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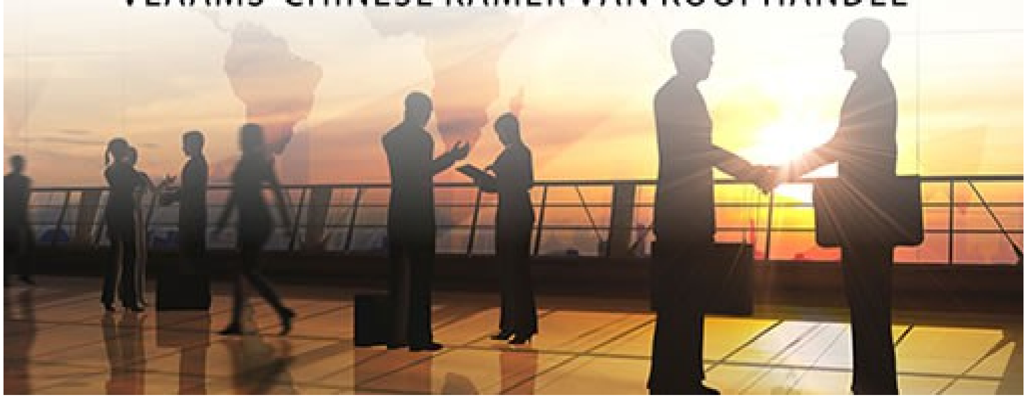

China Business Weekly

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FOREIGN TRADE

President Trump postpones some tariffs to December 15

The U.S. government has decided to delay or set aside some tariffs against China set to take effect on September 1. The United States Trade Representative (USTR) office announced that some categories were being removed from the tariffs list because of "health, safety, national security and other factors" while tariffs on other items would be delayed **until December 15**. Tariffs on USD155 billion of Chinese imports would be postponed, including on "cell phones, laptop computers, video game consoles, certain toys, computer monitors, and certain items of footwear and clothing", the USTR said. The USTR's statement came after Chinese Vice Premier Liu He in a telephone conversation lodged a complaint about the U.S. decision announced on August 1 to increase tariffs on USD300 billion of Chinese imports to U.S. Trade Representative Robert Lighthizer and Treasury Secretary Steven Mnuchin. Donald Trump told reporters he was delaying tariffs on Chinese imports to avoid any adverse impact on U.S. shoppers before the Christmas and New Year season.

Still, U.S. stocks fell sharply on August 14 on rising worries that Trump's move to delay some of the tariffs that were set to be imposed on China in September would not be enough to keep the escalating U.S.-China trade conflict from pushing the world into recession. U.S. Commerce Secretary Wilbur Ross said that the United States and China have not determined when to hold their next round of face-to-face trade talks. Instead, the next step in the long-running negotiations is "perhaps another phone call in a couple of weeks".

Wang Jun, Chief Economist at Zhongyuan Bank, said postponement of tariffs was more of a gesture rather than a concession from the U.S. side. He doubted whether the decision would stand, given Washington's flip-flop approach in trade negotiations.

China warned that if the U.S. still imposed 10% tariffs on USD130 billion of the USD300 billion of Chinese

exports on September 1, it would retaliate. The warning came after Trump appeared to link the outlook for trade talks with China to a resolution of the Hong Kong protests and suggested another meeting with Chinese President Xi Jinping. Chinese diplomatic observers said the situation in Hong Kong might have given Trump fresh leverage over Beijing, but the chances of Xi agreeing to meet him remained slim. Trump called for Beijing to handle the protests in Hong Kong "humanely" and for the first time appeared to link the outlook for trade talks with China with a resolution of the Hong Kong protests. "Of course China wants to make a deal. Let them work humanely with Hong Kong first!", Trump tweeted. Shi Yinhong, Director of the Center of American Studies at Renmin University, said: "It is absolutely impossible that Xi would meet Trump over Hong Kong. China's fundamental position is that Hong Kong is it own internal affair, so agreeing to that would discredit its stance."

