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

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Highlights of This Month's Edition

- **U.S.-China Trade:** In July 2021, U.S. exports to China were $11.7 billion, an increase of nearly 30 percent over the same month in 2020, while imports from China totaled $40.4 billion, a 0.7 percent decrease; year-to-date, the U.S. goods deficit with China continued to grow, reaching $187.2 billion.
- **"Common Prosperity":** With a focus on "common prosperity," the Chinese government aims to reduce domestic income inequality and increase "fairness" in China's economy, but details remain elusive.
- **Tech Crackdown:** Companies and investors are adjusting their strategies as Beijing's campaign against big tech widens to include personal data management and recommendation algorithms.
- **Credit Ratings Cleanup:** Chinese regulators made three major announcements on credit ratings in a bid to reduce corruption and boost confidence and reliability in China's bond markets.
- **Property:** Highly indebted property developer Evergrande sparked protests across multiple Chinese cities after announcing it would delay payments on its investment products.
- **In Focus – Chinese Ports:** Prices for shipping between China and markets in North America and Europe continue to rise amid COVID-19 lockdowns at Chinese ports; Chinese ports handle 29.8 percent of global shipping container volume and occupy a central role in the global shipping industry.

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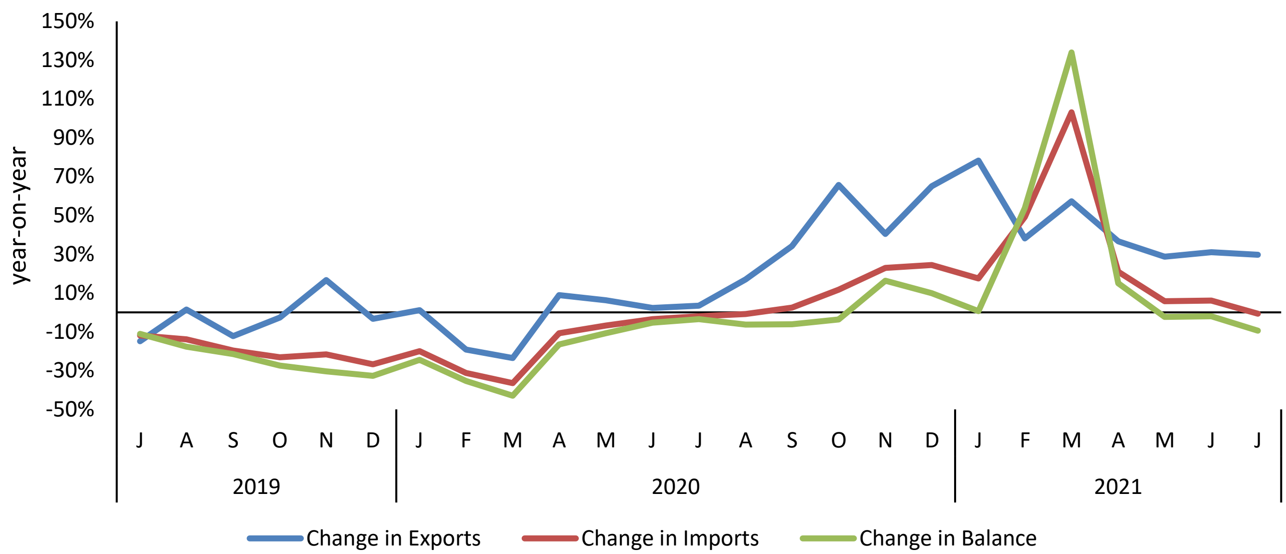
U.S. Goods Exports to China Continue to Grow in July 2021

In July 2021, the monthly U.S. trade deficit with China declined 9.4 percent year-on-year, reaching $28.6 billion. U.S. goods exports to China expanded 29.7 percent year-on-year to $11.7 billion (see Figure 1),[1] with bilateral trade continuing to recover from the economic shock induced by the novel coronavirus (COVID-19) pandemic.[2] U.S. goods imports from China decreased 0.7 percent from July 2020, totaling $40.4 billion.[3] In contrast, total U.S. goods imports from the world rose by 18.6 percent year-on-year to reach $237.7 billion.[4] The decrease in U.S. goods purchases from China reflected slowing growth in total Chinese exports. Chinese manufacturing output, a major source of U.S. goods imports from China, grew at its slowest pace for the year in July 2021 due to restrictions to contain further COVID-19 outbreaks, severe flooding in several provinces, and resulting bottlenecks in supply chains.[5]

Figure 1: Change in U.S.-China Goods Trade, July 2019–July 2021



Source: U.S. Census Bureau, *Trade in Goods with China*, September 2, 2021. *https://www.census.gov/foreign-trade/balance/c5700.html#questions*.

