U.S.-China Economic and Security Review Commission
Economics and Trade Bulletin

January 7, 2020

Highlights of this Month's Edition

- **Bilateral Trade:** The U.S. goods trade deficit with China totaled $26.4 billion in November 2019, 30.4 percent down year-on-year; U.S. soybean exports to China rose in anticipation of a Phase One trade deal.
- **Bilateral Policy Issues:** Phase One trade agreement between the United States and China leaves structural issues in China's state-led economic model unaddressed.
- **Policy Trends in China's Economy:** Beijing emphasizes stability over reforms at the 2019 Central Economic Work Conference; details come to light on last August's bailout of Hengfeng Bank, the fourth bank to receive a government bailout amid rising concerns about the stability of China's financial system; foreign life insurers allowed full participation in China's economy 19 years after China's WTO accession; Chinese government agencies will phase out foreign technology products within three years.
- **In Focus – Index Inclusions Increase Foreign Holdings of Chinese Securities:** Over the last two years, several major global index providers have moved to include RMB-denominated securities in key indexes, leading to a projected $405 billion expansion of foreign portfolio investment in China.

Contents

This issue of the Economics and Trade Bulletin *was prepared by Nargiza Salidjanova, Virgil Bisio, Charles Horne, Ann Listerud, Kaj Malden, and Leyton Nelson. You may reach us at* contact@uscc.gov.

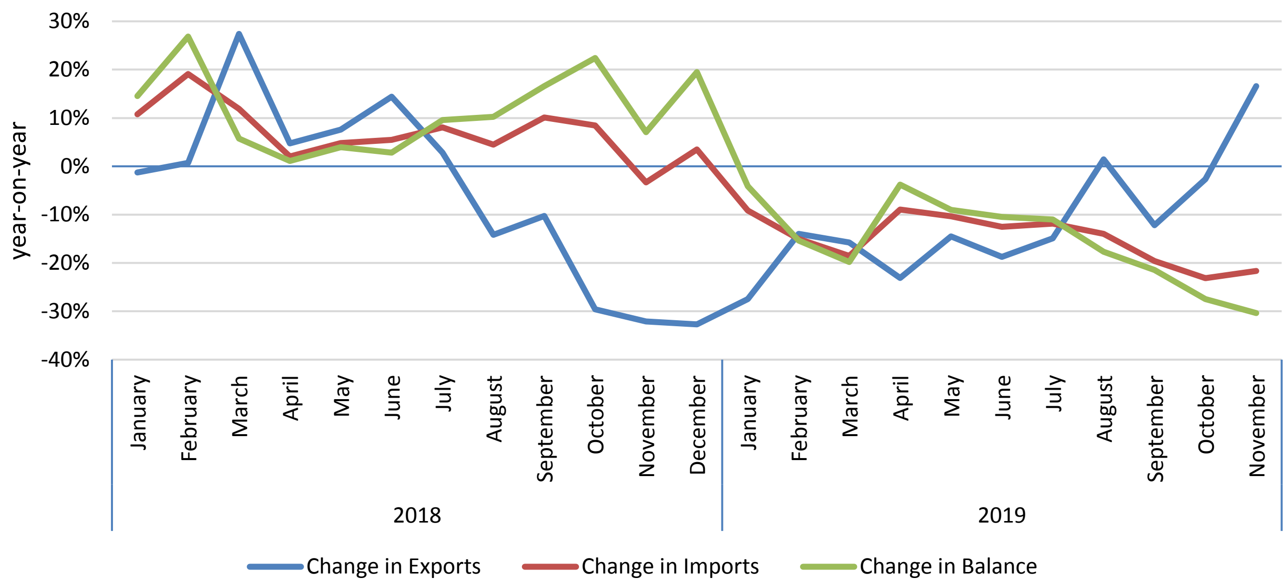
Bilateral Trade

The U.S. trade deficit in goods with China totaled $26.4 billion in November 2019, the lowest monthly level since March 2019 and a 30.4 percent decrease year-on-year (see Figure 1) as imports declined and exports grew.[1] U.S. imports from China continued to fall, down 21.6 percent year-on-year to $36.5 billion.[2] U.S. exports to China grew 16.6 percent year-on-year to $10.1 billion, the greatest year-on-year increase in 2019 so far.[3]

According to customs data, China's imports of soybeans in November saw year-on-year growth of 53.7 percent following the announcement of a Phase One trade deal (see next section).[4] Chinese news outlets reported soybean imports specifically from the United States totaled 2.6 million tons, more than twice the amount in October 2019.[5]

Year-to-date, the U.S. goods deficit with China stood at $320.1 billion, a 16.1 percent decrease year-on-year.[6]

Figure 1: U.S. Exports, Imports, and the Trade Deficit with China, January 2018–November 2019



Source: U.S. Census Bureau, *Trade in Goods with China*, January 7, 2020. *https://www.census.gov/foreign-trade/balance/c5700.html.*

Bilateral Policy Issues

United States and China Reach Phase One Deal, Structural Issues Remain Unsettled

On December 13, the Trump Administration announced the United States reached a Phase One trade agreement with China.[7] Beyond commitments to increase purchases of U.S. goods and services, particularly agriculture, Beijing's other pledges made as part of the agreement—such as ending forced technology transfers—are reiterations of previous promises.[*] The repetition of hitherto unfulfilled assurances, together with the agreement's minimal

[*] The Chinese government originally agreed to not force technology transfer from multinational enterprises operating in China when it acceded to the World Trade Organization in 2001. However, according to the Office of U.S. Trade Representative's Section 301 report concerning China's unfair trade practices related to technology transfer, intellectual property protection, and innovation, multinational enterprises' access to the Chinese market continues to be conditioned on the transfer of technology despite the Chinese government making ten bilateral commitments to the contrary from 2010 to 2016. For example, though General Secretary Xi Jinping said China would commit to not advancing policies or practices that require the transfer of intellectual property or technology as a condition for market access in 2015 in a meeting with President Barack Obama, this commitment has not been codified in Chinese law, and China's regulators continue to coerce multinational enterprises to provide their IP and technology as part of their joint venture agreements with Chinese firms. Office of the U.S. Trade Representative, *Findings of the Investigation into China's Acts, Policies, and Practices Related to Technology Transfer, Intellectual Property, and Innovation under Section 301 of the Trade Act of 1974*, March 22, 2018, 6–10. *https://ustr.gov/sites/default/files/Section%20301%20FINAL.PDF*.

details on implementation and enforcement, leaves open the possibility that Beijing will maintain economic policies contrary to U.S. interests absent more comprehensive negotiations or structural economic reforms.

According to the factsheet from the Office of the U.S. Trade Representative (USTR), the Chinese government will expand imports of U.S. goods and services over the next two years by $200 billion relative to 2017 levels, as well as improve intellectual property (IP) rights protection, curb forced technology transfer, remove barriers to trade in agriculture, open China's financial services sector, and not engage in currency manipulation.[8] In exchange, the United States will modify Section 301 tariffs imposed on Chinese imports, including the cancellation of planned 10 percent tariffs on $156 billion worth of Chinese imports originally slated to take effect on December 15.[*][9] In addition, 15 percent tariffs targeting $120 billion worth of Chinese imports imposed in September 2019 will be halved, though 25 percent tariffs covering $250 billion worth of Chinese imports otherwise remain in effect.[10] President Donald J. Trump said he will sign the agreement with "high level representatives of China" at a ceremony in the White House on January 15.[11]

While the agreement immediately deescalates bilateral trade frictions, observers criticized it for offering minimal details on implementation and enforcement, and not addressing longstanding U.S. concerns over China's state-led economic model. In a press briefing following the announcement of the deal, U.S. Trade Representative Robert Lighthizer said Beijing committed to buying $40 billion worth of U.S. agricultural products annually in 2020 and 2021, significantly higher than the $21 billion recorded in 2017 before trade frictions deepened.[12] However, an official statement on the deal from China's State Council does not mention this commitment; neither was it confirmed at a Ministry of Commerce press briefing.[13] The agreement's mandated Chinese purchases of U.S. goods and services may reinforce the Chinese government's control of the economy, as Beijing would need to direct state-owned enterprises and other firms to buy U.S. goods and services in order to meet the purchase commitments.

Precise details on how the Chinese government will honor pledges to address longstanding issues in the bilateral economic relationship, including IP theft and forced technology transfer,[†] were not provided. Other issues, such as industrial subsidies and cybertheft, were not explicitly mentioned in the USTR's fact sheet on the agreement.[14]

Policy Trends in China's Economy

Beijing Emphasizes Stability over Reforms for 2020 at the Central Economic Work Conference

On December 10–12, 2019, Chinese Communist Party (CCP) leaders met in Beijing for the Central Economic Work Conference (CEWC), an annual meeting where policymakers review the previous year's economic performance and set policy goals for the coming year.[‡] The CEWC, China's most important economic policy conference, attracted even greater attention this year due to concerns over a continued slowdown.[15]

Although the proceedings of the CEWC are kept secret, the state-run media outlet Xinhua published a summary of the conference. The Xinhua readout stated that "major steps have been made toward finishing the building of a moderately prosperous society," but also reflected concern over global economic headwinds.[16] While the readout did not specifically mention ongoing trade tensions with the United States, it noted that "sources of turbulence have substantially increased" and that China needed to be "well-prepared with contingency plans."[17]

[*] China's Ministry of Finance also announced it would not impose duties that were to take effect alongside the Trump Administration's planned December 15 tariffs, and that it would continue to suspend retaliatory tariffs on U.S. automobiles and auto parts that were scheduled for reinstatement on the same date. China's Ministry of Finance, *State Council Customs and Tariff Commission Announcement on Tariffs on Goods Imported from the United States*, (国务院关税税则委员会关于暂不实施对原产于美国的部分进口商品加征关税措施的公告), December 15, 2019. *http://gss.mof.gov.cn/zhengwuxinxi/zhengcefabu/201912/t20191215_3441954.html*.

[†] The Chinese government previously described U.S. accusations of Chinese companies' theft of IP and the U.S. requirement that foreign firms share technology with domestic business partners as "unfounded fabrications," suggesting the Chinese government may not adequately resolve issues it otherwise alleges have not occurred in the first place. *Xinhua*, "U.S. Accusation of China IP Theft, Forced Technology Transfer Unfounded: White Paper," June 2, 2019. *http://www.xinhuanet.com/english/2019-06/02/c_138110222.htm*.

[‡] For highlights from the 2018 Central Economic Work Conference, see U.S.-China Economic and Security Review Commission, *Economics and Trade Bulletin*, January 11, 2019, 2–3. *https://www.uscc.gov/sites/default/files/Research/January%202019%20Trade%20Bulletin.pdf*.

