

COUNTRY
OUTLOOK
CHINA



美国驻华使馆商务处



POLICY OVERVIEW

Introduction to Party Priorities

MARKET OVERVIEW

Political and economic environment

SHIFTING LANDSCAPES

New metrics and a changing business environment

OPPORTUNITIES

Prospects and forecasts in popular industries

FCS CHINA ASSISTANCE

What the U.S. Commercial Service can do to help



A pair of black-rimmed glasses is positioned diagonally across the frame. The left lens is larger and more prominent, showing a reflection of light. The right lens is smaller and partially obscured by the text. The background is a blurred document with a grid pattern, possibly a ledger or a technical drawing.

OVERVIEW

GOVERNMENT POLICIES, TRENDS, AND BUSINESS OUTLOOKS

The Standing Committee



The Party's Top Priorities

Meaningful Changes For China

POVERTY: Improve living standards of rural and impoverished people

EDUCATION: Invest in schools, including subsidies for rural areas

INNOVATIVE SOCIETY: Increase positive employment policies

ENVIRONMENTAL: Reduce pollution, enforce strict regulations

STABILITY: Controlling dissent in mass incidents

URBANIZATION: Reform hukou system, city planning

RULE OF LAW: or Rule by Law?



TRENDS

- **AGING POPULATION**
- **RAPID URBANIZATION**
- **DISPOSABLE INCOME**
- **TRANSFORMATION FROM A MANUFACTURING TO SERVICE-BASED ECONOMY**
- **DECREASE IN HOUSEHOLD SAVINGS**



Goals for the Economy

- **STEADY GROWTH**
 - **6.5-7%** NECESSARY GROWTH RATE TO ACHIEVE PROJECTED 2020 GDP GOAL IN THE 13TH 5 YEAR PLAN
 - Premier Li calls for **6.5% or better** in 2017
- **TRANSFORM THE ECONOMY**
 - **Overcapacity:** Widespread across many sectors: steel, aluminum, cement, shipbuilding
 - China must shift away from dirty, low-return manufacturing to higher productivity sectors – including services sectors



13th Five Year Plan

Sets Targets for China's Economy

- CREATE **10M** URBAN JOBS
- DECREASE UNEMPLOYMENT RATE TO **BELOW 4.5%**
- HIGHER INTERNET PENETRATION RATE

Also Proscribes Goals for Economic Policy

- DEVELOP AN INNOVATIVE AND MODERN ECONOMY
- ESTABLISH NEW REGIONAL COOPERATION METHODS
- IMPROVE QUALITY OF LIFE, INCLUDING BY PUTTING “ECOLOGY FIRST”
- DEEPEN MARKET-ORIENTED REFORMS AND INCREASE MARKET OPENNESS



Industrial Policies

China Manufacturing 2025

- Targets 10 Priority Sectors for Development
- Sets Targets for Domestic Content of Core Components by 2025
- Government Support Provided for Projects Under the Plan

Internet Plus

- Internet + [*Existing Industry*]
- Fuel Economic Growth by Integrating Internet in Existing Industries
- Encourage Innovation and Technological Advancements
- Government Financial Support and Tax Incentives for Related Projects



One Belt One Road

- **Development Framework Focused on Cooperation Between China and, Primarily, Eurasia**
- **Two Components:**
 - Silk Road Economic Belt
 - 21st Century Maritime Silk Road
- **Economic Objective is to Open Markets to Chinese Firms and Capacity**
- **\$40bn Funding for Related Infrastructure Projects**
- **Potential Opportunities for U.S. Firms**





SHIFTING LANDSCAPES

New metrics and changing business environment

SHIFTING METRICS

Redefining the way we look at Chinese Cities

New Metrics to Consider

- **Internet Access and Speed**
- **Dependency on Imports for GDP**
- **Percentage of Foreign Invested Enterprises**
- **Availability of Financial Services**

U.S. Business Outlook in China

THE GOOD

**Most Companies Had Revenue Growth | Urbanization |
Rising Spending Power | Digital Technologies**

THE BAD

**Rising Labor Cost | Foreign Investment Restrictions | IP
Protection | Regulatory Transparency & Enforcement |
Administrative Licensing**