U.S. exports were buoyed by China's purchase commitments under the Phase One deal, but the U.S. goods trade deficit continued to grow. Year-to-date through July, the deficit increased 14.6 percent year-on-year to reach $187.2 billion. According to Chad Bown, senior fellow at the Peterson Institute for International Economics, China's year-to-date purchases of U.S. goods covered under the Phase One Agreement through July 2021 totaled $78.9 billion or 30.8 percent of its target of $114.1 billion.[6] China's purchases of covered agricultural products are short of the mark, totaling only 89 percent of its commitments.[7] China's purchases of manufactured goods and energy continue to lag far behind their targets, however, with China importing only 66 percent and 53 percent of the respective commitments, according to Dr. Bown's analysis.[8] The slowdown in the recovery of the Chinese economy hampered China's demand for imports.

China's "Common Prosperity" Campaign Underscores Concerns over Inequality

With a speech highlighting "common prosperity," General Secretary of the Chinese Communist Party (CCP) Xi Jinping has signaled a shift toward addressing China's income inequality. At the August 17 meeting of the Central Commission for Financial and Economic Affairs, one of China's top economic deliberation bodies, General Secretary Xi said the CCP should focus on common prosperity while creating an "olive-shaped [income] distribution, where the middle is large and the two ends are small."[9] Xi said the CCP should "strengthen the regulation and adjustments of high income" and "fairly regulate excessive income."[10] According to Chinese state media outlet Xinhua, the meeting highlighted efforts to "properly deal with the relationship between efficiency and fairness."[11] The meeting readout also mentioned expanding the size of the middle class while increasing earnings for low-income individuals.[12]

The common prosperity concept has a long history in CCP discourse, but its recent prominence signals greater concern about inequality and the potential for it to lead to social unrest. Mao Zedong originated the phrase "common prosperity," but under Deng Xiaoping, the policy focus shifted toward the idea of permitting some inequality and allow "some people to get rich first" as China's economy opened up.[13] General Secretary Xi has increased emphasis on common prosperity, mentioning the term 65 times in his speeches so far this year, more than in the previous four years combined.[14] According to Logan Wright and Allen Feng of the Rhodium Group, the CCP's rhetorical shift toward emphasizing common prosperity is related to its broader regulatory crackdown against prominent nonstate firms. This crackdown has been shaped by several developments in China's economy, including an alarming slowdown in population growth.[15] China's demographic downturn calls into question the viability of an economic growth model centered on expanding the services sector. Companies in high growth digital services are also facing broad-based societal backlash for rapid accumulation of power and influence.[16]

The CCP has already begun articulating common prosperity goals on a local level. In June, CCP authorities announced that Zhejiang Province would serve as a "demonstration zone" for common prosperity, with a list of stated goals including raising per capita gross domestic product (GDP) to the level of developed countries by 2035.[17] Zhejiang is China's third-wealthiest province and has a relatively even distribution of wealth, with urban incomes measuring 1.8 times rural incomes.[18] Many of Zhejiang's common prosperity goals are already attainable given current trends, likely a contributing factor in the selection of Zhejiang as a pilot zone.[19]

Concrete policy implications for common prosperity remain unclear. The August 17 meeting emphasized the need for a "tertiary distribution mechanism" consisting of "primary distribution" (allocation of wealth according to labor, capital, and other factors), "redistribution" (through taxation, social security, and transfer payments), and "tertiary distribution" (charitable donations). The government has not yet announced major policy changes in pursuit of common prosperity, but several proposals have already appeared in Chinese media, including the establishment of a property tax, an idea mentioned in the 14th Five-Year Plan released in March.[20] Commentators have also proposed the establishment of an inheritance tax, improvements to the individual income tax system, and changes to the consumption tax that place greater burdens on "high-level consumption."[21]

Chinese policymakers and state media have sought to reassure the business community that common prosperity would not result in radical income redistribution. At a press conference on August 26, a senior official said efforts to promote common prosperity allow for "the existence of a certain gap" and do not entail "robbing the rich to give to the poor."[22] Nonetheless, regulators have announced several significant enforcement actions against high-income individuals. On August 26, China's State Tax Administration announced it would step up a crackdown on tax evasion and increase supervision of high-income individuals.[23] The next day, the State Tax Administration announced over $2 billion (renminbi [RMB] 13 billion) in tax fines on several corporations, as well as a $46 million (RMB 300 million) fine on actress Zheng Shuang.[24] An article in the state-backed tabloid *Global Times* commenting on the Zheng's tax case noted, "Such supervision will be further tightened with harsher punishments as China marches toward common prosperity."[25]

