



# China Maritime Lookout

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*The **China Maritime Lookout** provides detailed news and analysis about or related to China's involvement in, and contribution to, the global maritime scene*

## Contents

.....Introduction to first edition

- (1) Strong growth in China's iron ore, coal and oil imports in 2017
- (2) Aiming for slightly lower economic growth and reduced financial risk in China
- (3) Polar Silk Road extension of the Belt & Road Initiative under consideration
- (4) China's LNG (liquefied natural gas) imports surging
- (5) Economic links with some countries being reevaluated by Chinese authorities
- (6) Shipping's environmental aspects high on the agenda
- (7) Proposal to set up free trade ports in China, building upon free trade zones
- (8) Outlook for national credit boom and debt problem has global implications

## Editorial comments

- Following last year's brisk performance, **China's economy** is widely expected to decelerate in 2018 although many forecasters predict only a limited slowing. The OECD organisation has this week confirmed general expectations by suggesting just a minimal 0.2 percentage point reduction in the China GDP growth rate, from 6.9% in 2017, to 6.7%.
- The Chinese government's aim is to achieve an economic growth rate of around 6.5% this year (item 2). But there is anxiety among foreign observers about the **credit build-up**, which could potentially have adverse effects if it results in a financial crisis that weakens spending patterns and transmits to other countries through trade (item 8).
- China's huge **imports of iron ore, coal and oil** grew strongly last year, greatly benefiting world demand for shipping capacity provided by bulk carriers and tankers (item 1). Iron ore imports in particular are now so vast, at well over one billion tonnes annually, that even a small incremental percentage represents a large quantity added to global seaborne trade.
- Another rapidly advancing trade component is **liquefied natural gas (LNG) imports** into China. These rose by almost one-third last year, accelerating the upwards trend, and an increase in the average haul length (vessel voyage distance) reinforced the positive effect on shipping capacity required (item 4). The outlook is for continued expansion in the next few years.
- According to provisional estimates, the **China-owned merchant ship fleet** expanded by 1.5% in the first two months of this year, a much faster growth rate than seen in other large shipowning countries. Extensive orders placed for newbuilding ships implies further rapid growth ahead.

## Introduction to first edition by Richard Scott

- This first edition of an occasional bulletin aims to start a flow of information and analysis which contributes to a **more detailed and useful picture of China's maritime activities** than is provided by existing compilations of articles that include these topics.
- China's main international maritime activities – **seaborne trade, fleet of merchant ships, ports, shipbuilding, ship recycling, seafarers labour** – have become very influential in the global marketplace and changing patterns continue to have an enormous impact.
- Several world shipping markets are **highly dependent on the progress of events in China**. For this reason, economic and commercial developments with implications for shipping are followed closely by market players, while attention is also focused on relevant political aspects.
- One especially significant feature is that **China's increase in imports** of dry bulk commodities, oil, gas and other cargoes comprised exactly fifty percent of all the growth in world seaborne trade during the past decade.
- Expansion of the **fleet of China-owned merchant ships** also has been a notable feature of the global maritime scene, a trend which looks set to continue evolving strongly.
- Although much diminished in recent years, **China's shipbuilding output** is still a major part of the global industry and remains highly competitive with increasing sophistication.

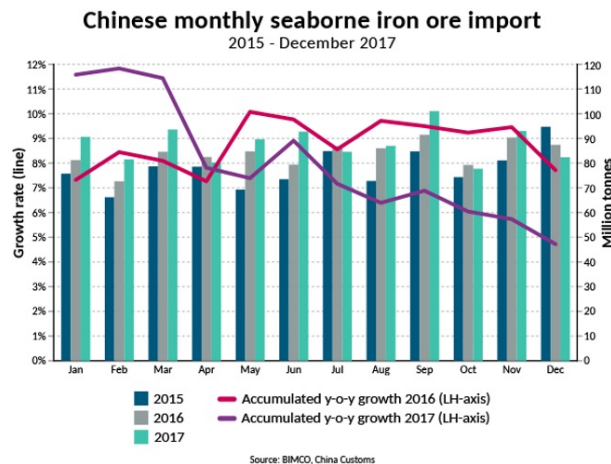
(1) BIMCO, 13 February 2018

## China Breaks New Ground... Again

Chinese seaborne imports of iron ore, coal and crude oil have all grown strongly throughout 2017. Both seaborne imports of crude oil and iron ore have reached the highest levels ever recorded, while coal reached the highest level in three years. Imports of crude oil and coal have benefitted the shipping industry to the greatest extent as both volumes and distances have increased.