FOREIGN DIRECT INVESTMENT

THE U.S. REMAINS LARGEST TARGET OF CHINESE OUTBOUND INVESTMENT

\$45.6 B USD DEALS COMPLETED IN 2016

- **300% YOY GROWTH**

BROADENING PORTFOLIO

- **90% SERVICES & ADVANCED MANUFACTURING**

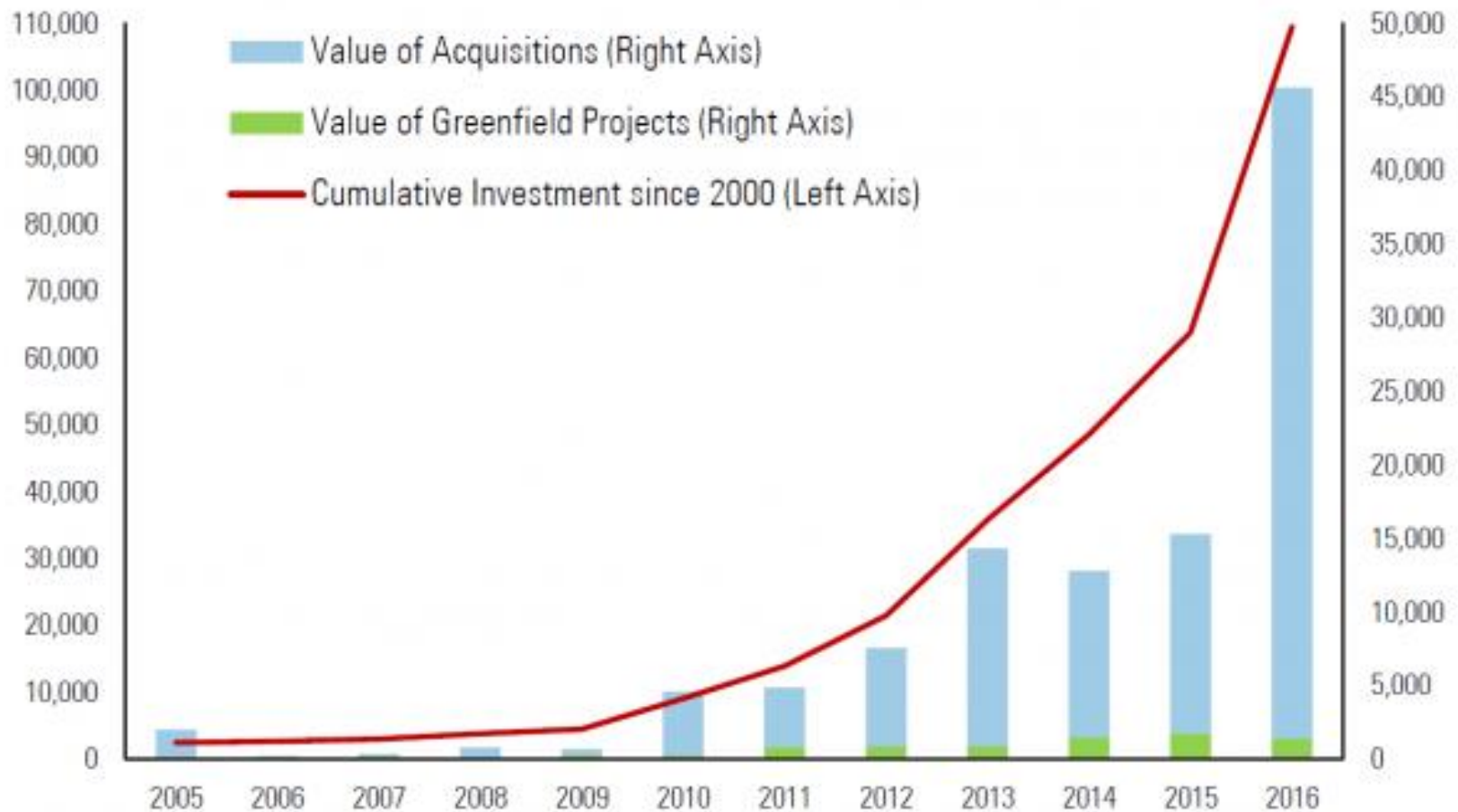
OUTLOOK:

- **\$21B USD OF DEALS PENDING**
- **GROWTH LIKELY, BUT POTENTIAL LIMITING FACTORS EXIST**

CHINESE FDI IN THE U.S.