The recent emphasis on common prosperity and "tertiary distribution" has already led nonstate firms and wealthy individuals to make well-publicized announcements of charitable donations. According to Bloomberg, seven of China's wealthiest billionaires have already announced $5 billion in charitable donations this year.[26] Tech companies, which remain subject to a government crackdown, have been particularly vocal in their donations. (For more on developments China's ongoing tech crackdown, see "Beijing Targets Personal Data and Algorithms.") Since the August 17 meeting, Tencent, Pinduoduo, and Alibaba have announced charitable donations that together total $24.8 billion (RMB 160 billion).[27] Food delivery giant Meituan also pledged to pay closer attention to the welfare and needs of its delivery drivers as it awaited a potential $1 billion fine from China's State Administration for Market Regulation (SAMR), with the company's founder Wang Xing telling investors common prosperity is "built into the genes" of the company.[28] According to Scott Kennedy, an expert in China's economic policy at the Center for Strategic and International Studies, Beijing's increasing role in promoting philanthropy could ultimately undermine nonstate enthusiasm for charitable endeavors, instead amplifying participation toward state-directed activities.[29] This follows a pattern the CCP reducing the influence of civil society in providing public goods.[30]

Beijing Targets Personal Data and Algorithms

China's Personal Information Protection Law (PIPL) formalizes restrictions on the use and collection of personal data, upending a core pillar of Chinese technology companies' business models. Passed on August 20, the PIPL lays out rules for how organizations collect, use, process, share, and transfer personal data in and outside of China.[31] Together with China's Cybersecurity Law and Data Security Law, the PIPL completes China's emerging data governance regime by bolstering consumer privacy protection against businesses and tightening data compliance requirements for China's tech giants.[32] A key aspect of the law is its restrictions on how companies use personal data to market goods and services to customers. According to Article 24, if companies use personal information such as browsing behavior, personal interests, or hobbies to market specific goods and services, customers must be made aware of this practice and have the option to opt out of such targeted marketing.[33] These restrictions on the collection and use of personal data seek to rectify Chinese technology companies' abuse of far-reaching access to consumer data in pricing their goods and services.[34] The law takes effect November 1, 2021.[35]

PIPL provisions underscore the Chinese government's heightened focus on national security risks related to the cross-border transfer of data. While other countries' data protection laws, such as the EU General Data Protection Regulation, impose restrictions on extraterritorial data transfer, the PIPL predicates such restrictions on a broad view of national security.[*] [36] According to Article 42, foreign organizations or individuals that process personal information in a way that could "endanger China's national security or public interest" may be placed on a Cyberspace Administration of China (CAC) blacklist.[37] In addition, the transfer of personal data overseas may in some cases be subject to a CAC security assessment,[38] though the PIPL does not detail the scope of such assessments.[39]

The passage of the PIPL accompanies rising regulatory scrutiny of the algorithms used by Chinese companies to make product and content recommendations to consumers. On August 27, CAC published draft rules governing recommendation algorithms.[†] [40] Among other things, the draft rules seek to ensure algorithms used by Chinese technology companies do not "violate public order and good customs," such as encouraging excessive spending.[41] If implemented, the rules could equip the Chinese government with a new tool to strengthen control over information and public behavior. For example, the draft calls on service providers that "have the ability to influence public opinion" to register their algorithms with regulators within ten working days after the new rules come into effect.[‡] [42] The draft rules also propose that customers should have the ability to turn off algorithm recommendations and would prohibit using for price discrimination based on users' preferences and habits.[43] Limiting the role of recommendation algorithms could rein in Chinese tech giants' exploitation of consumer data and lead to higher compliance costs.[44] CAC's publication of the rules follows the issuance of separate draft regulations by SAMR, China's market regulator. The SAMR draft regulations focus on curbing monopolistic

[*] The Chinese government defines national security in expansive terms. For example, according to the 2015 National Security Law, national security refers to "the relative absence of international or domestic threats to the state's power to govern, sovereignty, unity and territorial integrity, the welfare of the people, sustainable economic and social development, and other major national interests, and the ability to ensure a continued state of security." China's State Council, *National Security Law of the People's Republic of China (Chairman's Order No. 49)* (中华人民共和国国家安全法（主席令第二十九号）), July 1, 2015. Translation. *http://www.gov.cn/zhengce/2015-07/01/content_2893902.htm*.

[†] Using high volumes of personal user data (such as browsing history and geographic location) and artificial intelligence, algorithms help technology companies determine what consumers would like to read, watch, play, or buy, and they enable the targeted advertising of relevant goods and services.