### Iron ore imports breaks last year's record

China continues to ramp up its imports of iron ore with seaborne imports growing 4.7% in 2017 compared to 2016. This amounts to a total seaborne import of 1,054 million tonnes of iron ore breaking the record of 1,006 million tonnes from the year before. China also reported the highest imported amount of iron ore for one month, in September 2017, 102.8 million tonnes – of which 101 million tonnes was transported via the sea. Total Chinese imports of Iron ore by all modes of transportation was 1,075 million tonnes in 2017, compared to 1,023 million tonnes in 2016.



BIMCO's Chief Shipping Analyst Peter Sand comments: "Chinese imports of iron ore have been a reliable key driver in this decade of dry bulk shipping demand growth. Not only is China repeatedly importing

larger volumes, it is also sourcing most of its imported iron ore from seaborne exporters with more than 98% of the imports arriving via the sea”.

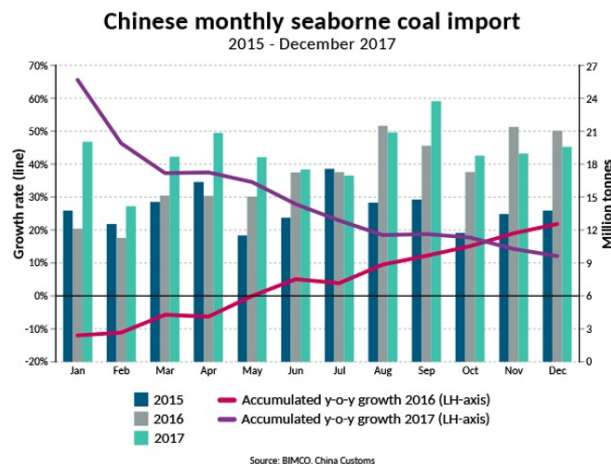
China imported 98% of its iron ore from seaborne partners in 2017, which has marginally decreased from 98.3% in 2016. The biggest exporters of iron ore to China are Australia, Brazil and South Africa. Australia is by far the largest and China imports 62% of its iron ore from Australia. China imports 21% of its iron ore from Brazil, which benefits the dry bulk shipping industry through long distances. South Africa is the origin for 4% of all Chinese iron ore imports.

### China sourcing more coal from seaborne partners

Chinese seaborne coal imports have once again provided strong support to dry bulk shipping demand by increasing 12% in 2017, compared to 2016. In 2017 China imported a total of 228.5 million tonnes of coal via the sea compared to 204 million tonnes in 2016. China sourced 84% of all its imported coal from seaborne exporters which, compared to 80% in 2016, indicates that China is not only importing larger volumes but also substituting landborne coal with coal from seaborne exporters.

The total import of coal was 271 million tonnes in 2017, compared to 255 million tonnes in 2016.

The biggest exporters of coal to China are Indonesia, Australia and Mongolia, exporting 40%, 30% and 13% respectively. The rise of US exports of coal to China is largely beneficial for the dry bulk shipping industry. The 3.1 million tonnes of coal exported from the US to China in 2017, ties tonnage on long sailing distances and thereby generates high tonne-mile demand.



BIMCO's Chief Shipping Analyst Peter Sand comments: "The fact that Chinese imports of seaborne coal continued the growing trend seen in the second half of 2016 into 2017, provided strong support to the generally improved demand conditions in the dry bulk shipping industry.

The import of US coal is highly beneficial to the dry bulk shipping industry as it has a strong multiplying effect on demand, as it provides some of the longest possible distances. Chinese importers accept a journey of up to 45 sailing days when they import coal from Norfolk, Virginia and Baltimore, Maryland”.

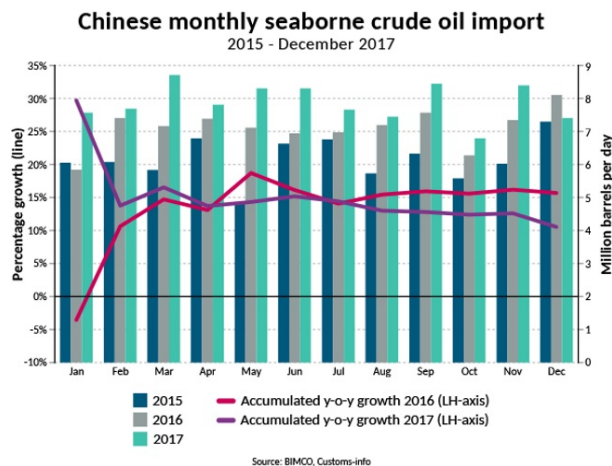
### Chinese imports of crude oil increases in volume and distance

In April 2017, China emerged as the world's largest importer of crude oil, as Chinese imports of crude oil had been growing at two-digit speed in both 2016 and 2017. China has imported 10% more crude oil via the sea in 2017 compared to 2016, as imports have surged to 7.8m bpd in 2017 compared to 7.1 m bpd the previous year. Total Chinese imports of crude oil, by all modes of transportation, was 8.4m bpd in 2017 exceeding the US who imported 7.9m bpd.