In light of these headwinds, the Xinhua's readout of the CEWC said ensuring stability was a top priority—the first time since 2013 that the conference planners explicitly discussed the importance of ensuring economic stability in the following year.[18] But the government issued a strong signal that no new stimulus was forthcoming in 2020. In terms of fiscal policy, the readout mentions implementation of last year's tax cuts but does not propose any additional cuts. As for monetary policy, the readout's goal of a continuation of "prudent" policy suggests that stimulus will remain moderate, a sentiment echoed by the People's Bank of China Governor Yi Gang in a statement issued last weekend.[19]

The meeting also reaffirmed the importance of adhering to the "Six Stabilities" policy first articulated in 2018.[*] Specific economic targets for 2020, such as gross domestic product (GDP) and inflation, will not be made public until the meeting of the National People's Congress and the Chinese People's Political Consultative Congress in March, known as the "two sessions" meeting.[20] According to foreign observers, policymakers will likely continue to aim for GDP growth of around 6 percent, although analysts widely doubt the accuracy of official growth figures.[21]

While the Xinhua readout made no mention of concrete policy measures to support the economy, the CEWC identified six broad priorities for 2020:

1. Carrying out China's "new development concept" (新发展理念).[†] [22]
2. Fighting the "three major battles" against poverty, environmental degradation, and risks to financial instability such as uncontrollable debt growth.[23]
3. Ensuring people's livelihood, and in particular guaranteeing and improving the basic livelihood of people in need, including stabilizing national employment, ensuring timely payment of pensions, and improving housing security for urban residents.[24] Notably, the Xinhua readout repeated Chinese President and General Secretary of the CCP Xi Jinping's statement from 2017 that "housing is for living in, not for speculating."[25]
4. Continuing to implement a proactive fiscal policy and a prudent monetary policy. According to the Xinhua readout, proactive fiscal policy must pay greater attention to structural adjustment and decrease general expenditures while supporting basic livelihood, while prudent monetary policy involves increasing the supply of social financing while reducing the cost of financing. The readout in particular highlighted the need for adequate financing for the manufacturing industry as well as for small and medium private enterprises. The summary also stated that fiscal and monetary policies should coordinate to encourage investment in areas such as advanced manufacturing and infrastructure.[26]
5. Promoting "high-quality development" in various respects, such as ensuring adequate agricultural production (including of pork),[‡] deepening technological reform while providing for the active role of state-owned enterprises (SOEs) in innovation, supporting the development of strategic industries, dealing with "zombie enterprises," upgrading the manufacturing industry, developing the digital economy, constructing infrastructure such as rural roads and "cold chains" for the transportation of food, and promoting environmental protection.[27]
6. Deepening economic reform and speeding up the creation of a high-standard market system, including through reforming SOEs, improving the protection of property rights, reforming land planning methods, improving the quality of companies listed on capital markets, guiding large banks in lessening their focus on service, pushing small and medium banks to focus on their main business, continuing to open up to the outside world, promoting the stability of foreign trade, reducing overall tariffs, playing an active part in

[*] The "Six Stabilities" policy, formulated by the Politburo, seeks to achieve stability of employment, financial markets, trade, investment, foreign investment, and market expectations. Cary Huang, "China Returns to Growth to Offset U.S. Trade Risk, but Is It the Right Move?" *South China Morning Post*, December 30, 2018. *https://www.scmp.com/week-asia/opinion/article/2179840/china-returns-growth-offset-us-trade-war-risk-it-right-move*.

[††] China's "new development concept," first proposed by Chinese President and General Secretary of the CCP Xi Jinping in 2015, refers to attempts to avoid the "middle-income trap" by pursuing high-quality growth with an emphasis on innovation, environmentalism, coordination, openness, and distribution of income. Taiyan Huang, "Economic Theory Innovation and China's Development Practice," *China Political Economy* 1:1 (2018): 55–66.

[‡] For more on the shortage of pork in China, see U.S.-China Economic and Security Review Commission, *Economics and Trade Bulletin*, October 9, 2019, 9–11. *https://www.uscc.gov/trade-bulletins/october-2019-trade-bulletin*.

> global economic governance, participating in World Trade Organization (WTO) reform, and speeding up the negotiation of multilateral free trade agreements.[28]

The readout from the CEWC suggests Chinese policymakers will continue to prioritize short-term stability over pursuing deeper structural reforms. Although the readout mentioned initiatives such as supply-side reform and dealing with zombie enterprises, the reference to an "active" role of SOEs in innovation signals a continuation of China's state-led economic model, even as policymakers publicly acknowledge the need to increase support for private firms.

New Details on Hengfeng Bank Bailout amid Widespread Commercial Bank Strain

In August 2019, Chinese state media reported Shandong-based Hengfeng Bank would receive a bailout from the government—the fourth bank to receive such a bailout in 2019.[*] [29] Details emerged in December of Hengfeng Bank issuing a nonpublic offering of 100 billion shares at a combined estimated value of $14 billion (renminbi [RMB] 100 billion).[30] Sixty billion shares were purchased by Central Hujin Investment, a wholly state-owned state entity authorized by the State Council to make investments in key state-owned financial enterprises on behalf of the state.[31] Thirty-six billion shares were purchased by regional government investment entity Shangdong Financial Assent Management Co., and Singapore-based United Overseas Bank purchased 1.86 billion.[32] After the offering, Central Hujin became the majority shareholder of Hengfeng Bank.[33]

Hengfeng has not publicly released a report of its accounts since 2016, leaving the state of its portfolio up to speculation.[34] Prior to the $14 billion offering, Hengfeng possessed $1.7 billion (RMB 11.21 billion) in registered capital.[35] Baoshang Bank,[†] Bank of Jinzhou,[‡] and Harbin Bank[§] also received government bailouts in 2019.[36] While Baoshang Bank was taken over by Chinese regulators, Bank of Jinzhou and Harbin Bank were recipients of state-led investment through equity share purchases.[37] Unlike Hengfeng, these purchases occurred through existing shares rather than new share issuances. In 2018, Anbang Insurance underwent a regulatory takeover and government bailout similar to Baoshang Bank.[38]

Though the structure of its assistance differs from Bank of Jinzhou and Harbin Bank, Hengfeng's issuance of additional shares to raise capital and counteract losses is not an isolated case. *South China Morning Post* reported in December that since January, 29 rural banks had applied to the China Securities Regulatory Commission (CSRC) for permission to sell new shares to replenish capital, ten of which reported a nonperforming loan ratio exceeding the 5 percent threshold permissible under the China Banking and Insurance Regulatory Commission's (CBIRC) credit risk guidelines.[39] According to a concurrent article from *Beijing Business Today*, 15 filings occurred since November, among which were eight banks with nonperforming loan ratios exceeding 10 percent.[40]

Over the course of 2019, national-level regulators have notably been selective about which institutions receive direct intervention as they try to balance reducing moral hazard among bank managers and shareholders with preventing investor panic.[41] In past years, it was widely assumed that the government would intervene in the event of bank distress. Some analysts believe the differing approaches in bank bailouts in 2019 indicate Beijing is signaling its support for high-priority financial entities while not guaranteeing backing for smaller entities.[42]

The recent stress on commercial banks is attributed to pressure on individual industries (Chinese commercial banks often concentrate on specific sectors), rising difficulty for small and medium banks to raise money on the interbank market, and overall economic slowdown in China's economy.[43]

Senior Hengfeng executives face legal penalties for their actions while managing the bank. On December 26, former chairman Jiang Xiyun was sentenced to death (with a two-year reprieve) for embezzling $108 million (RMB 754

[*] To date, four banks have received a bailout from China's government—Baoshang Bank, Bank of Jinzhou, Harbin Bank, and Hengfeng Bank. Unlike the other three banks, which received financial support from central government entities, Harbin Bank was bailed out exclusively by provincial and city-level government entities.

[†] For more on the Baoshang Bank takeover, see U.S.-China Economic and Security Review Commission, *Economics and Trade Bulletin*, July 3, 2019, 6. *https://www.uscc.gov/sites/default/files/trade_bulletins/July%202019%20Trade%20Bulletin.pdf*.

[‡] For more on the Bank of Jinzhou bailout, see U.S.-China Economic and Security Review Commission, *Economics and Trade Bulletin*, August 5, 2019, 10. *https://www.uscc.gov/sites/default/files/Research/August%202019%20Trade%20Bulletin.pdf*.

[§] For more on the Harbin Bank bailout, see the U.S.-China Economic and Security Review Commission, *Economics and Trade Bulletin*, December 5, 2019, 4. *https://www.uscc.gov/sites/default/files/2019-12/December%202019%20Trade%20Bulletin.pdf*.

million) from the company and accepting over $8.6 million (RMB 60 million) in bribes.[44] Former head financial manager Zhao Chunying was sentenced to 12 years in prison for embezzlement, and former head of Hengfeng's credit risk monitoring department Zhang Wenkai was sentenced to 34 months for illegally issuing guarantees worth $570 million (RMB 3.7 billion) under orders from Jiang. [45] Sun Jinguang, a relative of Jiang, was sentenced to 33 months in prison and fined $2,870 (RMB 20,000) for destroying records of $95 million (RMB 660 million) worth of illegal transactions.[46]

China's financial bailouts have coincided with the ongoing anticorruption campaign and have led to multiple disappearances and prison sentences. In May 2018, chairman of Angbang Insurance Group Wu Xiaohui was sentenced to 18 years in prison for fraud and embezzlement; Wu's lawyers report being denied communication with their client since his conviction.[47] In 2017, Xiao Jianhua, chairman of Tomorrow Holdings (an entity with an 89 percent controlling stake in Baoshang Bank, a 26.5 percent stake in Harbin Bank, and reported by South China Morning Post to be affiliated with Hengfeng Bank), was abducted by Chinese authorities from his Four Seasons apartment in Hong Kong and has yet to be formally charged.[48]

Foreign Insurers Granted Full Ownership of Chinese Life Insurance Companies

On December 6, the CBIRC lifted foreign ownership limits on Chinese life insurance companies, effective January 1, 2020, paving the way for foreign insurance companies to purchase larger stakes in their joint ventures in China or set up new wholly owned life insurance companies.[49] The policy fulfills a July 2019 pledge by Premier Li Keqiang to eliminate foreign ownership caps for life insurance companies. These ownership caps have been revised several times, including—most recently—in 2018, when foreign insurers were permitted to own 51 percent of joint ventures in China.[50]

China has accelerated opening financial services to foreign investment in 2019, following promises to remove restrictions after President Trump's 2017 visit to China.[51] The relaxed restrictions—promoted by the need to attract foreign capital to offset slowing investment growth and industrial output—mark a sudden change after more than a decade of foot-dragging by China's government.[52] Under its 2001 WTO accession protocol, China promised to remove market access restrictions for foreign financial institutions.[53] At the time, China committed to a five-year phase-in for banking services and assured foreign insurers they would be permitted to set up wholly owned life insurance companies by 2006.[*] [54]

Beyond attracting foreign capital as domestic investment slows, Chinese policymakers are eager to bring foreign expertise to improve the sophistication of China's financial services. Allowing foreign fund managers to invest in key areas like Chinese pension funds could foster China's nascent pension management market and reverse a trend of low returns on retirement savings—a critical need as China faces declining labor force participation and likely pension fund shortfalls.[55] Removing other restrictions could also encourage foreign financial institutions to enter China's distressed debt market, as the country continues a multiyear effort to reduce high inventories of nonperforming corporate loans.