[‡] It is not clear when China's government would formally adopt the draft rules. The draft rules are open for public comment until September 26, 2021. According to Article 20, the registration includes the algorithm's area(s) of application, the type of algorithm, the type of service provided by the algorithm, a description of the content and other information to be publicized by the algorithm, and a separate evaluation of the algorithm completed by the applicant. Cyberspace Administration of China, *CAC Notice of "Internet Information Service Algorithm Recommendation Management Regulations (Draft for Public Comment)"* (国家互联网信息办公室关于《互联网信息服务算法推荐管理规定（征求意见稿）》公开征求意见的通知), August 27, 2021. Translation. *http://www.cac.gov.cn/2021-08/27/c_1631652502874117.htm*.

practices of China's e-commerce platforms, including the use of algorithms to influence a user's choices or access to another platform's products or services.[45]

China's tech giants are adjusting their operations as China's business environment becomes increasingly conditioned by the CCP's policy priorities. Chinese tech companies caught in regulators' crosshairs are taking steps to demonstrate alignment with the Chinese government's broader policy priorities and preempt regulatory scrutiny. For example, an array of Chinese tech companies stepped up their philanthropic activity in the name of common prosperity following an August 17 speech by General Secretary Xi on the topic.[46] (For more on common prosperity, see "China's 'Common Prosperity' Push Signals Major Change.") Separately, KE Holdings, China's largest platform for buyers and sellers of real estate, shut down VIP services which had offered fast turnarounds for property sellers in exchange for exclusive listings.[47]

Investors are also revising their investment strategies in China as alignment with Beijing's policy priorities becomes more important to mitigating investment risks. According to data from Preqin, the value of venture capital investment in Chinese semiconductor companies surged 446 percent to a record $8.9 billion in the second quarter of 2021[*] while investments in gaming and e-commerce companies[†] plummeted 96 percent and 54 percent to $121 million and $4 billion, respectively, in the same period.[48] Gaming companies are under particular scrutiny, with state media labeling online gaming "spiritual opium" and China's National Press and Publication Administration restricting minors' gaming time to three hours a week beginning September 1.[49]

Chinese Regulators Seek to Boost Bonds and Clean Up Credit Ratings

Throughout August 2021, Chinese regulators made three major announcements related to credit ratings in an ongoing effort to improve financial regulation and clean up the domestic credit rating industry. China's credit ratings for bonds have historically skewed higher than those from globally recognized non-Chinese firms like Moody's.[50] These inflated ratings have been due in part to domestic agencies' methodology and differences in weighted factors, though corruption and bribes from issuers were a major contributing factor.[51] A rise in corporate bond defaults since 2018, along with the growing prospect of local government financing vehicle defaults,[‡] has highlighted longstanding problems with credit quality and the credit rating structure in China.[52] Along with providing inflated or skewed ratings, Chinese credit ratings agencies are also largely state-owned, contributing to significant conflicts of interest when they issue ratings on state-owned enterprises (SOEs) and local government bonds.[53] Although Chinese policymakers have long protected SOEs from bond defaults, the number of SOE bond defaults increased fivefold from 2019 to 2020.[54] Values of SOE bond defaults also make up an increased share of all Chinese onshore corporate bond defaults, rising from 10 percent in 2019 to 42 percent in 2020.[55] Meanwhile, the share of nonstate bond defaults by value decreased from 79 percent in 2019 to 46 percent in 2020.[§] [56]

[*] The surging value of Chinese semiconductor firms may not reflect their fundamentals, such as profitability, revenue, assets, liabilities, and growth potential. This is because excessive Chinese government support for the sector has led to duplicative investments and waste, with many companies vowing to develop semiconductor foundries despite a lack of requisite experience, knowledge, and human capital. Mathieu Duchâtel, "The Weak Links in China's Drive for Semiconductors," *Institut Montaigne*, January 2021, 45–46. *https://www.institutmontaigne.org/ressources/pdfs/publications/weak-links-chinas-drive-semiconductors-note_0.pdf*.

[†] For more on how China's stepped-up regulation of the country's powerful technology sector is impacting various industries, including food delivery, education, and videogames, see U.S.-China Economic and Security Review Commission, "Beijing's Regulatory Clampdown Highlights U.S. Investors Risks" in *Economics and Trade Bulletin*, August 2021, 5–7. *https://www.uscc.gov/sites/default/files/2021-08/August_2021_Trade_Bulletin.pdf*.

[‡] Prior to the enactment of the most recent Budget Law in 2015, local governments could not legally issue municipal debt. Instead, they relied on LGFVs, SOEs controlled by the local governments, to raise capital on their behalf. Technically corporate debt, the proliferation of LGFV bonds exacerbates debt risk because it is not clear if the central government will intervene in the event of default, but bond holders may have purchased the debt under the assumption it was government backed. Philippe Wingender, "Intergovernmental Fiscal Reform in China," *International Monetary Fund Working Paper* 18/88, April 2018, 4–5, 13, 18; Donald C. Clarke and Fang Lu, "The Law of China's Local Government Debt Crisis: Local Government Financing Vehicles and Their Bonds," *George Washington University Law School* Public Law Research Paper No. 2016-31, June 2016, 1. *https://scholarship.law.gwu.edu/cgi/viewcontent.cgi?article=2472&context=faculty_publications*.

