Economic resilience will stoke export growth

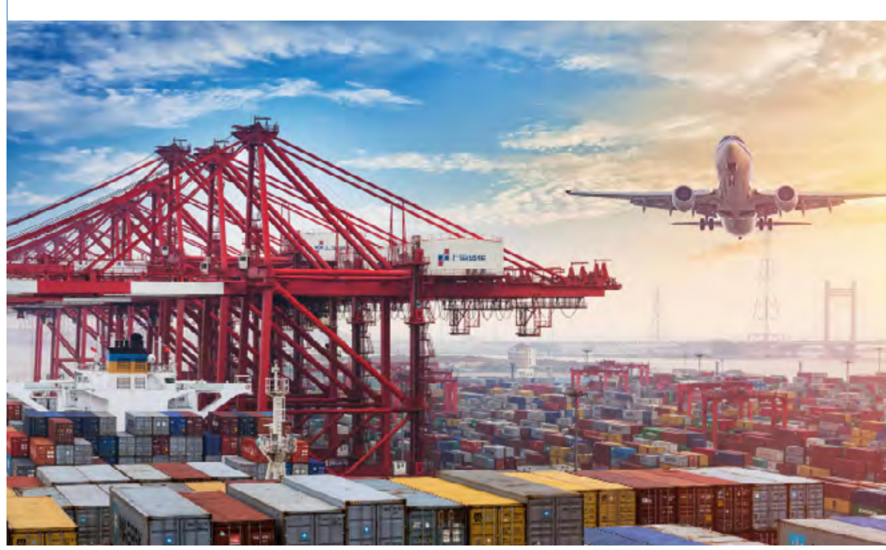
Producer prices increased fast between June 2020 and January 2021, and finally turned positive. The ex-factory price index of industrial goods rose 1% m/m, and 0.3% y/y. PPI rose 1.4% m/m, and 0.9% y/y. We expect the ex-factory price index to soon rise higher than 5% y/y, and PPI will rise higher than 8% y/y.

CPI fell -0.3% y/y. However, its seasonally adjusted growth rate was 0.3% m/m. The rise of the CPI level is mainly driven by the strong rebound of meat prices. The rebound is temporary, and linked to the Spring Festival effect. We expect the meat price will continuously drop for the next few months, and for CPI growth to slow as well.

Monetary and financial indicators cooled further. In January, M2 rose 9.4% y/y, down 0.7 pps from December. M1 rose 14.7% y/y, and 10% y/y after taking out the Spring Festival effect. RMB loans from financial institutions rose 12.7% y/y, down 0.1 pps from December. Savings deposits from non-financial institutions rose 15.8% y/y and deposits' adjusted growth rate was lower than 12% y/y. Because the broad money supply was not affected by the Spring Festival effect, their growth rate declines show that the overall money and financial situation continue their declining trend.

PMI fell. In January 2021, PMI was 51.3%, down 0.6 pps from December 2020. The non-manufacturing business activity index was 52.4% y/y, down 3.3 pps from December. The two indexes show that expansion trends for both manufacturing and non-manufacturing industries have slowed.

Chinese exports have been strong since 2020. For example, China overtook the United States as Europe's top trade partner in 2020. Even though pandemic-related goods comprise a sizable share, other categories' exports are also rising. Strong export growth, with production interruption in the rest of the world because of the pandemic, shows China's economic resilience. The resumption of overseas production, if the pandemic is under control, will lift Chinese exports of capital and intermediate goods. Moreover, the import demand from the United States had been strong since 2020, and will likely be large, given the incoming stimulus. In sum, robust export performance will persist, and we expect export growth in the first half of 2021 to be 16%.



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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CDI
China Development Institute
NEWSLETTER
2021 volume 1

Consulate General of India delegation visits CDI

On March 2, the Consulate General of India delegation, led by Mr. Sujit Ghosh, Consul General of India, Guangzhou, visited the CDI. Executive Vice President Dr. Guo Wanda briefly reviewed Guangdong and Shenzhen's 2020 economic growth data, and provided insights on the further development of the Guangdong-Hong Kong-Macau Greater Bay Area (GBA). In addition, both parties exchanged views on the 2021 global economic outlook and China's "dual circulation" economic model.

CDI Expert interviewed by The Banker

On March 9, 2021, The Banker magazine, part of the Financial Times Group, interviewed Dr. Yu Lingqu on issues surrounding shadow banking in China. As Dr. Yu pointed out, with closer supervision and tighter regulation, the scale of shadow banking in China has rapidly decreased, from 100 trillion yuan in 2017 to 85 trillion yuan in 2019. Although a small rebound (less than one trillion yuan in scale) was seen in 2020 due to stimulation of the real economy in response to the pandemic, the overall trend remains centred on further regulating the financial market, compressing the scale of shadow banking, and controlling financial risks.

