



China Economic Monitor

Q1 2020

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Executive summary

China's economy and society have been significantly impacted by the outbreak of 2019 Novel Coronavirus Infected Pneumonia (COVID-19) since early 2020. Although the macro-economy of China barely slowed down during the SARS outbreak (in fact, annual GDP growth in 2003 was even higher than in 2002), the story is totally different now.

First, consumption and services, with a larger share in the national economy than before, are among the worst-hit sectors and need more time to recover. Second, at the time of the SARS outbreak, the economy of China — as a new member of the WTO — was still in its upturn with strong growth in investment and export. Today, however, the ongoing economic transformation and upgrade are generating heavy downward pressure on China's economy, and despite the "phase one" trade deal between China and the US, there are a lot of uncertainties amid a complex and volatile external environment. Third, the timing and patterns of transmission in the COVID-19 outbreak make it more difficult to contain than SARS. The Spring Festival rush, the world's largest annual human migration, accelerated the transmission of COVID-19. Last but not least, the long incubation period of COVID-19 further complicates the diagnostic process. In order to eliminate the secondary transmission of the epidemic, local governments are imposing restrictions on people and transport, thus setting a higher bar for recovery of work/production.

To summarise, the current epidemic is expected to have a far greater impact on the macro-economy in the short run than that of SARS, resulting in significantly lower growth rate in Q1. The growth rate in Q2 may pick up if the epidemic is effectively contained by the end of February. We expect annual GDP growth at 5.6% for 2020.

Under this context, the Chinese central government is swiftly taking strong financial and fiscal actions to minimise the short-term impacts of the epidemic on the economy, especially people's livelihood and small and medium enterprises (SMEs). Various policies have been introduced to help SMEs stave off capital chain ruptures or business closures. Local governments are also looking for ways, based on local realities, to encourage recovery of work/production at the earliest possible timeframe without further spreading of the epidemic.

As China heads towards the last year of the 13th Five-Year Plan and strives to achieve a moderately prosperous society in all respects, "keeping moderate economic growth" remains a top priority in policy-making. Recently, the Central Government has repeatedly demanded governments of all levels "make best efforts in realising the annual eco-social development goals" while "relentlessly fighting the epidemic". Apart from the epidemic-fighting efforts, we expect strengthened macroeconomic adjustments by the government to boost domestic demand and stabilise foreign demand, in order to secure a reasonable growth rate and realise the defined eco-social development goals set for 2020.

Generally, the impacts of natural disasters on the macro-economy are temporary, resulting in a V-shaped pattern of economic development. While economic growth could suffer a sharp decline as a consequence of the disaster and negative market sentiment, its rebound could also be quick and strong as the disaster is brought under control and market sentiment swings back to positive, which in turn would release temporarily suppressed demand. The economic growth outlook for China in the long run is not likely to be affected by a single epidemic.

Although the novel coronavirus epidemic has hit China's economy hard, it also creates opportunities for new business models, or may even give rise to new forms of business. For example, the "stay-home economy" — represented by telework, remote healthcare, online education, e-commerce, unmanned distribution and online games — has become a key source of economic growth during the epidemic. Notably, impressive successes have been achieved with epidemic diagnosis and treatment powered by digital technologies such as big data and artificial intelligence (AI), for instance, analysis of potentially infected population and forecasts of epidemic development. Joint research by KPMG and AliResearch shows that China is a world leader in the digital economy. As technical innovations are the most fundamental driver of economic growth, the "new economy" is set to play an increasingly important role in the future development of China.

In Q4 2019, China's economic growth showed signs of stabilisation. Real GDP grew by 6.0% year-on-year, which was at a similar level as Q3. Although the annual growth rate of real GDP at 6.1% was the lowest since 1991, it still met the predefined goal of the Chinese government (6% –6.5%). Meanwhile, China's per capita GDP crossed the USD10,000 mark for the first time in 2019. Among more than 190 economies around the world, only 10 have a population of over 50 million and a GDP per capita of more than USD 10,000.

Domestically, consumption remained the most important economic engine in 2019, contributing to 57.8% of total GDP. The contribution of Gross Capital Formation (GCF) to GDP was 31.2%, slightly lower than in 2018. The contribution of net exports to GDP growth turned positive, rising sharply to 11.0% from -8.6% in 2018.

Dragged down by a drop in automobile purchases, China's total retail sales in 2019 grew by 8% year-on-year, mildly lower than in 2018. E-commerce continued to increase rapidly; in 2019, the total e-commerce retail sales reached RMB1 trillion, up 16.5% year-on-year. Data on industrial production was strong. In 2019, the value added of industrial enterprises grew by 5.7% year-on-year. Although it was 0.5% lower than the growth rate in 2018, the performance in December was a bright spot, when the value added of industrial enterprises above designated size increased by 6.9% year-on-year — continuing the upward trend to set a nine-month high. The year-on-year growth rate of fixed investment was 5.4% in 2019, 0.5% lower than the previous year. The rebound in manufacturing investment led to higher gross investment in December, yet real estate and infrastructure investments remain subdued.

US-China trade friction has eased. The US promised to suspend tariffs on Chinese goods that were scheduled on 15 October and 15 December 2019, as well as cut by half to 7.5% those imposed on 1 September 2019 on USD120 billion worth of Chinese goods. However, US tariffs of 25% on USD250 billion worth of Chinese goods put in place earlier would remain unchanged. China has agreed to increase purchases of US goods and services by at least USD200 billion during 2020-21 compared to the imports volume of 2017. China and the US also discussed/agreed on the terms for intellectual property protection, technology transfers, agriculture, access to China's financial market and currency. Besides that, both parties agreed to hold meetings on a regular basis and build working procedures of the bilateral evaluation and dispute resolution arrangement. Although the implementation and impact of the deal remain to be seen, it helped

reduce uncertainties and ease the escalating US-China trade friction.

Special Study: China's Social Credit System construction and implications

Despite China's great achievements in economic development since the reform and opening up, poor credit and lack of integrity undermine social-economic operations and may jeopardise the efforts to build a favourable and fair market environment.

In recent years, the Chinese government has been focused on the construction of its Social Credit System, a national reputation system being developed by the Chinese government, which is intended to standardise the assessment of citizens' and businesses' economic and social reputation, or credit. This was evidenced by a broad range of legislation and industry standards. To date, two-thirds of all provinces, regions and municipalities have issued or will issue local regulations on social credit, and social credit-related content has been included in 26 laws and 28 administrative regulations. Since August 2019, the government has been soliciting holistic consultation for the department draft of the Social Credit Law of the People's Republic of China. The substantive progress in social credit legislation at the central and local levels has provided a solid foundation for future credit-based supervision.

In 2014, the State Council issued the *Planning Outline For The Construction Of Social Credit System (2014–2020)* to develop a blueprint for the world's largest social credit system covering almost all individuals and business in China. These outlines were focused on four areas: government administration, commercial business, social and judicial. The outlines also explicitly identified the goals of China's Social Credit System construction: by 2020, there would be a complete system of basic laws, regulations and standards on social credit; a nation-wide credit reporting system based on information sharing; a solid and sound credit-based supervision mechanism; a robust credit service market system; and a fully functional incentive and punishment mechanism. Among these, an *Internet + Supervision System* and a *"Joint Incentive/Punishment and Credit Repair Mechanism"* are of particular relevance.

- *Internet + Supervision System*: The system, which has been largely completed, is designed to enable interconnections between a central database and local credit information platforms, industry credit information systems, and business credit service agencies. The government is leveraging all credit information system platforms to innovate on the credit-based supervision mechanism, which is aimed at strengthening the sense of responsibility and self-discipline of companies. At the same time, the credit behaviour of market entities will be recorded by credit information platforms for inter-department sharing and public disclosure, under the framework of local/department/industry supervision systems. In addition, cutting-edge technologies, such as big data analytics and algorithms, have been deployed by the government to facilitate the implementation of innovative credit-based supervision mechanisms in the market economy.
- *Joint Incentives/Punishment and Credit Repair Mechanism*: As of August 2019, government institutions have signed 51 memorandums on joint incentives/punishment — five on joint incentive, 43 on joint punishment and three on joint incentive/punishment. Red and black credit lists will be developed in line with uniform standards, and these lists would have direct consequences on the entity involved. In addition, the National Development and Reform Commission is leading the mechanism of a normalised credit repair system to support companies in remediation efforts, aimed at building a contractual society.

The establishment of the Social Credit System is bound to bring massive changes to government supervision and business operations. Its impacts on the market economy and operating environments represent both opportunities and challenges to the risk management of companies.

Under this context, companies should start with a unified, hierarchical and categorised library for laws and regulations on enterprise credit rating supervision, with the owner clearly specified. Together with business functions, the owner will also closely monitor how these rules change and update the library on a regular basis.

Next, companies should further identify the goals of the enterprise Social Credit System, based on a thorough understanding of industry/region-specific laws, regulations, credit rating standards and incentive/punishment mechanisms. Based on the results of gap analysis, companies should make a risk assessment on the current situation, and develop road map of the enterprise Social Credit System in terms of rating criteria, incentive/punishment mechanism, information system, as well as culture and communication.

Companies should continuously monitor their credit rating and relevant factors, including functional structures, mechanisms, processes, systems and people, and set up routine reporting mechanism on operations and significant risks. Companies should build communicating mechanisms with regulator engagement.

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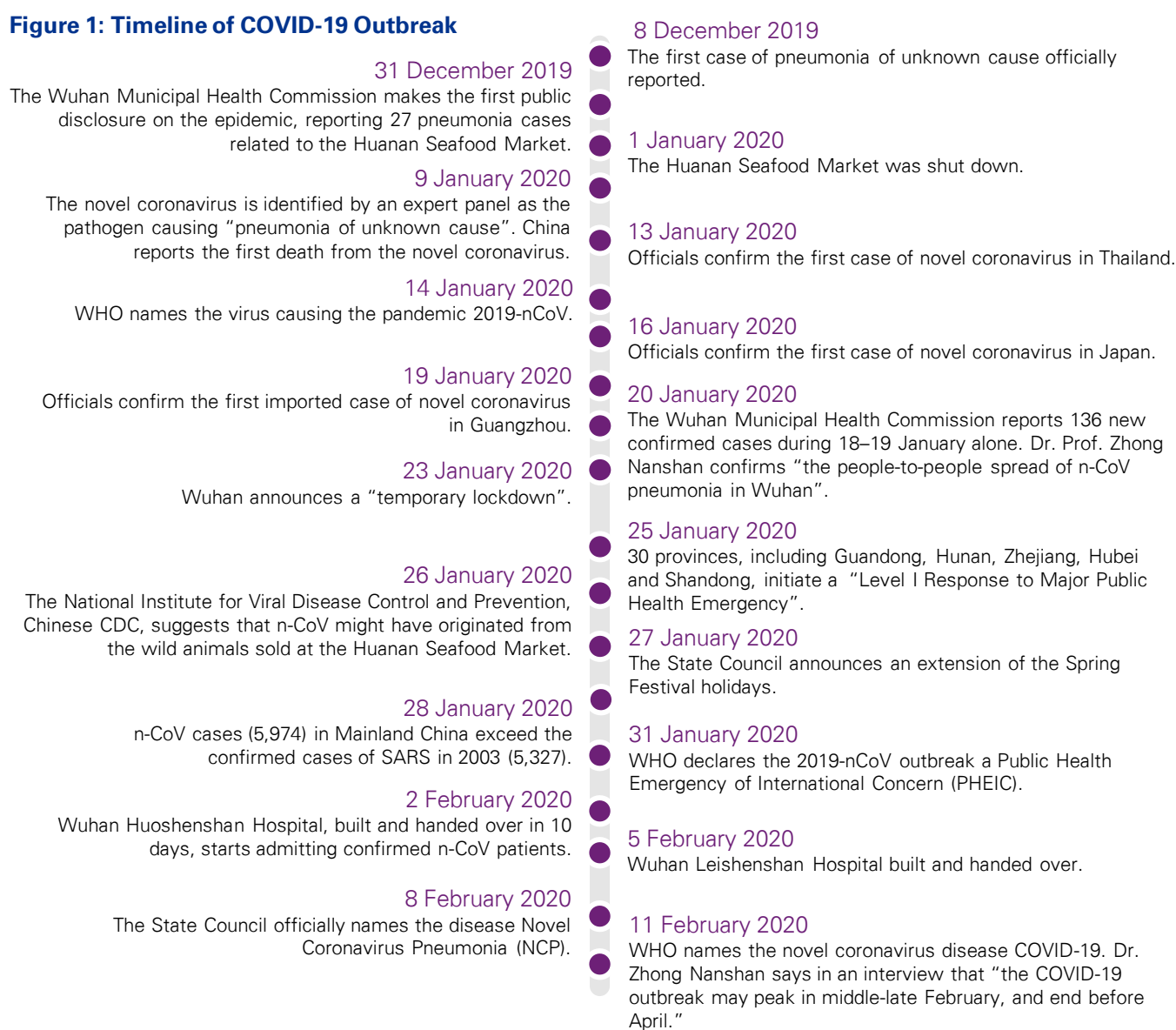
Economic trends



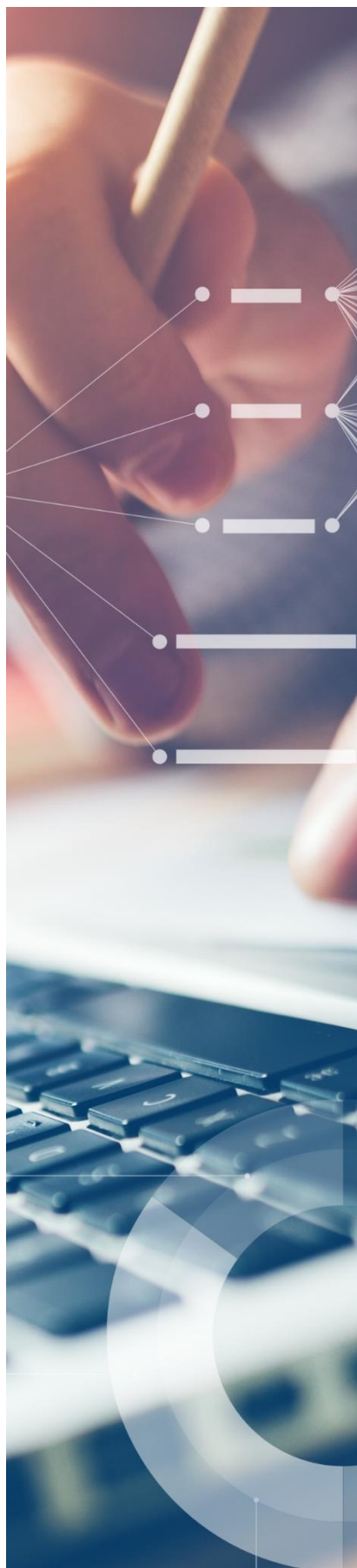
Outbreak of COVID-19 pandemic

In December 2019, Wuhan, China reported a cluster of pneumonia cases of unknown etiology with symptoms including fever, tiredness, dry cough and shortness of breath. Before long, the infectious disease had spread all over China. On 11 February 2020, the World Health Organization (WHO) announced a name for the new coronavirus disease: COVID-19. Like Severe Acute Respiratory Syndrome (SARS) and Middle East Respiratory Syndrome (MERS), COVID-19 is a coronavirus disease. Within three months from the confirmation of the first COVID-19 case, the outbreak had turned into a pandemic. Chinese governments — both central and local — have been committed to combatting the pandemic since the initial outbreak to contain the spread of COVID-19. Measures included lockdowns, stay-at-home policies, extending the Spring Festival holidays, postponing the return to work and imposing traffic controls.

Figure 1: Timeline of COVID-19 Outbreak



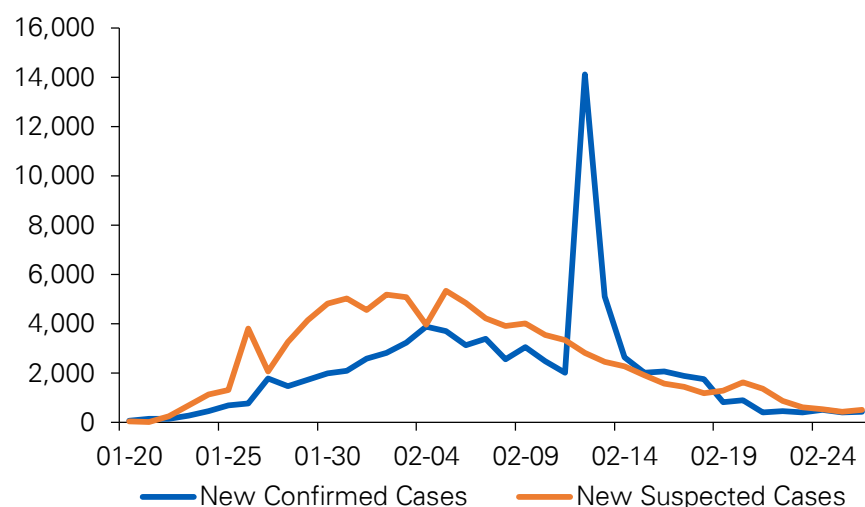
Source: Public information, KPMG analysis



According to data released by the National Health and Medical Commission, after 5 February 2020, the national new coronavirus pneumonia epidemic situation will change positively, and the new epidemic situation will generally show a downward trend. On 12 February, Hubei Province announced the inclusion of the number of clinically diagnosed cases into the number of confirmed cases, bringing the number of newly confirmed cases nationwide to 14,110. The number fell to 440 on 26 February, and the number of new suspected cases dropped to 508.

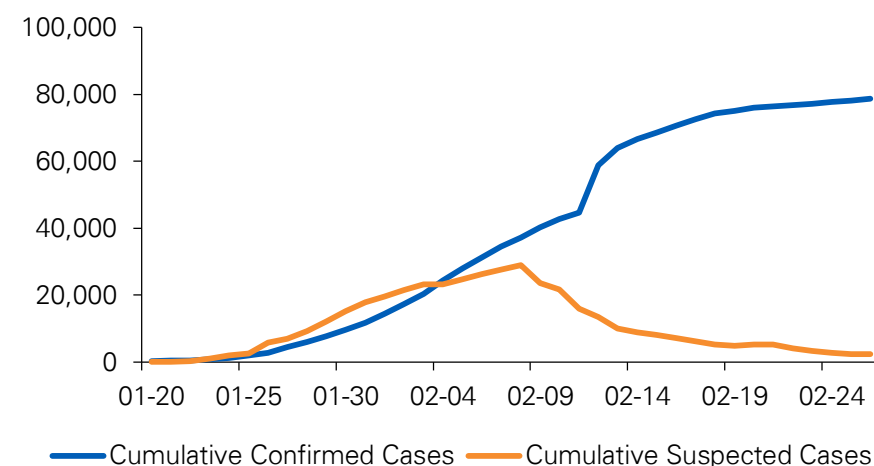
As of midnight on 26 February 2020, there were 78,630 confirmed cases, 2,358 suspected cases, 2,747 deaths and 32,531 recovered patients nationwide. With the new epidemic entering the final phase, the national and Hubei area's mortality rate from the coronavirus epidemic increased. On 26 February, the national rate was 3.49% and Hubei's was 4.03%; the mortality rate of the new coronavirus pneumonia outside Hubei Province rose slightly to 0.81 %.

