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China insight

AN UNSHAKEN STAND

Common Ground

After the truce at the G20 Summit, China-U.S. trade talks need to restart soon

By Michael Zakkour

Trade relations between China and the United States have been in a downward spiral since talks fell apart in the middle of April. At that time, it seemed as if the two economic superpowers had developed a framework for an agreement on trade, tariffs and technology that would lay the foundation for constructive bilateral relationship building for years to come. Then, as optimistic as the situation seemed to be, it suddenly reversed. Not only was there no deal, but the situation quickly escalated for the worse.

The U.S. imposed new tariffs, China retaliated with new tariffs of its own, and the U.S. proposed banning telecommunications giant Huawei from selling its equipment and 5G systems in the U.S. and U.S. technology companies from selling components to the company.

Over the last three months, the result has been a marked deterioration where the two sides have progressed from a serious trade dispute to a trade war and what could signal an all-out technology war.

Making matters even more complicated and unclear, the U.S. threatened to slap tariffs on U.S. imports from Mexico, ongoing trade issues continue between the U.S. and the European Union, and just days before the Group of 20 (G20) Summit, the U.S. singled out Viet Nam as its potential new trade war target for new tariffs.

XINHUA

Workers arrange fireworks imported from central China's Hunan Province on a dock in Philadelphia, Pennsylvania, on May 25 in preparation for a fireworks display on Memorial Day, observed on May 27 this year

A mix of sun and clouds

Heading into the summit held in Osaka, Japan, on June 28-29, the spotlight, much as it was at the G20 Summit 2018, was on presidents Xi Jinping and Donald Trump.

This year, there was an increasing level of uncertainty globally on where things stood between China and the U.S. and what the future may hold for global businesses, trade, industry, geopolitics and finance. The question on everyone's mind was: Will the negativity continue to escalate or is there a light at the end of the tunnel that will see both sides find common ground for an agreement that will put the world and its economy on more certain footing?

The weeks leading up to the expected Xi and Trump talks were filled with many questions and few answers about whether the results of the meeting would be positive, negative or largely neutral.

We now have our answer, and it is largely of the good news/bad news variety. The good news is that tensions have seemingly cooled and threats of escalation have been put to rest for now. The two countries have agreed not to take any dramatic new actions regarding tariffs, the U.S. has walked back its threat of a total ban on Huawei, and China has made some commitments to buy U.S. agricultural products.

Most promising is the announcement that trade talks will resume and that steps will be taken to resolve the major issues at stake, stabilize relations and ensure that the rest of the G20 members (as well as the rest of the world) know what the rules of the game are going forward.

With so much at stake and the entire world watching for the slightest hints of progress or regression, the slightest perception of an escalation in the trade war could have had severe consequences for the short-term health of the global economy.

Markets in the ensuing week were generally higher, responding positively to the summit, as many observers sighed in relief that the G20 economies had dodged another bullet. But lack of regression is not progress and there remains the hard work of sorting out a meaningful, long-term and enforceable agreement. The skies are starting to darken on trade, and the lack of a substantial agreement in 2019 has many economists concerned that 2020 will be a year of global recession.

In April, the International Monetary Fund cut its forecast for global growth for the year to 3.3 percent, warning that any significant increase in trade tensions could "wreak havoc on supply chains and disrupt industries."

The JPMorgan Global Manufacturing PMI dropped to its lowest level since 2012 in May. And many U.S. retailers are being forced to raise prices due to tariffs, although U.S. consumers and major retailers

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such as Walmart, Costco and Target got a temporary reprieve.

What's next?

This is where things stand now: The U.S. and China have agreed to resume the negotiations which ended abruptly in April; the U.S. has suspended plans to impose new tariffs on $300 billion of Chinese imports while new negotiations are ongoing; the tariffs currently in place on both sides will remain in place; the U.S. has backed off its position on a total ban of Huawei; China committed to buying more U.S. agricultural and industrial goods; Trump spoke highly of Xi and stated he is committed to working toward a resolution of the trade war.

In essence, the two sides agreed to start talking again but no real breakthrough was made, and full resolution still seems a way off.

In a sign of progress, Chinese Premier Li Keqiang at the World Economic Forum meeting in Dalian, China, on July 2 made some surprisingly open and public remarks where he pledged that China would cut some tariffs; strengthen efforts to protect intellectual property; open the Chinese market to foreign financial institutions more broadly; and allow foreign companies to apply for research and development subsidies.

The best chance for the new round of talks to produce meaningful and lasting results will come from two things. The first is talking—not the normal schedule of trade talks with significant lag times, but a non-stop conversation starting now.

The two sides have a significant amount of ground that needs to be closed. This will require a non-stop dialogue and an all-hands-on-deck effort from Washington and Beijing, but also in Shanghai, New York and elsewhere, if necessary.

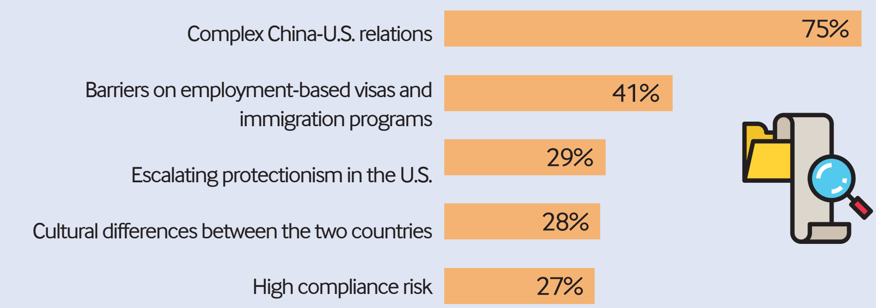
The second is work on a deal that recognizes that not every issue and contentious disagreement between the two sides can be solved now.

It is expected an agreement can be reached that focuses on trade in the short term (where concessions can be made by both sides) and recognizes there are still bigger picture items of global importance to solve once a stable trade environment is established and uncertainty gives way to a new normal that all interested parties in businesses and governments around the world can adjust to.

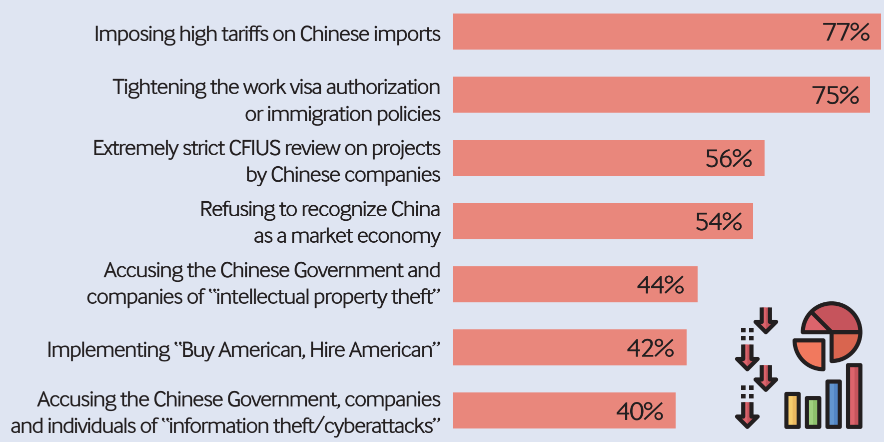
The road may be long, but time is short, and neither side really has as much time on its side as it thinks. **CI**