In other areas, such as life insurance, Chinese companies have established secure market share and are well positioned against foreign competition.[56] Foreign joint ventures in this vast segment, which accounted for $313 billion or 54 percent of China's $575 billion insurance premiums in 2018, do not have the distribution network of local competitors and have not grown as quickly.[57]

Removing legal restrictions to foreign participation in China's financial services market does not guarantee foreign companies will gain quick access. Financial regulators may impose many additional licensing requirements and license application processing times can stretch for years, incentivizing foreign firms to expedite market entry through costly domestic acquisitions. PayPal first applied for a payments license in China in 2011. It was finally able to obtain approval to conduct online payments in September 2019 via a different licensing regime by acquiring

[*] For banking, the People's Bank of China took steps that appeared to keep pace with the timeline established under China's WTO commitments, but restricted the ability of foreign banks to enter and operate in China, for instance by imposing excessive working capital requirements (that far exceeded requirements for domestic banks). In other areas, such as limits on foreign banks establishing joint ventures with domestic banks, Chinese regulators delayed removing restrictions for more than a decade. Office of the U.S. Trade Representative, *2018 Report to Congress on China's WTO Compliance*, February 2019, 147–148. *https://ustr.gov/sites/default/files/2018-USTR-Report-to-Congress-on-China%27s-WTO-Compliance.pdf*.

a 70 percent stake in domestic competitor GoPay.* [58] Moreover, regulation can be highly fragmented for similar financial activities. For instance, foreign firms investing in domestic asset managers face different ownership restrictions and are regulated by different agencies depending on whether they are investing in the asset management business of a securities firm or a bank.[59]

More importantly, greater opening of foreign investment in financial services is not synonymous with liberalization of China's financial system. Continued restrictions on cross-border capital flows and government intervention in the financial system could expose foreign financial institutions operating in China to political risk. On January 2, 2020, China temporarily suspended new listings on the Shanghai-London Stock Connect,† allegedly in response to the United Kingdom's stance on the Hong Kong protests.[60] The CSRC initially declined to comment, then denied reports of the suspension and claimed the Connect was operating normally, despite a delayed listing by a Chinese company.[61]

Directive Orders Government Offices to Stop Using Foreign Tech in Three Years

An internal directive circulated among Chinese government agencies has ordered offices to phase out use of foreign hardware and software by 2023, according to an investigation by the *Financial Times*.[62] The directive could benefit local producers as Chinese policymakers seek to reduce China's dependence on foreign technology, but runs counter to China's obligation to give foreign enterprises equal treatment in government procurement. As required by its 2001 WTO accession protocol, China has repeatedly promised to treat foreign enterprises equally in government procurement, most recently in its new Foreign Investment Law.[63]

Excluding foreign technology from government offices would automatically create an enormous market for Chinese hardware manufacturers, but technology experts question whether the short timeline is even feasible. Asset manager Jeffries estimates foreign firms' technology revenues in China from both private and government purchases total $150 billion annually.[64] Analysts at broker China Securities estimate the policy would impact 20–30 million desktops and other pieces of hardware, raising questions over whether China's government would earmark funds to replace working technology currently in use.[65] Truly "domestic" products may not even be possible to acquire, as Chinese hardware manufacturers like Lenovo remain highly dependent on foreign components in their manufacturing process.[66] Implementing the directive may be even more difficult on the software side. China's homegrown alternatives to the dominant operating systems of Windows and Apple are not widely used and have few developers, leading to a dearth of options for compatible software.[67]

Analysts from China Securities claim the directive originated from the CCP Central Office, a powerful administrative organization overseeing the CCP's internal function.[68] Chinese officials have denied the veracity of these reports. When asked about this during an interview with the *Financial Times* Chinese edition, China's ambassador to the EU, Zhang Ming, said the Chinese Embassy in the EU had not received the directive and claimed China's economy was free of preferential treatment and subsidies.[69]

Reports of the Central Office directive came just before China's new Foreign Investment Law took effect on January 1, 2020. Under the new law, foreign companies will purportedly receive equal treatment in government procurement.[70] Chinese policymakers have historically used government procurement as an industrial policy tool, creating sheltered markets for domestically produced technology by requiring agencies to purchase domestic.[71]

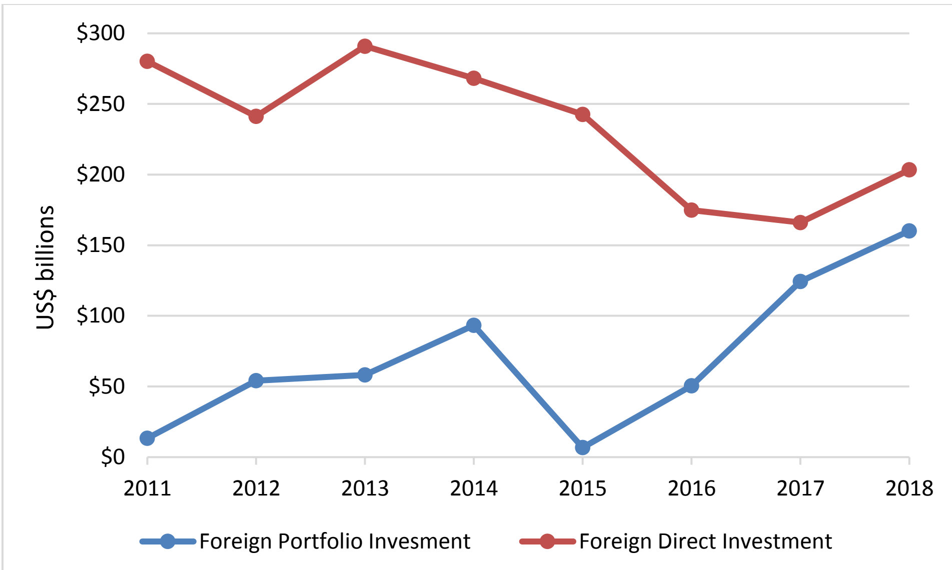
* Terms of the deal, which was completed on December 19, 2019, have not been disclosed. The only other foreign online payments license holder, German fintech group Wirecard AG, similarly bought its way into China's market in November 2019 by acquiring an 80 percent stake in Beijing-based AllScore Payment Services for up to $81 million. Sarah Perez, "PayPal Completes GoPay Acquisition Allowing the Payments Platform to Enter China," *TechCrunch*, December 19, 2019. *https://techcrunch.com/2019/12/19/paypal-completes-gopay-acquisition-allowing-the-payments-platform-to-enter-china/*; Huang Dazhi, "Third Party Payments Industry Changes from 2017 to 2019 (从 2017 到 2019 第三方支付行业之变)," *Sina Finance*, December 7, 2019. Translation. *https://finance.sina.com.cn/money/bank/dsfzf/2019-12-07/doc-iihnzahi5922394.shtml*; Jan-Patrick Barnert and Eyk Henning, "Germany's Wirecard Buys Chinese Payments Provider AllScore," *Bloomberg*, November 5, 2019. *https://www.bloomberg.com/news/articles/2019-11-05/germany-s-wirecard-buys-chinese-payments-provider-allscore*.

† The Shanghai-London Stock Connect, launched in June 2019, allows Chinese companies listed in Shanghai to raise capital overseas and allows foreign companies to list in mainland China. London Stock Exchange Group, "Shanghai-London Stock Connect." *https://www.lseg.com/markets-products-and-services/our-markets/shanghai-london-stock-connect*.

In Focus: Index Inclusions Increase Foreign Holdings of Chinese Securities

Historically, foreign investment flows into China have been dominated by foreign direct investment (FDI) due to strict foreign ownership restrictions on RMB-denominated securities. However, the composition of foreign investment in China has changed dramatically in the last few years amid a series of regulatory reforms adopted by Beijing. Portfolio investment is now on track to eclipse FDI in terms of annual flows (see Figure 2). Foreign investment in fixed income securities has grown particularly quickly after the Hong Kong Bond Connect program launched in July 2017, with annual flows increasing from $27.1 billion in 2016 to $99.5 billion in 2018.[72]

Figure 2: Foreign Investment in China, 2011–2018



Source: China State Administration of Foreign Exchange via CEIC database.

A major contributor to rising portfolio investment is the inclusion of Chinese securities into several key global investment indexes, against which an estimated $8.4 trillion in assets under management is benchmarked.[*] [73] These inclusions will lead to a projected $405 billion in new portfolio inflows over the next 2–3 years.[74] Until at least 2014 foreign investors had limited access to onshore Chinese securities due to a variety of regulatory obstacles that prevented them from trading freely. Index providers were concerned that if they included Chinese securities, funds could not easily replicate the index in their trading books.[75] These concerns began to ease following the launch of the Shanghai- and Shenzhen-Hong Kong Stock Connect programs in April 2014 and August 2016, respectively.[76] Then, in April 2018 the CSRC raised the daily quota for northbound transactions through the Stock Connect program from RMB 13 billion to RMB 52 billion ($1.8 to $7.2 billion), opening the door for the subsequent inclusion of A-shares[†] into several benchmark MSCI and FTSE Russell indexes in 2018–2020.[77]

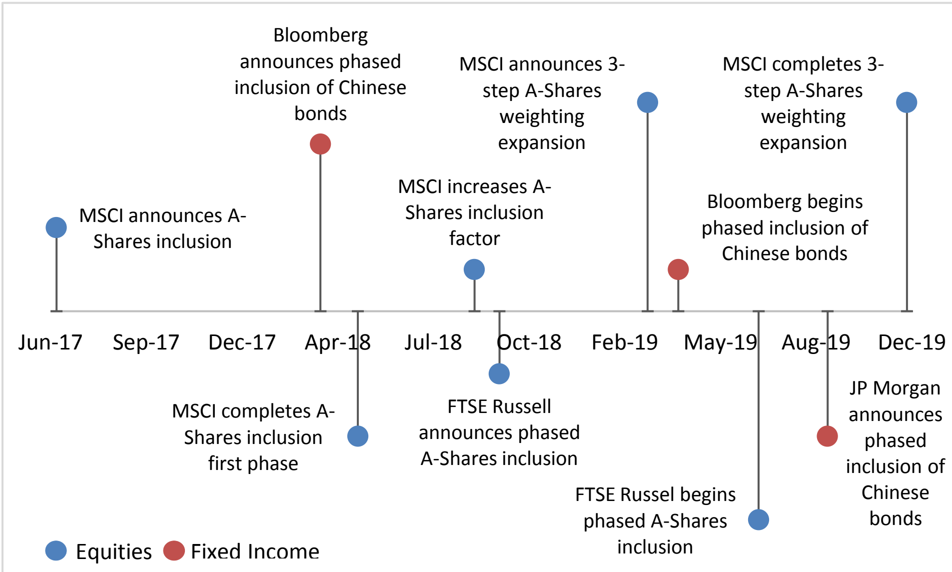
Between 2017—when the Bond Connect program launched—and 2019, Chinese regulators worked to eliminate lingering obstacles to similar inclusions into global fixed income indexes. In September 2018, regulators rolled out

[*] This estimate does not include the estimated $3 trillion in assets under management benchmarked against the FTSE Russell World Government Bond Index, as FTSE Russell has not yet set a date for a China bond inclusion. Bobby Lien and David Sunner, "Liberalization of China's Portfolio Flows and the Renminbi," *Reserve Bank of Australia Bulletin*, September 19, 2019. *https://www.rba.gov.au/publications/bulletin/2019/sep/liberalisation-of-chinas-portfolio-flows-and-the-renminbi.html*

[†] A-shares are RMB-denominated securities of companies incorporated in China that trade on either the Shanghai or Shenzhen stock exchanges. A-share trading is restricted to Chinese residents, and foreigners can only access the A-shares market through special investment programs such as the Qualified Foreign Institutional Investor program and the Stock Connect programs. A-shares are distinct from other Chinese share classes such as H-shares (shares in Chinese incorporated companies listed on the Hong Kong Stock Exchange), trading of which is not restricted to Chinese residents. FTSE Russell, "Guide to Chinese Share Classes," May 2019. *https://research.ftserussell.com/products/downloads/Guide_to_Chinese_Share_Classes.pdf*.