[§] The remaining 12 percent of defaults are from either foreign invested firms or firms with a complex ownership structure for which there is no clear ultimate controller. Tianlei Huang, "Rising SOE Defaults Alarm Investors but Could Benefit the Chinese Economy," *Peterson*

In total, these changes have yet to produce a measurable effect, but they illustrate strong motivation and coordination across Chinese agencies to improve financial regulation.[57] Alongside enabling greater access to foreign investment, Chinese policymakers see the changes as a part of the CCP's dual circulation strategy. The new policies have emphasized not only attracting more foreign investors to China's bond market but also creating a framework to draw more overseas bond issuers to China.[58] China's policymakers seek to attract foreign credit rating agencies as well, with the hope that domestic credit ratings agencies can improve and participate in the international ratings industry.[*] [59]

- On August 6, five agencies—the People's Bank of China (PBOC), the National Development and Reform Commission, the Ministry of Finance, the China Banking and Insurance Regulatory Commission, and the China Securities Regulatory Commission—jointly published a *Notice on Promoting the Healthy Development of the Credit Rating Industry in the Bond Market*.[60] The notice, which became effective the day of its release, called for reducing corruption and strengthening independence of ratings agencies from companies.[61] The notice also specifically called on credit ratings to be more precise when assessing local government bonds, to rely on big data, and to strengthen objectivity.[62] Regulators also encouraged investors to pay for ratings and for issuers to choose from multiple foreign or domestic external ratings agencies.[63]
- Less than a week later, on August 11, the PBOC announced a pilot program allowing nonfinancial companies to issue bonds in the interbank market without receiving a rating from an external credit agency.[64] The PBOC said the pilot would advance the market's autonomy in choosing external ratings but did not specify its prospective end date.[65] The pilot builds on an earlier move in March 2021 to remove credit rating requirements for certain types of bonds on the interbank market.[66] The China Securities Regulatory Commission also eliminated similar requirements for bonds issued on public markets in February 2021.[67]
- Finally, on August 17, the State Administration for Foreign Exchange joined the five agencies from the August 6 Notice to release the *Guiding Opinions on Promoting the Reform and Opening Up of the Corporate Credit Bond Market for High-Quality Development*.[68] The opinions underscored the need for stricter implementation of relevant laws, strengthening of appropriate disclosures, greater supervision of credit rating agencies, and standardization of credit ratings.[69]

Regulators and Investors Concerned about Potential for Property Developer Defaults

Highly indebted property developer Evergrande sparked protests across multiple Chinese cities after announcing it would delay payments on its investment products. The company raises capital for its development projects in part through selling high-yield wealth management products to retail investors, often its own employees, contractors, and customers.[70] After suspending payments on its wealth management products on September 8, Evergrande announced it would pay back investors on a delayed timetable.[71] The announcement, which Bloomberg reported hit investors holding more than RMB 100,000 in Evergrande's products hardest, led to protests in front of the company's offices throughout China over the weekend of September 11 and 12.[72] The Company revised the details of its proposed repayment plan on Monday in attempt to quell protestors, pledging to pay back all investors in full but still on a delayed timetable.[73]

Both popular backlash and the volume and complexity of Evergrande's debt put pressure on the Chinese government to avert a bankruptcy. Last month, Chinese financial regulators pressed Evergrande executives to maintain operational stability amid mounting concerns over the property developer's ability to meet loan payments. In a rare public rebuke, on August 19 China's Central Bank and Banking and Insurance Regulatory Commission called for Evergrande to "actively resolve debt risks, maintain the real estate market and financial stability, [and]

Institute for International Economics, January 29, 2021. *https://www.piie.com/blogs/china-economic-watch/rising-soe-defaults-alarm-investors-could-benefit-chinese-economy*.

[*] For more on risks to U.S. investors posted by China's credit ratings system, see U.S.-China Economic and Security Review Commission, "Chapter 2, Section 2: Vulnerabilities in China's Financial System and Risks for the United States," in *2020 Annual Report to Congress*, November 2020, 250-251. *https://www.uscc.gov/sites/default/files/2020-12/Chapter_2_Section_2--Vulnerabilities_in_Chinas_Financial_System_and_Risks_for_the_United_States.pdf*.