Frank Lavin, Director of the International Trade Administration for the U.S. Department of Commerce under President George W. Bush, said Trump is "taking a step backwards, away from conflict, in the hopes that China might move". "Is Trump really going to accept an offer or is he going to view an offer as a negotiating ploy, and just want more and more? So there has to be a way for Trump to signal that he realizes it is a good faith offer."

Joerg Wuttke, President of the European Union Chamber of Commerce in China, said EU companies had to be realistic about the trade war and plan for an extended stand-off. "The path of least resistance is for the two sides to muddle through, avoiding the economic damage of further escalation but not making the political sacrifice to complete a final agreement," he said. "China needs wide-ranging reforms, and the right amount of strategic pressure can help move things in that direction, but there doesn't appear to be anything strategic about the latest tariffs," Wuttke said. "At a time when the U.S.-China economic relationship is badly in need of thoughtful and meaningful repair, this tariff wrecking ball, which will effectively impact everything Americans buy from China, will only empower Chinese voices calling for self-reliance and disengagement," Wuttke concluded.

A new Pew Research Center poll discovered that 60% of Americans have an unfavorable view of China – up from 47% last year – to the highest proportion since Pew started asking the question 14 years ago. The survey found that 24% of Americans regard China as America's top threat for the future, the same percentage that said so of Russia. North Korea (12%) was the only other country to draw double-digit concern. Still, the poll finds that only 41% of Americans believe that China's growing economy is a bad thing for the United States, compared with 50% who called it a good thing.

Meanwhile, the U.S. Department of Commerce's Bureau of Industry and Security has added four Chinese nuclear power enterprises to its Entity List, restricting them from receiving U.S. exports. The four are China General Nuclear Power Group and its subsidiaries China General Nuclear Power Co, China Nuclear Power Technology Research Institute Co and Suzhou Nuclear Power Research Institute Co. Chinese experts said the new U.S. move is just part of its concerted efforts to hinder China's fast-growing nuclear industry, but such attempts will be in vain. China has home-grown nuclear power technologies and is able to design and manufacture most of the components and devices domestically, while among the few imported items, very few are from the U.S.

MACRO-ECONOMY

China embracing e-commerce

China is actively embracing the burgeoning e-commerce sector, generating CNY4.82 trillion in online retail sales during the first six months of this year. Online retail sales surged 17.8% year-on-year in the first half, accounting for nearly 20% of the overall retail sales of consumer goods.

During the first half, **business-to-consumer (B2C) online retail** accounted for about 75.8% of the online retail market, a 4.1 percentage points rise from the same period last year. Specifically, sales of consumer goods such as cosmetics, smart home, and healthcare products increased rapidly, with year-on-year growth exceeding 30%. Chinese major e-commerce platforms continued to break records in online sales during this year's shopping festival from June 1 to 18. JD said sales for the 18-day festival period hit CNY201.5

billion, compared with CNY159.2 billion in 2018. Alibaba also reported strong sales for the annual shopping event, with more than 110 brands on its Tmall platform reporting a turnover of over CNY100 million.

Statistics from the Ministry of Commerce (MOFCOM) showed **online retail sales in rural areas reached CNY777.13 billion in the first half of this year**, up 21% year-on-year. Agricultural products' online retail sales amounted to CNY187.36 billion in China in the first half, a year-on-year increase of 25.3%