Delivery versus Payment (DvP) settlement* for the Bond Connect, removing a key source of risk for foreign investors.[78] Two months later, the State Taxation Administration announced that foreign bond investors would enjoy a three-year exemption from corporate and value-added taxes.[79] Collectively, these reforms addressed concerns around investor confidence and market accessibility that were raised by Bloomberg and other index providers, and resulted in a wave of inclusions of Chinese securities over the last two years (see Figure 3).[80]

Figure 3: Timeline of Chinese Securities' Inclusion into Global Indexes, 2017–2019



Source: Created by Commission staff.

So far, four major index providers have announced or begun implementing inclusions of Chinese securities into key global indexes, and a fifth is expected to soon follow suit. All four have opted for a phased inclusion approach, which allows them to monitor the replicability of the index with each increase to the weighting of Chinese securities and adjust as necessary.[81]

- **MSCI:** In June 2017, U.S. investment research firm and index provider MSCI announced it would begin including A-shares in its benchmark Emerging Market (EM) Index and All Country World Index (ACWI).[82] The initial inclusion took place in May 2018 and added 230 large cap† A-shares at an inclusion factor‡ of 2.5 percent.[83] MSCI subsequently raised the inclusion factor in several phases to its current 20 percent and increased the number of shares to 472.[84] Following the completion of this process in November 2019, A-shares represent 4 percent of MSCI's EM Index and 0.5 percent of its ACWI Index.[85] Applying these weightings to total assets under management currently benchmarked against the two indexes generates a projection of $60 billion and

* DvP is a settlement process that enables the simultaneous payment for and delivery of financial securities within the SWIFT messaging system. DvP removes settlement-date-related risks for buyers of securities.

† Large cap, mid cap, and small cap are commonly used classifications that refer to the size of listed companies measured by market capitalization (the number of outstanding shares multiplied by the share price). Although in the United States $10 billion is the typical threshold for a company to be considered large cap, private financial institutions will sometimes use their own definitions. MSCI frequently adjusts its minimum thresholds for classifying securities as small, mid, or large cap, but as of April 2018 it applied a cutoff of $8.6 billion for the large cap classification in emerging markets. Tom Gresham, "What Is the Difference between Large Cap & Small Cap Stocks?" *Zacks*, April 25, 2019. *https://finance.zacks.com/difference-between-large-cap-small-cap-stocks-4117.html*; MSCI, "MSCI Global Investable Market Indexes Methodology," May 2018, 21. *https://www.msci.com/eqb/methodology/meth_docs/MSCI_GIMIMethodology_May2018.pdf*.

‡ The assigned weighting of a security or group of securities within an equities index is in part determined by an "inclusion factor," defined as the proportion of total investable market capitalization included in the index. In the Chinese context, market capitalization is adjusted to account for foreign ownership restrictions. Although the inclusion factor is expressed as a percentage, this should not be confused with the security's weighting within an index (also expressed as a percentage). In other words, an inclusion factor of 20 percent indicates that 20 percent of the relevant security's market capitalization is used for index construction, and does not mean the security will have a 20 percent weighting within the index. FTSE Russell, "China A-Shares Inclusion—Seven Key Points," June 24, 2019. *https://www.ftserussell.com/blogs/china-shares-inclusion-seven-key-points*; MSCI, "China A Shares Inclusion: Implementation Q&A," July 2018, 6. *https://www.msci.com/documents/1296102/1330218/CNA_Incl_QA.pdf/acc8b584-ccec-4483-958f-fc2f558ddb1a*.

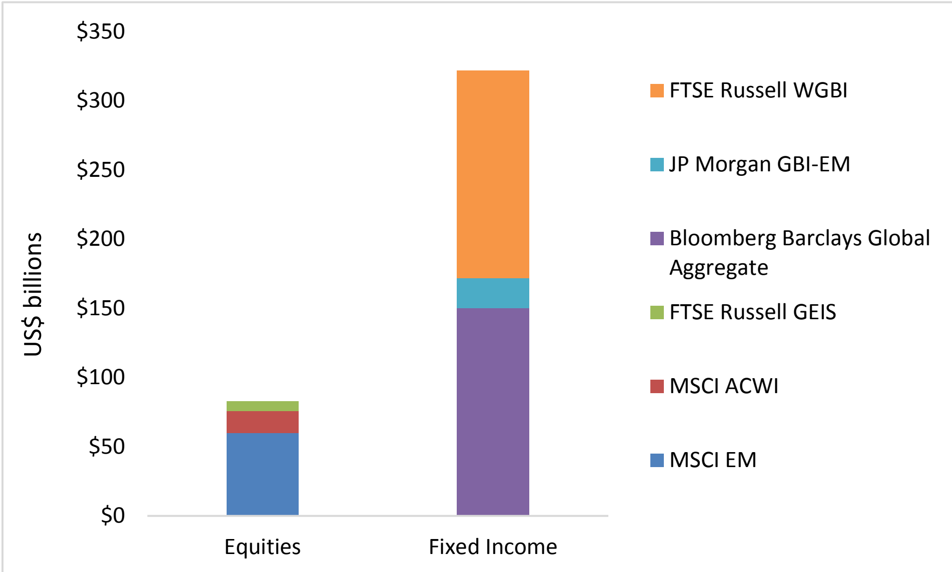
$16 billion in inflows, respectively.[86] After completing the inclusion process, MSCI announced it would not consider any further A-shares weighting expansions until outstanding regulatory issues—namely lack of access to derivatives, options contracts, and other hedging instruments—are resolved.[87]

- **FTSE Russell (equities):** In September 2018, London Stock Exchange subsidiary and indexing services company FTSE Russell announced it would promote the A-shares market to "secondary emerging market status,"* a change that made A-shares eligible for inclusion in FTSE Russell's benchmark Global Equity Index Series (GEIS).[88] FTSE Russell simultaneously announced plans for an A-shares inclusion in three tranches from June 2019 to March 2020.[89] Similar to MSCI's phased weighting expansion, each tranche raises the inclusion factor—with the three tranches set at 5 percent, 15 percent, and 25 percent, respectively—and increases of the number of securities included.[90] FTSE Russell's indexes already include a broader set of Chinese equities (1,093 distinct securities as of September 2019) than MSCI because they do not restrict inclusions by size, whereas MSCI's only include large cap and mid cap equities.[91]
- **Bloomberg:** In March 2018, Bloomberg announced it would include RMB-denominated sovereign and policy bank bonds in its Bloomberg Barclays Global Aggregate Index.[92] The inclusion schedule is phased over a 20-month period that began in April 2019 and is expected to result in a 6 percent weighting of Chinese securities within the index with associated projected inflows of $150 billion.[93]
- **JP Morgan:** In September 2019, JP Morgan announced plans to include nine Chinese government bonds with five- and ten-year maturities in its Government Bond Index-Emerging Markets (GBI-EM) series beginning in February 2020.[94] The biggest impact will be on the GBI-EM Global Diversified index, which has an estimated $202 billion in assets under management benchmarked against it. JP Morgan will implement the inclusion in this index over a period of ten months, increasing the weighting of Chinese bonds by 1 percent each month until their representation reaches a cap of 10 percent.[95] The weighting cap assigned to Chinese bonds within other indexes in the series will range from 10 percent to 15 percent.[96] JP Morgan estimates that the inclusion of Chinese securities into its GBI-EM index series will lead to inflows of between $22 billion and $24 billion.[97]
- **FTSE Russell (fixed income):** Chinese bonds currently remain on the watch list for inclusion into FTSE Russell's World Government Bond Index (WGBI) after the company declined to follow its competitors in its last review in September 2019.[98] However, FTSE Russell is widely expected to move forward with an inclusion in the future and the company's head of fixed income index policy, Nikki Stefanelli, noted in September that she sees "significant progress toward a future upgrade."[99]

Although MSCI is so far the only company to complete its scheduled inclusion of Chinese securities, the inclusions announced by other index providers also imply a significant future inflow of funds based on the total assets under management benchmarked against the indexes. Factoring in a potential inclusion of Chinese bonds by FTSE Russell, the combined projected inflow would reach $405 billion over the next 2–3 years (see Figure 4).[100] The majority of this investment will be in China's bond market, which accounts for $322 billion of the projected total.[101]

* FTSE Russell uses a proprietary classification methodology to categorize equities markets across four tiers: developed, advanced emerging, secondary emerging, and frontier. The GEIS—FTSE Russell's main set of global indexes—only includes securities from developed, advanced emerging, and secondary emerging markets. FTSE Russell, "FTSE Equity Country Classification Process," September 2019. *https://research.ftserussell.com/products/downloads/FTSE_Equity_Country_Classification_Paper.pdf*; FTSE Russell, "Product Highlights: FTSE Global Equity Index Series." *https://research.ftserussell.com/products/downloads/geis-cut-sheet.pdf*.

Figure 4: Projected Inflows from Onshore Securities Inclusions



Source: Various.[102]

Compared to China's vast domestic debt market—which the Bank for International Settlements estimated at $35.6 trillion in the second quarter of 2019—$322 billion is a relatively small amount.[103] Even after all currently scheduled inclusions are completed, the weighting of Chinese securities in global indexes will remain far from commensurate with China's share of the global economy. However, several factors will drive further expansion by index providers of Chinese securities—particularly in fixed income. First, yields on Chinese government bonds remain high compared to most developed markets. As of January 2020, the yield on ten-year Chinese government bonds was 3.17 percent, compared to 1.88 percent for Treasuries and 0.83 percent for Gilts of the same maturity.[104] Moreover, widespread negative interest rates in developed markets—ten-year Japanese government bonds, for example, have a yield of -0.02 percent as of January 2020—will intensify investors' search for stronger returns and increase the attractiveness of investing in Chinese debt.[105] Second, market weights within fixed income indexes are partly determined by the size of outstanding public debt.[106] As local governments in China have spent heavily to combat the economic slowdown, public debt could be set to rise in coming years, which would in turn increase China's weight within the indexes.[107]

[1] U.S. Census Bureau and U.S. Bureau of Economic Analysis, *U.S. International Trade in Goods and Services*, January 7, 2020. *https://www.census.gov/foreign-trade/statistics/highlights/images/Congressional.pdf*; *U.S. Census Bureau, Trade in Goods with China, June 2, 2017.* https://www.census.gov/foreign-trade/balance/c5700.html.

[2] U.S. Census Bureau and U.S. Bureau of Economic Analysis, *U.S. International Trade in Goods and Services*, January 7, 2020. *https://www.census.gov/foreign-trade/statistics/highlights/images/Congressional.pdf*; *U.S. Census Bureau, Trade in Goods with China, June 2, 2017.* https://www.census.gov/foreign-trade/balance/c5700.html.