… issue accurate information disclosures on major issues according to laws and regulations."[74] Analysts attributed the unusual statement to the regulators' concern that a default by the cash-strapped developer could trigger broader financial instability, given its significant footprint within China's economy.[75] Evergrande's total liabilities reached $306 billion (RMB 1.97 trillion) as of June 30, according to the company's unaudited interim financial reports.[*] $51.4 billion (RMB 331.7 billion) of this debt was due within one year, and the company's cash to short-term debt ratio was only 0.47.[†] [76] Aside from the sheer volume of debt, the property developer's use of alternative financing channels such as wealth management products complicates any potential restructuring in the event of default, according to research consultancy Trivium China.[77] Debt risks from Evergrande extend beyond China's domestic economy, as the developer also accounts for nearly 5 percent of offshore, dollar-denominated bonds from Chinese issuers.[78]

Stricter rules on property developers' capital adequacy implemented last year have hampered Evergrande and other developers' abilities to raise cash through new loans. Property development in China is a highly leveraged business, with developers funding land purchases and housing construction through loans, bonds, and deposits from home buyers rather than revenue. Because China's "three red lines" policy restricts property developers from taking on new debt without meeting certain liquidity requirements,[‡] Evergrande and other developers have struggled to pay suppliers and contractors, meet existing debt payments, and finance continued expansion to raise more capital (e.g., by purchasing more land and raising cash from deposits on future homes).[79] The impact of the new regulations has been readily apparent in missed bond payments, with property developers accounting for defaults totaling roughly $10 billion (RMB 65 billion) from the beginning of 2021 to June.[80] More recently, on August 11, property developer Sunshine 100 China Holdings defaulted on repayment of principal amounting to $51 million in dollar-denominated offshore bonds.[81]

Evergrande aims to raise cash by selling or publicly listing subsidiaries. Reuters reported in late August that smartphone maker Xiaomi is in preliminary talks to buy Evergrande's 65 percent stake in an electric vehicle subsidiary, China Evergrande New Energy Vehicle Group Ltd.[82] According to an August statement on the Hong Kong Stock Exchange, Evergrande is also hoping to sell its property services business and potentially other subsidiaries while raising initial public offerings (IPOs) for several other business units.[83] China's notoriously long IPO approval process could delay the developer's ability to raise capital via an IPO. In 2020, Evergrande withdrew a four-year attempt to list its primary domestic property development company, Hengda, on the Shenzhen Stock Exchange through a backdoor listing.[§] [84] The failed listing added to Evergrande's liquidity troubles.[85]

The Chinese government's challenges in managing Evergrande's debt risk are indicative of two broader balancing acts it faces in addressing the highly indebted property sector without triggering financial panic.

[*] The majority of Evergrande's business is conducted in RMB. As of December 31, 2020, 24.1 percent of its borrowings were denominated in U.S. dollars or Hong Kong dollars. China Evergrande Group, *2020 Annual Report*, 19. *https://www1.hkexnews.hk/listedco/listconews/sehk/2021/0429/2021042902969.pdf*.

[†] Cash to short-term debt, sometimes called the "cash ratio," is the proportion of a firm's liquid or near-liquid assets to its current liabilities, or debt due within one year. In other words, cash to short-term debt provides a conservative snapshot of how much a firm's creditors could expect to recover if the company went out of business immediately and could only pay back loans in cash or other highly liquid assets, rather by selling off its fixed assets or intangibles. A cash to short term debt ratio of 1 is one of three "red lines" Chinese regulators set for property developers (see the next footnote).

[‡] The prudential requirements established as the three red lines are: (1) setting a ceiling for developers' debt-to-asset ratios at 70 percent, (2) setting net debt-to-equity ratios at 100 percent, and (3) capping short-term borrowing on par with cash reserves. As of June 2021, Evergrande had crossed all three red lines: it had a debt-to-asset ratio of 83.4 percent after excluding advanced receipts, a net-debt-to-equity ratio of 159.2 percent, and a cash-to-short-term-debt ratio of 0.47. For more on the policy, see U.S.-China Economic and Security Review Commission, *Economics and Trade Bulletin*, May 18, 2021, 13. *https://www.uscc.gov/sites/default/files/2021-05/May_2021_Trade_Bulletin.pdf*; Du Dongdong, "Debt Exceeds 570 Billion, Start a Special Dividend Plan!? Is Evergrande Really Out of Trouble? What Can the "New Evergrande" Bring to Xu Jiayin?" (欠债超 5700 亿 启动特别分红计划？！恒大真脱困了？"新恒大"能给许家印带来什么？), *New Wealth*, July 16, 2021. Translation. *http://finance.eastmoney.com/a/202107162000648396.html*.

[§] In a backdoor listing a privately held company purchases a publicly listed company, often one that is distressed, and injects its assets into the listed company. Sometimes called "reverse mergers," such listings are common in China to avoid the long delay and steep listing requirements in regulatory approvals for IPOs. Pursuing such a strategy would have enabled Hengda to raise a higher valuation for a domestic listing than its current Hong Kong-listed subsidiary, helping to alleviate some of its liquidity pressure. Donny Kwok, "Debt-Laden China Evergrande Ends Shenzhen Listing Plan, Some Investors to Stay On," *Reuters*, November 9, 2020. *https://www.reuters.com/article/china-evergrande-shenzhen-real-estateznh-idINKBN27P0F0*.

