertainties, a key factor furthering the overall recovery.

Insights >

"Probable information" and "Regretless action"

The toughest economic issue derived from the COVID-19 pandemic is "uncertainty", which refers to not knowing the trend of something due to either the lack of existing knowledge or the insufficiency or inaccuracy of available information.

The first uncertainty about COVID-19, a virus that has never appeared before, is that people knew nothing about it when it was first discovered. Once cases emerge, the medical institutions and local governments should promptly report to experts of statutory authorities for scientific analysis. A public health disease cannot be defined without rigorous scientific research. It is fair to say that we would all be in a period of "uncertain information" before basic issues are clarified.

Another question pertains to how information should be released. How can you explain things you don't yet understand to the public? How should governments, at both central and local levels, make decisions during what seems to be a "protracted" period of uncertainty before the release of exact information by national authorities? How should they explain to the public after decisions are made? What information can and should be released to the public when no exact information is available?

In this period of uncertainty, should we do nothing and helplessly watch the precious window of opportunity to slip away? When we take no actions because of our ignorance about the disease, it will continue to spread. As a result, we will lose the best chance to contain it.

This is the dilemma we may fall into. We need to find a better way to deal with this "protracted" period of uncertainty, that is, seeking truth from facts, acknowledging uncertainties, releasing "probable information" during the period of uncertainty, and timely taking "regretless" and preventive actions on a limited scale according to this information.

"Probable information" refers to incomplete or uncertain information. Instead of offering no information at all, it includes speculations and judgment on the basis of a limited amount of facts. "Regretless action" involves relatively low cost and rather slight negative effect. If the early judgment is later found to be misguided, it would be rather easy to correct. The most important value should be interpreted "in reverse": if actions are not taken now, not even actions with little disturbance, then we would regret it even more in future for wasting the window of opportunity for pandemic prevention.

For example, first of all, the protection of medical personnel in a region (or city) can be strengthened. This measure comes at a rather low cost and helps to ensure the health of medical staff. Even if the "pandemic" turns out to be nothing, we will not regret taking such an action. Next, suggestions can be made to residents in the pandemic-hit city to wear masks. This measure will come at a cost, including the cost of materials for making masks and the discomfort of wearing them, but the cost is relatively low. Then it is also possible to strengthen sanitation efforts in public places and restrict and reduce big gatherings. These are all preventive measures with low cost. Moreover, as the situation becomes clearer, the local government may even impose stricter restrictions on residential areas and commercial districts. The cost of this local preventive measure is still relatively low from a national perspective, while its benefit is to timely contain the pandemic within a local range and prevent it from escalating to a public health crisis. If the measure is later shown to be over-reacting, it can be corrected without too much difficulty. All of them are early preventive measures that can be introduced at a local scale before definite information is available.

The following conclusions can be made based on the above analysis:

Decision-making regarding major preventive measures, like lockdowns, must be based on definite information. This kind of definite information, provided by statutory authorities on the basis of scientific research, will inform decision-making of the central government. China's existing laws and regulations have clear and unalterable stipulations about it.

The period starting from the appearance of the first case to the announcement of definite information by the statutory authority is a "period of uncertain information", during which the primary task of medical institutions and local governments is to provide accurate information to authoritative departments in a timely manner. This is also clearly stipulated in China's current laws and regulations, and needs to be effectively implemented.

Meanwhile, the following provisions should be included in national regulations on the management of major public health incidents: local pandemic prevention agencies and local governments during the period of uncertain information should be allowed to issue "probable information" and take "regretless" actions in a prudent manner as early preventive measures. If the information is far from being certain, the local government can take moderate "regretless actions", while stronger preventive measures may be taken by authoritative agencies at higher levels only when the information reaches a higher degree of certainty and when the pandemic is proved to be severe.

What needs to be made clear is that information release and preventive measures are complementary to each other. If local governments take "regretless" actions early on, they must be allowed to issue the information - the "probable information". Otherwise they cannot explain to the public why these preventive measures are necessary. What's more, it is also important to explicitly tell local residents about the uncertain nature of the "probable information" when it is released, and that the final decisions will be made by more authoritative agencies.

The authority of local health and pandemic prevention agencies and local governments to take actions should also be clarified through laws and regulations, with detailed implementation processes, decision-making procedures and action guidance. It can also be categorized into several levels of response, which should follow stipulated procedures.

To discuss these issues now is, of course, to mend the fold after a sheep is lost, but can help us do better when facing similar situations next time, though we do hope that there will not be a next time.

Fan Gang, President of China Development Institute

Big change and China's economy

Uncertainties continue to increase as the pandemic swept the world. The undetermined probability made it extremely difficult to conduct risk assessment, economic analysis or judgement. Hence, caution should be exercised in any analytical effort towards economic trends. Countries ought to apply bottom-line thinking and pay close attention to how the pandemic progresses.

With the tendency to becoming a norm, the pandemic's side effects include interruption of supply chain and the resulting food crisis. Agricultural production reduced dramatically as they could not be transported to the destination country. On the other hand, quarantine dictates that labor-intensive industries, including food processing factory, halts operation. Subsequently, global food supply is greatly affected.

China's economy is also facing a lot of uncertainties, especially in terms of international politics, e.g. decoupling and desinicization. Trump administration has been pressing on Sino-US trade issues, undermining the development of Chinese companies.

Although it could be positive while quarantine ends and the market, revives, China's economic growth would barely reach last year's figure. Currently manufacture industry and infrastructure are seeing a relatively fast recovery, with service sector lagged behind. However, be that as it may, the bounce back would not be able to make up for first half's loss.

In a time that huge changes to global economy structure are taking place, new business adventures are in order. Industries such as IT, AI, biotech,