[3] U.S. Census Bureau and U.S. Bureau of Economic Analysis, *U.S. International Trade in Goods and Services*, January 7, 2020. *https://www.census.gov/foreign-trade/statistics/highlights/images/Congressional.pdf*; *U.S. Census Bureau, Trade in Goods with China, June 2, 2017*. https://www.census.gov/foreign-trade/balance/c5700.html.

[4] Associated Press, "China's November Soybean Imports Rise after U.S. Trade Deal," December 26, 2019. *https://apnews.com/eed06723104d985b04064a4fdb4b5f7e*.

[5] Associated Press, "China's November Soybean Imports Rise after U.S. Trade Deal," December 26, 2019. *https://apnews.com/eed06723104d985b04064a4fdb4b5f7e*.

[6] U.S. Census Bureau and U.S. Bureau of Economic Analysis, *U.S. International Trade in Goods and Services*, January 7, 2020. *https://www.census.gov/foreign-trade/statistics/highlights/images/Congressional.pdf*; *U.S. Census Bureau, Trade in Goods with China, June 2, 2017*. https://www.census.gov/foreign-trade/balance/c5700.html.

[7] White House, *President Donald J. Trump Has Secured a Historic Phase One Trade Agreement with China*, December 13, 2019. *https://www.whitehouse.gov/briefings-statements/president-donald-j-trump-secured-historic-phase-one-trade-agreement-china/*.

[8] U.S. Trade Representative, *Agreement between the United States of America and the People's Republic of China Fact Sheet*, December 13, 2019. *https://ustr.gov/sites/default/files/US-China-Agreement-Fact-Sheet.pdf*.

[9] U.S. Trade Representative, *Agreement between the United States of America and the People's Republic of China Fact Sheet*, December 13, 2019. *https://ustr.gov/sites/default/files/US-China-Agreement-Fact-Sheet.pdf*; James Politi and Christian Shepherd, "U.S. and China Strike 'Phase One' Deal to De-Escalate Trade War," *Financial Times*, December 13, 2019. *https://www.ft.com/content/f82cdc4c-1db7-11ea-9186-7348c2f183af*.

[10] James Politi and Christian Shepherd, "U.S. and China Strike 'Phase One' Deal to De-Escalate Trade War," *Financial Times*, December 13, 2019. *https://www.ft.com/content/f82cdc4c-1db7-11ea-9186-7348c2f183af*.

[11] Bob Davis, Andrew Restuccia, and Lingling Wei, "Trump Says He Will Sign Phase-One Trade Deal with China on Jan. 15," *Wall Street Journal*, December 31, 2019. *https://www.wsj.com/articles/trump-says-he-will-sign-phase-one-trade-deal-with-china-on-jan-15-11577802332*.

[12] Chad Bown and Soumaya Keynes, "Trade Talks 114: U.S. and China Announce a Phase-One Deal," *Trade Talks Podcast*, December 16, 2019. *https://www.tradetalkspodcast.com/podcast/114-us-and-china-announce-a-phase-one-deal/*.

[13] China's Ministry of Commerce, *Ministry of Commerce Holds Regular Press Conference* (商务部召开例行新闻发布会), December 19, 2019. *http://www.mofcom.gov.cn/xwfbh/20191219.shtml*; State Council of the People's Republic of China, *Official Statement on the China-U.S. Phase One Economic and Trade Agreement* (中方关于中美第一阶段经贸协议的声明), December 13, 2019. *http://www.gov.cn/guowuyuan/2019-12/13/content_5461030.htm*.

[14] Derek Scissors, "Parsing the China Deal Fact (Sheets)," *American Enterprise Institute*, December 16, 2019. *https://www.aei.org/foreign-and-defense-policy/parsing-the-china-deal-facts-sheet/*; Scott Kennedy, "A Fragile and Costly U.S.-China Trade Peace," *Center for Strategic and International Studies*, December 13, 2019. *https://www.csis.org/analysis/fragile-and-costly-us-china-trade-peace*.

[15] Frank Tang, "China to Focus on Economic 'Contingency Plans' to Battle Growing Pressures in 2020," *South China Morning Post*, December 12, 2019. *https://www.scmp.com/economy/china-economy/article/3041874/china-focus-economic-contingency-plans-battle-growing*.

[16] *Xinhua*, "China Holds Key Economic Meeting to Plan for 2020," December 12, 2019. *http://www.xinhuanet.com/english/2019-12/12/c_138626302.htm*.

[17] *Xinhua*, "China Holds Key Economic Meeting to Plan for 2020," December 12, 2019. *http://www.xinhuanet.com/english/2019-12/12/c_138626302.htm*.

[18] *Xinhua*, "China Holds Key Economic Meeting to Plan for 2020," December 12, 2019. *http://www.xinhuanet.com/english/2019-12/12/c_138626302.htm*; Frank Tang, "China to Focus on Economic 'Contingency Plans' to Battle Growing Pressures in 2020," *South China Morning Post*, December 12, 2019. *https://www.scmp.com/economy/china-economy/article/3041874/china-focus-economic-contingency-plans-battle-growing*.

[19] *Reuters*, "China's Central Bank Says Will Keep Monetary Policy Prudent, Flexible and Appropriate," January 4, 2020. *https://www.reuters.com/article/us-china-pboc/chinas-central-bank-says-will-keep-monetary-policy-prudent-flexible-and-appropriate-idUSKBN1Z402B*.

[20] Frank Tang, "China to Focus on Economic 'Contingency Plans' to Battle Growing Pressures in 2020," *South China Morning Post*, December 12, 2019. *https://www.scmp.com/economy/china-economy/article/3041874/china-focus-economic-contingency-plans-battle-growing*.

[21] Orange Wang, "China Policy Meeting Agreed to Support Growth of About 6 Percent Next Year, Analysts Say," *South China Morning Post*, December 13, 2019. *https://www.scmp.com/economy/china-economy/article/3042051/china-policy-meeting-agreed-support-growth-about-6-cent-next*; Nathaniel Taplin, "Lies, Damned Lies, and Chinese Growth," *Wall Street Journal*, July 15, 2019. *https://www.wsj.com/articles/lies-damned-lies-and-chinese-growth-11563185210*.

[22] *Xinhua*, "Central Economic Work Conference Held in Beijing," December 12, 2019. Translation. *http://politics.people.com.cn/n1/2019/1212/c1024-31503677.html*.

[23] *Xinhua*, "Central Economic Work Conference Held in Beijing," December 12, 2019. Translation. *http://politics.people.com.cn/n1/2019/1212/c1024-31503677.html*.

[24] *Xinhua*, "Central Economic Work Conference Held in Beijing," December 12, 2019. Translation. *http://politics.people.com.cn/n1/2019/1212/c1024-31503677.html*.

[25] Barry Wilson, "Xi Jinping Says Houses Are 'for Living in, Not for Speculation.' But Is Hong Kong Listening?" *South China Morning Post*, November 12, 2017. *https://www.scmp.com/comment/insight-opinion/article/2119306/xi-jinping-says-houses-are-living-not-speculation-hong-kong*.

[26] *Xinhua*, "Central Economic Work Conference Held in Beijing," December 12, 2019. Translation. *http://politics.people.com.cn/n1/2019/1212/c1024-31503677.html*.

[27] *Xinhua*, "Central Economic Work Conference Held in Beijing," December 12, 2019. Translation. *http://politics.people.com.cn/n1/2019/1212/c1024-31503677.html*.
[28] *Xinhua*, "Central Economic Work Conference Held in Beijing," December 12, 2019. Translation. *http://politics.people.com.cn/n1/2019/1212/c1024-31503677.html*.
[29] Enoch Yiu, "Unit of China's Sovereign Wealth Fund Takes over Xiao Jianhua – Linked HengFeng Bank in Third Case of Nationalization Since May," *South China Morning Post*, August 9, 2019. *https://www.scmp.com/business/banking-finance/article/3022056/unit-chinas-sovereign-wealth-fund-takes-over-xiao-jianhua*; Li Dandan, "Central Hujin Investment to Become Hengfeng Bank Stakeholder," (汇金公司入股恒丰银行) *Shanghai Securities News*, August 8, 2019. Translation. *http://news.cnstock.com/news,bwkx-201908-4413651.htm*.
[30] Liu Ye and Wang Xiaozheng, "After Not Issuing an Annual Report in Two Years Hengfeng Bank Issues 100 Billion Shares, Central Huijin Purchases 60 Percent" (千亿定增获中央汇金认购六成 恒丰银行已两年未披露年报), *National Business Daily*, December 20, 2019. Translation. *http://bank.jrj.com.cn/2019/12/20074228560536.shtml*; Yujing Liu, "China Sovereign Fund, Singapore's UOB Join US$14 Billion Bailout Plan for Troubled Chinese Lender," *South China Morning Post*, December 19, 2019. *https://www.scmp.com/business/china-business/article/3042774/china-sovereign-fund-singapores-uob-join-us14-billion*.
[31] Liu Ye and Wang Xiaozheng, "After Not Issuing an Annual Report in Two Years Hengfeng Bank Issues 100 Billion Shares, Central Huijin Purchases 60 Percent" (千亿定增获中央汇金认购六成 恒丰银行已两年未披露年报), *National Business Daily*, December 20, 2019. Translation. *http://bank.jrj.com.cn/2019/12/20074228560536.shtml*; Yujing Liu, "China Sovereign Fund, Singapore's UOB Join US$14 Billion Bailout Plan for Troubled Chinese Lender," *South China Morning Post*, December 19, 2019. *https://www.scmp.com/business/china-business/article/3042774/china-sovereign-fund-singapores-uob-join-us14-billion*.
[32] Liu Ye and Wang Xiaozheng, "After Not Issuing an Annual Report in Two Years Hengfeng Bank Issues 100 Billion Shares, Central Huijin Purchases 60 Percent" (千亿定增获中央汇金认购六成 恒丰银行已两年未披露年报), *National Business Daily*, December 20, 2019. Translation. *http://bank.jrj.com.cn/2019/12/20074228560536.shtml*; Yujing Liu, "China Sovereign Fund, Singapore's UOB Join US$14 Billion Bailout Plan for Troubled Chinese Lender," *South China Morning Post*, December 19, 2019. *https://www.scmp.com/business/china-business/article/3042774/china-sovereign-fund-singapores-uob-join-us14-billion*.
[33] Liu Ye and Wang Xiaozheng, "After Not Issuing an Annual Report in Two Years Hengfeng Bank Issues 100 Billion Shares, Central Huijin Purchases 60 Percent" (千亿定增获中央汇金认购六成 恒丰银行已两年未披露年报), *National Business Daily*, December 20, 2019. Translation. *http://bank.jrj.com.cn/2019/12/20074228560536.shtml*.
[34] Liu Ye and Wang Xiaozheng, "After Not Issuing an Annual Report in Two Years Hengfeng Bank Issues 100 Billion Shares, Central Huijin Purchases 60 Percent" (千亿定增获中央汇金认购六成 恒丰银行已两年未披露年报), *National Business Daily*, December 20, 2019. Translation. *http://bank.jrj.com.cn/2019/12/20074228560536.shtml*; Yujing Liu, "China Sovereign Fund, Singapore's UOB Join US$14 Billion Bailout Plan for Troubled Chinese Lender," *South China Morning Post*, December 19, 2019. *https://www.scmp.com/business/china-business/article/3042774/china-sovereign-fund-singapores-uob-join-us14-billion*.
[35] Liu Ye and Wang Xiaozheng, "After Not Issuing an Annual Report in Two Years Hengfeng Bank Issues 100 Billion Shares, Central Huijin Purchases 60 Percent" (千亿定增获中央汇金认购六成 恒丰银行已两年未披露年报), *National Business Daily*, December 20, 2019. Translation. *http://bank.jrj.com.cn/2019/12/20074228560536.shtml*; Yujing Liu, "China Sovereign Fund, Singapore's UOB Join US$14 Billion Bailout Plan for Troubled Chinese Lender," *South China Morning Post*, December 19, 2019. *https://www.scmp.com/business/china-business/article/3042774/china-sovereign-fund-singapores-uob-join-us14-billion*.
[36] Yujing Liu, "China Sovereign Fund, Singapore's UOB Join US$14 Billion Bailout Plan for Troubled Chinese Lender," *South China Morning Post*, December 19, 2019. *https://www.scmp.com/business/china-business/article/3042774/china-sovereign-fund-singapores-uob-join-us14-billion*.
[37] Xie Yu, "Leadership Shuffle at Bank of Jinzhou Raises Questions about ICBC-Led 'Investment' in July, as Credit Drought Wreaks Damage on Regional Lenders," *South China Morning Post*, August 5, 2019. *https://www.scmp.com/business/bankingfinance/article/3021446/leadership-shuffle-bank-jinzhou-raises-questions-about*; Wu Hongyuran and Teng Jing Xuan, "Three Investment Firms Step in to Help Troubled Regional Bank," *Caixin*, July 29, 2019. *https://www.caixinglobal.com/2019-07-29/threeinvestment-firms-step-in-to-help-troubled-regional-bank-101445117.html*; Logan H. Wright and Allen Feng, "Baoshang Takeover Sets up June Interbank Squeeze," *Rhodium Group*, May 30, 2019, 1.
[38] Lucy Hornby, "Anbang's Jailed Former Chief Not Seen by Lawyers for a Year," *Financial Times*, June 13, 2019. *https://www.ft.com/content/20e05718-8da3-11e9-a24d-b42f641eca37*.
[39] Amanda Lee, "China's Rural Banks Struggling under Pressure of Overdue Loans as Slow Growth, Trade War Take Their Toll," *South China Moring Post*, December 16, 2019. *https://www.scmp.com/economy/china-economy/article/3042252/chinas-rural-banks-struggling-under-pressure-overdue-loans*; China Securities Regulatory Commission, *Audit Opinion on Quanzhou Rural Commercial Bank Co., Ltd. Concerning Target Issues*, (关于泉州农村商业银行股份有限公司申请向特定对象发行股票的审核意见) August 3, 2018. Translation. *http://www.csrc.gov.cn/pub/newsite/gzgsb/fgbshyjgk/201808/t20180803_342235.html*; Hai'an Rural Commercial Bank, "Jiangsu Hai'an Rural Commercial Bank Co. Ltd. IPO Prospectus" (江苏海安农村商业银行股份有限公司首次公开发行股票招股说明书), May 24, 2018, 1-1-429. Translation. *http://www.csrc.gov.cn/pub/zjhpublic/G00306202/201806/P020180608594131434657.pdf*.
[40] Meng Fanxia and Wu Xian, "Non-Performing Loan Ratios 'Explode' as Rural Commercial Banks Struggle to Survive" (不良率屡"爆表" 农商行艰难求生), *Beijing Business News*, December 18, 2019. Translation. *http://www.bbtnews.com.cn/2019/1218/329240.shtml*.
[41] Dinny McMahon, "Is There a Method behind Beijing's Bank Rescue Madness?" *MacroPolo*, November 18, 2019.