China is importing 93% of its crude oil via the sea, with the three biggest exporters being Russia, Saudi Arabia and Angola. Russia is the largest, as 14% of all Chinese crude oil is imported from there. Saudi Arabia exports only marginally more than Angola to China, with 12.4% of Chinese crude oil originating from Saudi Arabia and 12% from Angola.

BIMCO's Chief Shipping Analyst Peter Sand, comments: "Not only is the Chinese seaborne import of crude oil growing strongly, but the distances are growing as well. With an average sailing distance around 7,600 nautical miles in 2017, compared to 7,100 nautical miles in 2016.

Thereby, the crude oil tanker shipping industry is experiencing the rise in Chinese crude oil demand to the greatest extent, with the growth coming primarily from exporters in Angola, Brazil and the US”



Peter Sand ends:” Tanker demand growth in 2018 is expected to continue the trend seen in 2017, with growing imports in the Far East, and growing exports from the US. This is expected to benefit the VLCC segment the most”.

Source: Peter Sand, Chief Shipping Analyst; BIMCO

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(2) Hellenic Shipping News, 6 March 2018/ Reuters

## China keeps growth target at 6.5 percent, stays focused on financial risks

China aims to expand its economy by around 6.5 percent this year, the same as in 2017, while pressing ahead with its campaign to reduce risks in the financial system, Premier Li Keqiang said Monday. The goal was kept unchanged even though the economy grew 6.9 percent last year and exceeded the government’s target. Sources previously told Reuters that China will maintain its growth target at “around 6.5 percent”.

Economists had already expected the world’s second-largest economy to lose some momentum this year as the government deepens its push to contain a build-up in corporate debt, while a war on pollution and a cooling property market weigh on its manufacturers.

Reinforcing views that Beijing’s attention remains firmly fixed on credit risks and better quality growth, when Li unveiled the GDP target he omitted previous wording saying growth could be “higher if possible.” In his annual work report, Li also said China has cut its budget deficit target for the first time since 2012, suggesting Beijing will be more watchful of fiscal spending while not tapping the brakes so hard that it risks a sharper slowdown.

“Policy wise, the report definitely has a tightening bias,” said Betty Wang, senior China economist at ANZ in Hong Kong. “In line with expectations, the government is pushing through their reform agenda.” But last week’s escalation in trade tensions with the United States has jumped to the top of the list of uncertainties facing China this year.

President Donald Trump said he would impose hefty tariffs on imported steel and aluminum to protect U.S. producers, risking retaliation from major trade partners like China and sparking fears of a global trade war.

Li said China opposes protectionism and supports the settlement of trade disputes through negotiation, but will “resolutely safeguard” its legitimate rights and interest.

Yet, China will keep its yuan currency basically stable, Li said in remarks to the opening of the annual meeting of parliament.

He said a steady rise in import and export volumes can be expected this year, a view unchanged from a year ago. No export target was given for the third straight year.

"We can expect continued recovery of the global economy, but there are also many factors that bring instability and uncertainty," the premier said.

"The policy changes of the major economies and their spillover effects create uncertainty; protectionism is mounting, and geopolitical risks are on the ascent," Li said.

China's economic and financial risks "are generally under control" but more needs to be done to resolve issues such as local government debt, Li said. He also said China will improve supervision over shadow banking, internet finance and financial holding companies, and step up risk controls at financial institutions.

### **Deficit target trimmed**

Li said China has cut its budget deficit target to 2.6 percent of GDP from 3 percent in 2017. Most analysts had expected it to be maintained or trimmed only slightly.

However, since the economy has been expanding at such a strong pace, analysts said the cut was again more symbolic of Beijing's intention to further control debt growth.

"The actual figure is even lower than we expected...a 2.6 percent deficit would be about 2.3 trillion yuan (\$363.5 billion) in absolute terms, which equals to the 2016 level," said ANZ's Wang. "It shows the government's determination to control leverage in the economy."

Heavy government infrastructure spending was a major driver behind China's forecast-beating growth last year, but Beijing has been cracking down recently on some projects launched by local governments as it seeks to curb their spending.

Despite the lower deficit ratio, the absolute amount of the deficit is expected to remain unchanged at 2.38 trillion yuan (\$376 billion), according to the finance ministry's annual budget report.