Figure 2: Daily new cases of COVID-19 in China



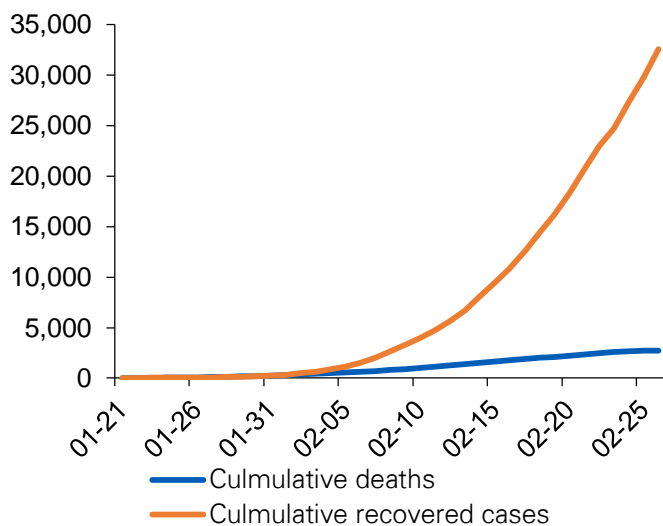
Data Source: Wind, KPMG analysis

Figure 3: Cumulative cases of COVID-19 in China



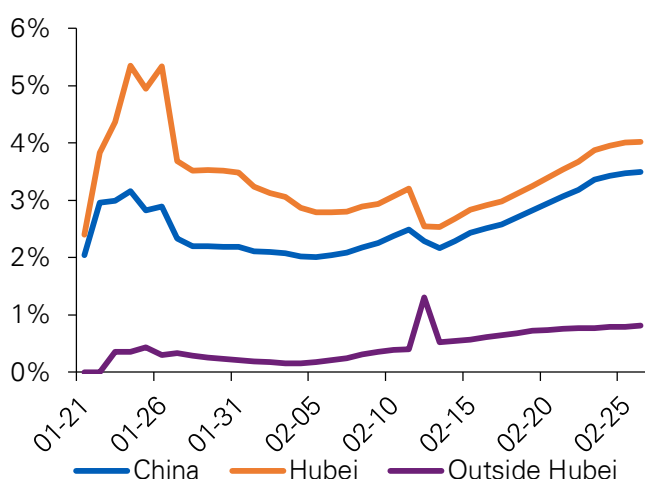
Data Source: Wind, KPMG analysis

Figure 4: Cumulative deaths and recovered cases of COVID-19 in China



Data Source: Wind, KPMG analysis

Figure 5: Fatality rates of COVID-19 in and outside Hubei and in China

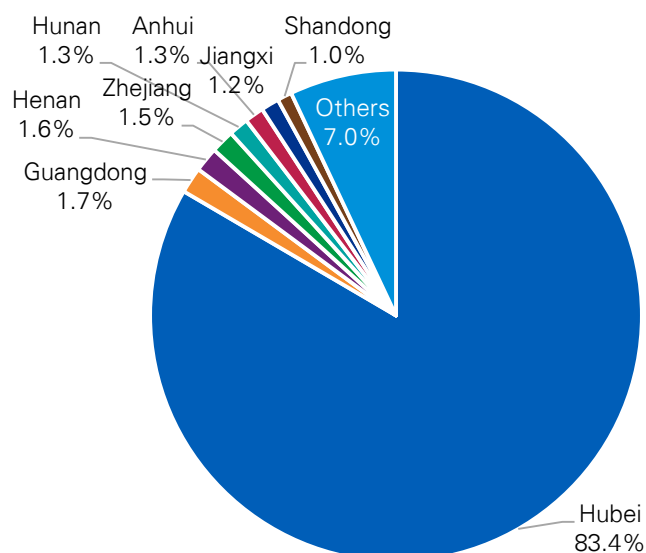


Data Source: Wind, KPMG analysis

From the perspective of the affected area, due to the Spring Festival transportation and the high infectivity of the virus, the new coronavirus epidemic quickly spread from Wuhan to Hubei Province, other provinces and cities, and even abroad. From the domestic perspective, as of 24:00 on 26 February 2020, Hubei Province had the largest number of confirmed cases with 65,596 cases, accounting for 83.4% of all confirmed cases. Among them, Wuhan was the source of the new coronavirus pneumonia outbreak, with over 47,000 confirmed cases. The number of confirmed cases in Guangdong was second, with 1,347 cases, accounting for 1.7%.

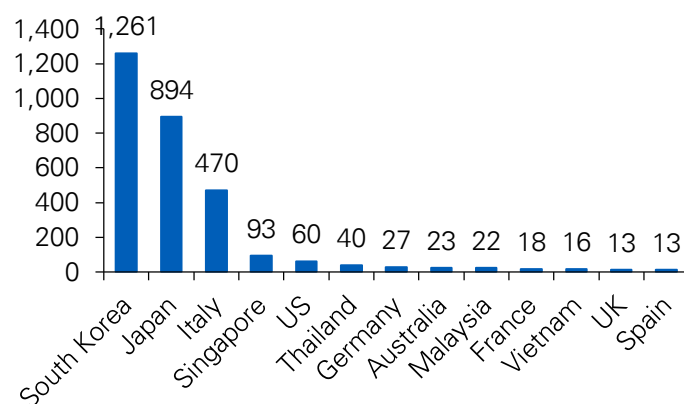
Henan, Zhejiang, Hunan, Anhui and other provinces also had the highest number of confirmed cases of COVID-19, with a total of 133 confirmed cases in Hong Kong, Macao and Taiwan. From a foreign perspective, as of midnight on 26 February 2020, the epidemic had spread to 25 countries outside China, with a total of 2,992 diagnoses, of which South Korea had the largest number of confirmed cases with 1,261; Japan was second with 894 cases; next were Italy, Singapore, the US and Thailand, with 470, 93, 60, and 40 cases, respectively.

Figure 6: Geographic distribution of confirmed cases of COVID-19, % (As of 24:00, 26 February 2020)



Data Source: Wind, KPMG analysis

Figure 7: Confirmed cases of COVID-19 outside China by country (As of 24:00, 26 February 2020)



Data Source: Wind, KPMG analysis

Economic impact of COVID-19 will be far worse than SARS

China has been hit by several pandemics since 2000, including SARS in 2003, H1N1 Type A influenza in 2009 and Avian Influenza A (H7N9) in 2013. All the peaks of these outbreaks occurred in Q2. Of these, SARS dealt the heaviest blow to the macro-economy in the short run, with its widespread, and numerous confirmed cases, and high fatality rate. Therefore, it is used here as a “control group” to COVID-19 in the comparison of the impacts on the macroeconomy.

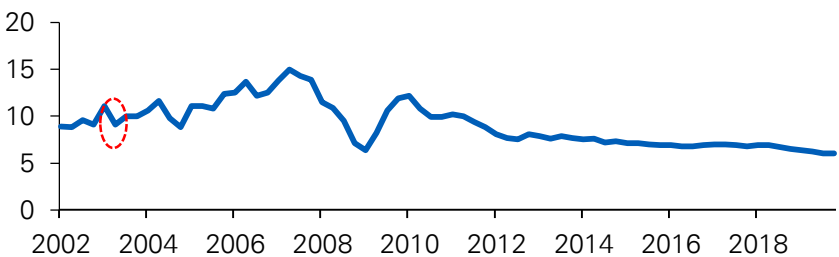
Figure 8: Timeline of the SARS outbreak



Source: Public Information, KPMG analysis

Despite weak growth in Q2 2003 due to the impact of SARS, China’s economy immediately picked up speed at the end of the outbreak. That’s to say, SARS did not change the trend of general economic upswing. In 2013, quarterly YOY GDP growth from Q1 to Q4 was 11.1%, 9.1%, 10% and 10% respectively. As a result of the SARS outbreak, the YOY growth rate of Q2 was 2% lower than that in Q1.

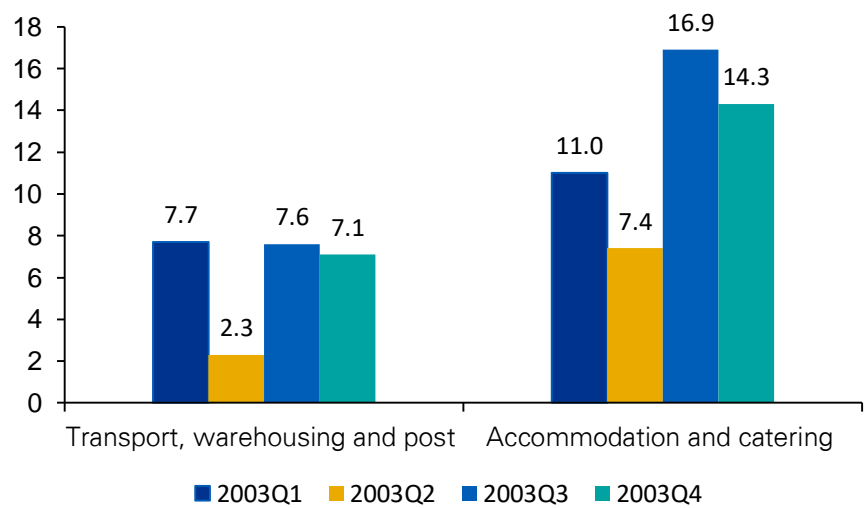
Fig 9: Actual YoY growth of GDP in China, %



Data Source: Wind, KPMG analysis

The tertiary industry (service industry) was the worst affected by the SARS outbreak and took longer to recover. While the secondary industry proved to be remarkably resilient, it took the service industry almost a whole year to regain its momentum. As transport, meetings, business travel and entertainment needs were reduced by the epidemic, service industries — including transport, catering and accommodation, and tourism — were hit hard. However, the impact on consumption demand, though severe, was temporary and recoverable. The nominal YOY growth rate of total retail sales of consumer goods significantly decreased in April and May 2003, falling from 10% in January to 4.3% in May. Nevertheless, the suppressed needs were released at once when the epidemic was successfully contained. In June, the total retail sales of consumer goods got back on the growth path with a V-shaped rebound, resulting in a slightly higher growth rate in Q2 than in Q1.

Figure 10: Quarterly YOY growth of tertiary industry, %



Data Source: Wind, KPMG analysis

During the SARS outbreak, some industrial enterprises in the most-infected areas had to cut or suspend production. Notwithstanding the negative impact, industrial production was less affected than consumption, and recovered quickly after the epidemic. In 2003, industrial added value grew by 17% year-on-year, 4.4% above the 2002 level. Meanwhile, the nominal YOY growth rate of fixed asset investment was 28.4%, representing a 11% increase from 2002. Moreover, as a new member of WTO, China benefited from the global economic rebound in 2003. Total imports and exports were minimally impacted by the SARS epidemic, which posted a nominal YoY growth rate of 37.1%, 15.3% higher than in 2002.

Table 1: YoY growth of macro-economy in 2003, %

	GDP	Retail Sales of Consumer Goods	Fixed Assets Investment	Exports	Imports
2003Q1	11.1	10.7	37.2	33.5	52.2
2003Q2	9.1	11.0	35.1	34.3	38.2
Change	-2.0	0.3	-2.1	0.8	-14.0
2002	9.1	8.8	17.4	22.3	21.3
2003	10.0	9.1	28.4	34.6	39.9
Change	0.9	0.3	11.0	12.3	18.6

Note: Actual YOY growth rate for GDP, nominal for the others
Data Source: Wind, KPMG analysis

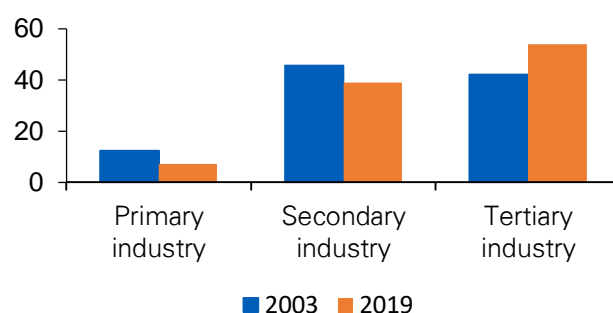
A review of the SARS outbreak in 2003 may help us predict the impact of COVID-19 on the macro-economy. However, it is important to recognise the differences between the two epidemics in terms of timing and transmission, in spite of their similarities. More importantly, China's current macro-economic structure and domestic/global environment have changed significantly. To rely only on SARS experience could lead to serious bias and misjudgement.

Consumption and service industry now account for a larger proportion of China's economy

Compared with 2003, China's economic structure has undergone drastic changes: the proportion of the tertiary industry (service industry) in the economy is far higher and consumption is taking a leading role in driving economic growth. From SARS we can see that these sectors are also the most impacted by an epidemic and need more time to recover. In 2003, the secondary industry accounted for 45.6% of total GDP while the tertiary industry accounted for 42%. Things were totally different by 2019: the tertiary industry was the absolute dominator in China's economy with an overwhelming share of 53.9%, 11.9% higher than in 2003. The same was true for consumption: In 2019, final consumption expenditure's contribution to GDP reached 57.8%, 22.4% higher than in 2003. As many cities extended the Spring Festival holiday and people

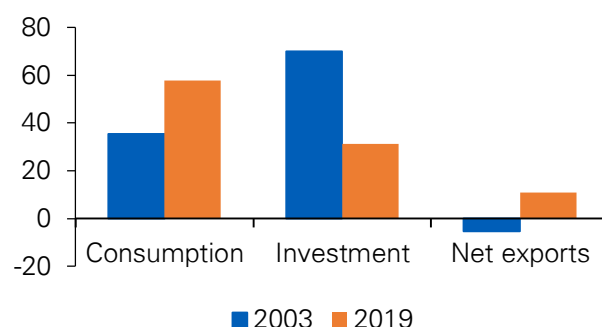
stayed home to prevent infection, the transport, catering and accommodation, tourism, and entertainment industries were hit hard. We expect a considerable slowdown in the service industry and consumption sector in Q1.

Figure 11: Proportion of three industries in GDP, %



Data Source: Wind, KPMG analysis

Figure 12: Contribution of three demands to GDP growth by activity, %



Data Source: Wind, KPMG analysis

For example, Chinese New Year (CNY) is one of the most important seasons for the movie industry. The box office in the 2019 CNY season grossed RMB 5.858 billion over seven days, accounting for about 9% of the year's total. It was estimated that the box office in the 2020 season could reach RMB7 billion; however, seven movie releases were cancelled and major cinemas were temporarily closed during the outbreak. The RMB1.81 million box office on the first day of the Lunar New Year in 2020 was only 1/1000th of that in the previous year (RMB1.458 billion). In the transport sector, passenger volume decreased by 70% during the Spring Festival. According to Ministry of Transportation (MoT) data, there were 190 million trips via railways, highways, waterways and airlines over a 10-day period, dropping 74% from the same period last year².

¹ Winter is Coming: The Movie Industry Faces RMB-7 Billion Loss in the Spring Festival Season, 31 January 2020, <http://news.mydrivers.com/1/669/669544.htm>

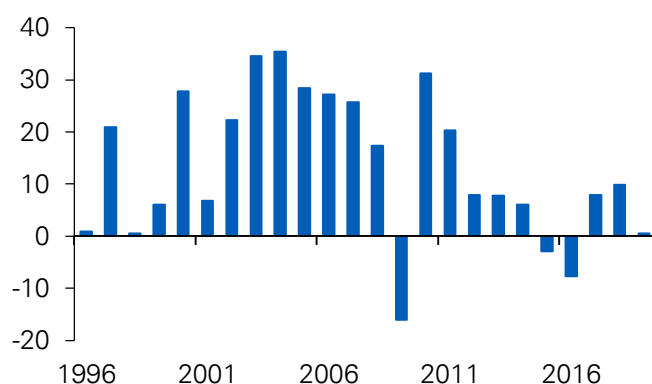
² 190 Million Person-times Dispatched in Spring Festival Rush, Ministry of Transport, 3 February, 2020, http://www.mot.gov.cn/jiaotongyaowen/202002/t20200203_3329011.html

Environments shifted in and outside China

China now faces bigger risks and remarkably higher downward pressure. The strong growth of exports — a bonus of globalisation as a result of China's WTO membership — more than offset the decrease in domestic demand in 2003. The 34.6% growth was the second highest in China's history, practically immune to the SARS impact. Domestically, the booming industrialisation and urbanisation at that time ensured sufficient demographic dividends, a strong self-healing capability and substantial upward dynamics.

In contrast, China is now in the midst of a structural transformation, plagued by diminishing demographic dividends and accelerated population ageing. Worse still, the weak global market and the US-China trade friction further increased external uncertainties. Despite the "phase one" trade deal between China and the US, there are many uncertainties amid a complex and volatile external environment. In 2019, China's exports grew by only 0.5%, suggesting extreme difficulty in boosting economic growth through external demand: the COVID-19 outbreak will definitely increase the downward pressure on China's economy.

Figure 13: YOY Growth of exports in China, %



Data Source: Wind, KPMG analysis

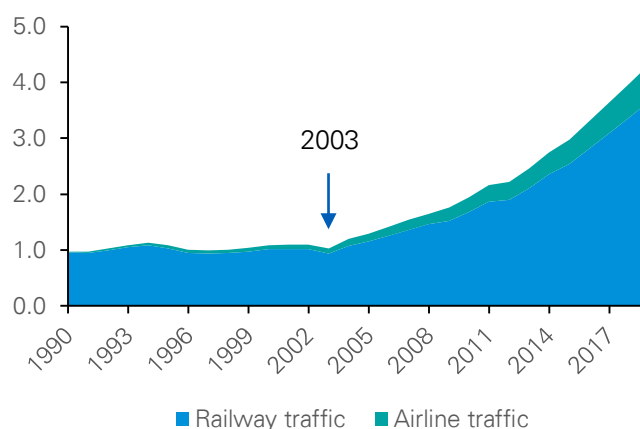
The timing and patterns of transmission make COVID-19 more difficult to contain

From an epidemic perspective, COVID-19 spreads faster and wider, and infects more people than SARS, and thus is more disruptive than SARS. In the SARS outbreak (November 2002 – July 2003), 8,098 people were infected and 774 died around the world.

In Mainland China, there were 5,327 clinically diagnosed cases and 349 deaths. Beijing, Guangdong and Hong Kong were among the most infected areas. The fatality rate of SARS was 9.6%. Although COVID-19 has a lower fatality rate than SARS, it is more contagious. As of 26 February, COVID-19 had spread to 35 provinces, municipalities and special administrative regions in China, as well as 25 other countries.

When the spread of SARS accelerated in April 2003, the Spring Festival was long gone and production had gone back to normal. Unlike SARS, the COVID-19 epidemic broke out during Spring Festival, when "the world's largest annual population migration in human history" takes place. Taking 2019 as an example, about 3 billion trips took place in 40 days during the Spring Festival rush. China's transport capacity has also taken off since 2003. At the end of 2019, 35,000km high-speed railway had been put into operation, compared with zero in 2003. In 2019, railways and airlines handled 4.3 billion trips, more than four times that in 2003.

Figure 14: Passenger traffic of railways and airlines (billion person-times)



Data Source: Wind, KPMG analysis

Convenient transport infrastructure not only makes travelling much easier but also fuels the spread of the virus, making it more difficult to contain. The 2020 Spring Festival rush had already begun when the COVID-19 epidemic became prevalent. According to public sources, 5 million people left Wuhan for their destinations before the holiday, which further complicated prevention and treatment efforts.