Cross-border e-commerce maintained rapid growth in China. In the first half, major cross-border e-commerce platforms witnessed an over 20% year-on-year increase in sales of imported goods. The top three countries from which China imported goods through e-commerce are Japan, the United States and South Korea, mainly cosmetics, cereals, oils and foodstuffs, and daily necessities. Large cities have seen a significant jump in retail sales of fresh food, cosmetics and pet supplies. The retail sales of clothing, automotive products and household appliances increased rapidly in small- and medium-sized cities and rural areas. Alibaba Group is upgrading its wholesale business by adding a new sourcing channel to better facilitate cross-border trade, particularly for small- and medium-sized enterprises. According to company figures, Alibaba.com serves 150 million registered users around the world, by giving suppliers the tools needed to reach a global audience, and helping buyers target products and suppliers across 200 economies in an efficient manner. Ant Financial, Alibaba's financial arm, supports transactions in 22 currencies and can settle local payment in 56 economies. Alibaba.com is also seeking to launch a special digital zone featuring Yiwu, China's hub for exports of small merchandise, in a bid to smooth cross-border transactions for millions of SMEs, part of the electronic World Trade Platform (eWTP), an initiative Alibaba proposed in 2016 to facilitate trade for global SMEs through digitalization.

According to eMarketer, China's e-commerce sales are estimated to increase more than 30% to USD1.99 trillion in China this year, accounting for 35.3% of the country's retail sales. The U.S. lags far behind, with only 10.9% of its real sales occurring online.

MACRO-ECONOMY

China develops nighttime economy

Authorities nationwide have beefed up measures **to develop the nighttime economy, with steps to encourage post-dusk business activities and later closing hours at museums and art galleries.** The moves follow reports that China's economic growth slowed to 6.2% year-on-year in the second quarter, its weakest pace in at least 27 years, with consumption contributing more than 60% of GDP growth. A number of cities, including Beijing, Shanghai, Tianjin and Jinan have recently rolled out measures to shore up the nighttime economy, also known as after-hours economic activity, with longer operating hours for public transport.

The Beijing Municipal Bureau of Commerce unveiled a string of policies last month, including later closing hours at tourist spots, museums, sports grounds and art galleries. The city will extend the operating hours of several subway lines every Friday, Saturday and Sunday, and 25 night bus lines in key areas will operate more frequently. Seven new bus lines will also open to facilitate night travel for large residential communities in the city's North. Zhao Ping, who researches the consumption economy at the China Council for the Promotion of International Trade (CCPIT), said the scope of the night-time economy extended far beyond night markets. "The catering sector is only the starting point," she said. "There is still so much to explore in aspects of culture and tourism."

The authorities in Shanghai unveiled a list of cultural activities and tour routes. The Municipal Culture and Tourism Bureau said 105 tourist spots, art galleries, museums and memorials across the city had taken measures to meet the growing demand for nighttime leisure activities from Shanghai residents and tourists.

A report by Meituan Dianping, China's largest provider of on-demand online services, said spending on nighttime dining around the country rose 47% last year, higher than the daytime growth, with Beijing and Shanghai ranking first and second. The report also showed that 16 of the 20 cities with the highest spending on nighttime dining were in South China, and that people between the ages of 20 and 40 accounted for most of the spending. Meanwhile, the State Administration for Market Regulation has called for greater efforts to ensure food safety as local authorities encourage growth of the nighttime catering sector. Fu Yifu, Consumption Analyst at the Suning Institute of Finance, said growth of the nighttime economy will help boost domestic consumption and create more jobs, the China Daily reports.

In Shanghai, a 500-m road in Xintiandi will become pedestrian-only from 8 p.m. on Fridays to 5 a.m. on Mondays through September 9 in a trial to promote Shanghai's nightlife. Street artists will entertain visitors, while business operators will have stalls on the street. Outdoor movies will be played along with other cultural events and entertainments. Shanghai is aiming to revive its nightlife after shutting down noisy late-night bars and eateries over the past few years in response to residents' complaints. Shanghai's Huangpu district has appointed a nightlife Director and five nightlife CEOs.