https://macropolo.org/beijing-bank-rescue-method/; *Bloomberg*, “China’s Shifting Approach to Bank Bailouts,” November 11, 2019. *https://www.bloomberg.com/news/articles/2019-11-11/china-s-shifting-approach-to-bank-bailouts-quicktake*.

[42] Dinny McMahon, “Is There a Method behind Beijing’s Bank Rescue Madness?” *MacroPolo*, November 18, 2019. *https://macropolo.org/beijing-bank-rescue-method/*; *Bloomberg*, “China’s Shifting Approach to Bank Bailouts,” November 11, 2019. *https://www.bloomberg.com/news/articles/2019-11-11/china-s-shifting-approach-to-bank-bailouts-quicktake*.

[43] Amanda Lee, “China’s Rural Banks Struggling under Pressure of Overdue Loans as Slow Growth, Trade War Take Their Toll,” *South China Moring Post*, December 16, 2019. *https://www.scmp.com/economy/china-economy/article/3042252/chinas-rural-banks-struggling-under-pressure-overdue-loans*; Orange Wang, “China’s Small Banks Still Struggling to Obtain Funds to Lend Three Months after First Bank Failure in 20 Years,” *South China Morning Post*, August 15, 2019. *https://www.scmp.com/economy/china-economy/article/3022948/chinas-small-banks-still-struggling-obtain-funds-lend-three*.

[44] *Bloomberg*, “China Sentences Ex-Chairman of Hengfeng Bank to Death,” December 26, 2019. *https://www.bloomberg.com/news/articles/2019-12-27/china-sentences-ex-chairman-of-troubled-hengfeng-bank-to-death*; Wu Hongyuran and Denise Jia, “Former Chairman of Hengfeng Bank Sentenced to Death for Corruption,” *Caixin*, December 27, 2019. *https://www.caixinglobal.com/2019-12-27/former-chairman-of-hengfeng-bank-sentenced-to-death-for-corruption-101498395.html*.

[45] Wu Hongyuran and Denise Jia, “Former Chairman of Hengfeng Bank Sentenced to Death for Corruption,” *Caixin*, December 27, 2019. *https://www.caixinglobal.com/2019-12-27/former-chairman-of-hengfeng-bank-sentenced-to-death-for-corruption-101498395.html*; Sun Lulu, “Death Sentence with Two Year Reprieve! Former Chairman of Hengfeng Bank Jiang Xiyun Sentenced in First Trial after Regarding Bank as Personal Cash Machine” (死缓!恒丰银行原董事长姜喜运案一审宣判,竟将银行视为私人提款机), *China Brokers*, December 26, 2019. Translation. *http://news.stcn.com/2019/1226/15566422.shtml*.

[46] Wu Hongyuran and Denise Jia, “Former Chairman of Hengfeng Bank Sentenced to Death for Corruption,” *Caixin*, December 27, 2019. *https://www.caixinglobal.com/2019-12-27/former-chairman-of-hengfeng-bank-sentenced-to-death-for-corruption-101498395.html*.

[47] Lucy Hornby, “Anbang’s Jailed Former Chief Not Seen by Lawyers for a Year,” *Financial Times*, June 13, 2019. *https://www.ft.com/content/20e05718-8da3-11e9-a24d-b42f641eca37*.

[48] David Lague, James Pomfret, and Greg Torode, “Special Report: How Murder, Kidnappings and Miscalculation Set Off Hong Kong’s Revolt,” *Reuters*, December 20, 2019. *https://www.reuters.com/article/us-hongkong-protests-extradition-narrati/special-report-how-murder-kidnappings-and-miscalculation-set-off-hong-kongs-revolt-idUSKBN1YO18Q*; Enoch Yiu, “Unit of China’s Sovereign Wealth Fund Takes Over Xiao Jianhua-Linked Hengfeng Bank in Third Case of Nationalization Since May,” *South China Morning Post*, August 9, 2019. *https://www.scmp.com/business/banking-finance/article/3022056/unit-chinas-sovereign-wealth-fund-takes-over-xiao-jianhua*; Lam Ka-sing, “Financier Xiao Jianhua Has Shed His Holdings in More than 10 Banks, Chinese Regulator Says, Offering a Rare Peek of a State-Ordered Break-Up,” *South China Morning Post*, June 9, 2019. *https://www.scmp.com/business/banking-finance/article/3013734/financier-xiao-jianhua-has-shed-his-stakes-more-10-banks*; Andrew Galbraith and Cheng Leng, “China’s Baoshang Bank Takeover Raises Contagion Fears,” *Reuters*, May 27, 2019. *https://www.reuters.com/article/us-china-banks-regulator-ncd/chinas-baoshang-bank-takeover-raises-contagion-fears-idUSKCN1SX0QT*; Liu Caiping, Wu Hongyuran, and Leng Cheng, “Conglomerate Holds Hidden Stake in Bank That Abandoned Listing,” *Caixin*, March 20, 2018. *https://www.caixinglobal.com/2018-03-20/conglomerate-holds-hidden-stake-in-bank-that-abandoned-listing-101223857.html*.

[49] China Banking and Insurance Regulatory Commission, *General Office of the China Banking and Insurance Regulatory Commission Notice on Clarifying the Timeline for Eliminating Foreign Investment Ratio Restrictions in Joint Venture Life Insurance Companies* (中国银保监会办公厅关于明确取消合资寿险公司外资股比限制时点的通知), December 6, 2019. Translation. *https://www.ndrc.gov.cn/fggz/lywzjw/wstz/201912/t20191225_1216160.html*.

[50] Lin Jinbing, “China to Scrap Foreign Ownership Caps on Financial Firms a Year Early,” *Caixin*, July 2, 2019. *https://www.caixinglobal.com/2019-07-02/china-to-scrap-foreign-ownership-caps-on-financial-firms-a-year-early-101434443.html*.

[51] *Xinhua*, “China Further Opens Up Insurance, Banking Sectors to Foreign Investors,” October 15, 2019. *http://www.xinhuanet.com/english/2019-10/15/c_138473764.htm*; Peng Qinqin, “China Will Level Playing Field for Foreign Financial Firms,” *Caixin*, November 10, 2017. *https://www.caixinglobal.com/2017-11-10/china-will-level-playing-field-for-foreign-financial-firms-101169005.html*.

[52] *Bloomberg*, “China’s Investment Growth Slows to a Record Low,” November 13, 2019; Wu Yujian and Liu Jiefei, “It’s Official: Market’s Open for Foreign Banks, Insurers,” *Caixin*, October 16, 2019. *https://www.caixinglobal.com/2019-10-16/its-official-markets-open-for-foreign-banks-insurers-101472109.html*.

[53] Wu Yujian and Liu Jiefei, “It’s Official: Market’s Open for Foreign Banks, Insurers,” *Caixin*, October 16, 2019. *https://www.caixinglobal.com/2019-10-16/its-official-markets-open-for-foreign-banks-insurers-101472109.html*.

[54] Wu Yujian and Liu Jiefei, “It’s Official: Market’s Open for Foreign Banks, Insurers,” *Caixin*, October 16, 2019. *https://www.caixinglobal.com/2019-10-16/its-official-markets-open-for-foreign-banks-insurers-101472109.html*; United States Trade Representative, *2018 Report to Congress on China’s WTO Compliance*, February 2019, 147–148. *https://ustr.gov/sites/default/files/2018-USTR-Report-to-Congress-on-China%27s-WTO-Compliance.pdf*.