Figure I: Chinese FDI Transactions in the US, 2005-2016*

USD million



Source: Rhodium Group, December 2016

An aerial, high-angle photograph of a complex multi-level highway interchange at night. The roads are filled with cars, their headlights and taillights creating a flow of light. In the background, a dense city skyline is visible, with several prominent skyscrapers illuminated against the dark sky. The overall scene conveys a sense of urban activity and infrastructure.

OPPORTUNITIES

Driving Trends and new metrics

ENERGY

IN 2015:

- REMAINED LARGEST GLOBAL ENERGY CONSUMER
- COAL ACCOUNTED FOR 64%, DOWN 10% FROM MID-2000s
- BECAME WORLD'S TOP SOLAR GENERATOR & WIND TURBINE MANUFACTURER

BY 2020:

- **\$360 BILLION USD** INVESTED IN RENEWABLE ENERGY
- **3 MILLION** NEW JOBS CREATED IN REWEABLE ENERGY
- **50%** OF NEW ENERGY CAPACITY WILL COME FROM RENEWABLES
- **1/3** OF GLOBAL INVESTMENTS IN HYDRO, WIND, & SOLAR ENERGY WILL BE BY CHINA



ENVIRONMENTAL TECH

\$60.7 USD MARKET VALUE IN 2016

20-30% EXPECTED ANNUAL INDUSTRY GROWTH IN 2016-2020

33% OF SURFACE & **80%** OF UNDERGROUND WATER IS POLLUTED

20% OF ARABLE LAND IS POLLUTED

\$1 T USD PROJECTED INVESTMENT IN AIR, WATER , & SOIL

17% DECREASE IN PM2.5 AIR POLLUTION FROM 2010-2015



AUTOMOTIVE

CHINA IS THE WORLD'S LARGEST VEHICLE MARKET

28.02M UNITS SOLD IN CHINA IN 2016

17.5M UNITS SOLD IN THE U.S. IN 2016

53% Y-O-Y INCREASE OF EV UNITS SALES

65.1% Y-O-Y INCREASE OF PURE ELECTRIC UNITS SALES

30,000 RVS IN CHINA BY 2016



AUTOMOTIVE POLICY

- NATIONAL V EMISSION STANDARD HAS BEEN IMPLEMENTED STARTED 1/1/2017
- **TAX-FREE** PURCHASE OF EVs – ENDS 2017
- **200,000** UNITS OF EV PUBLIC TRANSPORTATION AND **100,000** UNITS OF EV TAXI'S AND LOGISTIC VEHICLES BY 2020
- AT LEAST 50% OF THE OFFICIAL USE VEHICLES MUST BE NEVS (CHINA'S THIRTEEN'S FIVE YEAR PLAN)
- 800,000 EV CHARGING PILLARS TO BE ESTABLISHED IN 2017



HEALTHCARE

- **8.8% ANNUAL GROWTH** IN SPENDING (2015-2019)
- EXPECTED TO REACH **\$1 TRILLION BY 2020**
- OLDER, SICKER, & RICHER POPULATION
- EMERGING PRIVATE HEALTHCARE
- MOBILE HEALTH (**mHealth**) DEVELOPMENT



HEALTHCARE POLICY

Bi-LATERAL COOPERATION: REGISTRATION & APPROVAL

ANNUAL REPORTS: MORE TRANSPARENCY

- EXPAND CLINICAL TRIAL EXEMPTION CATALOGUES
- REGISTRATION CONSULTATION
- FEEDBACK & COMMENT OPPORTUNITY DURING DRAFTING STAGE
- STANDARDIZE MEDICAL DEVICE MARKET ACCESS

REMAINING ISSUES:

- NCE & DRUG LAG
- CLINICAL TRIALS, PRICING, AND TENDERING



TRAVEL & TOURISM

2016: U.S.-CHINA TOURISM YEAR

- **2.6 M** CHINESE TOURISTS IN 2015
- **5.7 M** CHINESE TOURISTS EXPECTED **IN 2021**
 - **121% GROWTH** FROM 2015
- **\$30B USD** IN TRAVEL & TOURISM EXPORTS TO CHINESE VISITORS
 - **59%** PERCENT OF ALL SERVICE EXPORTS TO CHINA
- HIGHEST SPENDING PER VISITOR PER TRIP AT **\$6,000-\$7,200**



EDUCATION

328,547 CHINESE STUDENTS STUDIED IN THE U.S. (2015-16)

- **8.1 %** INCREASE FROM THE PREVIOUS YEAR
- **31.5%** OF ALL FOREIGN STUDENTS IN THE US ARE CHINESE

355,159 ESTIMATED CHINESE STUDENTS NOW STUDYING IN THE U.S.

\$11.43 BILLION USD FROM CHINESE STUDENTS IN U.S. COLLEGES



AVIATION

COMMERCIAL AVIATION: 2016 vs 2015

CIVIL AIRCRAFTS INCREASE FROM 4,554 TO 5,037

CIVIL AIRPORTS INCREASE FROM 206 TO 218 :

- 10 MILLION PASSENGER ABOVE THROUGHPUT AIRPORTS INCREASE FROM 25 TO 28

GENERAL AVIATION: 2016 and Plan by 2020

GA AIRCRAFTS: INCREASE FROM 1,472 TO 5,000 BY 2020

GA AIRPORTS: INCREASE FROM 300 TO 500 BY 2020



E-COMMERCE

- **701M** CHINESE INTERNET USERS (80% mobile) (2015)
- **\$453B USD** RETAIL GOODS SOLD IN CHINA (2014)
- **520M** ONLINE SHOPPERS CHINA V. 200M IN US
- **\$2.1T USD** ESTIMATED B2B MARKET BY 2020
- **\$2.09T USD** E-COMMERCE TRANSACTIONS VALUE (2014)
- **52%** CONSUMER ELECTRONICS & APPLIANCES
- **27%** APPAREL



ICT CHALLENGES

Most Challenging Industry Sector in 2016 and Beyond

- **“Secure and Controllable” policies**
 - Exceedingly Wide Scope of Application
 - Onerous, potentially Discriminatory Testing Requirements
 - Requires Domestic Data Storage and Prohibits Certain Data Transfers
 - Requires use of Domestic Standards and Encryption Technologies
 - Example Policies: Cybersecurity Law, Counterterrorism Law, Guidelines for the Banking and Insurance Sectors, etc.
- **Integrated Circuit Fund**
 - Targeted Plan to Become Global Industry Leader by 2030
 - Potentially over \$100 bn in State Funding
 - Potential for Significant Discrimination and Generation of Overcapacity

IPR

Patents, Copyrights, Trademarks, Trade Secrets

- US – HELD IP RIGHTS DO NOT GIVE PROTECTION IN CHINA
- YOU NEED TO PROTECT YOURSELF IN CHINA
- CHINA HAS IMPROVED ITS IP SYSTEM, BUT COMPLICATIONS STILL EXIST
- KNOW HOW TO PROTECT YOURSELF, AND DO IT
- CONTACT OUR USPTO EXPERTS AT HQ OR IN THE FIELD



Policy Engagement

- **FREQUENTLY ENGAGE CHINESE COUNTERPARTS TO RESOLVE BILATERAL TRADE AND INVESTMENT ISSUES**
- **GOVERNMENT AND TECHNICAL EXCHANGE**
- **SELECT KEY OUTCOMES FROM 2016**
 - PHARMACEUTICALS PRICING
 - TECHNOLOGY POLICY
 - EXCESS CAPACITY
 - IPR ENFORCEMENT





CS ASSISTANCE

Your global business **development team**



- Counseling
- Contact facilitation
- Advocacy on public-sector contracts
- Market research and due diligence
- Policy engagement (JCCT and S&ED)



CS ASSISTANCE

Your global business **development team**



22 cities
5 CS offices
>100 staff
14 second tier cities

● Office
● Embassy/consulate



QUESTIONS

CONNECT WITH US:

1-800-USA-TRADE

www.export.gov/china

谢谢

Thank You

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