CHINA NEWS ROUND-UP

China still attracts FDI, up 4.1% in July

Foreign investment in China (FDI) accelerated in July despite trade tensions with the United States, contradicting claims from U.S. President Donald Trump of an exodus of investors. In July, FDI into China **rose 4.1% from a year ago to USD8.07 billion**, a higher rate from the 3% rise in June, according to China's Ministry of Commerce (MOFCOM). In yuan terms, FDI increased to CNY54.82 billion in July, 8.7% higher compared to a year earlier, also picking up slightly from an 8.5% rise in June. As many as 3,919 new foreign-invested enterprises were incorporated last month.

As foreign investment in China is still rising, U.S. President Trump claimed that "thousands" of companies were fleeing China because of U.S. tariffs imposed by his administration over the last 13 months of the trade war. "They must stem the flow," the U.S. President tweeted, insisting that Beijing "badly" wanted a trade deal after the latest round of talks in Shanghai in July failed to yield any significant progress and after Trump's threat to impose 10% levies on USD300 billion of Chinese goods from September. Meanwhile, Trump postponed imposition of some tariffs to December 15.

However, in the first seven months of the year, the aggregated FDI into China rose 7.3% to CNY533.14 billion, or 3.6% to USD78.8 billion, accelerating from 7.2% and 3.5% in the first six months of the year. MOFCOM did not disclose the growth rate of direct investment from the U.S., a figure that has been missing from the data for the last two months. Investment from Germany and South Korea increased by 72.4% and 69.7% respectively between January and July. Pan Gongsheng, Vice Governor of the People's Bank of China (PBOC), wrote that FDI into China still had great potential for development, as the business environment in the country had further improved. "The liberalization and facilitation of cross-border trade and investment will have a greater improvement," he said. Xin Guobin, Vice Minister of Industry and Information Technology, said in July that Beijing was not surprised some foreign manufacturing companies had opted to relocate from China, but that there was only a limited number of firms who had left, the South China Morning Post reports.

Meanwhile, **the quality of the FDI inflow has optimized** with more capital flowing into the high-tech sector. Investment in high-tech industries climbed 43.1% year-on-year to account for 29.3% of total FDI. FDI in the high-tech service sector surged 63.2% year-on-year between January and July, while that in the high-tech manufacturing sector rose by 19% year-on-year. According to a survey by the American Chamber of Commerce in Shanghai, 80% of U.S.-funded enterprises are optimistic about their development prospects in China over the next five years. Shanghai attracted total contractual foreign investment worth USD22.9 billion during the first half of 2019, up 6.3% from a year earlier. The actual use of foreign investment reached USD11.45 billion in the January-July period, up 13.8% year-on-year. During the period, 4,105 new foreign-funded enterprises were established, up 58.3% over the same period in 2018. The high-tech service industry reported an actual use of foreign investment of USD1.7 billion, an annual growth of 29.6%.

New growth momentum has been created by plans to establish six new pilot free trade zones (FTZs) and releasing two shortened negative lists for foreign investment to allow access to more industrial sectors, said Lu Ming, Vice Dean at the Academy of the China Council for the Promotion of International Trade (CCPIT).

But some foreign companies are indeed planning to leave China. South Korea's Samsung and Japan's Olympus and Epson have already closed factories in China, and are believed to be considering withdrawing completely from the Chinese market. Retailer Carrefour, along with Tesco and Wal-Mart, are also in the process of selling significant stakes in their Chinese operations.

Shenzhen to become a model city

China unveiled a master plan to build Shenzhen in Guangdong province into a model city, capable to compete on a global scale. Shenzhen is to receive special permission to carry out reform and opening-up policies "from a higher starting point, higher levels and with higher goals." Favorable policies will be offered in areas including technological innovation, finance and foreign trade. China's "positive approach" to addressing economic challenges stood in stark contrast to that of the U.S. and some other major economies which have resorted to protectionist moves to tackle problems, said Cheng Dawei, Professor of Economics at Renmin University of China in Beijing.