### **Monetary policy neutral**

Li also reiterated that China will keep its monetary policy "prudent" and "neutral", neither too loose nor too tight, and will maintain reasonably steady liquidity, he said.

While the central bank has been gingerly raising money market rates to discourage riskier lending practices, it has also kept markets well supplied with funds when there are worries of a deeper cash squeeze, and bank lending hit a fresh record last year.

Li also said he expects reasonable growth in broad M2 money supply and total social financing this year, without stating a target.

The National Development and Reform Commission, the state planner, said separately that outstanding total social financing (TSF) and M2 will grow at a similar pace this year as in 2017.

TSF grew 12 percent last year, in line with the target, but M2 growth slowed to 8.2 percent, below the goal of around 12 percent. ANZ had expected both targets to be set at 10 percent or lower this year.

"If I remember it right, it's the first time that they don't have a specific target in two decades. It shows authorities now prefer a tighter stance on monetary policy," Wang said.

"Overall both monetary and fiscal policy will be tighter than last year, because the government wants to control financial leverage and overall debt levels."

China also set its consumer inflation goal at "around 3 percent", in line with last year, as widely expected. Stability will be the watchword this year as President Xi Jinping pursues his vision of turning China into a "modestly prosperous" nation by 2020.

To hit the 2020 goal, the economy needs to expand at least 6.3 annually over the next three years, officials have said.

Xi also wants China to become a "strong power" on the world stage by 2050.

In the government's 2018 budget report, defense spending saw its biggest increase in three years.

China will also continue to cut more steel and coal production, deepening its vow to make "skies blue again", as Beijing chases quality over dizzying, polluting growth.

The ruling Communist Party last month set the stage for Xi to stay in office indefinitely, with a proposal to remove term limits from the constitution.

Key Xi ally, former top graft buster Wang Qishan, sat on the same row as Standing Committee members on the front stage of the Great Hall, despite having stepped down from the elite seven-man body which runs China in October. He is expected to become vice president, with a specific role dealing with the Trump administration.



Source: Reuters (Reporting by Kevin Yao and Sue-Ling Wong; Additional reporting by Xiaochong Zhang, Elias Glenn, Stella Qiu, Cheng Fang, Lusha Zhang, Shu Zhang, Cate Cadell, Tom Daly, Muyu Xu, Yawen Chen, Christian Shepherd, Ben Blanchard; Writing by Ryan Woo; Editing by Kim Coghill)

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(3) Lloyd's List, 26 January 2018

## China to build 'Polar Silk Road' across Arctic

**White paper published on Friday says 'as a result of global warming, the Arctic shipping routes are likely to become important transport routes for international trade'**

BEIJING is considering extending its globe-spanning Belt and Road initiative to the Arctic as it seeks partners to collaborate in opening up shipping routes in that region.

"China is ready to co-operate with all relevant parties to seize the historic opportunity in the development of the Arctic, to address the challenges brought by the changes in the region," according to a white paper issued on Friday by the State Council Information Office.

It added that the Belt and Road initiative presents opportunities for the creation of a 'Polar Silk Road'

"together with basic principles of respect, co-operation, win-win situations and sustainability," it said.

China intends to consider "the interests of other countries and the broader international community" even as it pursues its own interests.

Land territories in the Arctic span about 8m sq km with jurisdictions held by Canada, Denmark, Finland, Iceland, Norway, Russia, Sweden and the US.

China does not border the Arctic region but is one of 13 countries holding observer status with the Arctic Council.

The Arctic Ocean is spread over 12m sq km, with nations sharing maritime rights and interests based on international law.

The paper said Chinese enterprises will be encouraged to carry out infrastructure development along the Arctic shipping routes and to put pilot sailings into effect in preparation for actual commercial voyages.

It noted that navigational safety will be key to the initiative and that China had been carrying out studies about these routes and has ramped up hydrographic surveys to enhance navigation, security and logistics capabilities.

In 2013, Cosco's *Yong Sheng* arrived in Rotterdam following a 35-day voyage from Dalian in China.

The conventional route, taking ships via the Indian Ocean, the Suez Canal and the Mediterranean Sea, takes 48 days to complete. *Yong Sheng* shaved 13 days off the voyage by travelling through the Arctic Circle, transiting the northern sea route, the first Chinese commercial vessel to do so.

On the commercial side, the nation will be weighing up opportunities in oil and gas, mineral resources, non-fossil fuel-based energy resources, fishing and tourism along with the other Arctic states.

The paper said the nation will respect the traditions and cultures of the Arctic's indigenous people and make efforts to preserve the environment there.

Beijing intends to prioritise policy co-ordination, infrastructure connectivity, free trade and financial links.