Chinese Companies in the United States

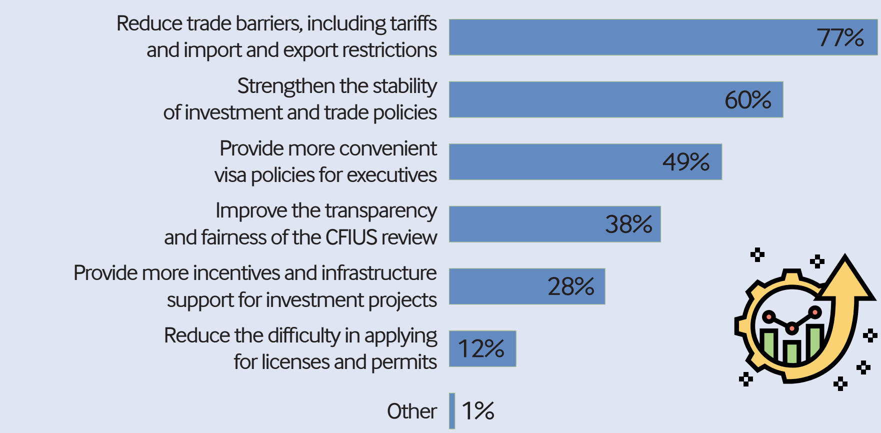
Top Five Challenges in Conducting Business in the U.S.



Percentage of Those Adversely Affected by U.S. Government Policies or Positions



Actions the U.S. Government Could Take to Improve the Business Environment in 2019 and Their Approval Rating



(Source: *CGCC 2019 Annual Business Survey Report; designed by Pamela Tobey*)

The bustling Chaotianmen Wharf in southwest China's Chongqing on April 7

Meeting Expectations

China's first-half economic growth remains stable amid headwinds By Li Xiaoyang

As it released data on China's economic performance in the first half (H1) of 2019 on July 15, the National Bureau of Statistics (NBS) suggested that a solid foundation has been laid for the country to achieve its annual growth targets as the economy maintained steady, resilient development.

The GDP in H1 grew 6.3 percent year on year to about 45.09 trillion yuan ($6.55 trillion), meeting the annual target range of 6-6.5 percent set by policymakers. In the second quarter (Q2), it rose 6.2 percent year on year, slowing from 6.4 percent in the first quarter (Q1).

The Chinese economy has performed within an appropriate range despite global economic slowdown and domestic downward pressure. Instead of resorting to massive stimulus packages, the country has promoted reform and innovation, improved the domestic business environment and cut taxes and fees to boost the economy, NBS spokesperson Mao Shengyong told a press conference on July 15.

Wang Jun, a senior economist at the China Center for International Economic Exchanges, attributed the slowdown in GDP increase to China's efforts to shift to higher-quality growth through economic restructuring. Despite the moderate growth, China had stable performances in employment and residents' income and saw rebounds in indicators such as social financing, he said at the Guoshi Forum in Beijing on July 15. Hosted by China News Service, the event focused on China's economic growth.

Driving forces

Consumption, export and investment—known as the troika of China's growth drivers—maintained steady growth in H1, with consumption continuing to play a key role by contributing 60.1 percent of overall growth. Consumer inflation also remained stable as the consumer price index rose 2.2 percent year on year, below the annual control target of about 3 percent, NBS data showed.

Total retail sales of consumer goods, a gauge of consumption, exceeded 19.5 trillion yuan ($2.8 trillion) in H1, up 8.4 percent from a year earlier. Notably, retail sales rose 9.8 percent year on year in June, up from 8.6 percent in May.

Despite external uncertainties, half-year exports and imports of goods with major trading partners increased, with exports climbing 6.1 percent year on year to 8 trillion yuan ($1.2 trillion) and imports increasing 1.4 percent to 6.7 trillion yuan ($974 billion). The total value of imports and exports of private enterprises expanded 11 percent, representing 41.7 percent of overall foreign trade.

Members of the Association of Southeast Asian Nations, European Union states and countries participating in the Belt and Road Initiative contributed the most to the growth of China's foreign trade, Bai Ming, Deputy Director of the International Market Research Institute, said at the Guoshi Forum.

China's trade with Belt and Road participants totaled 4.24 trillion yuan ($617.5 billion) in H1, increasing 9.7 percent year on year, according to the General Administration of Customs of China (GACC).

To further boost foreign trade, China needs to enhance manufacturing industries to gain more of an edge in exports and broaden its market access to better meet domestic demands and participate in the global industrial chain, Bai stressed.

On July 10, the State Council, China's cabinet, decided to launch an array of new policies to expand foreign trade with the focus on improving fiscal and tax policies. The reforms will further lower the overall import tariff level, refine export tax rebate policies and speed up the tax rebate process.

Notably, investment in the January-June period saw differentiated performances. According to NBS data, investment in the primary industry went down 0.6 percent year on year, while that in secondary and tertiary industries climbed 2.9 percent and 7.4 percent, respectively.

Investment in hi-tech manufacturing and services rose 10.4 percent and 13.5 percent, respectively, year on year, both higher than that of total investment.

However, infrastructure spending and investment performance by private sectors were not up to expectations. Fixed assets investment climbed 5.8 percent in H1, down from 6.3 percent in Q1, while real estate investment increased 10.9 percent year on year in H1, slower than the 11.2-percent increase in the first five months. Private investment in H1 gained only a 5.7-percent year-on-year increase.

"Since the decelerated GDP growth in Q2 can be partly attributed to the aforementioned decline, more efforts are needed to ratchet up total investment," Xu Hongcai, Deputy Director of the Economic Policy Commission, China Association of Policy Science, told *Beijing Review*.

As China shifts its focus to high-quality growth from high-speed development, a high growth rate no longer indicates economic resilience. According to Wang, the efforts to promote economic restructuring in H1 have seen remarkable payoffs.

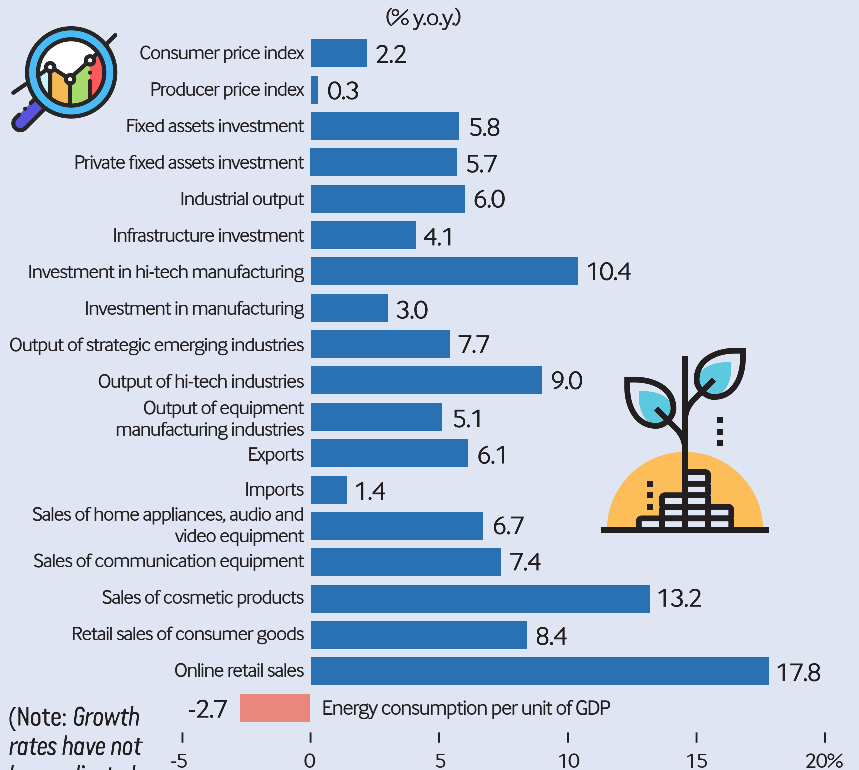
The industrial output expanded 6 percent year on year in H1. In June alone, industrial output growth accelerated to 6.3 percent from 5 percent in May. Although the profit of major industrial firms fell 2.3 percent year on year in the January-May period, the decline narrowed 1.1 percentage points from the first four months of the year.