Officials and experts spent three years to assess the country's potential and challenges before finalizing the plan. The news pushed stock markets higher, especially the shares of companies based in Shenzhen on hopes that the plan would initiate a new round of high-quality growth and opening-up measures nationwide. Shenzhen will also be supported in building innovation-oriented bodies in fields such as 5G, artificial intelligence (AI), cyberspace and laboratories for life information and biomedicine. Shenzhen will also establish a maritime university and a national deep sea research center, and explore the establishment of a maritime development bank.

Given Shenzhen's proximity to Hong Kong, where violent protests have seriously damaged the city's global image, many have cast the plan as a way of replacing Hong Kong's role as a global financial center, but Chinese analysts called this viewpoint short-sighted. "This is not aimed at pushing Hong Kong aside by any means. If anything, this will help Hong Kong because it will bring many opportunities to Hong Kong firms and residents," Professor Cheng said. The plan not only includes measures for the internationalization of the yuan and the issuance of a digital currency, but is also intended to be conducive to the Guangdong-Hong Kong-Macao Greater Bay Area development. Some argued Shenzhen cannot replace Hong Kong as a financial center at least in the short term.

PSA and Dongfeng to close two car assembly factories, cut jobs

Peugeot maker PSA Group and partner Dongfeng Group have agreed to cut thousands of jobs in China and close two of their four shared assembly plants, in a last-ditch bid to curb mounting losses. Dongfeng Peugeot Citroen Automobiles (DPCA), the carmakers' joint venture based in Wuhan, capital of Hubei province, will halve its workforce to 4,000 as it closes one plant and sells another under plans agreed upon in July between PSA Chief Executive Carlos Tavares and Dongfeng Chairman Zhu Yanfeng. Both carmakers declined to comment on details of their restructuring plans. The agreement may avert a threatened withdrawal by PSA from the 27-year-old partnership with Dongfeng or plans to leave China altogether. "We're just a whisker away from having to withdraw from China," said one person close to the PSA board. "It really is that serious."

PSA is attempting a reboot in adverse conditions. Once an auto industry cash cow, the Chinese market contracted last year for the first time since the 1990s and is expected to decline another 5% in 2019. Many Western carmakers were already struggling before the downturn, as Chinese consumers abandoned their mid-market brands for increasingly assertive domestic rivals, including the global manufacturers' own local partners. PSA's China problems go back even further, spanning four years of plunging sales and €400 million written off of its DPCA stake, which is now valued at €500 million. Its sales in China shrunk to 251,700 vehicles last year from a 2014 peak of 731,000.

DPCA will now close its original assembly plant, Wuhan 1, and redevelop the site in a commercial partnership with the local government. The factory's equipment and production will be transferred to the Wuhan 3 facility. The staff level across DPCA will fall from 8,000 to 5,500 by the end of 2019 and to 4,000 within another three years, as it also sells off its idling Wuhan 2 facility.

Baidu falls further behind among China's biggest tech firms

Baidu has fallen out of the top five of the most valuable publicly traded Chinese internet companies after its market capitalization slid below that of gaming and e-commerce pioneer NetEase. After a 40% slide in its share price this year, Baidu's market valuation stood at USD33.2 billion at the close of trading on August 14, compared with USD33.5 billion for NetEase, whose shares have risen by 11.4% in the same period. Meituan Dianping has surged 45% this year to be valued at USD46.7 billion. Baidu has seen its market valuation stagnate even as Alibaba Group and Tencent Holdings – which, along with Baidu are referred to by the acronym BAT – surged ahead as China's internet population embraced mobile payments and shopped, messaged and sought entertainment on their smartphones. Alibaba Group had a market cap of USD421.9 billion, while Tencent was second at USD405 billion.

Beijing-based Baidu, which is the dominant search engine operator in China, has struggled as advertising income slowed with the economic uncertainties and its investments in autonomous driving have yet to yield profits. Baidu posted its first quarterly net loss of CNY327 million since its 2005 IPO in May. After the loss, Founder Robin Li called on employees to fight harder. "For senior managers, saying 'I have tried' is not enough and we need to make sure we win in the battlegrounds that we must win; for employees, we must spare no effort to make sure every task is executed flawlessly," Li wrote in a memo to staff in May.