[55] Norton Rose Fulbright, “China Issued 11 New Opening-Up Measures in the Financial Services Industry,” July 2019. *https://www.nortonrosefulbright.com/en/knowledge/publications/11941e1c/china-issued-11-new-openingup-measures-in-the-financial-services-industry*; U.S.-China Economic and Security Review Commission, *Economics and Trade Bulletin*, January 11, 2019, 4. *https://www.uscc.gov/sites/default/files/Research/January%202019%20Trade%20Bulletin.pdf*.

[56] *Bloomberg*, “China’s $45 Trillion Market Is Opening Up. Here’s What to Watch in 2020,” December 29, 2019. *https://www.bloomberg.com/news/articles/2019-12-29/china-is-dismantling-its-great-financial-wall-a-guide-to-2020*; Evelyn Cheng, “Amid Trade War, China Moves to Remove Limits on Foreign Ownership in the Financial Industry,” *CNBC*, October 14, 2019. *https://www.cnbc.com/2019/10/14/china-to-scrap-foreign-ownership-limits-on-securities-futures-fund-management.html*;

Knowledge@Wharton, "High Hopes, Low Profits: Foreign Life Insurers Rethink Their China Strategies," February 15, 2019. *https://knowledge.wharton.upenn.edu/article/high-hopes-low-profits-foreign-life-insurers-rethink-their-china-strategies/*.

[57] *Bloomberg*, "China's $45 Trillion Market Is Opening Up. Here's What to Watch in 2020," December 29, 2019. *https://www.bloomberg.com/news/articles/2019-12-29/china-is-dismantling-its-great-financial-wall-a-guide-to-2020*; Swiss Re Institute, "World Insurance: The Great Pivot East Continues," *Sigma* No 3/2019, July 4, 2019, 27. *https://www.swissre.com/dam/jcr:b8010432-3697-4a97-ad8b-6cb6c0aece33/sigma3_2019_en.pdf*.

[58] Chen Ting, "Foreign Investors Seek China Payment License, Third Party Payments Welcome Competition" (外资寻求中国支付牌照，第三方支付迎接竞争), *First Financial*, November 28, 2019. Translation. *https://www.yicai.com/news/100418736.html*; U.S.-China Economic and Security Review Commission, *Economics and Trade Bulletin*, October 9, 2019, 8. *https://www.uscc.gov/sites/default/files/2019-10/October%202019%20Trade%20Bulletin_1.pdf*.

[59] Norton Rose Fulbright, "China Foreign Investment: Expert Q&A Series – Asset Management Sector," October 11, 2019. *https://www.nortonrosefulbright.com/en-gr/knowledge/publications/1e36be32/china-foreign-investment-expert-q-and-a-series-asset-management-sector*; Norton Rose Fulbright, "China Issued 11 New Opening-Up Measures in the Financial Services Industry," July 2019. *https://www.nortonrosefulbright.com/en/knowledge/publications/11941e1c/china-issued-11-new-openingup-measures-in-the-financial-services-industry*.

[60] Julie Zhu et al., "China Halts British Stock Link over Political Tensions – Sources," *Reuters*, January 2, 2020. *https://www.reuters.com/article/us-china-britain-ipos-exclusive/exclusive-china-halts-british-stock-link-over-political-tensions-sources-idUSKBN1Z108L*.

[61] *Reuters*, "China Regulator Denies Report of Halt to Shanghai-London Stock Connect Listings," January 3, 2020. *https://www.reuters.com/article/us-china-markets-regulator/china-regulator-denies-report-of-halt-to-shanghai-london-stock-connect-listings-idUSKBN1Z20U5*; Julie Zhu et al., "China Halts British Stock Link over Political Tensions – Sources," *Reuters*, January 2, 2020. *https://www.reuters.com/article/us-china-britain-ipos-exclusive/exclusive-china-halts-british-stock-link-over-political-tensions-sources-idUSKBN1Z108L*.

[62] Yuan Yang, "Beijing Orders State Offices to Replace Foreign PCs and Software," *Financial Times*, December 8, 2019. *https://www.ft.com/content/b55fc6ee-1787-11ea-8d73-6303645ac406?mc_cid=a63402752b&mc_eid=e0817d5cde*.

[63] Alex He et al., "China's Foreign Investment Law, Implications for Investors," *Plante Moran*, November 21, 2019. *https://www.plantemoran.com/explore-our-thinking/insight/2019/11/whats-in-chinas-new-foreign-investment-law*; Office of the U.S. Trade Representative, *2018 Report to Congress on China's WTO Compliance*, February 2019, 36, 86. *https://ustr.gov/sites/default/files/2018-USTR-Report-to-Congress-on-China%27s-WTO-Compliance.pdf*.

[64] Yuan Yang, "Beijing Orders State Offices to Replace Foreign PCs and Software," *Financial Times*, December 8, 2019. *https://www.ft.com/content/b55fc6ee-1787-11ea-8d73-6303645ac406?mc_cid=a63402752b&mc_eid=e0817d5cde*.

[65] Yuan Yang, "Beijing Orders State Offices to Replace Foreign PCs and Software," *Financial Times*, December 8, 2019. *https://www.ft.com/content/b55fc6ee-1787-11ea-8d73-6303645ac406?mc_cid=a63402752b&mc_eid=e0817d5cde*.

[66] Yuan Yang, "Beijing Orders State Offices to Replace Foreign PCs and Software," *Financial Times*, December 8, 2019. *https://www.ft.com/content/b55fc6ee-1787-11ea-8d73-6303645ac406?mc_cid=a63402752b&mc_eid=e0817d5cde*.

[67] Yuan Yang, "Beijing Orders State Offices to Replace Foreign PCs and Software," *Financial Times*, December 8, 2019. *https://www.ft.com/content/b55fc6ee-1787-11ea-8d73-6303645ac406?mc_cid=a63402752b&mc_eid=e0817d5cde*.

[68] *Baike*, "General Office of the Central Committee of the Communist Party of China" (中国共产党中央委员会办公厅), *Baidu*. *https://baike.baidu.com/item/%E4%B8%AD%E5%9B%BD%E5%85%B1%E4%BA%A7%E5%85%9A%E4%B8%AD%E5%A4%AE%E5%A7%94%E5%91%98%E4%BC%9A%E5%8A%9E%E5%85%AC%E5%8E%85/22262900?fromtitle=%E4%B8%AD%E5%A4%AE%E5%8A%9E%E5%85%AC%E5%8E%85&fromid=8521536*.

[69] Zhang Ming et al., "Ambassador Zhang Ming, Head of the Mission to the EU, Interviewed by the Financial Times" (驻欧盟使团团长张明大使接受《金融时报》专访), *China Ministry of Foreign Affairs Mission to the EU*, December 26, 2019. *https://www.fmprc.gov.cn/web/dszlsjt_673036/t1728070.shtml+&cd=1&hl=en&ct=clnk&gl=us*.

[70] Alex He et al., "China's Foreign Investment Law, Implications for Investors," *Plante Moran*, November 21, 2019. *https://www.plantemoran.com/explore-our-thinking/insight/2019/11/whats-in-chinas-new-foreign-investment-law*.

[71] Joint Working Party on Trade and Environment of the Trade and Agricultural and Environment Directorates, "Domestic Incentive Measures for Environmental Goods with Possible Trade Implications: Electric Vehicles and Batteries," *Organization for Economic Cooperation and Development*, January 30, 2015, 21–22, 46. *http://www.oecd.org/officialdocuments/publicdisplaydocumentpdf/?cote=COM/TAD/ENV/JWPTE(2013)27/FINAL&docLanguage=En*.

[72] Georgina Lee, "Hong Kong Bond Connect Scheme Could Play Crucial Role Getting China's Onshore Bonds into Global Indices, Say Analysts," *South China Morning Post*, October 13, 2019. *https://www.scmp.com/business/banking-finance/article/3032735/hong-kong-bond-connect-scheme-could-play-crucial-role*; China State Administration of Foreign Exchange via CEIC database.

[73] Bobby Lien and David Sunner, "Liberalization of China's Portfolio Flows and the Renminbi," *Reserve Bank of Australia Bulletin*, September 19, 2019. *https://www.rba.gov.au/publications/bulletin/2019/sep/liberalisation-of-chinas-portfolio-flows-and-the-renminbi.html*; MSCI, "Assets in Global Equity ETFs Linked to MSCI Indexes Reach All-Time High of $707 Billion," November 10, 2017. *https://www.msci.com/documents/10199/6de39767-c42a-47ba-ab8c-11a6205e397c*.

[74] Bobby Lien and David Sunner, "Liberalization of China's Portfolio Flows and the Renminbi," *Reserve Bank of Australia Bulletin*, September 19, 2019. *https://www.rba.gov.au/publications/bulletin/2019/sep/liberalisation-of-chinas-portfolio-flows-and-the-renminbi.html*; Salley Chen, Dimitris Drakopoulos, and Rohit Goel, "China Deepens Global Finance Links as It Joins Benchmark Indexes," *International Monetary Fund Blog*, June 19, 2019. *https://blogs.imf.org/2019/06/19/china-deepens-global-finance-links-as-it-joins-benchmark-indexes/*; MSCI, "Assets in Global Equity ETFs linked to MSCI Indexes Reach All-Time High of $707 Billion,"

November 10, 2017. *https://www.msci.com/documents/10199/6de39767-c42a-47ba-ab8c-11a6205e397c*; Joyce Change, "J.P. Morgan Perspectives: China's Index Inclusion: A Milestone for EM as an Asset Class," *JP Morgan*.

[75] Bobby Lien and David Sunner, "Liberalization of China's Portfolio Flows and the Renminbi," *Reserve Bank of Australia Bulletin*, September 19, 2019. *https://www.rba.gov.au/publications/bulletin/2019/sep/liberalisation-of-chinas-portfolio-flows-and-the-renminbi.html*.

[76] Bobby Lien and David Sunner, "Liberalization of China's Portfolio Flows and the Renminbi," *Reserve Bank of Australia Bulletin*, September 19, 2019. *https://www.rba.gov.au/publications/bulletin/2019/sep/liberalisation-of-chinas-portfolio-flows-and-the-renminbi.html*; Karen Yeung, "Bond, Stock Connect Schemes Seen as Playing a Crucial Role in Curbing Yuan Volatility," *South China Morning Post*, June 18, 2018. *https://www.scmp.com/business/money/wealth/article/2152788/bond-stock-connect-initiatives-seen-playing-crucial-role*.

[77] MSCI, "MSCI Will Increase the Weight of China A Shares in MSCI Indexes," February 28, 2019. *https://www.msci.com/documents/10199/43f3ee8b-5182-68d4-a758-2968b4206e54*; Alice Woodhouse, "China Raises Mainland-Hong Kong Stock Connect Daily Quotas," *Financial Times*, April 10, 2018. *https://www.ft.com/content/7e251572-3d30-11e8-b7e0-52972418fec4*.

[78] BNP Paribas, "China: Five Questions Raised by Foreign Investors about Stock Connect, Bond Connect and More," November 8, 2018. *https://securities.bnpparibas.com/insights/china-market-access-questions.html*; Pia Hecher, "China Bond Connect Launches Real Time DvP and Block Trading," *The Desk*, September 4, 2018. *https://www.fi-desk.com/china-bond-connect-launches-real-time-dvp-and-block-trading/*.