Emerging industries of strategic importance and hi-tech manufacturing industries stood out in the H1 economic performance. The value added of strategic emerging industries secured an increase of 7.7 percent year on year, while the value added of hi-tech manufacturing industries rose 9 percent year on year, 1.7 and 3 percentage points higher than that of all major industrial enterprises, respectively.

Although car sales saw fluctuating growth in H1, rising NEV demand is still driving the auto industry as China pushes ahead to green development. According ▶▶

China's Economy in H1 2019

Other Major Macroeconomic Indicators and Consumption Upgrades



(Note: *Growth rates have not been adjusted for inflation.*)

(Source: *National Bureau of Statistics*; designed by *Pamela Tobey*) to NBS data, the output of NEVs and solar cells surged 34.6 percent and 20.1 percent, respectively, year on year.

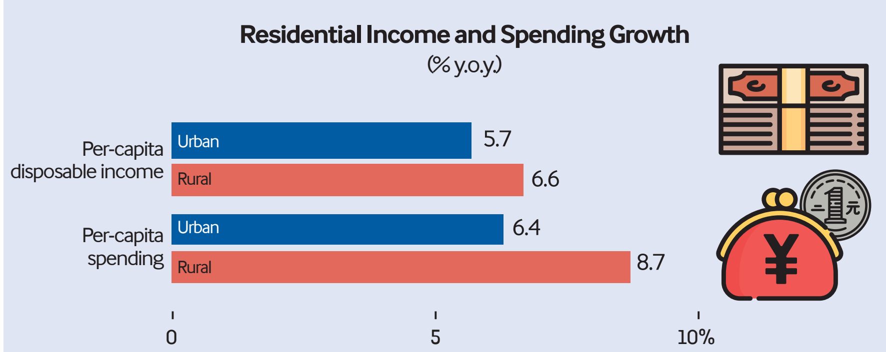
The service industry also maintained a sound growth momentum. NBS data showed that the service sector output in H1 accounted for 54.9 percent of total GDP, rising 7 percent and outpacing the 3-percent and 5.8-percent increases in the primary and secondary industries, respectively.

The value added of information transmission, software and information technology services, leasing and business services, transportation, warehousing and postal services all saw remarkable expansion. Consumption of services represented 49.4 percent of final consumption growth in H1, up 0.6 percentage points from the previous year.

According to Lai Youwei, Deputy CEO of Meituan, China's largest on-demand online service provider, rising online consumption of services and newly emerging service demand, such as home-sharing and cosmetology, have injected strong impetus into the economy. To maintain the growth momentum of these industries, he said the government should further improve the business environment and provide more supporting policies.

China's job market experienced stable development as another 7.37 million people in urban areas were employed,

China's Economy in H1 2019



(Source: *National Bureau of Statistics*; designed by *Pamela Tobey*)

hoppers queue to pay for their purchases at a duty-free store in Haikou, south China's Hainan Province, on April 13 accounting for 67 percent of the annual target. The per-capita disposable income stood at 15,294 yuan ($2,227), up 8.8 percent year on year in nominal terms. The inflation-adjusted growth was 6.5 percent, NBS data showed.

Support and stimulus

To cope with downward pressure and boost the domestic market, China has implemented a string of fiscal and monetary policies as it seeks stronger market confidence and more tangible benefits for enterprises and individuals. According to the 2019 Report on the Work of the Government released in March, the tax burden and social insurance contributions of enterprises will be cut by nearly 2 trillion yuan ($291.12 billion) this year, in line with a proactive fiscal policy.

In the first five months of the year, newly introduced tax cuts and fee reductions saved businesses about 893 billion yuan ($129.8 billion), data from the State Taxation Administration showed.

In June, new policies were introduced to encourage local government special bond issuance to fund eligible major projects and bolster infrastructure growth.

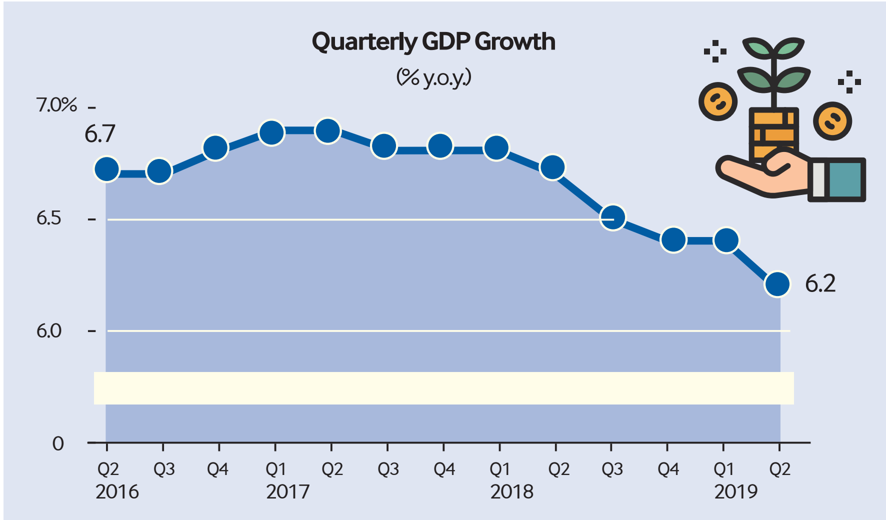
According to Zhang Xuedan, a researcher with the Chinese Academy of Fiscal Sciences, the tax cuts and fee reductions have shown positive results in boosting the economy. To make the policy sustainable, he said the government needs to improve transfer payments to impoverished areas to ensure local fiscal revenue.

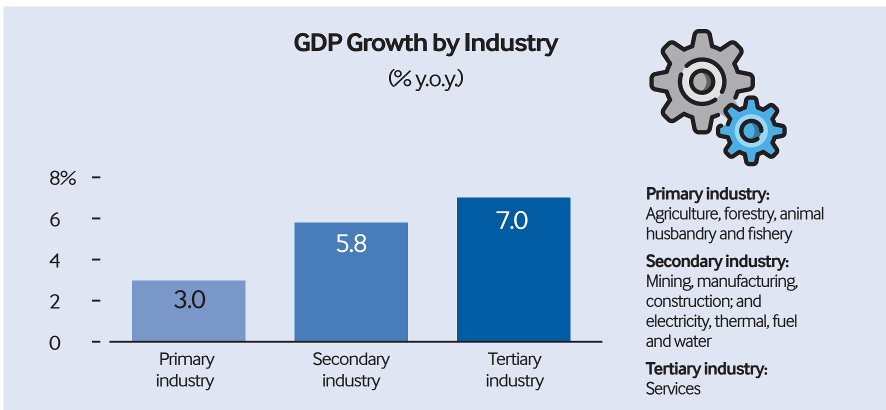
In addition, to provide financing support for the real economy, the People's Bank of China, the central bank, lowered the reserve requirement ratio (RRR) for small and medium-sized commercial banks in May, which is expected to release 280 billion yuan ($40.7 billion) of long-term liquidity. The freed fund will be used for providing more loans to private as well as micro and small companies, the bank said in a statement.