"China calls for the peaceful utilisation of the Arctic and commits itself to maintaining peace and stability in the region," the paper said, adding that the nation will support peaceful resolutions with regard to disputes over territory and maritime rights.

The country believes its interests are in line with international treaties such as the UN Charter, the UN Convention on the Law of the Sea and general international law.

It will also aim to increase co-operation with Arctic States in the areas of maritime and air search and rescue, maritime early warning systems, emergency response measures, as well as the sharing of relevant information.

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(4) Clarksons Research, 8 March 2018

## China's LNG Imports: A Starring Role

With Chinese LNG imports growing by a CAGR of 31% p.a. over the last ten years, China has stepped increasingly into the spotlight in the global LNG market. In 2017, Chinese imports of LNG increased robustly by 46% y-o-y to reach 38mt, accounting for 13% of global LNG imports, compared to a 2% share in 2008. China also overtook South Korea last year to become the world's second largest LNG importer.

### Support Act

China's imports of natural gas via pipeline or as LNG play an important role in China's energy sector, accounting for c.40% of domestic natural gas consumption in 2017. China's natural gas imports via pipeline began in 2010 following the start-up of Lines A and B of the Central Asia-China Pipeline, and grew firmly in subsequently years. The Myanmar-China pipeline started up in 2015, and between 2013 and 2016, China's pipeline imports exceeded the volume of LNG imports.

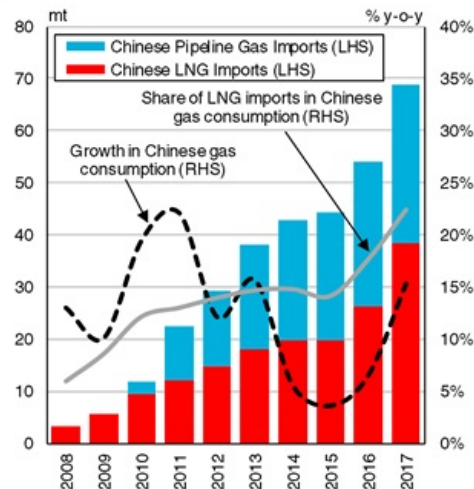
### Taking A Lead Role

However, after remaining steady in 2015, Chinese LNG imports started to pick up firmly again in 2016, rising by 33% to 26mt, supported by low LNG prices and faster growth in gas demand. Then, in 2017, many Northern Chinese cities implemented plans to improve air quality by switching from coal to gas boilers, contributing to strong growth of 15% (23mt) in domestic gas demand, and leading to a gas shortage in some areas during the winter. Meanwhile, domestic gas output only rose by 8mt to 106mt, and natural gas imports via pipeline rose by just 2mt.

### Graph of the Month

#### Chinese Gas Imports: LNG Steps Out Ahead Once More

The bars on the graph show Chinese imports of natural gas by pipeline and as LNG (left hand axis) in million tonnes. The lines (right hand axis) show y-o-y growth in Chinese gas consumption (black dotted line) and the share of China's gas usage accounted for by LNG imports (grey line). Timeseries of Chinese imports of gas and other commodities are available on the *Shipping Intelligence Network*.



Source : Clarksons Research

### A Long-Running Show

As a result, China's LNG imports surged in 2017, rising 46% to 38mt. Imports from Australia grew 44% to 17mt, whilst imports from Qatar rose by 51% to 7mt. Imports from the US also grew firmly, from 0.2mt in 2016 to 1.5mt in 2017. While still only accounting for 4% of China's LNG imports last year, growing imports from the US were a key driver of an increase in the average haul of China's LNG imports, with tonne-mile imports rising by an estimated 67% in 2017, even faster than growth in terms of tonnes.

### Backstage Help

Looking ahead, there seem to be a number of positive drivers of China's LNG imports. While a new gas pipeline from Russia is under construction (the 'Power of Siberia' pipeline), it is not expected to be operational until late 2019, which should support LNG imports in the short-term given the fast growth in gas demand, limited domestic output and lack of flexibility of pipeline supply contracts. While there is also some potential for increased domestic shale gas output, the expected rapid expansion of global LNG

supply and construction of new regasification terminals in China also provide positive signals for LNG imports. At the start of 2018, China's LNG regasification capacity stood at 54mtpa, and could reach around 80mtpa by the end of 2021.

So, China's LNG imports had an impressive 2017. With strong growth in gas demand, driven partly by a greater focus on environmental issues in general, there seems to be clear potential for further expansion in LNG imports. Overall, China looks likely to remain in the spotlight in the LNG sector for some time yet.