Baidu has had a stranglehold on search in China with 70% of the market, especially after Google exited in 2010. But a shift in internet usage patterns has chipped at that dominance, with the rise of self-contained super-app ecosystems by rivals like Alibaba and Tencent. A user could quite easily watch a movie, read news, shop online and order takeaway food without having to leave one of these walled communities or go to a traditional search engine. Meanwhile, new competition in search has arisen in the form of ByteDance, which owns the popular short-video Douyin app and Toutiao news aggregation app. Baidu has downplayed the prospect of new competition, stressing that it remains a dominant player in the market, the South China Morning Post reports.

China's top 100 internet companies have beefed up research and development (R&D) spending to CNY153.87 billion – up 45% year-on-year – driving their emergence as first-tier international players in the fields of cloud computing, big data, artificial intelligence (AI) and other technologies. The 100 companies recorded a combined revenue of CNY2.75 trillion in 2018, about CNY1 trillion more than in 2017, highlighting the solid development of the industry. In the first half of 2019, the size of China's internet market grew 17.9% year-on-year, faster than the global average. **China's top 10 internet firms are** Alibaba; Tencent; Baidu; JD.com; Ant Financial; NetEase; Meituan Dianping; Bytedance; 360 Security Technology and Sina, the China Daily reports.

Sales of NEVs fall for the first time in 30 months

Sales of new energy vehicles (NEVs) in China fell for the first time in 30 months, sliding 4.7% in July from a year earlier, but the country's leading auto industry association expects the segment to ring up overall growth for the calendar year. Carmakers in China delivered 80,000 electric cars, plug-in hybrids and fuel cell vehicles in July, a little more than half of sales in June, according to the China Association of Automobile Manufacturers (CAAM). China cut its subsidies for the vehicles in late June so people rushed to place their orders before the policy took effect. This resulted in a spike in June sales and then a fall in July, said Xu Haidong, Deputy Secretary General of the Association. Another cause was the implementation in July of stricter State VI emission standards, which came earlier than the central government's 2020 deadline for 15 cities and provinces. "Dealers offered really attractive discounts to sell out the older gasoline models in stock before the new standards took effect, which lured away some potential new energy vehicle buyers as well."

CAAM said overall vehicle sales in China fell 4.3% in July, down for a 13th consecutive month. New energy vehicles had been the rare bright spot in the country's auto market before their sales declined last month. The accumulated NEV sales hit 699,000 from January to July, up 49.9% year-on-year. Analysts at Ping An Securities said in a research note that sales of such vehicles would return to normal in the third quarter as the impact of the policy changes gradually subsides. September and October are also usually the best months for car transactions in the country. CAAM is optimistic about the new energy vehicle market, although it sliced the whole-year sales estimate from 1.6 million to 1.5 million in late July. Still, that would represent a roughly 19% growth in sales from the 1.26 million posted last year. Ping An said it is normal that annual growth rates of over 40% seen in the past years would become harder to reach because the base number of such vehicles in China has become bigger.

China has been the world's largest market for new energy vehicles (NEVs) since 2015, with around 3.5 million on its roads and most of them produced by local makers such as BYD and BAIC's new energy arm, Beijing Electric Vehicle Co, the China Daily reports.

Huawei to unveil mapping service, started U.S. lobbying effort

Huawei said it plans to unveil its own mapping service in October, as the company works hard to cope with the U.S. government's ban on using Google Map in its overseas smartphones. Huawei's mapping service, known as **Map Kit**, is not directly for consumer use, but is designed to encourage software developers to come up with applications based on its mapping capabilities. Huawei Map Kit will be connected to local mapping services and covers 150 countries and regions. Huawei Map Kit will be available in 40 languages. It will offer real-time traffic conditions and a highly sophisticated navigation system.