Against mounting external challenges, China has announced measures to improve the domestic business environment and open up more sectors for foreign investment. In the latest move to widen opening up, it unveiled new negative lists for foreign investment market access on June 30, further cutting off-limit items.

While boosting domestic market expectations, the move may also trigger risks, which calls for precautions, Tan Yaling,

China's Economy in H1 2019





(Source: *National Bureau of Statistics*; designed by *Pamela Tobey*)

Dean of the China Foreign Investment Research Institute, told the Guoshi Forum. "The country needs to improve management of foreign investment and enhance the competitiveness of domestic market players," she said.

Future outlook

According to GACC, China had a 45-percent year-on-year growth in trade surplus at 5.5 trillion yuan ($799 billion) in the first five months.

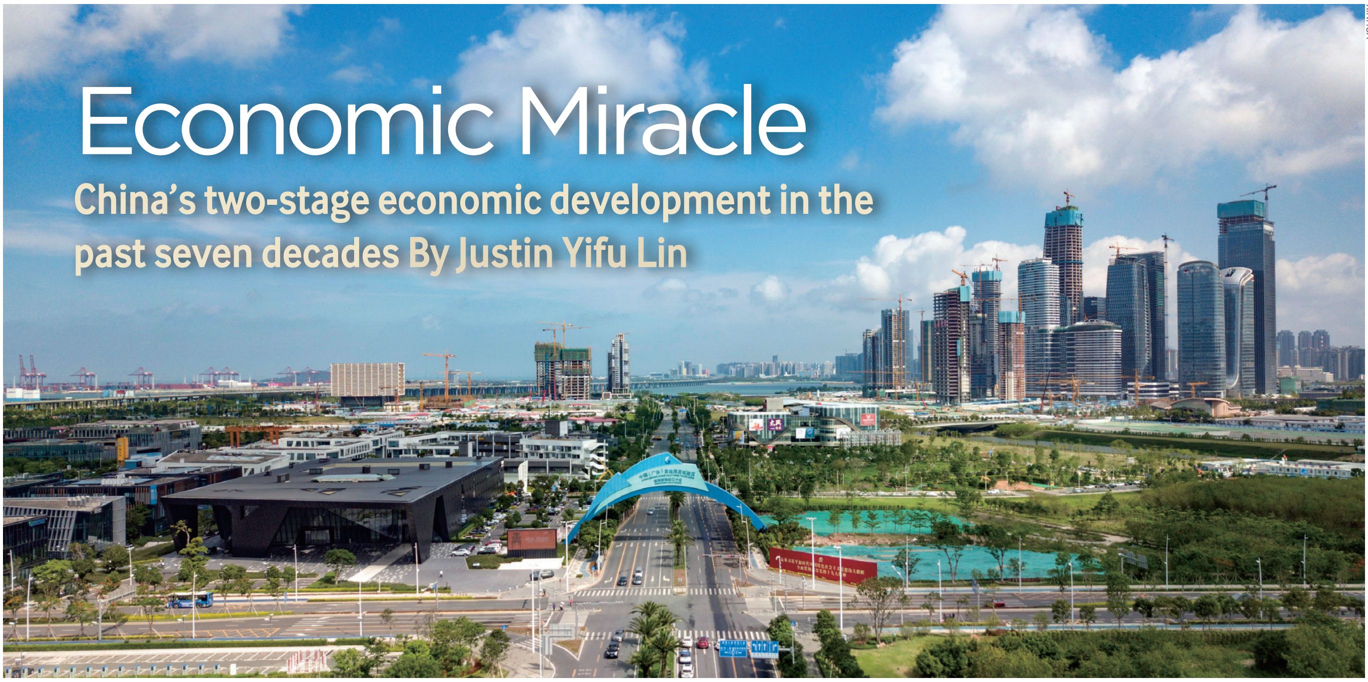
The economy will still face great downward pressure while the trade surplus is likely to narrow in H2, Xu warned.

Although Wang has an upbeat view about the economic performance in the remaining months of the year, he stressed that China needs to further cut overcapacity, strengthen high-end manufacturing and translate technologies such as 5G into products to avoid bubbles in hi-tech industries.

According to Mao, the effects of the counter-cyclical adjustment policies such as tax and RRR cuts to boost the economy will become more prominent in H2.

"With ample economic policy tools at its disposal and the expanding domestic consumer market, China's economic growth will remain stable in H2," Mao said.

"Although China's GDP growth rate may decline to 6.1 percent in the fourth quarter, the figure for this year is expected to fall between 6.2 and 6.3 percent which still meets the annual target," Xu said, adding that encouraging private investment and boosting consumption will remain priority tasks. CI



XINHUA

Economic Miracle

China's two-stage economic development in the past seven decades By Justin Yifu Lin

The Qianhai and Shekou areas of Shenzhen in the China (Guangdong) Pilot Free Trade Zone on November 8, 2018. In less than four decades, Shenzhen, one of China's earliest special economic zones, has transformed from a fishing town into a thriving metropolis

This year marks the 70th anniversary of the founding of the People's Republic of China (PRC), which, under the leadership of the Communist Party of China (CPC) and the tireless efforts of the Chinese people, has been transformed from a backward agrarian country into the world's second largest economy and biggest manufacturing powerhouse.

Over the past seven decades, China's economic development can be roughly divided into two periods. The first period lasted from 1949 to 1978, when China adopted a planned economic system and strove to promote economic development through industrial modernization. During the second period that started at the end of 1978, China established and continues to improve a socialist market economic system by upholding reform and opening up, which has resulted in a miracle of economic development never seen before in human history. China's economy is transitioning from a phase of high-speed growth to a stage of high-quality development. This is a pivotal period for transforming the growth mode, improving the economic structure and fostering new growth drivers.

70 years of progress

In the period of the planned economy, China mainly followed the Soviet model of development with an aim to build a complete heavy industry system from scratch. Although this model could help a developing country quickly establish a modern industrial system, it also caused many problems in economic development. China formed a relatively complete modern industrial system in less than 30 years but continued to suffer unsatisfying industrial efficiency and comparatively low per-capita income. As a result, people's living standards didn't see obvious improvement.

At the end of 1978, China became the first socialist country to transition from a planned economy to a market economy. But instead of following the neoliberal development theory that was the global mainstream at the time, it opted for an approach of promoting gradual dual-track reform through emancipating the mind and seeking truth from facts. Special economic zones were set up to create regional advantages to overcome bottlenecks in infrastructure and the business environment.

During the 1980s and 1990s, neoliberalism continued to prevail throughout the world. Neoliberal economists prescribed "shock therapy," arguing that it was the only feasible roadmap for a planned economy to transition to a market economy. Some said that the gradual dual-track transformation adopted by China, in which both the government and the market played a role in resource allocation, was the "worst institutional arrangement" and predicted that it could result in more problems than a planned economy.

However, China has maintained rapid economic growth for the past 40 years and achieved what took developed countries hundreds of years to accomplish, creating a world-shaking development miracle. At the same time, China's understanding and deployment of reform has kept pace with the times. In 2013, the Third Plenary Session of the 18th CPC Central Committee adopted a decision to comprehensively deepen reform, which called for letting the market play the decisive role in allocating resources and the government play its functions better.