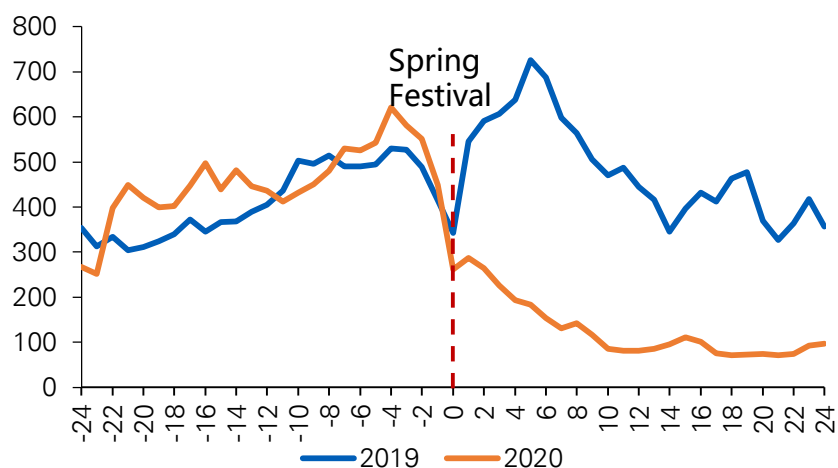
Longer incubation period of COVID-19 virus is delaying returning to work/production

During the 2003 SARS outbreak, Beijing and Guangdong were the most-infected areas, and the impact on the manufacturing industry was limited. However, Hubei — the epicentre of the COVID-19 outbreak — is one of the most important transport hubs and manufacturing sites in central China, with chemical and equipment manufacturing as its key industries. Although the official downtime was 28 days, returning to work/production in Hubei might be further postponed due to enhanced screening and prevention efforts.

Other severely impacted provinces, such as Henan, Guangdong and Zhejiang, are important manufacturing sites, shipping hubs or labour sources in China. As a result of delayed return-to-work, travel restrictions and traffic control, the post-holiday returnees are far fewer than the same period last year. According to the Baidu Migration Index, returning traffic is about 1/4–1/5 of that in 2019. While travel restrictions effectively reduce the risk of secondary infection, they also impede the return to work/production.

Worse still, material shortages, overstocking and high operating costs make it more difficult for enterprises to restore production, and such pressure could be passed to upper- and lower-stream players in the same value chain. As global economies have become increasingly integrated, many industries in China are playing an indispensable role in global industry chains, and the recovery of China's manufacturing capacity will directly influence the global economy.

Figure 15: National migration trend index in Spring Festival rush



Note: X-axis represents days before/after the Spring Festival, and 0 the first day of Lunar New Year.

Data Source: Baidu Huiyan, KPMG analysis

To summarise, we expect far greater impact on the macroeconomy from the epidemic in the short run than that in the time of SARS, and expect a remarkably lower growth rate in Q1. The growth rate in Q2 may pick up if the epidemic is effectively contained by the end of February. We expect annual GDP growth at 5.6% for 2020.

Strengthening regulation through policies to minimise economic Impacts

Generally, the impacts of natural disasters on the macroeconomy are temporary, resulting in a V-shaped pattern of economic development. While economic growth could suffer a sharp decline as a consequence of the disaster and negative market sentiment, the rebound could also be quick and strong as the disaster is brought under control and market sentiments swings positive, which in turn would release the temporarily suppressed demand.

However, the magnitude of the impact of the epidemic in the short run should not be neglected. If not handled properly, it may increase social instability and slow down economic recovery. Recently, a broad range of fiscal, tax and monetary policies have been published by the central and local governments to reduce cost pressure on industries and enterprises during these difficult times. As the epidemic is gradually contained, the governments should continue to strengthen policy support to help the most-impacted enterprises and individuals swiftly get back on track to healthy and sustainable development.

In order to hedge the economic impacts of COVID-19, many ministries and agencies, including MOF, PBOC and CSRC, are responding with prompt actions to enable enterprise to weather the outbreak. These include: differentiated, preferential financial support for the more affected regions, industries and enterprises; lowered lending rates; increased credit loans and mid-/long-term loans; strengthened credit support to key areas, such as manufacturing, SMEs and private enterprises; and more mid-/long-term loans to the manufacturing sector to improve market confidence and keep the market stable.



Table 2: Actions of ministries and commissions to fight against COVID-19 (as of 23 February)

Date	Published by	Action/Policy	Descriptions
23 Feb	MOF	Pre-allocate subsidies for epidemic prevention and control	As of 23 February, RMB99.5 billion in subsidies for epidemic prevention and control has been allocated, of which RMB25.52 billion has been arranged by the central government to ensure funding for epidemic prevention and control.
20 Feb	PBOC	LPR interest rate reduction operation	The one-year LPR was 4.05%, a 10bp decrease from January; the LPR for a five-year period or more was 4.75%, a 5bp decrease from January.
18 Feb	The Standing Committee of the State Council	Reducing or waiving employer obligations on social security contributions for a specified period of time; payment extensions on employer housing provident contributions	In order to ease the burden of enterprises during this difficult time, all Hubei enterprises enrolled in China Social Security Schemes are exempt from making employer contributions to pension, unemployment and work-related injury insurance schemes from February to June. For other provinces and cities, SMEs are exempt from making employer contributions to pension, unemployment and work-related injury insurance schemes from February to June; large enterprises may reduce employer contributions to pension, unemployment and work-related injury insurance schemes by 50% from February to April. Meanwhile, employers can also apply to defer payments to the housing provident fund due before the end of June, and failure to repay housing provident fund loans by employees affected by the epidemic will not be taken as a default.
17 Feb	PBOC	RMB200 billion medium-term lending facility (MLF) at a 10bp lower rate and RMB100 billion seven-day reverse repo	Keeping liquidity in the banking system at a reasonably sufficient level to offset the impact of reverse repos maturing.
11 Feb	STA	<i>The Guide on Tax Preferences During COVID-19 Outbreak</i>	Interpretations of 12 policies on disease control, materials supply, public-welfare donation incentives and support to returning to work/production.
10 Feb	PBOC	Issuing targeted re-lending funds	Loans to Key Enterprises in Epidemic Control (enterprises included in special lists) at prime rates; interest subsidy from the central government to enterprises supported by PBOC's targeted re-lending funds.
7 Feb	MOF, NDRC, MIIT and PBOC, etc.	<i>Emergency Notice On Strengthening Funding Supports To Key Enterprises In Epidemic Control To Win The Battle Against COVID-19</i>	Targeted re-lending funds for epidemic control; financial support to micro-/small-sized and private enterprises and key industries including manufacturing; increasing credit and mid-/long-term loans; reducing overall financing costs; multiple measures to support financial institutions in issuing financial bonds, asset-backed securities and short-term financing bond during the epidemic.
3 Feb	PBOC	Injecting RMB1.2 trillion worth of liquidity via open market reverse repo on 3 February	Keeping liquidity in the banking system at a reasonably sufficient level to meet the financing needs of the market; 10bp lower rates for reverse repo to fund low-cost targeted re-lending.
1 Feb	PBOC, MOF, CBIRC, CSRC and SAFE	<i>Notice On Strengthening Financial Supports for Prevention And Treatment Of Novel Coronavirus Pneumonia</i>	Keeping liquidity in the banking system at a reasonably sufficient level; strengthening support to currency credit; PBOC to further strengthen expectation management and provide sufficient liquidity through various monetary policy facilities, including open market operations, standing loan facility (SLF), re-lending and rediscount; flexibly and appropriately managing supervisory requirements, such as enterprise information disclosure; extending the time limits for required capital market procedures.
29 Jan	Shanghai Headquarters, PBOC	<i>Notice On Strengthening Financial Services And Emergency Supports To COVID-19 Epidemic Control</i>	Strengthening funding support for subordinate financial institutions for epidemic control; targeted financial support to help enterprises, especially small and micro enterprises, suffering from temporary operating difficulties to ease their operating pressure.
27 Jan	MOF, NHC	In 2020, the central government has cumulatively made RMB60.33 billion in arrangements to subsidise basic public healthcare services and local epidemic control.	All new subsidies in 2020 will be allocated to rural areas and urban communities to combat COVID-19 pneumonia. Retainment, misappropriation, diversion or change of purpose of the funds are strictly prohibited.
27 Jan	NDRC	Emergency allocation of RMB300 million in central budget	Targeted allocation for the construction and operation of Huoshenshan and Leishenshan Hospitals for confirmed COVID-19 cases, especially procurement of medical devices, to support "centralised treatment of patients with centralised healthcare resources".
26 Jan	MOHRSS	<i>Notice On Properly Addressing Labour Relations During The Novel Coronavirus Pneumonia Epidemic</i>	Properly addressing labour relations during the epidemic control; protecting the legal rights of employees; ensuring the continuous operation of employers; fostering harmonious and stable labour relations.

It has been suggested that the government should strengthen its support to heavily impacted industries and companies through measures such as reducing taxes and fees, as well as providing financing assurance and subsidies; increasing the deficit spending for 2020 to 3% or above; increasing local government special bond issuances; setting up a special fund for epidemic control; improving the efficiency and effectiveness of fiscal investments; optimising targeted bond investments; sharpening the focus on people's livelihoods; and increasing investments in innovative infrastructure, such as 5G and industrial internet, to boost domestic demand and navigate through economic volatility.

Monetary policy should continue a sound, slightly accommodative stance. In addition, the government should strengthen support to heavily infected regions, healthcare and pharmaceutical industries and most-affected SMEs, through targeted low-rate financing, liquidity management and dynamic updating of the Key Enterprises in Epidemic Control List to prevent ruptures in the capital chain. In the future, we expect that the PBOC will try to reduce financing pressure on manufacturing entities, small and micro enterprises and private enterprises through Loan Prime Rate (LPR) and RRR cuts, so as to bolster employment, as well as to boost real economy investments and consumption.



Impacts of COVID-19 on the global economy

On January 31, 2020 (Beijing Time): The WHO declared COVID-19 a Public Health Emergency of International Concern (PHEIC)⁴, given its rapid spread, and the first confirmed case of human-to-human transmission outside China. Historically, the WHO had declared five PHEICs before COVID-19.

Table 3: Comparison of Six PHEICs

Event	Time declared	Time terminated	Location	WHO restrictions on tourism and trade	Macroeconomic impacts
Influenza A (H1N1)	April 2009	August 2010	Mexico/US	No	Limited influence on exports, but considerable damage to tourism
Wild Poliovirus	May 2014	Ongoing	Afghanistan, Pakistan and Nigeria	No	Temporary impact on the exports of Pakistan; exports growth rate of Afghanistan and Nigeria not affected
Ebola Virus in West Africa	August 2014	March 2016	West Africa	Partial restrictions on tourism and trade of most-infected countries	Impact on the economy and exports of the most-infected countries
Zika Virus	February 2016	November 2016	Brazil	No	Temporary economic recession in Brazil; exports barely affected; slightly higher number of tourists than in 2015 due to the Olympic Games
Ebola Virus in Congo	July 2019	Ongoing	Democratic Republic of the Congo	No	No negative impact
COVID-19	January 2020	Ongoing	China	No	-

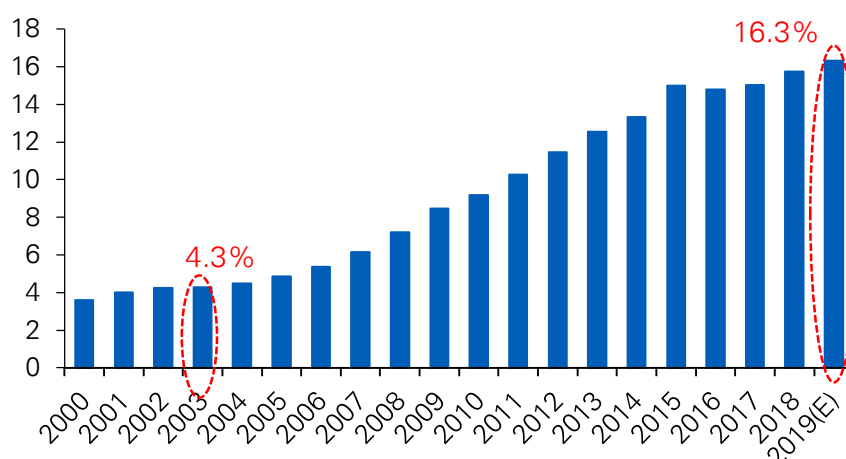
Data Source: WHO, KPMG analysis

Notably, while the WHO declared the COVID-19 outbreak a PHEIC, it also recognised the efforts made by China to investigate and contain the current outbreak. "WHO does not recommend and actually opposes any restrictions for travel and trade or other measures against China," said Tedros Adhanom Ghebreyesus, Director-General of WHO. He added, "There is no reason for measures that unnecessarily interfere with international travel and trade." He also emphasized: "This declaration is not a vote of no confidence in China." Rather, it was to "support countries with weaker health systems."

⁴ The international public health emergency (PHEIC) concept began with the SARS epidemic in 2003. According to the International Health Regulations (2005), which came into effect in 2007, PHEIC refers to unusual events that pose public health risks to other countries through the international spread of disease and may require a coordinated international response. The validity period of PHEIC is usually 3 months. Before the validity period expires, WHO needs to make a decision on whether to extend it.

Although the global community commonly perceives the economic impacts of COVID-19 as “one-off”, it has turned out to be more destructive than SARS in 2003, given the role of China in the global industry chain and trade. When SARS broke out in 2003, China’s GDP was only 4% of the world’s total. In 2019, China was the second-largest economy in the world, its share of global GDP had quadrupled to 16%. More importantly, China was still a newcomer to the WTO back in 2003, but now plays a major role in the global industry chain.

Figure. 16: China’s share of global GDP (%)



Data Source: WDI, KPMG analysis

Manufactured products, including motors, electric appliances and audio-visual products, are China’s most important exports. Many multinationals rely on Chinese suppliers. For example, 290 of Apple’s 800 global suppliers come from China. Wuhan, the epicentre of the COVID-19 outbreak, is not only a megacity with over 10 million people but a vital link in China’s industry chain, with complete industry clusters in electronics, automobile and pharmaceuticals. As automobiles already account for nearly half of the total production value of Wuhan’s manufacturing industry, the suspended production — in both Wuhan and other important manufacturing sites — will definitely result in disrupted supply and closed doors at downstream enterprises around the world. So far, Hyundai Motor has closed its plant in Korea due to unavailability of made-in-China parts, and their counterparts in Europe may face the same situation over the next few weeks.⁵

Apart from the impact on the global supply chain, uncertainties about demand may have implications on the global price of oil and bulk commodities. In 2019, China’s oil demand was 139K barrels/day (14% of the world’s total), while in 2003, the number was 56K (7%).⁶ Meanwhile, China is the world’s second-largest importer, whose share of global imports surged from 4.7% in 2003 to 10.6% in 2018.

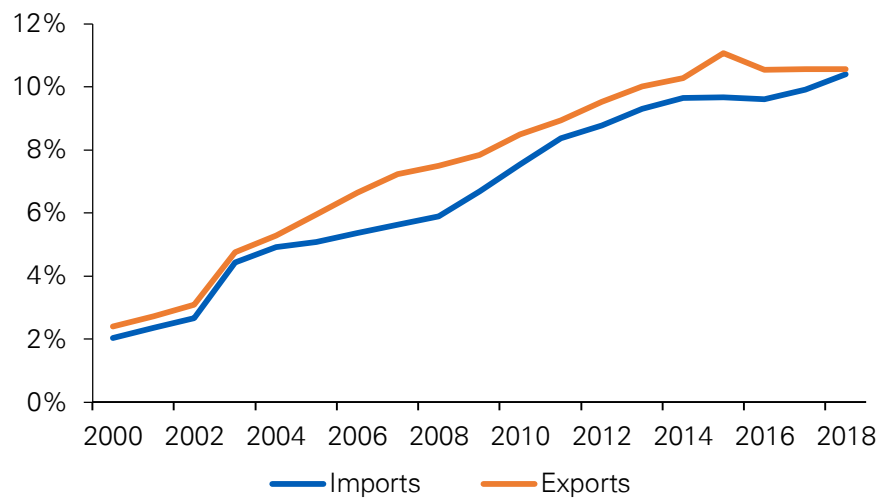
⁵“Crown virus outbreak spreads to the global economy”, FT Chinese, February 13, 2020. <https://www.chinesefit.com/story/001086279?adchannelID=&full=y>

⁶ “Impacts of Coronavirus Containment Effort Ripple Through Global Economy”, IHS Markit, Feb 6, 2020.

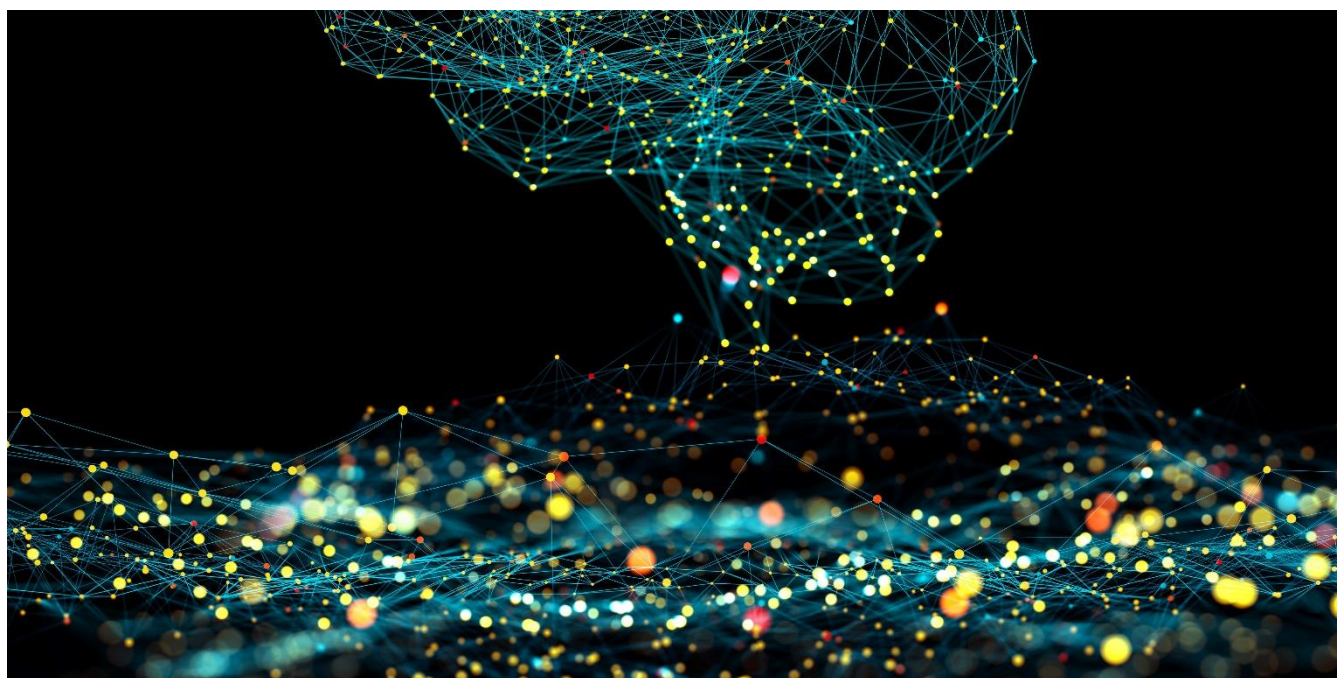
At present, China is the world’s largest importer of bulk commodities including oil, iron ore and soybeans, as well as electronic parts and components including integrated circuits. Demand for these products may decline due to the economic slowdown caused by the epidemic.

As a result of the epidemic, global oil prices plummeted on 3 February, with the top two oil futures sinking to the lowest level since January 2019. The Organization of Petroleum Exporting Countries (OPEC) and its coalition partners have been evaluating the impact of the COVID-19 outbreak on global oil demand and discussing the possibility of further oil output cuts since 4 February.