[79] BNP Paribas, "China: Five Questions Raised by Foreign Investors about Stock Connect, Bond Connect and More," November 8, 2018. *https://securities.bnpparibas.com/insights/china-market-access-questions.html*; China State Taxation Administration, *Circular on the Corporate Income and Value Added Tax Policy for Foreign Institutions Investing in the Domestic Bond Market* (关于境外机构投资境内债券市场企业所得税 增值税政策的通知), November 7, 2018. *http://www.chinatax.gov.cn/n810341/n810755/c3912855/content.html*

[80] *Bloomberg*, "Bloomberg Confirms China Inclusion in the Bloomberg Barclays Global Aggregate Indices," January 30, 2019. *https://www.bloomberg.com/company/press/bloomberg-confirms-china-inclusion-bloomberg-barclays-global-aggregate-indices/*; Pia Hecher, "China Bond Connect Launches Real Time DvP and Block Trading," *The Desk*, September 4, 2018. *https://www.fi-desk.com/china-bond-connect-launches-real-time-dvp-and-block-trading/*.

[81] Bobby Lien and David Sunner, "Liberalization of China's Portfolio Flows and the Renminbi," *Reserve Bank of Australia Bulletin*, September 19, 2019. *https://www.rba.gov.au/publications/bulletin/2019/sep/liberalisation-of-chinas-portfolio-flows-and-the-renminbi.html*.

[82] Carolyn Cui and Gregor Stuart Hunter, "MSCI to Add China Shares to Indexes, Opening Market to More Foreign Investors," *Wall Street Journal*, June 20, 2017. *https://www.wsj.com/articles/msci-to-include-china-a-shares-in-indexes-1497992319*.

[83] MSCI, "Further Weight Increase of China A Shares in MSCI Indexes," February 2019. *https://www.msci.com/documents/1296102/12275477/China_A_Further_Weight_Increase_Feb_2019_Presentation.pdf/e9cf153a-2e4f-a110-2699-9d8163e917c2*.

[84] *BusinessWire*, "MSCI Completes the Successful Implementation of Final Phase of the 20% Partial Inclusion of China A Shares in MSCI Indexes," November 26, 2019. *https://www.businesswire.com/news/home/20191126005578/en/MSCI-Completes-SuccessfulImplementation-Final-Phase-20*; MSCI, "Further Weight Increase of China A Shares in MSCI Indexes," February 2019. *https://www.msci.com/documents/1296102/12275477/China_A_Further_Weight_Increase_Feb_2019_Presentation.pdf/e9cf153a-2e4f-a110-2699-9d8163e917c2*.

[85] *BusinessWire*, "MSCI Completes the Successful Implementation of Final Phase of the 20% Partial Inclusion of China A Shares in MSCI Indexes," November 26, 2019. *https://www.businesswire.com/news/home/20191126005578/en/MSCI-Completes-SuccessfulImplementation-Final-Phase-20*.

[86] Bobby Lien and David Sunner, "Liberalization of China's Portfolio Flows and the Renminbi," *Reserve Bank of Australia Bulletin*, September 19, 2019. *https://www.rba.gov.au/publications/bulletin/2019/sep/liberalisation-of-chinas-portfolio-flows-and-the-renminbi.html*; MSCI, "Assets in Global Equity ETFs Linked to MSCI Indexes Reach All-Time High of $707 Billion," November 10, 2017. *https://www.msci.com/documents/10199/6de39767-c42a-47ba-ab8c-11a6205e397c*.

[87] Don Weinland, "MSCI Pressures Chinese Regulators over Market Access Reforms," *Financial Times*, November 27, 2019. *https://www.ft.com/content/48bbbb9e-10d2-11ea-a7e6-62bf4f9e548a*.

[88] FTSE Russell, "FTSE Russell Promotes China A-Shares to Emerging Market Status," September 26, 2018. *https://content.ftserussell.com/sites/default/files/press/ftse_russell_country_classification_news_release_26sep18.pdf*; FTSE Russell, "Product Highlights: FTSE Global Equity Index Series." *https://research.ftserussell.com/products/downloads/geis-cut-sheet.pdf*.

[89] FTSE Russell, "FTSE Russell Promotes China A-Shares to Emerging Market Status," September 26, 2018. *https://content.ftserussell.com/sites/default/files/press/ftse_russell_country_classification_news_release_26sep18.pdf*.

[90] FTSE Russell, "Reclassification of China A Shares to Secondary Emerging Market Status: Implementation Plan," October 2019, 6. *https://research.ftserussell.com/products/downloads/ftse_faq_document_china_a.pdf*.

[91] MSCI, "Third Step of the Weight Increase of China A Shares in the MSCI Emerging Market Indexes in 2019," October 2019, 14. *https://www.msci.com/documents/1296102/12275477/China_A_Further_Weight_Increase_QA_Feb_2019.pdf/601ed226-477d-13e5-c6ea-6d9c12640641*; FTSE Russell, "Reclassification of China A Shares to Secondary Emerging Market Status: Implementation Plan," October 2019, 5. *https://research.ftserussell.com/products/downloads/ftse_faq_document_china_a.pdf*.

[92] *Bloomberg*, "Bloomberg to Add China to the Bloomberg Barclays Global Aggregate Indices," March 23, 2018. *https://www.bloomberg.com/company/press/bloomberg-add-china-bloomberg-barclays-global-aggregate-indices/*.

[93] Bobby Lien and David Sunner, "Liberalization of China's Portfolio Flows and the Renminbi," *Reserve Bank of Australia Bulletin*, September 19, 2019. *https://www.rba.gov.au/publications/bulletin/2019/sep/liberalisation-of-chinas-portfolio-flows-and-the-*

renminbi.html; Bing Li, "A New Chapter in China's Bond Market," *Bloomberg Professional Services*, April 1, 2019. *https://www.bloomberg.com/professional/blog/new-chapter-chinas-bond-market/*.

94 Frances Yoon and Shen Hong, "JPMorgan to Add China to Bond Indexes," *Wall Street Journal*, September 4, 2019. *https://www.wsj.com/articles/jpmorgan-to-add-china-to-bond-indexes-11567590569*.

95 Gregor Stuart Hunter and Tian Chen, "JPMorgan Says China to Be Included in Benchmark Bond Indexes," *Bloomberg*, September 4, 2019. *https://www.bloomberg.com/news/articles/2019-09-04/jpmorgan-says-china-bonds-to-be-included-in-benchmark-indexes-k052vhyo*; Frances Yoon and Shen Hong, "JPMorgan to Add China to Bond Indexes," *Wall Street Journal*, September 4, 2019. *https://www.wsj.com/articles/jpmorgan-to-add-china-to-bond-indexes-11567590569*.

96 Joyce Change, "J.P. Morgan Perspectives: China's Index Inclusion: A Milestone for EM as an Asset Class," *JP Morgan*.

97 Joyce Change, "J.P. Morgan Perspectives: China's Index Inclusion: A Milestone for EM as an Asset Class," *JP Morgan*.

98 *Bloomberg*, "China Misses Out on Entering FTSE Russell Global Bond Index," September 27, 2019. *https://www.bloomberg.com/news/articles/2019-09-26/ftse-russell-demurs-on-adding-china-bonds-to-flagship-index*; FTSE Russell, "FTSE Russell Announces Results of Country Classification Review for Equities and Fixed Income," September 26, 2019. *https://content.ftserussell.com/sites/default/files/press-archive/FTSE%20Russell%20Annual%20Country%20Classification%20Sept%202019%20FINAL%20%28002%29.pdf*.

99 *Bloomberg*, "China Misses Out on Entering FTSE Russell Global Bond Index," September 27, 2019. *https://www.bloomberg.com/news/articles/2019-09-26/ftse-russell-demurs-on-adding-china-bonds-to-flagship-index*.

100 Bobby Lien and David Sunner, "Liberalization of China's Portfolio Flows and the Renminbi," *Reserve Bank of Australia Bulletin*, September 19, 2019. *https://www.rba.gov.au/publications/bulletin/2019/sep/liberalisation-of-chinas-portfolio-flows-and-the-renminbi.html*; Salley Chen, Dimitris Drakopoulos, and Rohit Goel, "China Deepens Global Finance Links as It Joins Benchmark Indexes," *International Monetary Fund Blog*, June 19, 2019. *https://blogs.imf.org/2019/06/19/china-deepens-global-finance-links-as-it-joins-benchmark-indexes/*; MSCI, "Assets in Global Equity ETFs linked to MSCI Indexes Reach All-Time High of $707 Billion," November 10, 2017. *https://www.msci.com/documents/10199/6de39767-c42a-47ba-ab8c-11a6205e397c*; Joyce Change, "J.P. Morgan Perspectives: China's Index Inclusion: A Milestone for EM as an Asset Class," *JP Morgan*.

101 Bobby Lien and David Sunner, "Liberalization of China's Portfolio Flows and the Renminbi," *Reserve Bank of Australia Bulletin*, September 19, 2019. *https://www.rba.gov.au/publications/bulletin/2019/sep/liberalisation-of-chinas-portfolio-flows-and-the-renminbi.html*.

102 Bobby Lien and David Sunner, "Liberalization of China's Portfolio Flows and the Renminbi," *Reserve Bank of Australia Bulletin*, September 19, 2019. *https://www.rba.gov.au/publications/bulletin/2019/sep/liberalisation-of-chinas-portfolio-flows-and-the-renminbi.html*; MSCI, "Assets in Global Equity ETFs linked to MSCI Indexes Reach All-Time High of $707 Billion," November 10, 2017. *https://www.msci.com/documents/10199/6de39767-c42a-47ba-ab8c-11a6205e397c*; Joyce Change, "J.P. Morgan Perspectives: China's Index Inclusion: A Milestone for EM as an Asset Class," *JP Morgan*.

103 Bank for International Settlements, "Credit to the Non-Financial Sector," December 8, 2019. *https://www.bis.org/statistics/totcredit.htm*.

104 *Wall Street Journal* Market Data.

105 Gregor Stuart Hunter and Tian Chen, "How China's Trying to Woo Foreigners to Buy Bonds," *Washington Post*, September 26, 2019. *https://www.washingtonpost.com/business/how-chinas-trying-to-woo-foreigners-to-buy-bonds/2019/09/25/8b890f3e-dfd7-11e9-be7f-4cc85017c36f_story.html*; *Wall Street Journal* Market Data.

106 Salley Chen, Dimitris Drakopoulos, and Rohit Goel, "China Deepens Global Finance Links as It Joins Benchmark Indexes," *International Monetary Fund Blog*, June 19, 2019. *https://blogs.imf.org/2019/06/19/china-deepens-global-finance-links-as-it-joins-benchmark-indexes/*.

107 Guo Yingzhe and Cheng Siwei, "Tax Cuts Boosted Growth, but Put Pressure on Government Revenue Finance Minister Says," *Caixin Global*, December 26, 2019. *https://www.caixinglobal.com/2019-12-26/tax-cuts-boosted-growth-but-put-pressure-on-government-revenue-finance-minister-says-101498361.html*; Salley Chen, Dimitris Drakopoulos, and Rohit Goel, "China Deepens Global Finance Links as It Joins Benchmark Indexes," *International Monetary Fund Blog*, June 19, 2019. *https://blogs.imf.org/2019/06/19/china-deepens-global-finance-links-as-it-joins-benchmark-indexes/*.