Currently, both China and the world at large are navigating profound and complex changes. China remains in an important period of strategic opportunity for development in which the prospects are bright but the challenges daunting. As China's economy enters a new normal of slower but more efficient growth, the country needs to put its new development philosophy into practice, forge a modern economic system, pursue supply-side structural reform as its central task, and strive to embrace better quality, higher efficiency and more robust drivers of economic growth through reform.

It needs to give full play to the role of an "effective market" and a "responsible government." Even facing a relatively unfavorable external environment, China's economy can still grow through enhanced innovation and competitiveness and ensure the realization of the goal to complete building a moderately prosperous society in all respects by 2020 as it takes the Chinese people on a journey to fully build a modern socialist China.

Chinese wisdom

All mainstream economic theories in circulation today around the world were produced in developed countries. They exert global influence and some developing countries have formulated development and reform policies based on these theories. However, China has achieved rapid economic development with a mode that runs counter to the so-called mainstream theories, which should inspire retrospection in modern economics. In fact, almost every developing country that has formulated policies according to development theories from developed countries has been plagued by economic stagnation, crisis and even social turmoil. The primary reason is that these theories ignore the differences between developing and developed countries based on endogenous results of contrasting national conditions.

China's development over the past seven decades presents a gold mine to be explored


Justin Yifu Lin

by economists seeking theoretical innovation. Over the first 30 years of the PRC's founding in 1949, China showed few major differences from other socialist countries or developing countries as it followed the mainstream path of development of the times. However, it has blazed a new trail during the past 40 years of reform and opening up and created a never-before-seen economic miracle in human history, an achievement that cannot be explained with existing theories. The marvelous success of China's reform and opening up is absolutely worth further study with new theories.

To make China's experience in reform and opening up a source of inspiration for the theoretical innovation of economics, the best place to start would be to determine which factors produce the structural differences between China—a developing country—and developed countries. The industrial structures of countries with different degrees of development are endogenous, and every stage of development features different factor endowments. Such a structure determines a country's industries with comparative advantages at each stage of development. Industries with comparative advantages coupled with appropriate infrastructure and a certain system arrangement will make a country's industries more competitive. This development structure has proved optimal.

In terms of summing up China's experience in development with an aim at theoretical innovation, Chinese economists clearly enjoy a favorable position. China remains a developing country and has similar national conditions to other developing countries in the world. Compared to development theories from developed countries, China's solutions are better suited to help other developing countries seize opportunities and overcome difficulties as they promote industrialization and modernization and march toward the goal of economic prosperity. CI

The article was first published by *China Pictorial*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An industrial robot production workshop at Siasun Robot and Automation Co. Ltd. in Shenyang, northeast China's Liaoning Province, on June 6, 2017

Opening Wider

China removes foreign investment restrictions in more sectors By Li Xiaoyang

XINHUA

The 2 millionth car produced by Sino-German joint venture FAW-Volkswagen Automotive Co. Ltd. rolls off the production line in Changchun, northeast China's Jilin Province, on December 24, 2018

China unveiled its updated special administrative measures (negative lists) for foreign investment market access on June 30, further cutting off-limit items in its pursuit of further opening up. Jointly released by the National Development and Reform Commission (NDRC) and the Ministry of Commerce (MOFCOM), the two new lists will take effect on July 30.

It is the fifth time that the negative lists have been revised over the past six years. Items restricting foreign investment on the list for pilot free trade zones (FTZs) that enjoy higher-level opening up have been cut from 45 to 37, while on the list for non-FTZ areas, items have been slashed from 48 to 40.

The reforms will expand the country's market access and allow foreign investors to run majority-share or wholly-owned businesses in more sectors, the NDRC said.

Gao Feng, a spokesperson for MOFCOM, told a press conference that the new negative lists focus on easing restrictions in the service, agriculture, mining and manufacturing sectors and aim to make FTZs more open.

In addition, a new industry catalogue, which will go into effect on the same day as the new negative lists, was also released to encourage foreign investment in high-end, smart and green manufacturing. Sang Baichuan, a professor at the University of International Business and Economics in Beijing, said the revised catalogue is more consistent with the negative lists, making its role as a foreign investment booster further stand out.

"The new negative lists and catalogue emerged from China's steady efforts at broadening its opening up, which can give the country more leverage when coping with global uncertainties and rising downward pressure on its economy," Nie Pingxiang, a researcher with the Chinese Academy of International Trade and Economic Cooperation (CAITEC), told *Beijing Review*.

More access

Negative lists for foreign investment market access specify sectors, fields and businesses closed or restricted to foreign investors. In recent years, China has steadily simplified the lists as it continuously drops more items, making them available to all market players.

The negative list approach started in China in 2013 in the Shanghai FTZ, which was later extended to other FTZs and then non-FTZ areas. Compared with previous versions, the 2019 lists significantly lift restrictions in the service sector. According to Nie, China has seen initial success in the opening up of its manufacturing sector, while access to the service sector needs to be further eased.

Data from the National Bureau of Statistics (NBS) showed that the service sector accounted for 52.2 percent of China's GDP in 2018. Zhang Jianping, a researcher at CAITEC, suggested that the proportion has to improve, since the country's service sector is still not competitive enough.

To better meet rising domestic demand and drive high-quality economic growth, China needs to speed up the improvement of the domestic service industry through widening market access, he said.

The new lists ease or remove restrictions on ownership in the service sector including shipping agencies, gas and heat pipelines in cities with more than 500,000 residents, cinemas and performance brokerage institutions, as well as investment limits on some value-added telecommunication services.

The restrictions that limit the exploration and development of petroleum and natural gas resources to Chinese-foreign equity joint ventures or non-equity joint ventures have been removed. The lists also lift bans on foreign investment in the development of wildlife and plant resources as well as the production of Xuan paper and ink ingots.

Particularly, the FTZ negative list further abolishes restrictions on foreign investment in areas such as aquatic products, fishing and publications.

"The opening up in key areas can further promote fair competition, improve the domestic business environment and create more room for China's international cooperation," Hao Hongmei, Deputy Director of the Foreign Investment Institute at CAITEC, told *China Business Journal*.

Allowing foreign investment in the energy industry, including oil and gas exploration can help narrow the gap between energy supply and demand in China and bring in more advanced exploration technologies, she said, adding that the energy sector will benefit from the move as long as appropriate regulations are in place.

As follow-up efforts, the NDRC vowed to eliminate all existing restrictions outside the negative lists before the end of the year at a press conference on June 17.

High-end manufacturing

The catalogue of encouraged industries for foreign investment consists of a catalogue for boosting foreign investment nationwide and one of advantageous industries for foreign investment in China's central, western and northeastern regions.

"The revision is in line with China's demand for upgrading domestic industries and expanding international cooperation as the country shifts the focus of its economy from high-speed growth to high-quality development," Hao said.

Based on the last version released in 2017, the new catalogue has 415 industries after the addition of 67 new ones. Over 80 percent of the newly added or revised industries are manufacturing-related, with an emphasis on high-end, intelligent and green manufacturing, including 5G core components, etching machines for integrated circuits, chip packaging equipment and cloud computing equipment.

Bai Ming, Deputy Director of the International Market Research Institute, said some countries may have concerns about exposing domestic hi-tech markets, such as 5G technology, to fiercer competition, forgetting that a key foundation of technological development is global resource allocation. Thus, to further its involvement in the global industrial chain, China needs to further embrace foreign capital.