Figure 17: China’s share of global imports and exports (%)



Data Source: WDI, KPMG analysis



New economy accelerated by COVID-19

In the long run, despite their negative impacts on the economy, natural disasters may create opportunities for new business models, or even give rise to innovative forms of business. For example, although COVID-19, as a “black swan” event in 2020, hit the offline service industry hard, it has also added momentum to the online economy. Furthermore, the “stay-home economy” — represented by telework, remote healthcare, online education, e-commerce, unmanned distribution and online games — has become a new source of economic growth during the epidemic. For example, the rise of remote office and remote education during the outbreak may accelerate the development of remote collaboration/mobile office platforms and applications, thus breaking the boundaries of time and space for work and learning. According to Dingding, the remote office app from Alibaba, nearly 200 million people worked from home on 3 February. Dingding’s teleconference feature was put to test by the record traffic at 09:00 a.m., and Alibaba had to temporarily impose traffic controls. Notably, impressive successes have been achieved with epidemic diagnosis and treatment powered by digital technologies like big data and AI, for instance, analysis of the potentially infected population and forecasts of epidemic spread.

In fact, the online economy began to pick up speed during SARS, when travel was restricted. Alibaba, in its fourth year then, not only witnessed rapid growth in B2B operations but also launched taobao.com for individual users on 10 May 2003, the peak time of the SARS outbreak. This shows that epidemics could represent both crisis and opportunity. Despite the tremendous impact on offline consumption, they also give rise to a broad range of new business models based on the online economy.

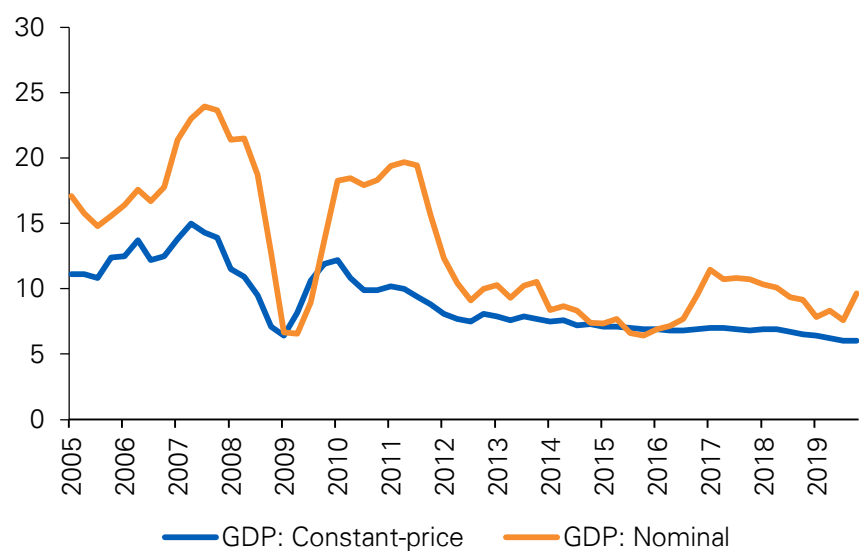
The joint research by KPMG and AliResearch shows that China is a world leader in the digital economy⁷. As technical innovations are the most fundamental driver of economic growth, the “new economy” is bound to play an increasingly important role in the future development of China.

⁷“Embracing the New Wave of Global Digital Economy: 2018 Global Digital Economy Development Index”, September 2018, Digital Economy Forum, AliResearch, KPMG

China's economic performance in Q4 and in 2019

Back in Q4 2019, China's economic growth showed signs of stabilisation. Real GDP grew by 6.0% year-on-year, which was a similar level as Q3. Although the annual growth rate of real GDP at 6.1% was the lowest since 1991, it still met the predefined goal of the Chinese government (6-6.5%). Meanwhile, China's per capita GDP crossed the USD10,000 mark for the first time in 2019. Among the 190+ economies of the world, only 10 have a population of over 50 million and a GDP per capita of more than USD10,000. It is indeed a notable achievement, given the fact that GDP per capita of China was less than USD300 at the beginning of its opening-up and reform in the late 1970s.

Figure 18: GDP growth rate, quarterly YOY, %

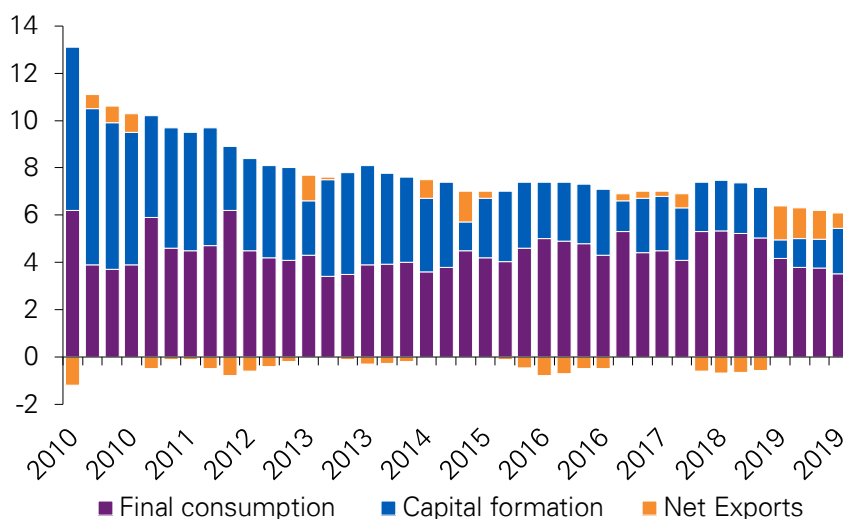


Source: Wind, KPMG analysis

From the demand side, consumption continues to be the dominant “mainstay” of economic growth. In 2019, final consumption expenditure’s contribution to GDP reached 57.8%, slightly lower than in the first three quarters (60.5%); the contribution of gross capital formation (GCF) to GDP was 31.2%, significantly higher than that in the first three quarters (19.8%); and the contribution of net exports to GDP growth declined from 19.6% in the first three quarters to 11.0%.



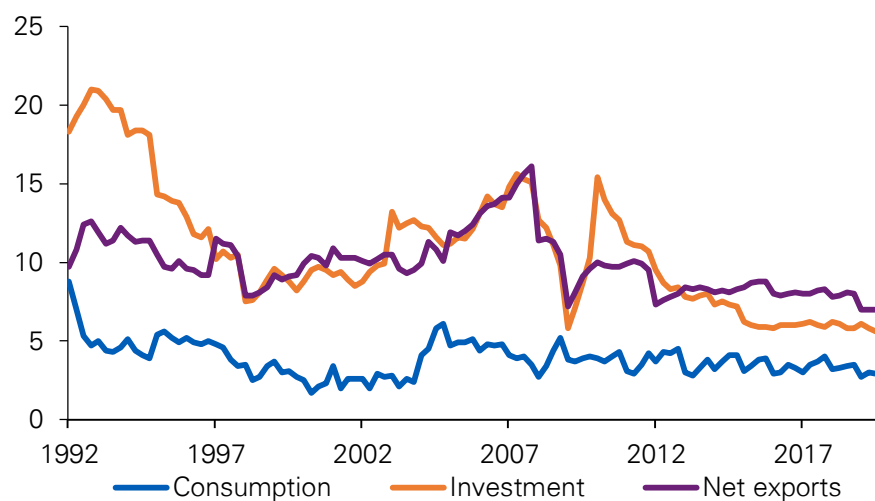
Figure 19: Growth of GDP by activity type, cumulative value, %



Source: Wind, KPMG analysis

Growth in the service industry continued to lead other sectors in 2019, though growth rates declined in all three industries. In 2019, the YoY growth of the service industry was 6.9% and its contribution to GDP growth was 59.4%, in contrast to 5.7% and 36.8% of the secondary industry. The information transmission, software and IT services industry maintained rapid growth, albeit slower than in 2018.

Figure 20: Cumulative YOY growth rate by activity type, %



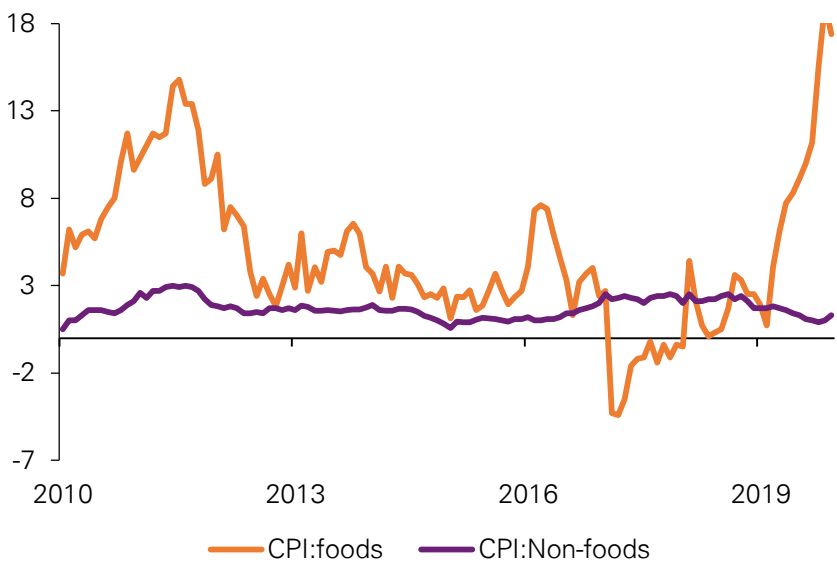
Source: Wind, KPMG analysis

Industrial production was strong in December: The added value of above-scale industries grew by 6.9% YOY, which continued the upward trend to set a nine-month high. Manufacturing PMI crossed the 50-point threshold for the second consecutive time by recording 50.2%. In 2019, the added value growth rates of strategic emerging industries and high-tech manufacturing were higher than the growth rate of above-scale industries (6.5%), indicating improved industrial structure.

Dragged down by a drop in automobile sales, the total retail sales of consumer goods in 2019 grew by 8% YoY, marginally lower than in 2018. Vehicle sales in 2019 declined by 8.2% YoY. However, the growth rate of car sales in December turned positive for the first time since July 2019 with a 1.8% YoY growth. Retail e-commerce activity continued to increase rapidly; in 2019, total retail e-commerce volume reached RMB1 trillion, up16.5% YoY.

The Consumer Price Index (CPI) grew by 2.9% year-on-year in 2019, 0.8% higher than in 2018 and a new high since 2012. Pork prices were the largest driver behind the higher CPI in Q4 and the full year. In Q4, pork prices rose by 103% YOY in Q4, 55% higher than in Q3. In addition, the spillover effect of soaring pork prices also drove beef/lamb prices up in Q4. After bottoming in October, the price of non-food commodities recovered for two consecutive months. A narrowed rate of price declines in the transport and communication sectors, thanks to the low base effect oil price slump in late 2018, was the main reason for the overall rebound from the non-food commodities.

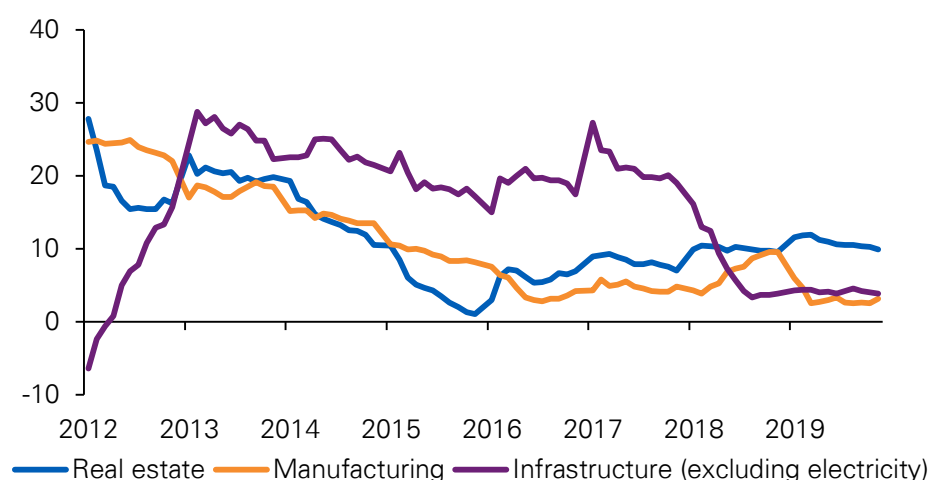
Figure 21: Food and non-food CPI, monthly YoY, %



Source: Wind, KPMG analysis

The YoY growth rate of fixed investment in 2019 was 5.4%, down 0.5% from 2018. The rebound in manufacturing investment led to higher gross investment in December, yet real estate and infrastructure investments continued to shrink. In late 2019, the MOF announced an additional special debt limit of RMB1 trillion in advance for 2020, RMB190 billion more than in the previous year. However, infrastructure investment in Q12020 is expected to remain stagnant due to the impact of the COVID-19 outbreak.

Figure 22: Fixed asset investment by subsector, cumulative YoY, %



Source: Wind, KPMG analysis

In order to further improve the accuracy of total social financing (TSF) data, the PBOC included “National Bonds” and “Local Government General Bonds” in statistics, which were combined with “Local Government Special Bonds” as part of “Government Bonds”. New TSF in 2019 totalled RMB25.6 trillion, and TSF stock RMB251.31 trillion, up 10.7% YoY. RMB loans, government bonds and enterprise bonds were the main drivers behind TSF growth. Non-standard financing (including entrusted loans, trust loans and undiscounted bills) continued to decline, albeit more slowly, due to financial supervision. In addition, the broad money supply (M2) grew by 8.7% YoY in December 2019. The growth rate of full-year TSF and M2 was consistent with that of nominal GDP, and the macro leverage ratio remained stable.

In 2019, full-year exports were 0.5% higher year-on-year; in contrast, imports dropped 23.8%. The trade tension between the US and China turned the growth rate of Chinese exports to the US negative (-12.5%), 23.8% lower than in 2018. As US-China trade friction eased in December, US tariffs imposed on 1 September 2019 on a USD120 billion list of Chinese goods were cut by half to 7.5%. The growth rate of Chinese exports to the US in December was -14.6%, 8.4% narrower than in the previous month, indicating the positive effects of the tariff cuts. The EU remained the largest trade partner of China in terms of total imports and exports, while ASEAN replaced the US as the second largest.

Phase 1 Deal signed by the US and China

On 13 December 2019, the US and China reached an agreement on the US-China Phase 1 Trade Deal: the US promised that US tariffs that were scheduled to go into effect on 15 October and 15 December 2019 on Chinese goods would be suspended, and US tariffs imposed on 1 September 2019 on a USD120 billion list of Chinese goods would be cut by half to 7.5%. However, US tariffs of 25% on USD250 billion worth of Chinese goods put in place earlier would remain unchanged.

On 15 January 2020, China and the US signed the *Economic And Trade Agreement Phase One* in Washington, on the basis of "equality and mutual respect". The agreement consists of nine chapters — preamble, intellectual property, technology transfer, trade in food and agricultural products, financial services, macroeconomic policies and exchange rate matters and transparency, expanding trade, bilateral evaluation, and dispute resolution and final provisions. To some extent, it helped to "resolve the existing trade and investment concerns that have been identified by the Parties". Although the implementation and implication of the deal remained to be seen, it had a positive impact on the development of bilateral trade and the stability of the economy and finance.

Highlights of the *Economic And Trade Agreement Phase One* :

- Encouraging fair competition: The agreement made very detailed requirements on intellectual property protection, covering protection of trade secrets and confidential business information, effective patent term extensions, pharmaceuticals, intellectual property, trademarks and geographical indications. It also aims at combating pirated and counterfeit goods on major e-commerce platforms, ensuring transfers of technology occurs on a voluntary basis and on market-based terms, and refraining from competitive devaluations and the targeting of exchange rates for competitive purposes.
- Reducing trade deficits: China agreed to ensure that purchases and imports into China from the US of manufactured goods (40% of increased purchases), agricultural goods (15%), energy products (25%), and services (20%) exceed the corresponding 2017 baseline amount by no less than \$200 billion.

Table 4: Increased US exports to China in 2020-2021, USD billion

In USD Billion	US exports to China in 2017	US Exports to China in 2018	Increased purchases in 2020 from the 2017 level	Increased purchases in 2021 from the 2017 level	Increased Purchases in 2020-2021
Manufactured goods	66.9	67.6	32.9	44.8	77.7
Agricultural goods	22.3	11.3	12.5	19.5	32.0
Energy products	8.1	8.3	18.5	33.9	52.4
Services	55.6	56.7	12.8	25.1	37.9
Total	152.9	143.9	76.7	123.3	200.0

Source: Economic and Trade Agreement between the United States Of America and The People's Republic of China , KPMG analysis

- Opening financial markets: “Each Party requests that the other Party ensure fair, effective, and non-discriminatory participation in its market for services and services suppliers of the other Party”, in the sectors of banking services, insurance services, credit rating services, electronic payment services and securities, fund management, and futures services. No later than 1 April 2020, China shall remove the foreign equity cap in the life, pension and health insurance sectors, and allow wholly US-owned insurance companies to participate in these sectors.
- Removing non-tariff barriers to agricultural goods: China shall reduce non-tariff import barriers to US agricultural goods and foods, including dairy, beef, soybean, aquatic products, fruits, feeds and pet foods, and increase imports from the US. Meanwhile, China shall further improve tariff-rate quota (TRQ) management to fulfil its WTO promises.
- Bilateral evaluation and dispute resolution arrangement: “To ensure prompt and effective implementation of this Agreement, the two parties have established the following Bilateral Evaluation and Dispute Resolution Arrangement. The Parties shall create the Trade Framework Group (meetings to be held every six months) to discuss the implementation of this Agreement. The Parties shall resume macroeconomic meetings (to be held regularly) to discuss (a) the overall situation regarding the implementation of this Agreement, (b) major problems with respect to implementation and (c) arrangements for future work between the Parties.”

The US and China are the top two economies in the world, accounting for 40% of global GDP. Both parties play an important role in global affairs. The phase one trade deal not only benefits the US and China but also has positive effects on the global economy by easing trade friction, reducing market uncertainties, stabilising economic expectations and strengthening business confidence. That is why the deal has been widely welcomed.

Although both parties said the Phase II negotiation would begin soon, we do not expect a quick deal. On one hand, the US will be more focused on the presidential election this year; on the other hand, the Phase II negotiation is to a large extent subject to the implementation of the Phase I deal, which remains to be seen.



2

Policy analysis



Securities Law Amendments and Full Implementation of the Registration System

The revised draft of the Securities Law¹⁰ was passed on 28 December 2019 at the Standing Committee's 15th meeting of the 13th National People's Congress, and will take effect on 1 March 2020. The Securities Law has been comprehensively revised and improved in a number of aspects, including the securities issuance registration system, reform of the stock issuance registration system, a significant increase in the penalty on illegal securities, strengthening of protections for investors, strengthening of information disclosure, and improvement of systems for multiple asset levels. Investor protection has been strengthened and there has been innovation in the litigation system for civil compensation for securities; in the realm of legal liabilities, there has been an overall increase in penalties for illegal securities, greatly increasing the cost for violations.

Since the initial deliberations in April 2015, these amendments to the Securities Law have undergone four years and four rounds of deliberations; this reflects the changes in China's capital market in recent years. The three primary focal points of the new Securities Law are: comprehensive promotion of the registration system, more severe penalty on illegal securities, and investor protection reform.

Focus 1: Comprehensive promotion of the registration system

In the new law, all expressions of "approval" have been amended to "registration" for clear and comprehensive promotion of the registration system. This particular change is regarded as one of the biggest changes in this round of amendments to the Securities Law. The implication of this amendment is that the registration system has been legally expanded to include all types of securities; it is not just limited to science and technology but all sectors will be required to implement the registration system. In the near future, the approval system may no longer be used.

The new law also simplifies conditions for issuing securities, amending the previous law's "possessing capability of ongoing profitability" to "possessing capability of ongoing operation". This change eases requirements surrounding financial indicators and focuses more on a company's operating conditions; this is conducive to supporting the listing of science and technology enterprises with poor financial data but a promising outlook.