Meanwhile **the U.S. government has extended with 90 days the "temporary general license" for U.S. companies to continue delivering products and services to Huawei** and for Huawei to do the same to U.S. companies, despite its inclusion on the blacklist. The original exemption elapsed on August 19. Huawei is still prohibited from buying American parts and components to manufacture new products without additional special licenses. But 46 of Huawei's subsidiaries were added to the blacklist. U.S. Commerce Secretary Wilbur Ross commented: "As we continue to urge consumers to transition away from Huawei's products, we recognize that more time is necessary to prevent any disruption," adding that the latest extension was to aid U.S. customers, many of which operate networks using Huawei equipment in rural America.

Huawei's first 5G-capable smartphone, the Mate 20X 5G, went on sale for CNY6,199 in China over the weekend. China will roll out its 5G network in major cities later this year. Apple has yet to release a 5G phone, and Samsung's Galaxy Note 10+ 5G is not on sale in China yet. Yu Chengdong, CEO of Huawei's consumer business group, said the U.S. government restrictions reduce the annual shipment forecast of its smartphones from about 300 million units to around 240 million units in 2019.

Huawei has hired the law firm Sidley Austin to lobby on trade as the U.S. pressures allies to join it in blacklisting the company. The lobbying, which began in July, will focus on export controls, trade sanctions "and other national security-related topics". Huawei is no longer allowed to pre-install Google's popular apps, like Gmail and YouTube, on its devices. Huawei has unveiled its own operating system called HarmonyOS, which it said can replace Android if Google's software is barred from its future smartphones, but the company needs a lot more time to build an apps ecosystem. The Chinese firm, which had all but shut down its Washington lobbying operation at the end of 2018, has also recently hired the law firms of Steptoe & Johnson and Jones Day as lobbyists.

Huawei's smartphone shipments in Europe fell by 16% year-on-year in the second quarter of 2019, according to Canalys.

Further financial reforms planned as bad debts rise

China will remain firmly committed to continuing economic opening-up and broadly deepening financial reforms, including renminbi exchange rate liberalization, despite the ongoing trade tensions, according to Pan Gongsheng, Vice Governor of the People's Bank of China (PBOC) and Director of the State Administration of Foreign Exchange (SAFE). Zhou Xiaochuan, Chairman of the China Institute of Finance and former PBOC Governor said China should attach great importance to the expansion of the yuan's global usage. He also warned that China should get prepared for long-term trade disputes. China's further financial opening-up may be affected by the wait-and-see mood among global investors amid the China-U.S. trade disputes, said some experts. Shanghai will ease restrictions on foreign capital in the service sector for getting access to the city's market and launching businesses.

China's bank lending weakened in July, suggesting Beijing's stimulus efforts were not working properly. Chinese banks extended CNY1.06 trillion in net new loans last month, down from CNY1.66 trillion in June. There was a significant drop in corporate lending in July, plunging by two-thirds to CNY297.4 billion from CNY910.5 billion the month before.The slump raises questions over the need for additional credit easing – when a central bank sets lower interest rates, for example – from the PBOC to offset the effect of a weakening economy. New household loans, mostly mortgages, fell to CNY511.2 billion in July from CNY671.7 billion in June. There was also a sharp slowing in national aggregate financing, which grew by CNY1.01 trillion in July, less than half the CNY2.26 trillion gain in June and much lower than expectations of CNY1.63 trillion. Growth in M2 money supply slowed to 8.1% in July, down from 8.5% in June and below the forecast 8.4%. There was a deeper contraction in shadow credit last month, probably due to a regulatory crackdown, according to Julian Evans-Pritchard, Senior China Economist at Capital Economics.