Foreign investment is also encouraged in the productive service industry. The catalogue includes new entries for artificial intelligence, clean production, carbon capture and the circular economy, as well as e-commerce and cold chain logistics.

Focusing on central and western regions, the catalogue also adds labor-intensive, advanced and applicable technology industries, and supporting facilities, further helping these regions embrace relocated foreign-funded businesses.

The new catalogue is expected to give fuller play to the role of foreign investment in promoting China's industrial growth, technological progress and economic restructuring, according to the NDRC.

Further reforms needed

The NDRC said the new negative lists and catalogue were released against rising unilateralism and protectionism as well as trade frictions that are weighing on economic globalization and cross-border investment. "China still faces severe challenges in attracting foreign investment, notably due to fierce global competition," Hao said.

The country needs to follow international standards and develop a more favorable business environment to further make itself a magnet for foreign investment, she added.

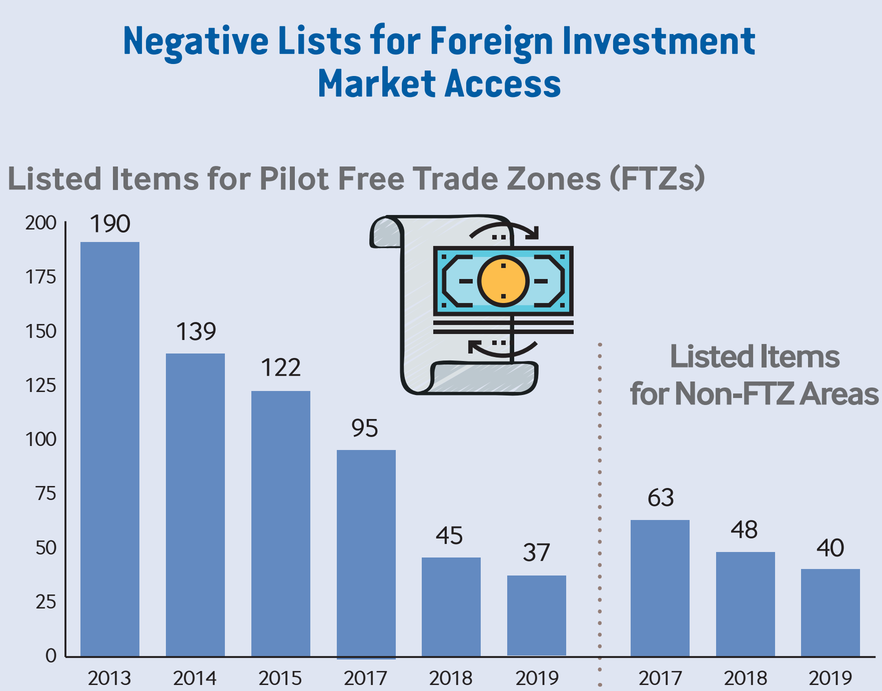
Despite mounting external uncertainties, Sang said a growing number of foreign investors are keeping an eye on the Chinese market which remains attractive. "While there has been a scaling back of global foreign direct investment (FDI), China has still attracted a considerable amount of foreign investment," he told *Beijing Review*.

China's FDI rose 4 percent year on year to $139 billion in 2018, according to MOFCOM data. In the first five months of this year, its paid-in FDI in U.S. dollar-denominated terms increased 3.7 percent year on year to $54.6 billion and U.S. investment in China rose 7.5 percent.

China remains the most attractive investment destination in the world due to its complete industrial systems and large consumer market, the ministry said on June 13.

A report released by the NBS showed that the service sector has become a hot area for foreign investment, making up 68.1 percent of the country's total foreign investment last year.

Furthermore, opening up of the service sector, in particular financial services, is picking up pace. Premier Li Keqiang announced in a speech during the World ▶▶



(Sources: *National Development and Reform Commission and Ministry of Commerce; designed by Pamela Tobey*)

Economic Forum's Annual Meeting of the New Champions in Dalian, northeast China's Liaoning Province, on July 2 that the country will remove ownership limits for foreign investors in the financial sector in 2020, a year earlier than scheduled.

According to Nie, there is still much to do to improve China's opening up, especially since licensing approval in many industries is still troubling many foreign enterprises hoping to enter the Chinese market. Meanwhile, the country needs to improve domestic intellectual property rights protection and make government procurement more open.

"To ensure the implementation of the negative lists, related departments are supposed to simplify administrative procedures and give full play to the role of the market," she said.

On March 15, China adopted its first Foreign Investment Law to promote, protect and manage foreign investment, providing legal guarantee for the system of pre-entry national treatment plus negative list management, which will go into effect on January 1, 2020.

Based on this law, the country needs to move faster to formulate supporting trade and investment facilitation measures to better underpin the negative lists, Nie said. CI

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The Yangshan Deep-Water Port in China (Shanghai) Pilot Free Trade Zone on May 17, 2018

Greater Opening Up

Removals from the Negative List for Foreign Investment Market Access:

Transportation: Ownership caps on domestic shipping agencies

Infrastructure: Restrictions on ownership on gas and heat supply pipe networks in cities with more than 500,000 people

Culture: Restrictions on ownership on cinemas and performance brokerages

Value-Added Telecommunications: Investment restrictions on domestic multi-party communication, store-and-forward and call center services

Agriculture: Investment prohibitions on the development of wild animal and plant resources

Mining: Joint or cooperative venture limits on investment in petroleum and natural gas exploration and development; prohibitions on the exploration and development of minerals including molybdenum, stannum, stibium and fluorite

Manufacturing: Prohibitions on the production of *Xuan* paper and ink ingots

Additions to the Catalogue of Encouraged Industries for Foreign Investment:

Electronic and Information Industry: Core components of 5G, etching machine for integrated circuits, chip packaging equipment and cloud computing equipment

Equipment Manufacturing: Industrial robotics, new-energy vehicles and key components of smart automobiles

Modern Medicine: Key materials of cell therapy and large-scale cell culture products

New Materials: New materials for aerospace, monocrystalline silicon and large diameter silicon wafer

Business Services: Engineering consultation, accountancy, tax administration and testing inspection and certification services

Trade Circulation: Cold-chain logistics, e-commerce and railway special lines

Technical Services: Artificial intelligence, cleaner production, carbon capture and the recycling economy

Farm Products Processing, Textile and Clothing, Furniture Manufacturing in places with advantageous agricultural and labor resources such as Yunnan and Hunan provinces and Inner Mongolia Autonomous Region

General Integrated Circuit, Tablet Personal Computer, Communication Terminal in places like Anhui, Sichuan and Shaanxi provinces where electronics industry clusters see rapid development

Logistics and Storage Facilities and Automobile Gas Filling Stations in places with dense logistics networks such as Henan and Hunan provinces

(*Compiled by* Beijing Review)

COURTESY PHOTO

In this still from *Better Angels*, Li Mianjun, founder of Beijing-based Shenmo Education, introduces Chinese abacus, the earliest calculator in the world, to kids in a small neighborhood school in South Central Los Angeles

Accidental Diplomats

Documentary featuring ordinary people shows the solid foundation for China-U.S. ties By Li Nan

Guillermo Memo Mata realized a childhood dream in China. The former U.S. marine founded and coached China's first juvenile tackle football team in Shanghai, east China. Teaching Chinese kids how to play U.S. football helps Mata stay grounded thousands of miles away from home.