¹⁰ http://www.chinalaw.gov.cn/Department/content/2019/12/30/592_3238998.html

Table 5: Comparison of new and old Securities Law provisions

Securities Law (Revised in 2014)	Securities Law (Revised in 2019)
<p>Article 10</p> <p>A public issuance of securities shall satisfy the requirements of the relevant laws and administrative regulations and shall be reported to the securities regulatory authority under the State Council or a department upon authorisation by the State Council for examination and approval according to law. Without any examination and approval according to law, no entity or individual may make a public issuance of any securities. It shall be deemed as a public issuance under any of the following circumstances:</p> <ol style="list-style-type: none"> (1) Making a public issuance of securities to non-specified investors; (2) Making a public issuance of securities to accumulatively more than 200 specified investors; (3) Making a public issuance as prescribed by any law or administrative regulation. <p>For any securities that are not issued in a public manner, the means of advertising, public inducement or public issuance in any disguised form may not be adopted thereto.</p>	<p>Article 9</p> <p>A public issuance of securities shall satisfy the requirements of the relevant laws and administrative regulations and shall be reported to the securities regulatory authority under the State Council or a department upon authorisation by the State Council for examination and registration according to law. Without any examination and registration according to law, no entity or individual may make a public issuance of any securities. The particular scope and implementation steps of the securities issuance registration system shall be determined by the State Council. It shall be deemed as a public issuance under any of the following circumstances:</p> <ol style="list-style-type: none"> (1) Making a public issuance of securities to non-specified investors; (2) Making a public issuance of securities to accumulatively more than 200 specified investors, excluding any employees carrying out employee shareholding plans in accordance with the law; (3) Making a public issuance as prescribed by any law or administrative regulation.
<p>Article 13</p> <p>An initial public offer (IPO) of stock of a company shall satisfy the following requirements:</p> <ol style="list-style-type: none"> (1) Having a complete and well-operated organisation; (2) Having the capability of ongoing profitability and a sound financial status; (3) Having no false records in its financial statements over the latest three years and having no other major irregularity; and (4) Meeting any other requirements as prescribed by the securities regulatory authority under the State Council, which have been approved by the State Council. <p>A listed company that makes any initial non-public offer of stocks shall satisfy the requirements as prescribed by the securities regulatory authority under the State Council, which have been approved by the State Council and shall be reported to the securities regulatory authority under the State Council for examination and approval.</p>	<p>Article 12</p> <p>An initial public offer (IPO) of stocks of a company shall satisfy the following requirements:</p> <ol style="list-style-type: none"> (1) Having a complete and well-operated organisation; (2) Having the capability of ongoing operation; (3) Having financial reports within the last three years issued with audit records with unqualified opinions; (4) The issuer, the controlling shareholder, and the actual controller have not committed any crimes of corruption, bribery, seizing of property, misappropriation of property, or disruption of the socialist market economic order within the last three years; and (5) Meeting any other requirements as prescribed by the securities regulatory authority under the State Council, which have been approved by the State Council. <p>The issuance of new shares by a listed company shall meet conditions as stipulated by the securities regulatory body approved by the State Council. Specific oversight measures shall be prescribed by the securities regulatory authority of the State Council.</p> <p>Those publicly issuing depositary receipts shall meet conditions for an initial public offering of new shares as well as any other conditions as stipulated by the State Council securities regulatory authority.</p>

Sources: Wolters Kluwer, KPMG analysis



An additional section has also been added to the new law regarding information disclosure with the aim of systematically improving the information disclosure system. This includes expanding the scope of those required to make information disclosure; improving the content requirements of information disclosure; stressing that information necessary for investors to make value judgments and come to investment conclusions should be fully disclosed; standardising voluntary disclosure actions of those required to make information disclosures; clarifying the obligation of the purchaser of a listed company to disclose the source of funds for any increase in shareholdings; and establishing a public commitment information disclosure system for issuers and their controlling shareholders, actual controllers, directors, supervisors and senior management staff.

Focus 2: Increasing penalty on illegal securities

The China Securities Regulatory Commission (CSRC) has continually cracked down on all kinds of illegal actions regarding securities and futures in recent years. According to the most recent *CSRC Summary of Administrative Penalties* issued by the CSRC in 2018, 310 administrative penalty verdicts were issued that year, representing a year-on-year increase of 38.39%; the total amount of fines and confiscations was RMB10.641 billion, representing a year-on-year increase of 42.28%; and 50 individuals were banned from the market, representing a year-on-year increase of 13.64% ¹¹. On 7 January 2020, the CSRC official website publicised a landmark fine of RMB1.76 billion in penalties for an incident of manipulation with malicious intent ¹².

The new *Securities Law* has significantly increased the strength of penalties for violations of the law. For example, for fraudulent issuances, the maximum penalty of 5% of total funds raised was increased to double the total amount of funds raised; for information disclosure violations by listed companies, the maximum penalty of RMB600,000 was increased to RMB10 million; for false statements issued by an issuer's controlling shareholder or actual controlling organisation, or the concealing of relevant information leading to the issuance of false statements, a maximum fine of RMB10 million has been set.

It is worth noting that the new law has further improved the legal obligations of intermediary agents. It has increased the scope of penalties for violations for agencies providing securities-related services that fail to perform adequate due diligence; the penalty has been doubled from the previous maximum of five times its business income to 10 times its business income. In serious cases, the securities service business may be suspended or banned. The new *Securities Law* has also improved civil compensation for security violations. If the specified issuer fails to fulfil the civil compensation responsibilities to which they have publicly committed, the issuer's confirmed controlling shareholders and actual controller are presumed guilty for the violations of fraudulent issuances and information disclosure violations for joint and several liabilities.

¹¹2018 CSRC Summary of Administrative Penalties, CSRC, January 2019
http://www.csrc.gov.cn/pub/newsite/zjhxwfb/xwdd/201901/t20190104_349383.html

¹²CSRC Verdict on Administrative Penalties (LIN Jun, HE Zhonghua, CHEN Zhiqiang), CSRC, December 2019
http://www.csrc.gov.cn/pub/zjhpublic/G00306212/202001/t20200107_369228.htm



Focus 3: Improvement of systems for investor protection

A discrete section in the new law is dedicated to specifying an investor protection system. The highlights of this section include: making distinctions between ordinary investors and professional investors; making targeted arrangements for the protections of investors' rights; enabling shareholders' rights to represent a listed company to make use of the solicitation system; implementing regulations for bondholders' meetings and the bond trustee system; establishing a compulsory mediation system for disputes between ordinary investors and securities companies; and improving the cash dividend system for listed companies. Of particular note is that, in order to meet the need for reform of the system for issuance and registration of securities, the new *Securities Law* is exploring a securities civil litigation system particularly suited to conditions in China. It stipulates that investor protection agencies may act as representatives for litigation in accordance with the legal principle that "withdrawing is explicit, joining is implicit" to file a civil lawsuit on behalf of the harmed investor, in accordance with the law.

Xiao Gang, a member of the Chinese People's Political Consultative Conference and former chairman of the CSRC, said that establishing a dedicated section for investor protection is one of the highlights of the new amendments. The new law strengthens protections for investors, making a fundamental return to the logic and essence of market development — that protection of investors is protection of the capital market and protecting small and medium investors is protecting all investors. To this end, the law has increased appropriate management for investors to sell the right products and services to the right investors. This is both the primary threshold and a basic precondition for establishing investor protection. An advanced payment system has also been established, improving the securities civil litigation system and specifically stipulating that investor protection agencies should act as representatives for small and medium investors in litigation. This is an important innovation for the rule of law.

Release of “28 Measures” to support private enterprises

On 22 December 2019, the CCP Central Committee and the State Council issued the *Opinions on Creating a Better Development Environment to Support the Reform and Development of Private Enterprises*¹³. As the most recent policy document from the Party and the state regarding support of the development of private enterprises, the Opinions clearly express the need to provide careful protection for the reform and development of private enterprises regarding realms of the market, policy and rule of law to support the regular, healthy development of private enterprises and once again inject the private sector with stimulus for development.

Over the 40-plus years of reform and opening up, the private sector has become an intrinsic part of China’s economic system as well as an important force in driving the development of the socialist market economy. At a private enterprise symposium in November 2018, Chairman Xi Jinping stated that as of the end of 2017, the number of private enterprises in China exceeded 27 million, the number of industrial and commercial businesses exceeded 65 million, and the registered capital exceeded RMB165 trillion. In essence, the private sector can be characterised as being “5, 6, 7, 8, 9”: it contributes more than 50% of tax revenue, more than 60% of GDP, and more than 70% of the technological innovations; it provides more than 80% of urban labour and employment, and makes up more than 90% of the total number of enterprises¹⁴. This reconfirms support for the private sector. A number of policies specifically supporting the development of private enterprises have been issued at the central and local levels. The terms “private enterprises” and “addressing their particular concerns” were mentioned multiple times at the executive meeting of the State Council in 2019.

¹³http://www.gov.cn/xinwen/2019-12/22/content_5463137.htm

¹⁴ “Xi Jinping: Speech at the Private Enterprise Symposium”, the State Council, November 2018, <http://www.mohurd.gov.cn/xytj/tjzljxsxytjgb/jstjnj/>

Table 6: The central government's policies over the last year to support the development of private enterprises

	Legislation	Issuing party	Date of release	Summary
1	Opinions of CCP Central Committee and State Council on Creating a Better Development Environment to Support the Reform and Development of Private Enterprises	State Council	4 December 2019	28 measures were put forward to support the development of private enterprises in the realms of optimising fair competition in the market environment, improving a precise and effective policy environment, and strengthening an environment of the rule of law with fair and equal protections.
2	Notice on Granting Financial Support to Pilot Cities for Deepening Comprehensive Reform on Financial Services for Small and Microenterprises	Ministry of Finance and other ministries	16 July 2019	Beginning in 2019, the central government approved the allocation of about RMB2 billion per year in special funds for the common good, to support a certain number of pilot cities. Incentive funds are available for pilot cities' finance bureaux for credit risk compensation and debt repayment for small and microenterprises, or to be used as additional capital for pilot cities' governmental financing guarantee agencies.
3	Guiding Opinions of General Office of CCP Central Committee and General Office of the State Council on Promoting the Healthy Development of SMEs	State Council	7 April 2019	23 detailed measures to further address the issue of difficult and expensive financing for private enterprises.
4	CBRC Notice on Further Strengthening Work for Financial Services for Private Enterprises	China Banking and Securities Regulatory Commission	25 February 2019	23 detailed measures to further address the issue of difficult and expensive financing for private enterprises.
5	Opinions of General Office of CCP Central Committee and General Office of the State Council on Strengthening Financial Services for Private Enterprises	State Council	14 February 2019	Strengthen financial policy support and make efforts to improve the relevance and effectiveness for private enterprises of financial services. Make efforts to resolve barriers to financing for private enterprises; actively support financing bailouts for private enterprises.

Sources: Wolters Kluwer, KPMG analysis

The release of the Opinions provided proposals for work priorities and directions for the institutionalisation, systematisation and standardisation of recent policies on support for the development of private enterprises, as well as for the new situations, new issues and new challenges faced in practice. There are three portions of the Opinions that merit the most attention.



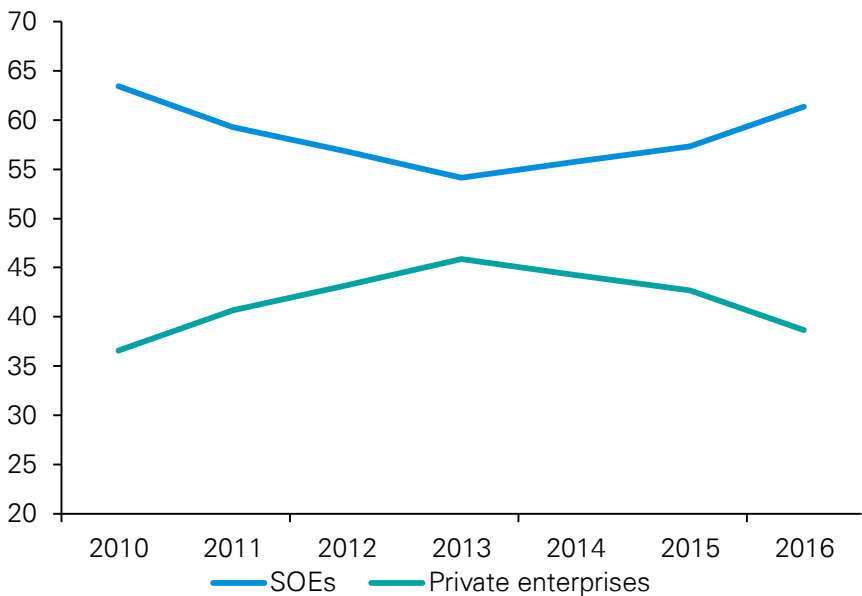
Further open up market access for private enterprises

Open up competitive work within key industries and fields such as power, telecommunications, railways, oil and natural gas to further introduce the market competition mechanisms. For example: Support private enterprises through equity participation to launch basic telecommunications operations, and launch the generation, distribution and selling of electricity through equity participation or owning a controlling number of shares; support private enterprises to enter the fields of oil and gas exploration, refining and sales, and in building infrastructure for crude oil, natural gas, refined oil storage and transportation, and pipelines; support eligible enterprises to engage in importing crude oil and exporting refined oil; significantly relax restrictions on market access in the fields of infrastructure, social enterprises and financial services. The Opinions also called for the study and formulation of specific paths and methods of access for private enterprises in accordance with their industry, field and business, as well as to clarify a roadmap and a timetable.

Strengthen financial industry support for private enterprises

In 2018, Guo Shuqing, chairman of the CBRC, stated that private enterprise loans at that time only accounted for 25% of the total balance of bank loans, while the private sector's share of the national economy exceeded 60%. The loans received by private enterprises were not proportional to their share within the economy.

Figure 23: Proportion of loan balances of state-owned enterprises and private enterprises



Sources: Wind, KPMG analysis



The financing difficulties currently faced by private enterprises in China remain severe. One aspect is the lack of fluidity in financing channels. Against the backdrop of increasing downward pressure on the economy, banks tend to prefer governmental urban investment platforms and state-owned enterprises while private enterprises become mired in the predicament of taking out loans, having them rescinded by lenders or even being refused for loans. According to data from Wind, between 2013 and 2016, the proportion of the RMB balance of loans to domestic enterprises going to private enterprises decreased year on year, steadily declining from 45.84% to 38.66%.

Another pertinent aspect is the high cost of financing; although regulatory authorities impose restrictions on interest rates charged by banks, after factoring in requirements for intermediary fees, insurance fees and financial management fees for reversals and purchases, actual financing costs become quite high. The majority of government-issued policies to support private enterprises have been related to this issue. The *Opinions on Strengthening Financial Services for Private Enterprises* released by the State Council on 14 February 2019 emphasized the realisation of equal treatment in the finance realm for all types of enterprises with a focus on changing the commercial banks' attitude toward private enterprises from: "Dare not, will not, cannot lend." The PBOC and financial regulatory authorities have also researched and introduced a series of measures for implementation. Regarding strengthening finance policies in support of private enterprises, the *Opinions on Creating a Better Development Environment to Support the Reform and Development of Private Enterprises* primarily put forth requirements in three aspects: strengthening the systems serving private enterprises in banking sector financial institutions, improving direct financing support systems for private enterprises, and strengthening the credit enhancement support systems for private enterprises. Strengthening financial services for private enterprises can effectively alleviate the issue of difficult and expensive financing for private enterprises and create favourable conditions in the future for the further reduction of financing costs, financing efficiency being further improved and financing channels becoming more abundant.

Supporting Private Enterprises and Strengthening Innovation

Private enterprises — which have contributed to over 70% of China's technological innovations — are a major driver of reform and innovation in China. The *Opinions* encourages private enterprises to undertake a variety of national scientific research endeavours either independently or jointly with relevant parties; open up major national scientific research facilities and large-scale scientific research instruments to private enterprises; carry out systematic refinement of regulations related to the review of professional titles linked to enterprises, applications for awards, and welfare guarantees; support private enterprises' participation in the reform of state-owned enterprises; and improve mechanisms for private enterprises' participation in the implementation of major national strategies. Supporting the improvement and strengthening of private enterprises as well as supporting private enterprises to take the "specialised, focused, unique and novel" development path, can effectively improve the quality of enterprise development and private enterprises' ability to develop sustainably.

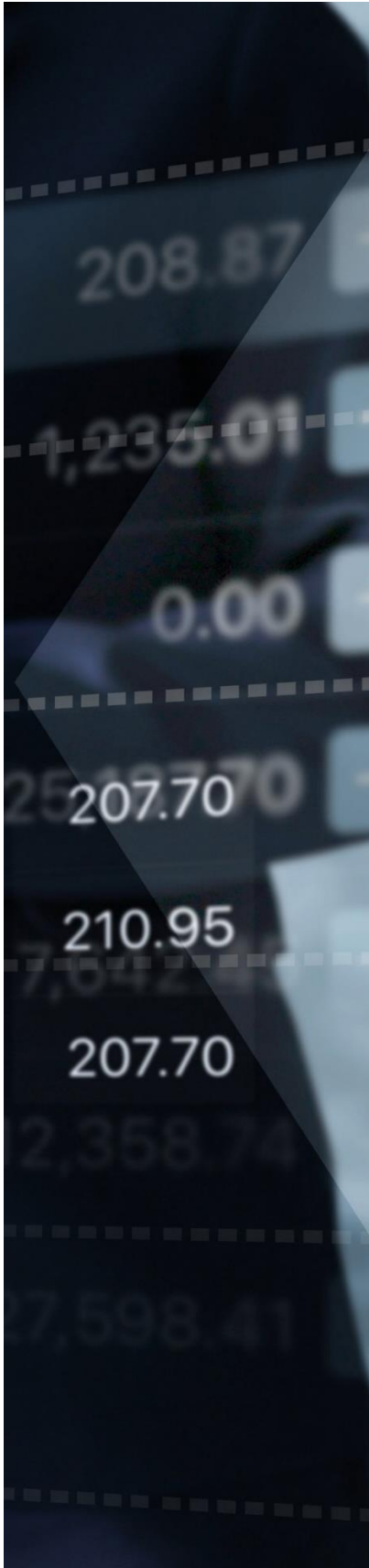
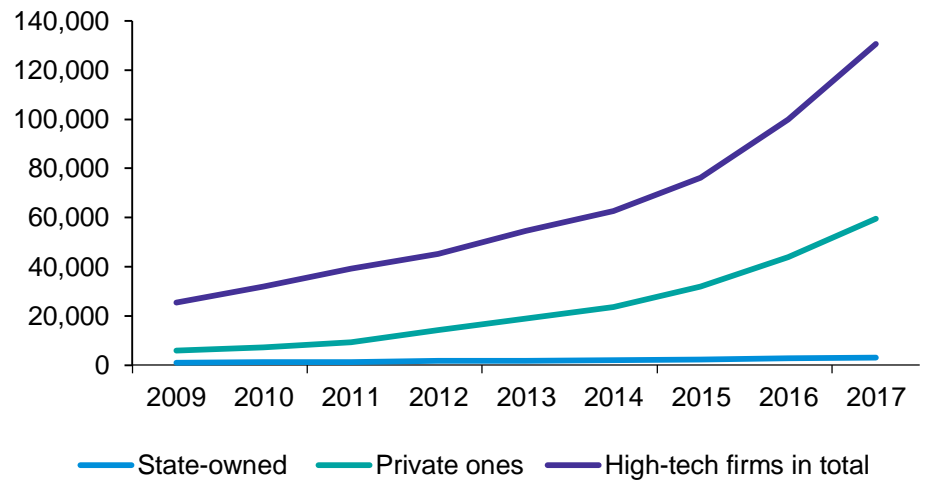


Figure 24: Number of existing private and state-owned high-tech firms



Sources: Wind, KPMG analysis

China is currently providing strong support for the development of the “four new” enterprises: new technologies, new industries, new industry formats and new models. As of the end of 2017, there were 130,000 enterprises engaged in new and high technology. Private high-tech enterprises accounted for about 60,000 of them, 45% of the total. Private enterprises are the main force in building a country strong in science and technology, and the core of technological competition lies in the competition between talented professionals. The Opinions also proposes the refinement of the review of professional titles linked to enterprises and applications for awards, equal treatment of private enterprises in the aspects of attracting talent, clearing away the hidden barriers to private enterprises introducing talents into competition in science and technology, allowing talented professionals in these areas to be brought in and retained, and effectively resolving pain points in the general environment for private enterprises’ science and technology innovation.