- A potential default by Evergrande risks triggering a rush to collect on the property developer's debt and sparking a further selloff in China's high-yield corporate debt market.[86] According to a leaked letter from September 2020 showing Evergrande had urged Chinese regulators to approve its failed back-door listing, the company's liabilities span more than 128 banks and over 121 nonbank financial institutions.[87] Some of Evergrande's creditors, such as local governments, are themselves heavily indebted, so Evergrande's stress could spread within the financial system.[88] At the same time, China's government does not want to signal to investors it will step in for firms it considers too big to fail.[89] Where China's government has repeatedly bailed out indebted SOEs, Evergrande is a nonstate firm, and perceived government intervention could perpetuate moral hazard in China's debt market.
- The government does not want turbulence from property development (the sale of land and the construction of commercial sites and homes) to spill over into the real estate market (the sale of residential and commercial properties).[90] Real estate is the greatest store of household wealth in China, so the government has attempted to carefully manage housing prices in major real estate markets in order to prevent volatility in household wealth from impacting consumer confidence. At the same time, the government wants to contain housing price growth. Because property is viewed as an investment avenue, speculative home purchases have fueled soaring property prices in major Chinese cities, exacerbating wealth inequality.

In Focus: Port Closures Demonstrate China's Centrality to Global Shipping Industry

As the world's largest exporter, China is vital to the global shipping industry, a designation that is made clearer in light of recurring lockdowns at Chinese ports due to the COVID-19 pandemic. Following the outbreak of COVID-19 in China, global shipping flows have experienced multiple interruptions, many of them stemming from strict lockdowns at Chinese ports, which dominate global maritime trade. After numerous cases of COVID-19 were identified at Yantian container port in Shenzhen in May 2021, for instance, Chinese authorities temporarily halted the loading of new export containers for six days, and the port operated at partial capacity from May 21 to June 24.[91] As operations resumed, terminal congestion led to delays of over 14 days, up from a typical average wait time of a half day.[*] [92]

The Chinese government's zero-tolerance approach to localized COVID-19 outbreaks in major Chinese ports has contributed to protracted shipping delays and a steady increase in shipping prices. According to the Center for Strategic and International Studies, as of 2019 Chinese ports handled 29.8 percent of global shipping container throughput, or the greatest volume of containerized goods handled by a single country globally.[93] Delays and price hikes for routes between China and foreign consumer markets such as the United States have hit the bottom lines of many businesses (see Figure 2). Global shipping companies, however, have reported record profits. China's state-owned COSCO Shipping Holdings, for example, increased its net profit 32-fold from approximately $179 million to $5.7 billion in the first half of 2021.[94] With over 80 percent of world's trade transported by sea, mounting shipping costs may ultimately contribute to global inflationary pressures for everyday consumer goods.[95]

[*] Yantian handles 13 million twenty-foot equivalent unit containers annually and is the world's third-largest terminal. For more on the Yantian port closure and its impacts, see U.S.-China Economic and Security Review Commission, *Economics and Trade Bulletin*, July 13, 2021, 6. Harry Dempsey and Thomas Hale, "COVID Outbreak at Chinese Port Exacerbates Global Supply Chain Delays," *Financial Times*, June 21, 2021. *https://www.ft.com/content/c3c55dca-2ee7-488a-ad68-9286822b881c*.

Figure 2: Frieghtos Baltic Index, 40-Foot Container Shipping Prices from China and East Asia to North America West Coast

Source: Freightos, "China/East Asia to North America West Coast," August 27, 2021.

China's globally competitive ports support its role in international supply chains. Seven of the world's top ten largest ports are in China according to their throughput as measured by 20-foot equivalent units (TEUs)* (see Table 1).[96] In addition to having the largest cargo and freight capacities in the world, China scores highest on the UN Conference for Trade and Development's (UNCTAD) Port Liner Shipping Connectivity Index (PLSCI), which ranks Chinese ports as the most connected in the world.[97] According to the index, China's ports consistently rank above its peers on a composite score based on six factors, including the number of liner shipping companies that provide services to and from the port, and their connectivity to other ports through direct shipping services.[98] Chinese ports are also more efficient than their peers, with container ships spending an average of 0.62 days at Chinese ports compared to the global average of 0.70 days.[99] China's advantages in port capacity, connectivity, and efficiency drive down prices along China-centric supply chains and ultimately contribute to China's global trade competitiveness.