Li Mianjun, founder of Beijing-based Shenmo Education, which specializes in mental math, introduces Chinese abacus calculations to kids in a small neighborhood school in South Central Los Angeles, making the wonder of the ancient calculating tool known to more people on the other side of the Pacific.

Though the two specialize in different fields, they have one thing in common: bridging different cultures on their own. They are accidental diplomats, who find ways to get along by simply getting to know their counterparts half the world away, according to documentary maker Malcolm Clarke, a two-time Academy Award winner.

Information deficit

Better Angels, Clarke's documentary focusing on China-U.S. ties, was released in China recently. It's a film about ordinary people from China and the U.S. who are extraordinary in their efforts to communicate with and understand each other. Teachers, engineers, farmers, workers, travelers, entrepreneurs and scholars from both countries share their stories and opinions.

"Our idea simply was to explain China to America and America to China," Clarke told *Beijing Review*.

The documentary gets its title from former U.S. President Abraham Lincoln's inaugural address as he took the oath of office in 1861. Addressing the national turmoil of secession, Lincoln said, "The mystic chords of memory, stretching from every battlefield and patriot grave to every living heart and hearthstone all over this broad land, will yet swell the chorus of the Union, when again touched, as surely they will be, by the better angels of our nature."

Clarke thinks there is a huge information deficit between the U.S. and China. "The Chinese people, I think, really do understand more about the U.S. than the U.S. understands about China," he said. "Americans really don't understand ordinary Chinese people." And because of the information deficit, "they fear China," a colossal economy with nearly 1.4 billion people. When there's fear, there's also anxiety and possibly conflict, he added.

As a result, Clarke decided to make an anthropological film to bridge the information deficit.

The film was started in 2013 and was supposed to be finished within 18 months. But it took Clarke six years due to changes in plans and circumstances.

In 2016, when the film was first finished, Donald Trump became the new U.S. president. "That presented a whole new set of circumstances," Clarke said, "So we had to remake our movie." More than 800 hours of footage was filmed, and only 10 percent of that was used in the film. "It was not an easy task," he said.

But the effort paid off. *Better Angels* stood out among the 200-odd documentaries at the Ninth Beijing International Film Festival in April and won a Special Recommendation Award from the jury in the documentary category. According to William Mundell, an economist, ▶▶

COURTESY PHOTO

Malcolm Clarke, a two-time Academy Award winner for best documentary and director of *Better Angels*

China expert and producer of *Better Angels*, the movie trailer received over 3 million views on Facebook.

Extraordinary ordinary people

Clarke first came to China in 1980 when it was still a rural country. He witnessed firsthand how China has transformed in the past four decades.

In the first six months of making the film, he interviewed experts, technocrats, politicians, journalists and academics. Then he changed his mind. "I saw what a terrible film this was likely to be," he said. "I decided to make a film which was about ordinary Chinese and Americans. We tried to explain a little bit about ordinary people and their hopes, their fears, their challenges, their difficulties."

To film more stories of extraordinary ordinary people, Clarke interviewed people living not only in China and the U.S., but also those working in Africa. Bao Wangli is one of them. Bao's sequence always has an impact on Clarke even though he has seen it 150 times.

Bao became an engineer in his 20s, building a bridge in the headwaters of the Blue Nile in Ethiopia. It's an isolated place miles away from city lights and thousands of miles away from his wife and newborn child back in China. He accepted a three-year contract to make more money to support his family. He can make only one telephone call every week using his cellphone on a bridge, where he can get a signal.

"When I see the guy making a telephone call to his wife on Chinese New Year, you can tell that they love each other. And yet they are still allowing themselves to sacrifice this love and [endure this] loss because it's for the betterment of their family," Clarke said.

To him, Bao is emblematic of how China has become so big and successful so quickly. "That guy is a symbol of all the sacrifices that so many Chinese people have made over the last 30 or 40 years in turning their country around. So many people have given a lot more than most Westerners would allow themselves to give," he said. "And I think it's probably the essence of what *Better Angels* is all about."

Gu Changwei, a renowned Chinese director, burst into tears while watching *Better Angels*. "It's very difficult to make a touching documentary. But *Better Angels* made it!"

When the film was screened in the U.S. last year, Cui Tiankai, Chinese Ambassador to the U.S., spoke highly of it. Despite the trade friction between China and the U.S., better angels are always there, no matter rain or shine, Cui said. "Extraordinary ordinary people from both sides have tried their best to pave the way for Sino-U.S. ties." **CI**

'The West Doesn't Give China Enough Credit'

What I've observed over the last six years is that my Chinese friends and my American friends are much more similar than they are different. And the Americans work really hard. They are very original and they're very innovative and they don't take many vacations. You can just as easily say that about the Chinese. I mean if there's a nation that works harder than the Chinese, I don't know it.

I don't think China is an imperial power. The Chinese have people stationed all over the world, but they don't have troops. They don't have arms. They don't have soldiers stationed all over the world, like America; the people that China is sending abroad are engineers, scientists, bridge builders, road builders, architects. It's a different kind of global power. And I think that is only to be applauded.

I think the Belt and Road Initiative, if it can really gain acceptance, could be world changing. And I think that's a perfect example of how China is not an imperial power, but it is a global power. [In that way, they are] very, very different.

And I do feel strongly that the world can benefit from having two strong economic super powers. I think if they can work together, it can only be good for everyone on the planet.

We have a character in the film. His name is Stephen Schwarzman [American businessman and philanthropist]. And he says something very smart. He said, "The perception of China in the West is that, we, in the West, think China is rich; They, the Chinese, think China is poor. And in a sense we're both right."