Source: Clarkson Research Services Limited

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(5) Hellenic Shipping News, 2 March 2018/ Forbes

## China Is Reevaluating Economic Ties In 65 Foreign Countries

**Officials in Beijing worry about high project costs and capital flight along their pan-Eurasian Belt and Road.**

When 3,000 Chinese legislators kick off their major annual meeting next week, a bulk of the attention will go to the country's fabled economic expansion. Much of that expansion over the past five years has broken past Chinese borders into deals with countries from Pakistan into Europe — China helps build infrastructure in exchange for smoothing trade routes that help commerce on both sides.

But that \$900-billion, 65-nation initiative dubbed "Belt and Road" is coming under new pressure in China over returns on the investments, analysts say.

Chinese leaders going forward will probably support this outbound investment, from a port lease in Sri Lanka to railway construction aid to the Philippines, only if it serves state interests rather than just those of individual investors, some scholars say.

A regulator's decision last month to take over the private, China-based Anbang Insurance Group for a year as its former head stands accused of economic crimes, shows China's intent to place state ambitions over company-specific ones, according to Scott Kennedy, a China business and political economy project director with the U.S. think tank Center for Strategic & International Studies.

"There's definitely a tension between China's emphasis on the Belt and Road on the one hand and its current focus on reducing financial risks in its economy on the other," Kennedy says.

Schism: Develop other countries but stop capital flight

Chinese officials have pushed since 2016 to stop capital from fleeing overseas, a would-be threat to currency rates as well as other pillars of the centrally-controlled economy. But it takes capital to build roads, ports and railways around Eurasia as prescribed by the Belt-and-Road initiative.

Officials will be on guard for now against Chinese firms that bill projects overseas as Belt-and-Road measures to avoid capital controls, analysts expect.

"China wants to ensure that overseas investments serve the government priorities," Kennedy says. "It's possible that many Chinese companies and financial institutions will frame their outward investments as part of the Belt and Road, even if they are not to lower the likelihood they'd be blocked by Beijing."

Mining projects with no resource gain for China itself, for example, might fall to that suspicion.

### **Costs too high offshore?**

Some in the Chinese government may worry that their own funding for Belt and Road — namely outlays by state-run enterprises such as telecom operators — cost too much and should be refocused inside China, says Stuart Orr, China-specialized professor of strategic management at Deakin University in Australia. Much of China, particularly poor inland regions, still want new infrastructure. "Many will be of the opinion that this money is better spent on infrastructure development in China," Orr says.

Yet no one in Beijing is seen stopping work along the Belt and Road, an initiative that has gained so much attention overseas that Chinese geopolitical rivals such as India and Japan are plotting their own replicas.

To manage costs, Chinese leaders might steer their already more than 10-year-old official focus on innovation to the targeted foreign countries — many of them poorer, smaller and less technologically-savvy than China, Orr says. "I would expect that there will be some mention of developing some specific innovation policy in relation to the Belt-and-Road initiative," he says, looking ahead to the legislative sessions.



Innovation will enter broader official discussions on how to improve work on the Belt and Road, says Zhao Xijun, deputy School of Finance dean at Renmin University of China. Leaders and legislators would talk about how innovation can open markets for Chinese products in the targeted countries, "among other results," he says.

#### **Hints of debate this month**

Senior Chinese officials may drop hints about Belt and Road's new direction in a series of work reports to the 3,000-member National People's Congress legislative session that opens March 5 or to its advisory body, the Chinese People's Political Consultative Conference. These sessions have covered the Belt and Road before. At the 2015 congress, for instance, Premier Li Keqiang said his country had vowed to "advance talks" on free trade zones with Israel and Gulf Cooperation Council, which includes six other Middle Eastern nations.

The advisory body may have a chance to kick off debate about some of the Belt and Road's limitations, Orr says. "Conversations about whether the implementation of the (initiative) is too ambitious are likely to be hotly debated by consultative conference delegates later," he forecasts.

Source: Forbes

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(6) Hellenic Shipping News, 13 February 2018/ Global Times

## **Chinese cities swim toward free trade ports**

China has been putting a lot of effort into building free trade zones (FTZs) in recent years. Now the efforts are going one step further, with the central government calling for the establishment of free trade ports, which will supposedly derive from the existing FTZs.

According to a report released by cs.com.cn on January 31, more than 10 provinces and cities across China said they will "actively explore [the possibilities] of establishing free trade ports."

Those regions not only include coastal cities and provinces like Shanghai, East China's Zhejiang Province, South China's Guangdong Province and East China's Fujian Province, but also include inland provinces like Southwest China's Sichuan Province.

According to a report released by the Xinhua News Agency in October 2017, the Ministry of Commerce is working toward establishing FTZs along with relevant provinces, cities and departments.