Table 1: Select Chinese Port Profiles

Port	World Rank	Volume in TEUs (2019)	Special Economic Zone	PLSCI (Q2 2019)	Top Import Markets	Top Export Markets	Top Industries
Shanghai	1	43.3 million	Shanghai Free Trade Zone	134.9	Japan, Taiwan, Germany, United States, and South Korea	United States, Hong Kong, Japan, South Korea, and Taiwan	Electronics, Automotive, Commodities (Iron Ore, Gold, Soybeans)
Ningbo-Zhoushan	3	27.5 million	Zhejiang Free Trade Zone	115.6	South Korea, Australia, Japan,	United States, Germany, Russia, United	Textiles, Machinery, Automotive, Commodities (Copper, Crude

* This includes Hong Kong, the world's eighth largest port. TEUs are a unit of measure for shipping volumes based on standardized 20-foot long shipping containers. Flexport, "TEU (Twenty-Foot Equivalent Unit)." *https://www.flexport.com/glossary/twenty-foot-equivalent-unit/*.

					Taiwan, and United States	Kingdom, and Japan	Petroleum, Iron Ore)
Shenzhen	4	25.7 million	Shenzhen Free Trade Zone	0.75	Taiwan, South Korea, Japan, and Malaysia	Hong Kong, United States, Japan, Vietnam, and Germany	Electronics, Textiles, Manufacturing
Guangzhou	5	23.2 million	Guangdong Free Trade Zone	5.51	Taiwan, South Korea, Japan, and Malaysia	Hong Kong, United States, Japan, Vietnam, and Germany	Electronics, Textiles, Manufacturing
Qingdao	7	21 million	Qingdao Free Trade Port Zone	91.84	Brazil, Malaysia, Australia, South Korea, and Russia	United States, South Korea, Japan, Hong Kong, and Vietnam	Electronics, Manufacturing Textiles, Commodities (Iron Ore, Crude Petroleum, Soybeans)
Hong Kong	8	18.3 million	N/A	104.94	Mainland China, Taiwan, Singapore, South Korea, and United States	India, Netherlands, United Kingdom, and Philippines	Electronics, Commodities (Gold and Diamonds)
Tianjin	9	17.2 million	Tianjin Free Trade Zone	1.29	South Korea, United States, Brazil, and Japan	Hong Kong, United States, Vietnam, South Korea, and Japan	Electronics, Manufacturing, Automotive, Commodities (Soybeans)

Note: PLSCI scores are calculated for a country's ports in relation to a base score from Q1 2006. For Chinese ports, Hong Kong's Q1 2006 score was 100 and serves as the basis for China's PLSCI, and all other Chinese port indices are in relation to this value.
Source: UN Conference on Trade and Development, "Port Liner Shipping Connectivity Index," 2021. *https://unctadstat.unctad.org/wds/TableViewer/tableView.aspx*; Shipa Freight, "Largest Ports in the World," August 2021. *https://www.shipafreight.com/knowledge-series/largest-ports-in-the-world/*; Observatory of Economic Complexity; FDI China, "FDI China Exclusive: The 21 Free Trade Zones Guide 2021," May 26, 2021. *https://www.fdichina.com/blog/fdi-china-exclusive-the-21-free-trade-zones-guide-2021/*.

China's ports benefit from policies intended to promote domestic economic integration and greater market opening. Primarily found within or near special economic zones (SEZs), China's largest ports serve as key conduits between the global markets and China's export sector. Businesses located in the SEZs benefit from incentives such as duty exemptions, streamlined customs clearance processes, and ample bonded storage warehouse facilities.[*] [100] These zones also encourage investments linking ports with inland transport networks and targeted local industries.[101] Chinese policymakers accordingly view ports as critical components of broader regional integration, and both the 13th and 14th Five-Year Plans promote port integration within broader economic belts such as the

[*] Bonded storage refers to the practice of storing taxable goods in a location where they can be manipulated or undergo manufacturing operations without paying duties. Duties are only calculated and paid upon reexport and sale of the goods, thus allowing firms time to defer payment or avoid paying taxes on transshipments. U.S. Department of Commerce, *Customs Bonded Warehouses*, July 9, 2016. *https://beta.trade.gov/article?id=Customs-Bonded-Warehouses*; Hemisphere Freight Services Ltd., "The Benefits of Bonded Warehousing," June 11, 2020. *https://www.hemisphere-freight.com/knowledgehub/the-benefits-of-bonded-warehousing/*.

Beijing-Tianjin-Hebei area, the Yangtze River Delta, and the Pearl River Delta.[102] Additionally, Chinese ports benefit from upgrades to China's transportation infrastructure network, such as the National Comprehensive Three-Dimensional Transportation Network Plan, which was released by the State Council and the Central Committee of the CCP in February 2021. The plan calls for investments integrating new technologies into China's ports to increase their efficiency and environmental sustainability while increasing their connectivity with China's hinterland by constructing new inland river ports and improving ground transportation networks.[103]

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