Insights >

Accelerate the regulatory and systematic development within Guangdong-Hong Kong- Macao Greater Bay Area

- In light of the two years anniversary of the announcement of the Outline Development Plan for the Guangdong-Hong Kong-Macao Greater Bay Area

February 18, 2021 marks the two-year anniversary of the announcement of the Outline Development Plan for the Guangdong-Hong Kong-Macao Greater Bay Area. The Guangdong-Hong Kong-Macao Greater Bay Area (GBA) cities have been exploring inter-city comprehensive regulatory and systematic development within the framework of the existing legal system. While fruitful progress has been made, at the same time there is room for optimization of economics.

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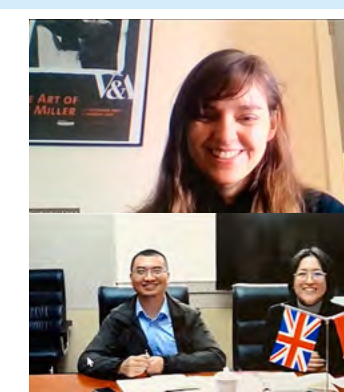

Top-level design: build an innovative policy system under the "one country two systems" principle

Key projects such as Qianhai (of Shenzhen city), Nansha (of Guangzhou city), and Hengqing (of Zhuhai city) have made significant progress towards GBA cooperation. However, some aspects require improvement, namely the extent of inter-city cooperation, policy making and GBA's systematic development. A comprehensive policy system that addresses and legally facilitates regulatory and systematic integration, the exchange of resources, and the integration of livelihoods should be built to deepen GBA cooperation under the "one country two systems" principle. The varying features and development strengths of the different GBA projects should also be considered. For instance, in the Luohu Pilot Area, Shenzhen, integration of livelihoods can be enhanced via the exploration and implementation of citizen treatment policy for Hong Kong and Macao residents.

Making Breakthroughs: Promoting the establishment of a well-connected civil and commercial judicial system in the Greater Bay Area

Over the past 40 years of reform and opening-up, and especially since the return of Hong Kong and Macao, the judicial assistance system in civil and commercial matters across Hong Kong, Macao and the Chinese mainland has been gradually improved, however, with a number of outstanding issues, such as time-consuming and difficulty with coordination and implementation.

The effective economic operation of the GBA depends on the creation of an efficient and comprehensive civil and commercial dispute resolution mechanism across the region. With the GBA's growing market interconnectedness, the number of cross-regional legal disputes will also inevitably grow. Promoting the establishment of a well-connected civil and commercial judicial assistance system across the area is thus critical for the development of the GBA. This will also be a cost-effective approach towards regulatory and systematic development without unifying superordinate laws or national rules. By deepening mutual legal assistance and law enforcement cooperation, the judgments in civil and commercial matters between the different legal systems in Guangdong, Hong Kong and

Macao can be better coordinated, communicated and circulated. This will provide a good judicial environment for the efficient economic operation of the GBA.

Under the principle of "one country, two systems", the GBA should strengthen the mechanism and arrangement of civil and commercial judicial assistance, facilitate the mutual recognition and enforcement of arbitration awards, and establish a convenient enforcement procedure for arbitration awards as well as civil and commercial judgments. These works should be conducted on the basis of seeking common ground while shelving differences within GBA cities, tackling easier issues first and focusing on key issues, so as to promote the establishment of a closer and more integrated civil and commercial judicial assistance system.

Starting point: Give full play to the comprehensive pilot reform authorization in Shenzhen

This reform is characterised by its openness, flexibility and adaptability. The first issue of forty authorized matters and the Implementation Plan (2020-2025) for Comprehensive Pilot Reform in Shenzhen to Build the City into a Pilot Demonstration Zone for Socialism with Chinese Characteristics have been issued. The authorized list delegated greater legislative power to the Shenzhen special economic zone and granted Shenzhen the right to take precedence in the fields of artificial intelligence, self-driving cars, unmanned aircraft, big data, biomedicine, medical health, information services, personal bankruptcy act. Some of these areas are industries closely related to those that Hong Kong has an advantage in (e.g., unmanned aircraft).

Furthermore, the authorized list leaves us with the question of whether the legislative power of Shenzhen special economic zone could be used to better connect Shenzhen and Hong Kong with the development of specific industries while breaking through the regulatory barriers in the construction of the Shenzhen-Hong Kong cooperation parks. It is suggested that the comprehensive authorized pilot reform in Shenzhen could become a critical starting point to promote the comprehensive connection between Shenzhen and Hong Kong regulations. Shenzhen's experience can be taken as an example to be replicated and promoted. In the future, the existing policy practices and convergence regulations shall be summarized and upgraded into legislation, increasing the effectiveness while balancing the flexibility of the comprehensive authorization with the stability of local legislation.

Man Nga Ching, Vice Director, Department of Hong Kong, Macao and Regional Development