In Shanghai, the blueprint for free trade port establishment is even clearer. According to media reports, the major player of the Shanghai free trade port initiative will operate in the Yangshan port area, while the Shanghai International Port (Group) Co will work with Zhejiang companies to further develop northern Yangshan.

Yang Rongjun, a spokesman for Shanghai International Port (Group) Co, confirmed to the Global Times on Wednesday that the company is still waiting for detailed guides from the government regarding the establishment of the Shanghai free trade port.

According to the cs.com.cn report, the first batch of domestic free trade ports will likely be disclosed after the annual NPC and CPPCC sessions.

#### **Historical update**

The Chinese government's efforts to develop free trade areas started in August 2013, when the first FTZ was set up in Shanghai.

In the following years, the government has gradually updated the functions of the FTZ there, as well as set up FTZs in other provinces. So far, China has set up 11 FTZs overall.

Tao Jian, who previously worked as the director of the finance department under the Shanghai Pilot Free Trade Zone Coffee Exchange, told the Global Times on Thursday that China's FTZs benefit from government policies.

He added that not only are they restricted to special management methods like the "negative list" approach as well as free trade accounts, which facilitate overseas trade, but also, the overall environment in FTZs tends to be more risk-tolerant compared with the outside.

"Officials in the FTZs tend to give the green light to any innovative ideas. They encourage companies to trial them instead of suppressing them," Tao told the Global Times.

He also said that the government has been perfecting the FTZs in recent years.

Such improvements included tailored, government-led industrial guidance for each of the seven new FTZs set up in March 2017, preventing vicious competition among them. The FTZ in Zhejiang, for instance, focuses on bulky commodity trade as the province is more competitive in this area.

Wu Minghua, a Shanghai-based independent shipping industry analyst, said that the construction of the free trade ports will start with updating the functions of the existing FTZs.

According to a statement published by the State Council, China's cabinet, in March 2017, the first free trade ports will be set up in the Yangshan duty-free zone and the Shanghai Pudong International Airport integrated duty-free zone, both of which are parts of the Shanghai FTZ.

"The Shanghai free trade ports will start with airports and sea ports in the Shanghai FTZ, and gradually, the whole of the Shanghai FTZ will be upgraded to free trade ports," Wu told the Global Times on Thursday.

According to Wu, compared with FTZs, free trade ports will adopt a more open management system.

"For example, in free trade ports, there won't be any restrictions on the use of foreign currencies. Also, the government won't be imposing any taxes. Those policies have not been fully implemented in the FTZs, as there is still a certain level of capital restriction and tax charges in those areas," Wu noted.

Sang Baichuan, director of the Beijing-based Institute of International Business at the University of International Business and Economics, said that there are two types of free trade ports, one specializing in offshore trade and the other having comprehensive functions.

"The free trade ports in coastal areas like Shanghai can specialize in trade, while inland cities can be the homes to free trade ports that are multi-functional, including developing financial services."

Wu noted that the focus of setting up free trade ports does not lie in infrastructure construction like "building a new port or a new airport." Instead, the focus is on how to embrace institutional innovation in customs, tax and investment.

#### **Finding individuality**

But the experts the Global Times talked to cautioned that it's not necessarily a good sign that all provinces are scrambling to set up free trade ports.

"There have already been too many FTZs," Sang said, adding that many of them have been repetitive constructions.

"For the free trade ports, I think it's important to make detailed plans and to clarify the [different] functions of each of them," he said.

Wu said that there will likely be three or four free trade ports established in China in the future.

"I think it's better to set up one free trade port at first, and then expand the experience of it, if it's successful, to other provinces and cities," he noted.

According to Wu, it's important that the domestic free trade ports differentiate from each other and have their own characteristics.

For example, the free trade port in Ningbo of East China's Zhejiang Province could specialize in energy trade due to its advantages in the industry sector, Wu said.

Source: Global Times

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(8) Hellenic Shipping News, 12 February 2018/ Bloomberg

## **Sizing Up China's Debt Bubble**

Over the past decade, China's credit boom has been the largest factor driving global growth. That may be about to change. President Xi Jinping's administration is encouraging banks and businesses to start deleveraging. Meanwhile, the government is committed to doubling the economy from 2010 to 2020, and getting there will almost certainly require more loans. Here, and at BI China, Bloomberg Economics looks at China's debt problem and where it might go from here.

### **1. Why the World Is on Bubble Watch**

In 2008, China's total debt was about 141 percent of its gross domestic product. By mid-2017 that number had risen to 256 percent. Countries that take on such a large amount of debt in such a short period typically face a hard landing. That's why everyone—academics, private banks, the International

Monetary Fund, the Organization of Economic Cooperation and Development, the Bank for International Settlements, and People's Bank of China Governor Zhou Xiaochuan—is sounding the alarm.