Significant relaxation of urban settlement policies

On 25 December 2019, the General Office of the CCP Central Committee and the General Office of the State Council issued the *Opinions on Promoting the Reform of the Institutional Mechanisms of Social Mobility of Labor and Talent*. It proposes building a reasonable, just, smooth and orderly social mobility structure; reforming urban settlement policies; and promoting mobility for labour and talent. This includes:

- Complete removal of urban settlement restrictions for urban areas with fewer than 3 million permanent residents;
- Comprehensive relaxation of conditions for urban settlement for urban areas with 3–5 million permanent residents;
- Improvement of the point-based urban settlement policy for megacities with over 5 million permanent residents and streamlining the point system to ensure that years of social insurance contributions and years of residence comprise the majority of the system;
- Same basic public services in education, employment and entrepreneurship, social insurance, medical care, and housing security for permanent residents as enjoyed by registered residents, further bringing into play the role of urbanisation in promoting social mobility or labour and talented professionals.

According to the *Notice on Adjusting the Standards for Categorizing City Size* issued by the State Council in 2014, with the urban permanent resident population as the statistical standard, China’s cities are divided into five categories and seven grades:

Table 7: Population size for different city types

City type	Urban area permanent residents
Megacity behemoth	>10 million
Megacity	>5 million -10 million
Large city type I	3 million-<5 million
Large city type II	1 million -<3 million
Medium sized city	0.5 million -<1 million
Small city type I	0.2 million - <0.5 million
Small city type II	< 0.2 million

Sources: The State Council, KPMG analysis

¹⁵http://www.gov.cn/zhengce/2019-12/25/content_5463978.htm

According to data in the *2017 Statistical Yearbook on Urban and Rural Construction* released in 2019 by the Ministry of Housing and Urban-Rural Development (MOHURD), as of the end of 2017, there were a total of 92 urban areas with a population of 1 million or more. Among them were 14 megacity behemoths and megacities with populations of 5 million or more (excluding the four municipalities directly under the central government). These include Shenzhen, Chengdu, Guangzhou, Nanjing, Wuhan, Chengdu, Dongguan, Nanjing, Zhengzhou, Hangzhou, Changsha and Shenyang. There were 13 cities with populations between 3 million and 5 million — Xi'an, Harbin, Qingdao, Changchun, Jinan, Dalian, Hefei, Kunming, Taiyuan, Xiamen, Nanning, Suzhou and Ningbo.

Additionally, provincial capitals including Urumqi, Guiyang, Shijiazhuang, Fuzhou, Nanchang, Hohhot, Haikou and Lanzhou, and economically important cities with a current permanent resident population under 3 million including Wenzhou, Wuxi, Changzhou and Foshan, are all included among the cities subject to a complete removal of settlement restrictions. A major relaxation of settlement conditions in these cities will be conducive to expanding in size, enlargement and strengthening of city centres, as well as strengthen their ability to cluster and spread out into surrounding areas; this will become an important driving force for the development of regional economies.

Table 8: 30 Cities with the highest urban area population in 2017

Ranking	Cities	Population (1,000)	Ranking	City Names	Population (1,000)
1	Shanghai	24183.3	16	Harbin	4925.7
2	Beijing	18766.0	17	Qingdao	4458.3
3	Chongqing	15004.7	18	Changchun	4041.2
4	Shenzhen	12528.3	19	Jinan	4040.0
5	Guangzhou	11849.9	20	Dalian	400.97
6	Wuhan	8684.8	21	Hefei	3959.0
7	Tianjin	8469.0	22	Kunming	3932.2
8	Chendu	7667.2	23	Taiyuan	3709.7
9	Dongguan	6499.0	24	Shamen	3473.7
10	Nanjing	642.6.8	25	Nanning	3333.3
11	Zhengzhou	6378.2	26	Suzhou	3329.4
12	Hangzhou	6370.7	27	Ningbo	3328.2
13	Changsha	5320.3	28	Urumqi	2949.4
14	Shenyang	5119.1	29	Guiyang	2850.0
15	Xi'an	4938.6	30	Shijiazhuang	2839.7

KPMG Analysis

Changes in settlement policies will inevitably bring about population movement. The comprehensive relaxation of settlement policies will accelerate the pace of urbanisation and population inflow into small cities, promote gradual rural-to-urban migration, support a steady inward population flow from outside regions, and ensure the vitality of the urban population. In addition, it will help to promote the formation of a new model of central cities leading the development of urban agglomerations, and urban agglomerations driving regional development.



Important adjustments to China's regional development policies

On 16 December 2019, Qiushi Magazine published an article signed by China's Chairman Xi Jinping titled *Promoting the Formation of a Regional Economy with Complementary Advantages and High-quality Development* in its 24th issue¹⁶. The article states that profound changes are occurring in the spatial structure of China's economic development; central cities and urban agglomerations will form the primary spaces that sustain the key elements of development. It is necessary to take the path of a reasonable division of work and optimisation of development in accordance with conditions in each region, to implement the strategy of primary areas of function, improve the governance of various spaces, and form regional economic layouts with complementary advantages and high-quality development.

Since the founding of the PRC, the country's distribution of productive capabilities has undergone several major changes:

- During the First Five-year Plan, of the 156 key projects constructed with Soviet aid, more than 70% were located in northern China and 54 of them were in north-eastern China.
- In 1956 in *On the Ten Major Relationships*, Chairman Mao Zedong proposed properly managing the relationship between coastal and inland industries, and in the mid-1960s, the Third Front construction movement was launched.
- Along with the reform and opening-up, a series of major actions were taken, such as establishing special economic zones and opening up coastal cities. Since the mid-1990s, regional development strategies of the east taking the lead in development, major development of the west, the rise of central China and the revitalisation of the northeast have been furthered.
- Since 2012 when CCP's 18th National Congress took place, the Central Committee has

proposed new regional development strategies such as coordinated development of Beijing, Tianjin and Hebei; development of the Yangtze River economic belt; the Belt and Road Initiative; establishment of the Guangdong-Hong Kong-Macao Greater Bay Area; and the integrated development of the Yangtze River Delta.

- The next step is to research issues surrounding ecological protection and high-quality development in the Yellow River Basin.

The central government has consistently placed great importance on regional economic and social development. This is aimed at bringing into play various regions' comparative advantages, narrowing regional disparities in development, and making a series of major strategic decisions and deployments to promote integration and interaction between different regional segments, as well as to strengthen coordination for regional development. As regional development strategies have been implemented, overall the economies of China's various regions continue to grow, economic structures are continually optimised, and regional development disparities are shrinking in general. However, at the same time, new situations and new issues have emerged.

Trend of evident differentiation in regional economic development

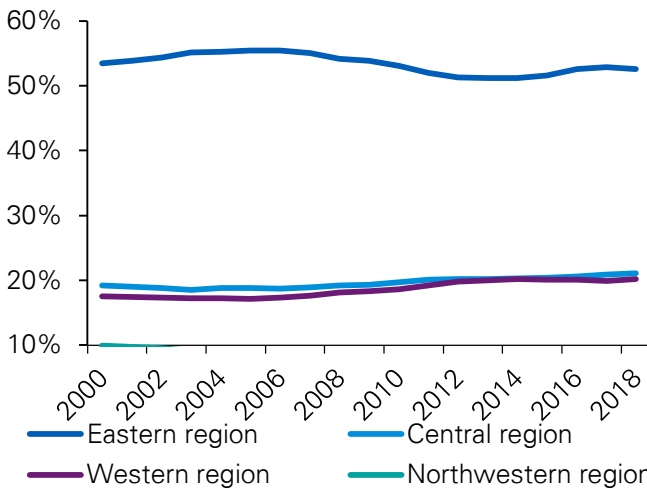
The eastern region relies upon its geographic advantages and first-mover advantage from reform and opening up. Its economic development was rapid, and it became a key driver of the sustained and rapid growth of the entire national economy. In 2018, the eastern region's total output value accounted for 52.6% of the country's total output value. Within that, the total output value of the Yangtze River Delta and Pearl River Delta combined accounted for 31.82% of the country's total, taking a preliminary step onto the path of high-quality development and playing an important leadership and driving role in regional economic development.

¹⁷ http://www.qstheory.cn/dukan/qs/2019-12/15/c_1125346157.htm

¹⁸ "Economic and Social Development Statistical Chart: 2018 Achievements from the Quality of Economic Development and Primary Indicators for Regional Economies", Qiushi, February 2019, http://www.qstheory.cn/dukan/qs/2019-02/16/c_1124114971.htm

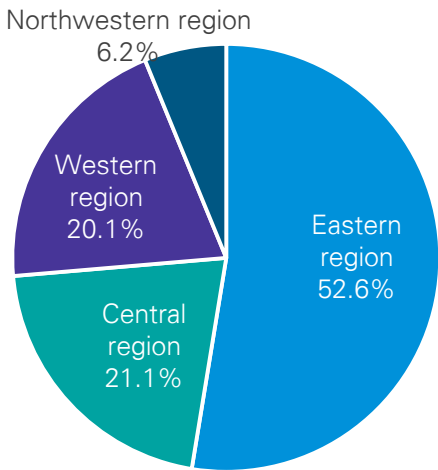
On the other hand, economic growth has slowed in some northern provinces. In 2018, the northern region's total economic value accounted for 38.5% of the country's total, a decrease of 4.3 percentage points from 2012. This indicates that the national economy's centre of gravity has moved further south.

Figure 25: Proportion of the total economic value for the four major regions, 2000-2018



Sources: Wind, KPMG analysis

Figure 26: Four major regions' proportion of 2018 GDP



Sources: NBS, KPMG analysis

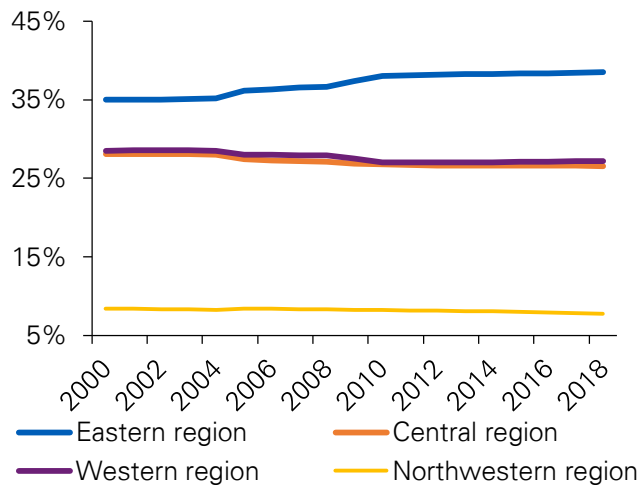
Polarisation of development momentum is becoming increasingly prominent

As urbanisation rapidly progresses, China's urban layout has been continually optimised, the clustering effect has been noticeably strengthened, and the trend of economies and population to gravitate toward large cities and urban agglomerations is fairly apparent. Urban agglomerations such as the Pearl River Delta, the Yellow River Delta and Beijing-Tianjin-Hebei have become important forces driving economic development, and they possess strong international economic influence. The development advantages of megacities such as Beijing, Shanghai, Guangzhou and Shenzhen have continued to increase, and development trends in large cities such as Hangzhou, Nanjing, Wuhan, Zhengzhou, Chengdu and Xi'an are relatively positive, filling an important space for driving high-quality development.

Some regions face greater difficulties in development

The development of the northeastern and northwestern regions is lagging compared with the other regions. From 2012 to 2018, the northeastern district's portion of national economic output dropped from 8.7% to 6.2% and the permanent resident population fell by 1.37 million. The development of the northeastern and northwestern regions is lagging compared with the other regions. There was insufficient vitality in the development of some cities, particularly those that are resource-depleted or are traditional industrial and mining areas.

Figure 27: Proportion of permanent residents in the four major economic regions



Sources: Wind, KPMG analysis

At present, the spatial structure of China's economic development is undergoing profound changes. Central cities and urban agglomerations have started bearing the load of the primary factors for development. In this new state of affairs, Chairman Xi Jinping has put forward new thinking on a plan for coordinated regional development — adjust and improve regional policy systems in accordance with objective economic laws. It is aimed at giving full play to the comparative advantages of different regions; promoting the reasonable flow and efficient clustering of various key elements; strengthening the drive for innovative development; accelerating the construction of a driving system for high-quality development; strengthening the economic and population carrying capacity of economically advantageous areas such as central cities and urban agglomerates; enhancing the functions of other regions in ensuring food security, ecological security and border security; and forming regional economic layouts that are mutually advantageous with high-quality development. A series of new measures under this new line of thinking was also proposed to promote coordinated regional development.

1. Form a nationwide unified, open commodity and factor market with orderly competition

As early as 2013, the *Decision of CCP Central Committee Regarding Several Important Issues Concerning Comprehensively Deepening Reform*, adopted by the Third Plenary of the 18th Central Committee Session, stated that building a unified and open market system with orderly competition is the foundation for markets to play a decisive role in the allocation of resources. Upholding market rules of fair competition, realising the free flow and equal exchange of commodities and factors, and eliminating barriers of unnecessary monopolies can effectively achieve unimpeded market access as well as the coordination and promotion of the overall development of urban and rural markets, and regional markets. Additional measures include implementation of differentiated settlement policies; comprehensive easing of conditions for settlement in urban areas; strict control of population sizes in megacity behemoths such as Beijing, Shanghai and Guanzhou; and promotion of optimal distribution of human resources.

2. Roll out a nationwide general plan for old-age insurance as soon as possible.

Implementing a nationwide plan for basic old-age insurance is of great significance for a fair competition environment for enterprises, optimising allocation of labour and establishing a unified nationwide labour market. In its *Comprehensive Plan for Reducing Social Insurance Rates* issued in April of last year, the State Council proposed establishing a basic old-age insurance fund for enterprise employees by the end of 2020 with unified provincial revenues and expenditures. In addition, Minister of Human Resources and Social Security Zhang Ji'nan, stated in December that the Ministry of Human Resources and Social Security has already established and implemented a central adjustment system for a basic old-age insurance fund, taking the first step toward a nationwide general plan for basic old-age insurance. From the provincial level to the national level, overall planning will be gradually elevated for interconnectedness between pension fund pools in different areas, achieving unification of systems across the country and interregional mutual aid.

3. Reform the land management system.

With China now seeing rising urbanisation, the old system has failed to adapt well to current development needs. Accelerating the pace of reform of the land management system and favouring central cities and urban agglomerations for construction land resources will provide more development space for advantageous areas and better ensure a significant improvement in China's urbanisation. Additionally, on the precondition that spatial planning of national territory and issuances of rural land rights have essentially been completed, provincial governments will do more planning and hold more responsibility for the use of urban and rural construction land, tailoring methods to local circumstances and carrying out differentiated land management to put into play the role of land as a factor of production to the greatest extent possible.

4. Improve the energy consumption dual-control system.

Total energy consumption and a strong dual-control system can effectively promote the optimisation of the energy structure and the development of a circular economy. According to preliminary calculations on data from the National Bureau of Statistics, total energy consumption increased 3.3% in 2019 from the previous year. Of that, the proportion of clean energy consumption increased by 1 percentage point from the previous year, and the proportion of coal consumption decreased by 1.3 percentage points¹⁹. However, in 2018, the National Reform and Development Commission released the results of the 2017 assessments of dual-control²⁰ systems in various provinces and cities. The assessment results showed that 12 provinces (cities) outperformed expectations, 16 provinces (cities) met expectations and three provinces (cities) failed to meet expectations. It is necessary to formulate appropriately flexible total consumption controls, seek truth from facts, and strengthen overall planning and coordination.

5. Establish a comprehensive ecological offsetting system.

Adhere to the principle that whoever pollutes the environment, or destroys the ecology, shall pay for it and who benefits from that shall compensate for it. Improve the ecological offsetting mechanisms in key ecological function areas and develop the value of ecological products in the Yangtze River Basin through pilot implementations. Drive the establishment of a ecological offsetting system across regions, and strengthen interregional interest compensation mechanisms. At the same time, strengthen the streamline of ecological offsetting mechanisms, and intensify efforts to expediate payments to forests, grasslands, wetlands and key ecological areas. Promote the experience in the Xin'an River Environmental Offsetting pilot project, encourage the development of different types of offsetting in both the upper and lower reaches of the river basin, such as in capital, industry and personnel. Essentially achieve full ecological offsetting coverage in key areas such as forests, wetlands, rivers and streams, cultivated land, and the air, as well as in areas where development is prohibited and key ecological areas.

¹⁹ "Liu Wenhua: Total Energy Supply-Demand Remain Stable, Energy Structures Continue to Be Optimized", National Bureau of Statistics, January 2020, http://www.stats.gov.cn/tjsj/sjld/202001/t20200119_1723869.html

²⁰ Dual-control means the control of energy intensity and consumption.

6. Improve the fiscal transfer payment system.

The fiscal transfer payment system is a fundamental system for public finance budget management. The implementation of fiscal transfer payments has played an important role in narrowing financial gaps between regions, advancing equality in basic public services and promoting coordinated regional development. Improve the public finance system and coordinate central government expenditures; provide effective transfer payments for key ecological areas, primary agricultural production areas, and underdeveloped areas, advancing the merging of regional equity and efficiency. Deepen household registration reform; establish mechanisms that link basic public services such as medical care, employment and housing security to the permanent population; allocate public service resources in accordance with the population of permanent residents. Improve platforms for public services by means of information technology, improve resource efficiency and strengthen information sharing to facilitate the movements of people on a nationwide scale.



Foreign Investment Law and its implementation regulations officially take effect

On 15 March 2019, China's basic *Foreign Investment Law* was passed through a vote at the Second Session of the 13th National People's Congress. On 31 December, the Executive Meeting of the State Council issued the *Implementation Regulations for the Foreign Investment Law* ²¹, which came into effect simultaneously with the *Foreign Investment Law* on 1 January 2020.

The *Foreign Investment Law* is the foundational law for China's use of foreign investments in a new era, and the Implementation Regulations are the administrative regulations for the implementation of the *Foreign Investment Law*. They are both important tools for promoting systematic opening up. The *Foreign Investment Law* and its Implementation Regulations along with relevant department regulations, standardised documents and judicial interpretations all constitute the institutional framework of the foreign investment management system for a new era in China.