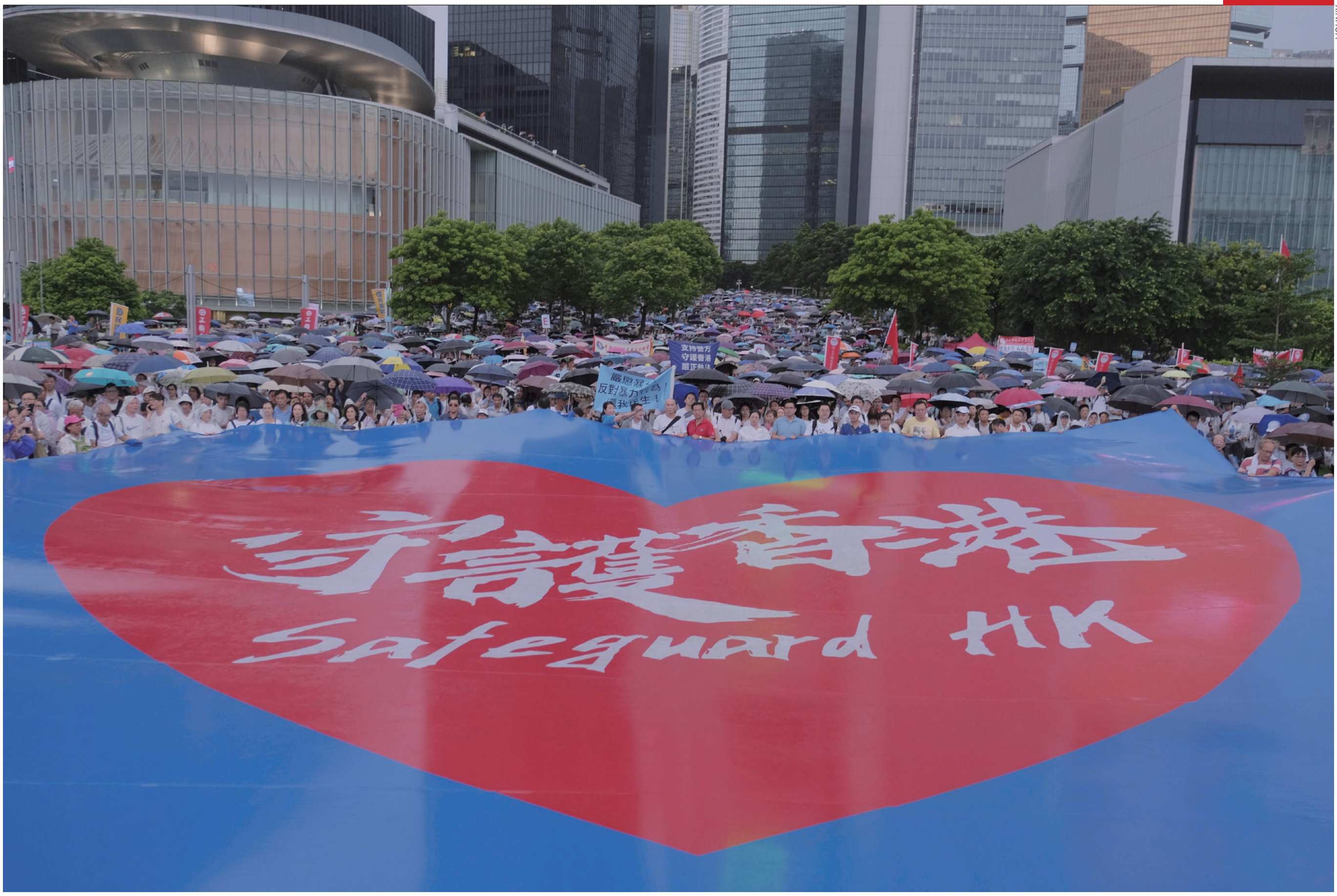
I'm doing this interview in Shanghai. Look out of the windows of this office and you see the future. You see a city that really is in the vanguard of the most advanced cities on the planet.

And yet I know if I travel 150 miles or 150 km from this city, I can see poverty. I can see rural circumstances where people are barely eking out a living. So China is a developing country. It's not rich, it's not poor, some people are rich, and many people are poor.

Every country has problems that they have to face. China has things that need to be addressed just like every other country in the world.

But I feel that we in the West really don't give China enough credit for the achievements that it has brought and given to its people over the last 30 or 40 years. Don't forget, it took America 200 years to get to where it is today. It's taken China 40 years to get to where it is.

(Malcolm Clarke)



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A giant banner at the Safeguard Hong Kong rally at Tamar Park in Hong Kong on July 20

Safeguarding Hong Kong

Concerned residents in Hong Kong and the government call for maintaining law and order

On July 20, over 300,000 Hong Kong residents braved the rains to take part in a rally voicing strong opposition to violence and support for the law enforcement authorities. People from all walks of life participated in the rally convened by civic leaders representing the business sector, student groups, civic organizations and police associations. They called for maintaining rule of law and safeguarding peace and stability in Hong Kong.

Appeal for stability

The rally was held six days after a protest against the extradition bill proposed by the government of Hong Kong Special Administrative Region (SAR) in February erupted into violent clashes with the police. Protesters threw bricks, umbrellas and bottles at the police who tried to disperse them.

In contrast, the July 20 rally was peaceful and calm, with the participants urging for peace and stability. Nearly a dozen fishing vessels flying banners that said "Safeguard Hong Kong" gathered in Victoria Harbor in a show of solidarity.

At the rally, representatives of five major Hong Kong business associations called for a return to a stable business environment. "We stand here to demonstrate peace and harmony, rather than violence. No matter what happens, we can work together to solve the problems," Allan Zeman, Chairman of Lan Kwai Fong Holdings, whose assets include bars and restaurants, said.

Chan Cho-kwong, former Chairman of the Junior Police Officers' Association of Hong Kong Police Force, condemned the violence and called for supporting the police and their families.

Lo Chung-mau, a divisional chief of the Queen Mary Hospital, said over 190 doctors had signed a "No harm, protect Hong Kong" declaration, saying Hong Kong people should calm down and protect the SAR, upholding the spirit of unity, industriousness and progressiveness.

Blatant challenge

The Liaison Office of the Central People's Government in Hong Kong SAR condemned the behavior of the protesters who had besieged the office building.

In a statement, the liaison office said the protesters devastated facilities, defaced the national emblem and wrote graffiti insulting the nation, which went far beyond peaceful demonstration.

"This behavior has not only violated the Hong Kong Basic Law and local laws, but also seriously challenged the bottom line of the 'one country, two systems' principle and the authority of the Central Government," the statement said, adding that the liaison office supported the SAR Government and Hong Kong Police in punishing illegal, violent acts in accordance with the law to restore social stability in Hong Kong.

It also said the institution representing the Central Government in Hong Kong has been performing its duty strictly in line with the Constitution, the Hong Kong Basic Law and the authorization of the Central Government, which cannot be challenged.

The acts of some radical demonstrators not only undermined the spirit of Hong Kong's rule of law and the fundamental welfare and interests of Hong Kong citizens, but also hurt the feelings of all Chinese people, Wang Zhimin, Director of the liaison office, said.

Noting that many Hong Kong citizens have expressed their worries and indignation over the recent chaotic situation in Hong Kong, Wang hoped that all sectors of society would condemn the continuation of such chaos.

Hong Kong SAR Chief Executive Lam Cheng Yuet-ngor said on July 22 the SAR Government will seriously follow up on and deal with the violent act of storming the Liaison Office of the Central People's Government in Hong Kong SAR in accordance with the law. Hong Kong is a society with the rule of law and will not tolerate any violent acts, she said, adding that violence is not a solution to any problem; violence would only breed more violence, and at the end of the day, the whole of Hong Kong and the people would suffer.

Foreign interference

The Chinese Foreign Ministry on July 23 responded to the remarks made by some British and U.S. officials concerning Hong Kong, saying the Chinese Government does not allow any external forces to interfere in Hong Kong's affairs or disrupt Hong Kong.

The U.S. Department of State had asked the Hong Kong SAR Government to respect the freedom of speech and assembly.

In response to that, Hua Chunying, Foreign Ministry spokesperson, said what happened in Hong Kong "had nothing to do with the freedom of speech and assembly." She said it was radical and violent behavior that violated the law, directly undermined the foundation of the rule of law, went against the Basic Law and Hong Kong's local laws, and seriously challenged the "one country, two systems" principle.

She also said there were clear signs of foreign manipulation, plotting and even organization in the violent incidents judging from what was reported by the media.

A senior British official had called the violent scenes in Hong Kong "unacceptable" and asked the Hong Kong SAR Government to conduct a thorough and independent investigation.

Hua said the UK had been talking a lot about rights and freedom in Hong Kong. However, rights and freedom cannot exist without security and stability. "Residents in Hong Kong now enjoy unprecedented rights and freedom," she said.

She also said the peaceful assemblies held by people from all walks of life to condemn the violent behavior showed that the majority of Hong Kong residents had a sober understanding of the damage and nature of the violent illegal behavior of a small number of radicals, and wanted to make concerted efforts to safeguard Hong Kong. CI

(*Based on Xinhua News Agency reports*)

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The Safeguard Hong Kong rally in progress in Hong Kong on July 20. Over 300,000 people attended the massive rally to support the rule of law and condemn violence