Chinese banks have reported an increase in bad debts and a decline in the capital adequacy ratio in the second quarter, as the year-long trade war has hit the country's economy hard. Total non-performing loans (NPLs) in China's banking system rose to CNY2.235 trillion during the three months to June, up CNY78.1 billion, or 3.6% from the first quarter of this year. The NPL ratio edged up by a marginal 0.01 percentage points to 1.81% during the quarter, according to the China Banking and Insurance Regulatory Commission's (CBIRC). The rising bad debts come as China's sovereign wealth fund earlier this month took over Hengfeng Bank, the third case in as many months of the state taking over a troubled lender. Chinese banks' core tier 1 capital adequacy ratio declined to 10.71% at the end of June, down 0.23 percentage points from three months earlier. Banks' liquidity ratio dropped to 55.77% at the end of June, down 1.04 percentage points from the previous three months. The three measures of shadow banking included in PBOC data – outstanding entrusted loans, trust loans and banker acceptances – decreased by 10%, 4.3%, and 15%, respectively, by the end of July from a year earlier.

China's industrial production in July grew by 4.8% – its lowest rate since February 2002 – with retail sales growing by 7.6% in July, down from 9.8% growth in June. Analysts expect consumer spending to slow further for the rest of the year due to trade war tensions. But according to Liu Aihua, Spokeswoman for the National Bureau of Statistics (NBS), the economy in July continued to perform within the reasonable range. Market expectations that the PBOC will adopt an easing policy are rising, after China's industrial output growth fell to 4.8% in July.

Foreign companies apologize for identifying Hong Kong as a country

Foreign companies doing business in China must be careful not to identify Hong Kong or Taiwan as separate countries, as the Chinese government considers them to be part of China. Even more crucially, Chinese consumers are also vehemently defending the notion that Hong Kong, Macao and Taiwan are an inalienable part of China. **Chinese buyers account for at least a third of current luxury sales and two-thirds of the industry's growth** according to consultancy Bain & Co., and making Chinese consumers angry could have very serious consequences.

A growing list of global brands, from Versace to Calvin Klein, have been forced to apologize recently after an army of Chinese internet users called them out for products and company websites that identified Hong Kong as a country, not as a special administrative region (SAR) of China. Global companies, which are increasingly counting on China's wealthy middle class and burgeoning consumer market for growth, have learned the hard way that it pays to make amends – and fast. Even companies that do not sell directly to consumers are not immune from social-media outrage. PwC found itself a target after one of its online posts urged supporting the protests in Hong Kong, which the Chinese government condemned as "like violence conducted by terrorists" and described as a "color revolution". While PwC issued a statement calling the original post a fraud, that did not mollify critics on Chinese social-media platforms, because the firm did not strongly condemn the demonstrations.

Companies are also at risk as the U.S.-China trade war intensifies, said Julian Evans-Pritchard, Singapore-based Senior Economist for China with Capital Economics Asia. "I do think life is going to become more difficult for foreign firms in China, particularly U.S. firms," he said. Versace, owned by U.S.-listed Capri Holdings, apologized and removed an offending T-shirt for not properly identifying Hong Kong and Macao, both former European colonies that are now special administrative regions (SARs) of China. Coach, owned by New York-based Tapestry, issued an apology, as well as LVMH-owned Givenchy. Both had been selling products that did not list Hong Kong and Taiwan as parts of China. This is just the latest wave of mea culpas from multinational businesses that have been accused of defying Beijing's one-China policy, the South China Morning Post reports. So far, big U.S. brands have yet to see consumer outrage show up in boycotts and plummeting sales, which is what happened to South Korean companies including Hyundai Motor and Lotte in China after bilateral tensions rose in 2017.

"Beijing has been reminding the world for so long that Hong Kong, Macao and Taiwan are regions of China, not countries, that it would seem only a recluse would be unaware. But foreign companies that should know better are constantly being caught out, among the latest the fashion brands Versace and Coach, and the jeweler Swarovski," the South China Morning Post reports.

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