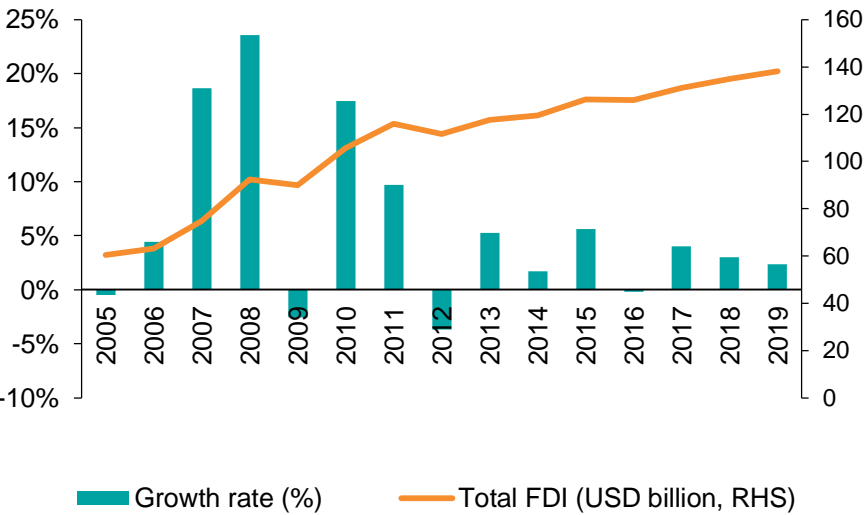
In recent years, China has actively expanded and opened up different spheres, by continuously reducing the negative list for foreign investment access, gradually lifting restrictions on foreign investment aside from the negative list, and improving policies to encourage foreign investment.

In June 2019, the National Development and Reform Commission (NDRC) issued the *Special Management Measures for Foreign Investment Access (Negative List)* (including a national edition and a free trade pilot zone edition) and the *Catalogue of Industries Encouraging Foreign Investment*, containing a list of 415 industries that are encouraged to receive foreign investment. The NDRC issued an interpretation, stating that China has already formed a new management system of "national treatment before access + negative list + foreign investment promotion policies." With the *Foreign Investment Law* and its Implementation Regulations taking effect, there is a unified and clean legal and regulatory laws for the management system of national treatment before access, negative list, foreign investment promotion policies, the foreign investment promotion system and the foreign investment protection system. The legal framework covers the entire foreign investment business process, following the concept of deepening systematic opening up, and providing standard laws and regulations for governments and departments at all levels to effectively put into the national treatment principles and the negative list management system practice.²²

²¹http://www.gov.cn/zhengce/content/2019-12/31/content_5465449.htm

²² "Foreign Investment Law and its Implementing Regulations, Assisting China's High-quality Use of Foreign Capital, National Development and Reform Commission, January 2019 , https://www.ndrc.gov.cn/xxgk/jd/jd/202001/t20200102_1218393.html

Figure 28: Foreign direct investment 2000-2018



Sources: Wind, KPMG analysis

The *Foreign Investment Law* and its Implementation Regulations demonstrates China’s attitude of openness toward business activities, and provides legal protection for the continuing optimisation of the foreign investment environment and promotion of greater opening up. It will further strengthen foreign investment enterprises’ confidence in the ongoing deepening and systematising of opening up in China, as well as better showcase China’s resolve to actively expand its external opening up and promotion of foreign investment.



3

Special study: China Social Credit System construction and implications

The planning outline for the construction of China's Social Credit System is to be fully implemented in 2020. With a broad range of legislations and industry standards, the improving joint incentive/punishment system and strong "Internet + Supervision" system, the innovative credit-based supervision mechanism is well equipped to improve the modernisation of the governance system and capabilities. This special study analyses the current situation of the China Social Credit System, to help companies take a proactive approach to the opportunities and challenges of the credit-based supervision mechanism.



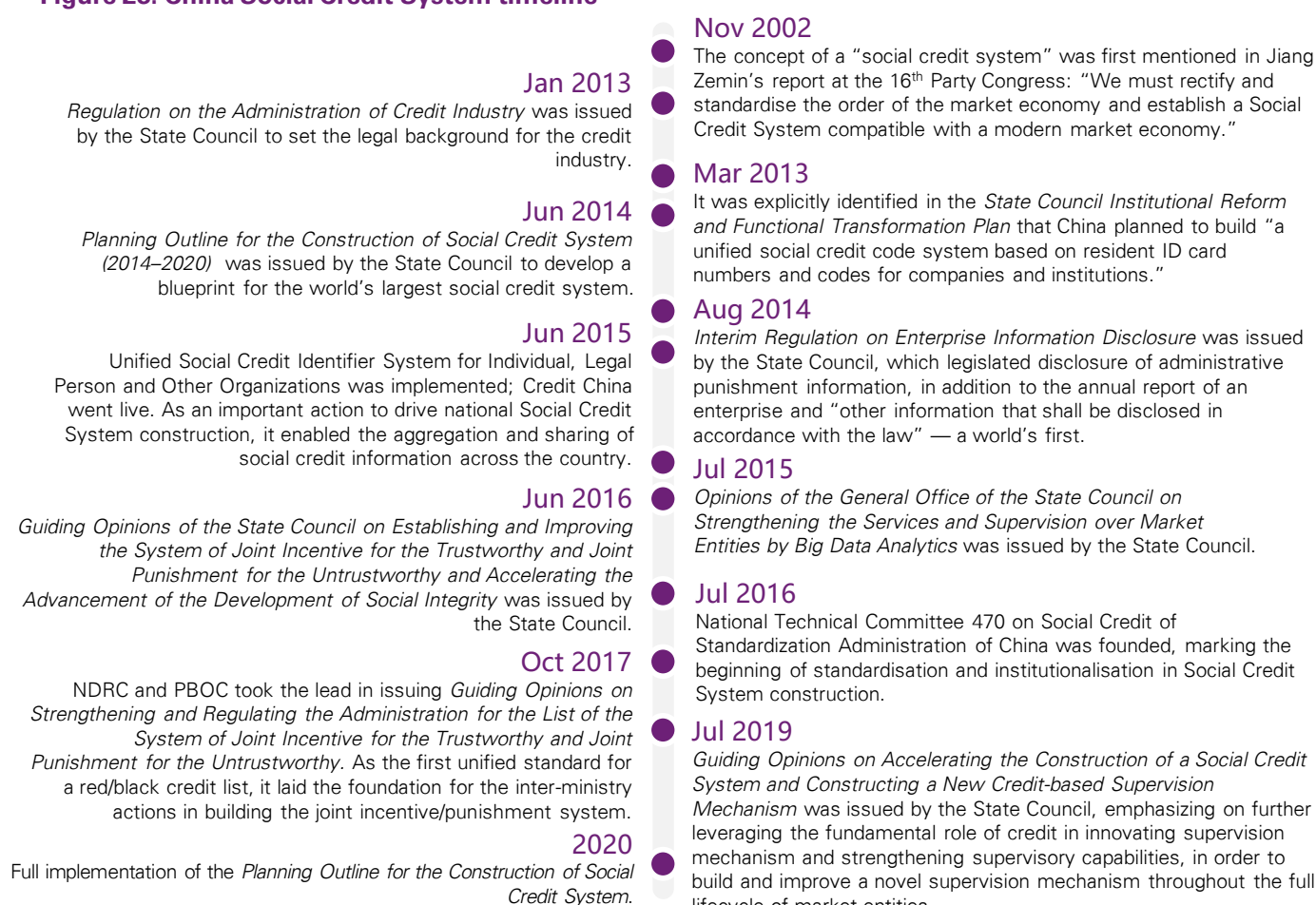
China accelerates Social Credit System construction

Despite China's achievements in economic development since the Reform and Opening, poor credit and lack of integrity are still issues that undermine social-economic operations and which could jeopardise the efforts to build a favourable and fair market environment. According to the Credit Office, Department of Fiscal and Financial Affairs, NDRC, four billion contracts are signed in China every year, yet only 50% of these are fulfilled. Annual losses caused by lack of credibility are estimated at RMB600 billion, and only 20% of individuals subject to enforcement actively go on to fulfil their obligations²⁴. In recent years, the Chinese government has been focused on the construction of the Social Credit System. This was

evidenced by a broad range of legislation and industry standards.

Statistics show that, to date, two-thirds of all provinces, regions and municipalities have issued or will issue local regulations on social credit, and social credit related content has been included in 26 laws and 28 administrative regulations²⁵. Most laws, regulations and rules issued since 2013 are closely related to the Social Credit System. In August 2019, the government began to solicit holistic consultation for the department draft of *Social Credit Law of People's Republic of China*.

Figure 28: China Social Credit System timeline



Source: Public information, KPMG analysis

²⁴ "Let the untrustworthy have no place to hide and let the trustworthy go forth with strength", NPC, December, 2019
<http://www.npc.gov.cn/npc/c30834/201912/1b90a6ba54024789b1c29e941a02cf1b.shtml>

²⁵ "The National People's Congress financial and economic committee suggested speeding up the legislation of social credit law", Credit China, November 2019, , https://www.creditchina.gov.cn/xinyongdongtai/buwei/201911/t20191114_175498.html

Four areas of China's Social Credit System

As the most fundamental principles to guide actions, the *Planning Outline for the Construction of a Social Credit System (2014–2020)* is focused on four areas: government administration, commercial business, social and judicial. These were further divided into 153 items in 32 sub-categories according to different sectors and operating processes.

Government administration

Actions include: legal administration; strengthening the integrity management and education of officials; fulfilling commitments to society; promoting transparent administration; building an effective information sharing mechanism; driving the reform of “decentralisation, strengthening supervision and optimising services”; leveraging credit information and products in administrative approval, government procurement, bidding, labour, social security, scientific research management, of officials' selection/appointment/management/supervision, government funding application; developing a credit service market; and making the government a role model of integrity.

Commercial business

As the basis for the sustainable development and efficient operation of market participants, business credit construction is focused on items in 14 sub-categories — production and manufacturing, tax, bidding and tendering, e-commerce, corporate integrity, statistics, government procurement, exhibition and advertising, transportation, engineering construction, trade and logistics, intermediary services, market pricing and finance. These items highlight the importance of strengthening interdisciplinary credit information sharing and joint incentive/punishment programmes. A total of 24 relevant ministries and commissions will be responsible for improving credit platforms, strengthening interim and ex post supervision, using digital technologies such as big data and AI to improve supervision efficiency, maintaining market order and industry governance, and reducing business credit risks.

Social

Social credit construction is focused on 57 items in 10 sub-categories — healthcare and family planning, culture, sports and tourism, intellectual property, individual, social organization, environmental protection and energy efficiency, educational and scientific research, internet applications and services, social security, labour. As we can see, social credit is more about company integrity, which is closely related to our everyday life. In addition to the interdisciplinary credit information sharing and joint incentive/punishment programme in commercial business credit, social credit attaches more importance to the credit management system, professional ethics and codes of conducts in different sectors, which aims to strengthen integrity education for practitioners and enhance their awareness of integrity.

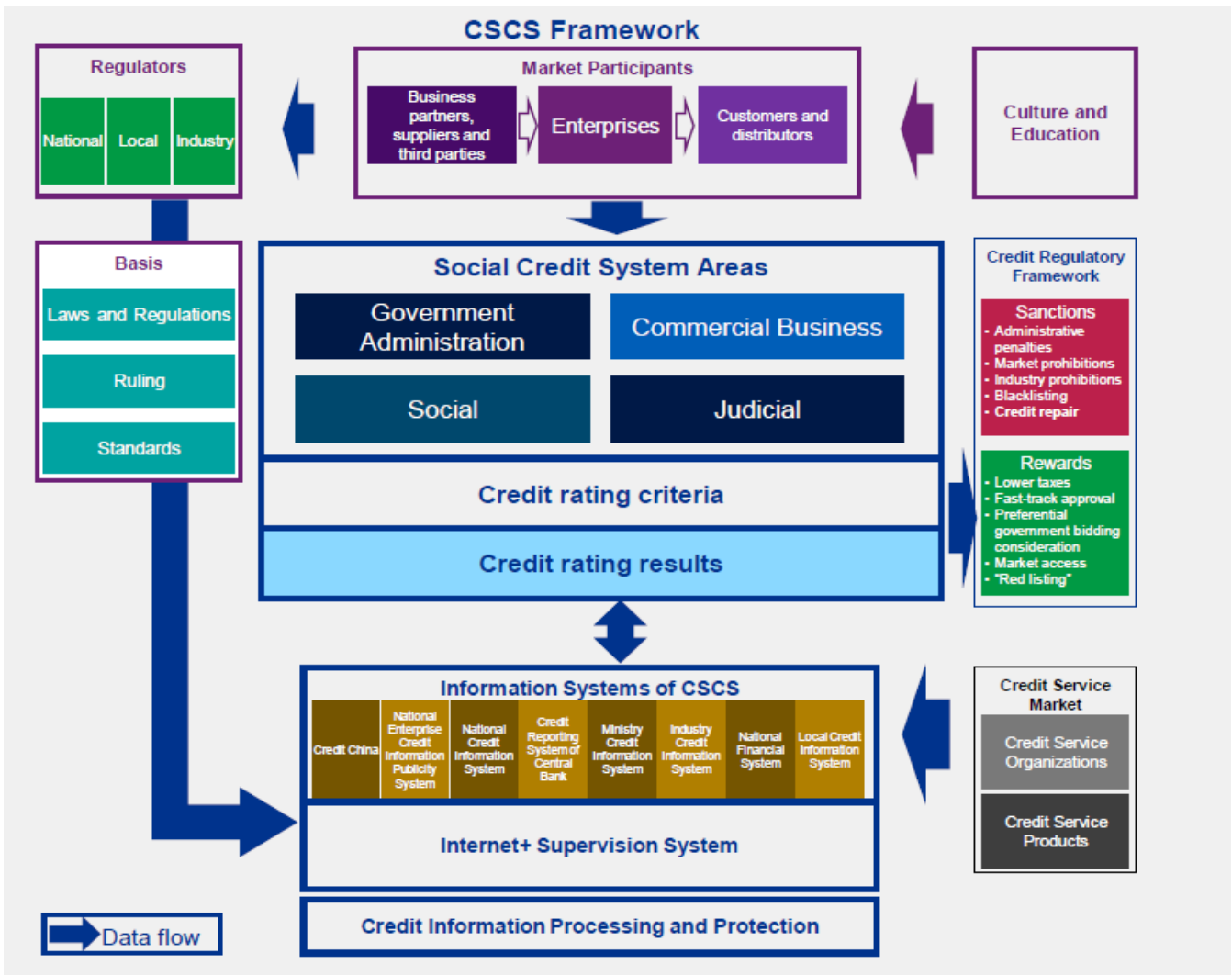
Judicial

Actions of judicial construction include: Promoting the construction of the police, procuratorate and judiciary systems, including driving the construction of smart courts; improving the normalisation and institutionalisation of the judiciary system; increase transparency in the procuratorate and judiciary systems; promoting “transparent enforcement” and “transparent case-handling”; improving the credibility in the area of public security; strengthening demographic information management; improving integrity management of transport and fire safety; strengthening the trustworthiness construction of enforcement staff and practitioners; and laying a sound institutional foundation for judicial credibility.

China Social Credit System: framework and features

The Outlines explicitly identified the goals of China’s Social Credit System construction: By 2020, there will be a complete system of basic laws, regulations and standards on social credit; a nation-wide credit reporting system based on information sharing; a solid and sound credit-based supervision mechanism; a robust credit service market system; and a fully functional incentive and punishment mechanism. A favourable and fair competitive market environment will be built based on a robust Social Credit System and a credit-based innovative supervisory system throughout the full life cycle of market entities. The basic framework of China’s Social Credit System can be described by the following diagram:

Figure 29: China Social Credit System framework



Source: Planning Outline for the Construction of a Social Credit System (2014-2020), KPMG analysis

“Internet + Supervision” System and Joint Incentive/Punishment and Credit Repair Mechanism are of particular relevance in China’s Social Credit System.

“Internet + Supervision” System for credit-based supervision mechanism

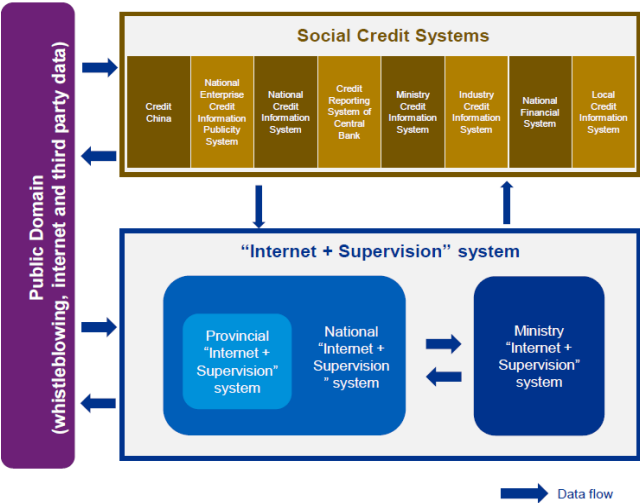
A complete credit information platform will play a vital role in the construction of a credit system for individuals and companies. In recent years, the rapid growth of digital and information economy has accelerated the development of a national credit information sharing platform in China. The Unified Social Credit Identifier System and other measures such as the “3-in-1 Licence” (Business Licence, Company Code Certificate and Tax Registration Certificate), as well as normalised collection, integration, exchange, publication and application of credit information, have enabled interconnections between central database and local credit information platforms, industry credit information systems, business credit survey and rating agencies, and have driven the integration of big data resources.

Table 9: Major public credit information platforms

National Credit Information Sharing Platform
China Enforcement Information Disclosure Network
National Public Credit Information Center
National Enterprise Credit Information Disclosure System
Xinhua Credit Platform
Credit Reference Center, PBOC
Basic Database for Financial Credit Information
Enterprise Tax Credit Rating Inquiry Platform
Credit Publicity Platform of In-Ex Business of Customs
Transport Credit Information Platform
National Tourism Supervision and Service Platform

Source: Public Information, KPMG analysis

Figure 30: “Internet + Supervision” system framework



Source: Planning Outline for the Construction of a Social Credit System (2014-2020), KPMG analysis

In addition, the government is leveraging credit information system platforms to innovate credit-based supervision mechanism: In routine affairs (for example, registration, qualification review, daily supervision and public service), market entities are encouraged to provide credit information, such as qualifications, licence, operation, contract fulfilment and public welfare, and make public promises on the authenticity of information, to enhance their sense of responsibility and self-discipline — all on a voluntary basis. At the same time, the “Two Random and One Public” principle is applied to combine random inspections on site with monitoring online. Therefore, the credit behaviour of market entities will be recorded in a timely, accurate and complete way by credit information platforms for inter-department sharing and public disclosure, under the framework of local/department/industry supervisory systems. By enabling the “bi-directional” flow of government and enterprise data, this mechanism helps to build an “Internet + Supervision” system out of fused credit information platforms, which covers all kinds of supervisory and credit information of market entities. As such, the Social Credit System can be better leveraged to drive the market economy.

As China switched to the Unified Social Credit Identifier System, only “One Licence and One Code” are needed in market entities’ interactions and transactions with the government. As of July 2019, the National Credit Information Sharing Platform, headed by NDRC, has connected 44 ministries/commissions, all provinces/regions/municipalities and 70+ market institutions, as well as integrated 37 billion credit information entries²⁶.

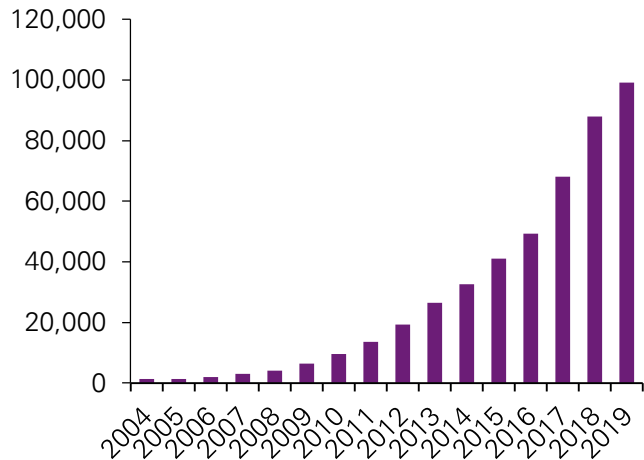
Other features include credit information/history enquiry, objection handling and joint incentive/punishment. As of January 2020, Credit China has published 147 million administrative approvals/punishments entries. As per National Enterprise Credit Information Disclosure System data, as of June 2019, the system had 811 million entities of enterprise information and daily retrievals of 5.87 million person-times²⁷. Online enquiry of credit information has become a standard practice in bidding, procurement and transactions.