## **2. Earning Small Bucks, Borrowing Big Bucks**

China's debt-to-GDP ratio ranks with those of developed economies such as the U.S., the U.K., and Italy. The problem is that China is still a middle-income country, with a purchasing-power-parity-adjusted GDP per capita of just \$15,400—barely a quarter of the U.S. level. Maxing out on debt at such a relatively low income level will make it more difficult for China to pay for its climb toward a developed economy.

## **3. Who's Borrowing And Who's Lending?**

China isn't the U.S. before the housing market collapse; households are relatively lightly leveraged. Nor is it Greece going into its sovereign debt crisis; government debt is low. Borrowing is mainly on corporate balance sheets: Chinese corporate debt was 163 percent of GDP in mid-2017, according to the Bank for International Settlements. Banks are the main enablers. The PBOC, the central bank, aims to have the bond market play a larger role in financing debt, reasoning that credit is allocated more efficiently in transparent, liquid markets.

## **4. The Warning Light Flashes**

History isn't exactly on China's side here. A meteoric rise in borrowing without comparable economic gains rarely ends well. The IMF identified 43 credit booms in which the credit-to-GDP ratio increased by more than 30 percentage points in five years. All but five ended with a significant growth slowdown or financial crisis. China's debt-to-GDP ratio has risen 54 percentage points in the last five years. Moreover, it started from an elevated level, increasing the chance of a crisis, according to the IMF.

## **5. This Is a Global Predicament ...**

China is now the second-largest economy in the world and the biggest trading nation, and it has the third-largest bond market. A meltdown would have global repercussions. Countries with the closest trade ties are the most at risk. South Korea, Malaysia, and Vietnam each have exports to China valued at more than 10 percent of their GDP; commodity exporters South Africa and Chile are not far behind.

## **6. ... With a Unique Weight on U.S. Business**

A financial crisis that hit the spending power of China's middle class would also be a blow to corporate America. When China's shift to a more consumer-driven economy created large markets for U.S. corporations, companies from Apple Inc. to Yum! Brands Inc. began to count the country as a significant source of sales and a potential growth market. At Intel Corp., for example, China rose from 13 percent of its total revenue in 2008 to 24 percent in 2016.

## **7. The Central Bank Holds Fast**

Too much leverage reflects an abundance of credit. The obvious solution is for the central bank to raise interest rates. With inflation under control and growth uncertain, however, the PBOC has left the benchmark loan rate on hold at 4.35 percent. Repo rates, used to guide interbank borrowing costs, have edged only slightly higher. Bloomberg Economics' China credit impulse—a gauge of new credit as a percentage of GDP—shows that new lending is no longer providing a boost, but it's not creating a drag, either.

## **8. Shining a Light on Shadow Loans**

Don't mistake the PBOC's inaction on rates as a sign that it's giving up on the debt problem. The central bank has rolled out regulations targeting bad behavior by banks. A quarterly balance sheet review punishes those that paint outside the lines on assets or liabilities. That's proved effective, slowing banks' investment in risky, shadow loans and reducing their reliance on expensive and unstable short-term funding.

## **9. Writing Down To Get Back Up**

At the local level, Communist Party cadres, bankers, and businesses are working to manage down bad loans. Banks are being strong-armed into swapping loan claims for equity stakes. Small banks are being merged into bigger ones and gaining a capital infusion along the way. A review of 2016 financial statements of 41 banks found 576 billion yuan (\$83 billion at the end of 2016) in bad loan write-offs, up from 117 billion yuan in 2013.

## **10. Growth to the Rescue?**

Perhaps the biggest support to the deleveraging agenda comes from what's happening on growth. Measured in current prices, China's GDP growth has accelerated to 11 percent year on year in the fourth quarter of 2017, up from a nadir of 6.4 percent at the end of 2015. Higher nominal growth means higher profits and more tax revenue—useful for paying down debt. Bloomberg Economics' base case is that by

2022, China could face a debt-to-GDP ratio close to 330 percent, second only to Japan among major economies. If high nominal growth can be sustained, debt could stabilize at about 290 percent of GDP.

### **11. The Right Pace to Slow Down**

Containing a debt bubble comes with its own risks. Meaningful steps to limit leverage necessarily involve slower loan growth. When that happens, markets fall and growth slows. In December, for example, deleveraging fears pushed the 10-year government yield above 4 percent and the benchmark CSI 300-equity index sold off 3 percent in one day. The risk is that steps to deleverage trigger the hard landing they're meant to avoid.

Source: Bloomberg

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