With the “Internet + Supervision” System, the government is able to use big data analytics in identifying massive enterprise credit information and matching it to rating standards, so as to create enterprise credit rating reports. In this way, the government can apply differentiated supervision, which helps to save costs and enhance efficiency. In addition, intelligent algorithms could be used to establish risk prediction and early warning systems to identify, notify and handle fraudulent conduct as early as possible. This not only improves the timeliness, accuracy and effectiveness of supervision but also helps market entities maintain a good record and avoid the serious consequences of major misconduct. These efforts will help to build a transparent and

efficient credit-based supervision system, which, in turn, would improve the efficiency of economic operations. For example, consumer credits may benefit from the Social Credit System: Financial institutions and other businesses could use social credit rating as a reference to increase the credit line of users with an excellent score or boost credit sales, so as to revive the consumer market. As of the end of 2019, the short-term consumer credit of China surged to nearly RMB10 trillion from RMB125.3 billion in 2004, representing a CAGR of 34%. The full implementation of the social credit system will also provide a solid foundation for the growth of the consumer finance market.

In addition, high-quality reports on credit risk rating may help financial institutions address the problem of asymmetric information between banks and enterprises, thus increasing the chances of SMEs in getting credit loans from financial institutions. This would significantly improve China’s financial ecosystem.

Figure 31: China Short-term Consumer Credit, 2004-2019, RMB 100 Million



Source: Wind, KPMG analysis

²⁶ The national development and reform commission held a press conference on macroeconomic performance”, Chinese Government Network, August 2019, http://www.gov.cn/xinwen/2019-08/16/content_5421709.htm

²⁷ “The national development and reform commission held a press conference on macroeconomic performance”, Chinese Government Network, August 2019, http://gkml.samr.gov.cn/nsjg/zlfz/201911/t20191111_308392.html

Nevertheless, considering the rising requirements on data depth and quality by central/local governments and industry associations, and the unprecedented volumes of enterprise data — especially sensitive data — aggregated in credit information platforms, companies should be aware of two things: First, ensuring data security and data governance is of utmost importance. Numerous information leakage events have made information security a top priority for all people. Companies must answer the key questions of how to build a complete data governance system to ensure data security. Furthermore, companies are required to provide massive amounts of data in the construction of the Social Credit System, and some sensitive data may be involved. As the government continues to improve its data consolidation capabilities, companies also need to enhance their engagement with the government to stay in line with the compliance requirements while protecting their core information.

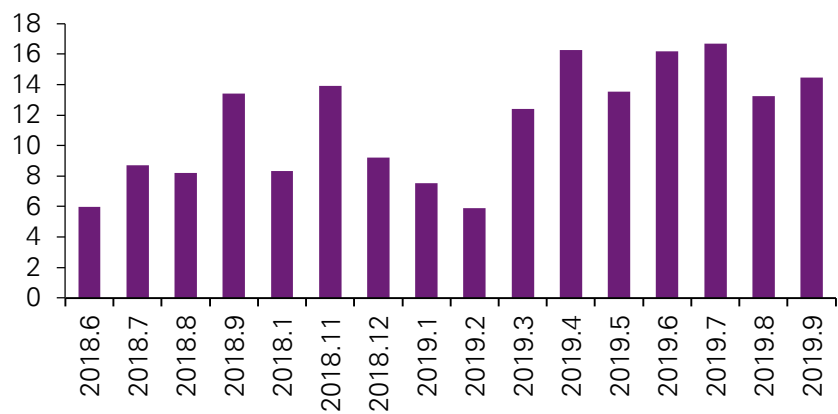
Joint incentive/punishment and credit repair mechanism

In June 2016, *Guiding Opinions of the State Council on Establishing and Improving the System of Joint Incentive for the Trustworthy and Joint Punishment for the Untrustworthy and Accelerating the Advancement of the Development of Social Integrity* was issued by the State Council, which provided a basic framework for joint incentive/punishment programmes and showed the way ahead for the credit works of member entities. In October 2017, NDRC and PBOC took the lead in issuing *Guiding Opinions on Strengthening and Regulating the Administration for the List of the System of Joint Incentive for the Trustworthy and Joint Punishment for the Untrustworthy*, the first unified standard for a red/black credit list in China. As of August 2019, government institutions have signed 51 memorandums on joint incentive/punishment — five on joint incentives, 43 on joint punishments and three on joint incentive/punishment. Red lists and black lists are developed in line with uniform standards, and these lists would have direct consequences on the entity involved.

- For market entities with good credit record and lower credit risk, the proportion and frequency of random inspections will be reduced to minimise the impacts on their operations. Entities with good record will be entitled to better administrative/financing/public services, as well as lower supervisory/transactional costs.
- For market entities with poor credit record and higher credit risks, their records will be archived for inquiry, inspection and tracing, in addition to a higher proportion and frequency of random inspections. Meanwhile, the information of entities with poor credit record will be shared with all relevant departments, who may face severe punishments from the government for any negative records — that's what China calls "violated in one, restricted in all".
- In addition, the credit of individuals is linked to the credit of companies, which means companies may be punished for untrustworthy conduct of their legal persons or core management, and vice versa.

As of the end of 2019, the red/black credit lists had proven very effective. Statistics of the Enforcement Disclosure Network of the Supreme People’s Court show that there are 5.7 million untrustworthy entities in China. The State Taxation Administration has signed memorandums with 29 departments to provide 41 joint incentive to taxpayers with good credit record. In particular, the “Interlinked Tax-Banking” programme with the Banking and Insurance Regulatory Commission has offered an effective solution to the difficulties and high costs of SME financing.

Figure 32: Net added untrustworthy entities to enforcement, 10K



Source: Wind, KPMG analysis

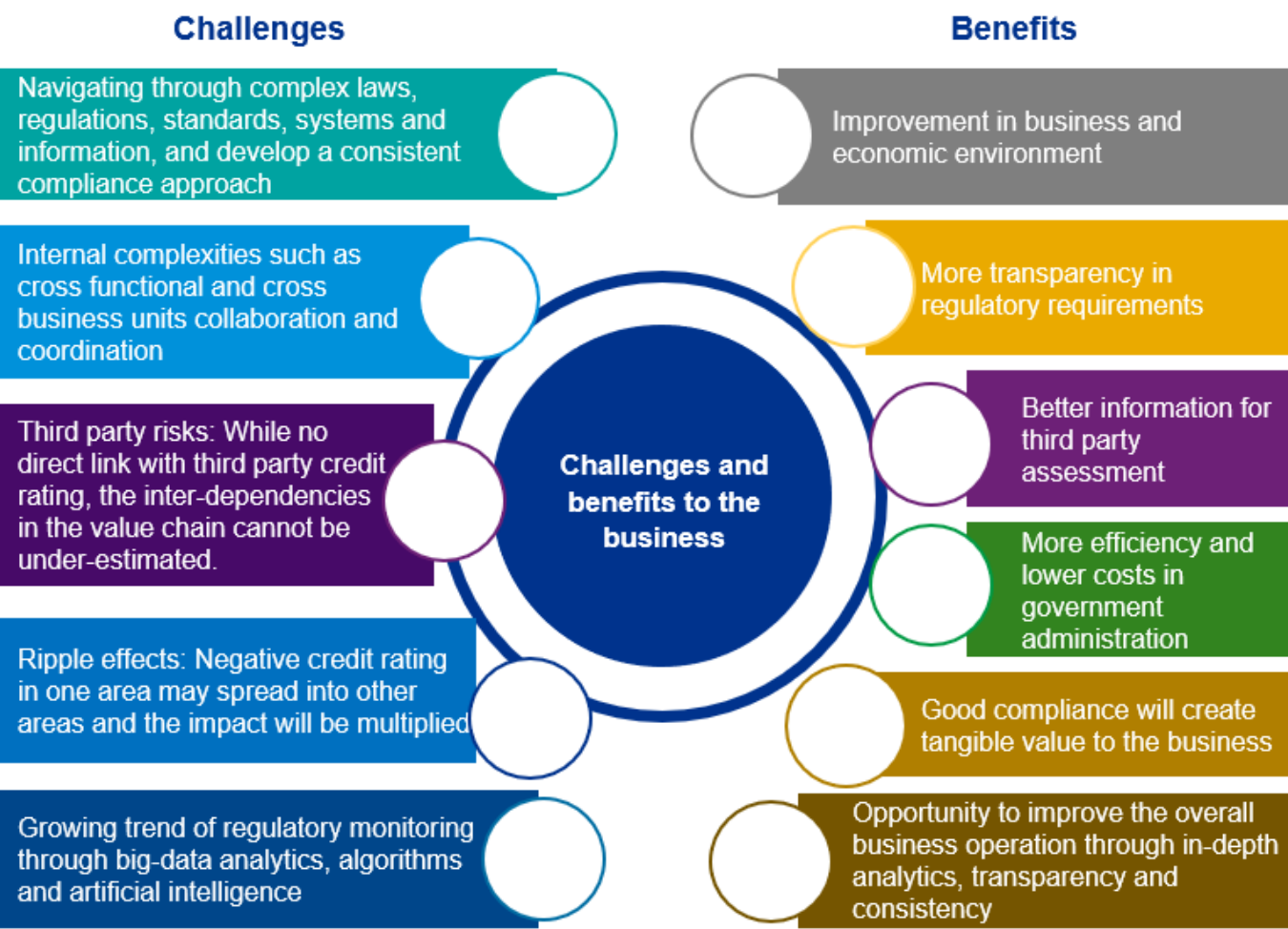
As we can see, the joint incentive/punishment system is both an opportunity and a challenge for companies in terms of better resources and management pressure. Companies must have a comprehensive understanding of the laws and regulations involved in the Social Credit System, and implement complete inspections of their operations — once they are labelled as “Untrustworthy” in one sector, they will be facing tremendous limitations in others.

Notably, the joint incentive/punishment mechanism is binding to market entities with poor credit record. The ultimate goal of China’s Social Credit System is to build a contractual society and a favourable business environment. Therefore, it is of vital importance for untrustworthy entities to repair or restore their credibility by correcting dishonest conduct within a specified time frame. Presently, the NDRC is taking the lead in building a standardised credit repair system. In the future, companies may repair or restore their credit by making promises on credit-repairing, participating in public welfare and charity projects, taking credit training, improving management’ awareness of legal and integral operations, and rectifying non-compliant items.

How should companies address the opportunities and challenges of the Social Credit System

From the above analysis, we can see that the establishment of the Social Credit System is bound to bring significant changes to government supervision and business operations. Its impacts on the market economy and operating environments represent both opportunities and challenges to the risk management of companies.

Figure 33: Opportunities and challenges for companies



Source: KPMG analysis

The traditional silo and reactive based compliance approach will no longer be sufficient. The shift in the regulatory paradigm requires companies to take a proactive approach for the credit-based supervision mechanism. Based on a broad range of research on industry/region-specific credit laws and regulations, and a thorough understanding of enterprises' Social Credit System goals, we recommend the following roadmap:

Establish a credit rating regulatory database

In order to keep the enterprise updated on the latest developments and changes in laws, regulations and standards on enterprise credit rating, an internal "Credit Rating Officer" should be identified to take the lead in related efforts, including: building a unified, hierarchical and categorised library of laws and regulations on enterprise credit rating supervision; monitoring the latest development and changes in credit rating supervision requirements; and maintaining a timely database of applicable laws, regulations and standards on enterprise credit rating in line with business scope.

Create check lists for credit rating in different departments

With the credit rating regulatory database built and operational, the officer should cooperate with business departments to create specific check lists for credit rating, in alignment with applicable standards, requirements and incentive/punishments of each department. In this way, credit rating standards are translated into internal management requirements in forms of business management systems and compliance manuals, so business departments of different levels could follow them in their daily actual work.

Assess and optimise company credit rating risks

The company should perform risk assessments on the current situation based on enterprise credit rating goals and gap analysis results, to identify high-risk areas and "loose ends" needing urgent addressing. Root cause analysis of company structure, business processes, mechanisms, information systems, data and people are also needed to pinpoint underlying problems. From there, check lists could be used to make suggestions on how to optimise functional structures, mechanisms, processes, systems, people and permissions, with corporate strategies and credit rating goals taken into consideration.

In addition, a credit rating performance evaluation system should be in place — with an appropriate proportion in the overall performance evaluation of departments — to ensure the proper implementation of credit rating management requirements. In turn, this will drive up the efficiency and effectiveness of the overall credit management and foster awareness of "legal and integral operation" in the company.

Build an internal information system to monitor credit rating

The Enterprise Credit Rating System offers a useful tool for companies to improve the timeliness and effectiveness of credit rating management throughout the process, by providing relevant information and data. In this way, it lays a solid foundation for forward-looking predictions, monitoring and early warning in credit rating.

In developing the credit rating system, the enterprise may take an approach of holistic planning, staged go-live and phase-in. First, a development plan, together with function design and vision, should be created for the credit rating system, on the basis of an integrated plan of information systems and credit rating standards. Next, the credit rating information system should be developed and deployed in a staged approach, based on the development plan of the credit rating system and the progress of credit rating in different departments, to provide information support in credit rating. Meanwhile, the data interfaces between the credit rating system and business/administrative systems and data warehouse should be optimised over time to enable automated acquisition and analysis of credit rating data, so as to improve early warning and internal monitoring of credit risks in all domains.

Core functions, such as a database of laws and regulations on credit rating, enterprise credit rating risk assessment, credit rating reports and compliance training, should be given higher priorities, while less important functions should be added as needed to realise full-process support.

Strengthen internal credit management communications and culture

Companies should be advocates of business integrity, and include the concept of credit management in their corporate culture through training and communications on integrity. Management should also enhance its awareness of legal and integrity operation through themed workshops.

Build mechanisms for continuous dynamic monitoring, routine reporting and regulator engagement

Companies should continuously monitor their credit rating and relevant factors, including functional structures, mechanisms, processes, systems and people, as well as set up a routine reporting mechanism on operations and significant risks. Moreover, companies should keep a close eye on the latest credit rating requirements from the government, set up the mechanism to facilitate engagement with external regulators, and clarify the officers, content and frequency with regulator engagement. The Credit Rating Officer should keep in close contact with owners of the regulator engagement.

Summary

As China heads towards the last year of the 13th Five-Year Plan and strives to secure a decisive victory in building a moderately prosperous society in all respects, the planning outline for the construction of its Social Credit System is to be fully implemented in 2020. With poverty gradually eliminated and basic livelihoods secured, how to build a more fair and open socialist market economy, improve the overall quality of life for the Chinese people and create an honest society, remain the key to the goals of socialist modernisation.

From the increasingly robust laws, regulations and industry standards on credit, to the improving joint incentive/punishment system and strong “Internet + Supervision” system, the innovative credit-based supervision mechanism of China is enhanced day by day. This will not only drive the modernisation of governance system/capabilities but also strengthen the construction of Government Credit and Judicial Credibility. Thus, a more comprehensive macro-regulation of markets and market entities could be realised to strengthen economic growth and ensure social stability.

In 2019, China faced an increasingly challenging situation with significant downward pressure on the economy and remarkably higher risks at home and abroad. Through the Social Credit System — a priority project in the 13th Five-Year Plan — innovations in credit products can be integrated into the digital economy to enable novel consumer business models, thus reviving consumption. It also helps to leverage the momentum of investment by optimising the financing structure and costs for enterprises. In addition, China plans to further open up its market and boost international trade, so as to build an “inclusive and open” image. This will unlock more potential in the market economy to accelerate macro-economic growth.

Appendix: Key indicators

			2018	2019	2019					
	Indicator	Unit	Annual	Annual	Jul	Aug	Sep	Oct	Nov	Dec
Economic activity	Nominal GDP	Trillion RMB	91.9	99.1	25.2			27.8		
	Real GDP	% YOY	6.7	6.1	6.0			6.0		
	Industrial production	% YOY	6.2	5.7	4.8	4.4	5.8	4.7	6.2	6.9
	Industrial profit	% YOY YTD	22.0	-3.3	-1.7	-1.7	-2.1	-2.9	-2.1	-3.3
	Retail sales	% YOY	9.0	8.0	7.6	7.5	7.8	7.2	8.0	8.0
	Fixed asset investment	% YOY YTD	5.9	5.4	5.7	5.5	5.4	5.2	5.2	5.4
	Property starts	% YOY YTD	17.2	8.5	9.5	8.9	8.6	10.0	8.6	8.5
	Property sales	% YOY YTD	1.3	-0.1	-1.3	-0.6	-0.1	0.1	0.2	-0.1
	Land purchases	% YOY YTD	14.2	-11.4	-29.4	-25.6	-20.2	-16.3	-14.2	-11.4
	Manufacturing PMI	Index	50.9	49.7	49.7	49.5	49.8	49.3	50.2	50.2
International trade and investments	Exports	% YOY	9.9	0.5	3.4	-1.0	-3.2	-0.8	-1.3	7.9
	Imports	% YOY	15.8	-2.7	-4.9	-5.5	-8.2	-6.2	0.8	16.5
	Trade balance	USD billion	350.9	421.9	44.1	34.6	39.0	42.5	37.6	47.2
	Foreign direct investment (FDI)	USD billion	132.0	0.0	8.1	10.5	11.5	10.0	13.6	13.8
	Outbound direct investment (ODI)	USD billion	120.5	110.6	9.9	8.5	8.8	9.5	8.3	11.8
Financial market	RMB exchange rate	USD/RMB	6.62	6.90	6.88	7.02	7.08	7.07	7.02	7.01
	RMB real effective exchange rate	Index	122.6	122.0	121.2	119.8	120.0	120.9	122.6	122.4
	Shanghai Composite Index (Period end)	Index	2494	3050	2933	2886	2905	2929	2872	3050
	Money supply (M2)	% YOY	8.1	8.7	8.1	8.2	8.4	8.4	8.2	8.7
	Stock of total social financing (TSF)	% YOY	12.0	10.7	10.8	10.7	10.7	10.6	10.7	10.7
	New TSF	RMB billion	19440	25580	1287	2196	2514	868	1994	2103
	New bank loans	RMB billion	16166	16817	1060	1210	1690	661	1390	1140
	Shibor (overnight)	%	2.48	2.18	2.11	2.58	2.36	2.47	2.20	1.86
Price	Consumer price index (CPI)	% YOY	2.1	2.9	2.8	2.8	3.0	3.8	4.5	4.5
	Producer price index (PPI)	% YOY	3.5	-0.3	-0.3	-0.8	-1.2	-1.6	-1.4	-0.5
	Crude oil (WTI)	USD/barrel	64.9	57.0	57.5	54.8	56.9	54.0	57.1	59.8
	Steel (rebar)	RMB/ ton	4177	3933	4035	3790	3794	3801	3926	3885
	Housing price index (70 cities)	% YOY	7.3	9.7	10.1	9.1	8.6	8.0	7.3	6.8

Source: Wind, KPMG Analysis

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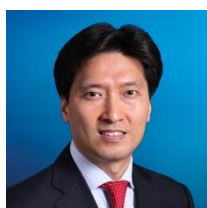
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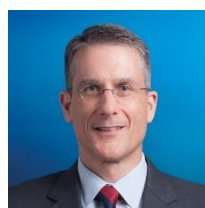
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