I. Macro Economic Review of 2017

In recent years, along with the supply-side structural reform, the deepen of opening up and the promoting of the Belt and Road Initiative, the development of China’s economy has become more stable, coordinative and sustainable. China has achieved stable and sound economic development with an improved economic structural.

The economy has registered a slower but stable performance with good momentum for growth. GDP reached USD 12.25 trillion, representing 6.9% growth, and seeing China outpace most other economies. For the first half of this year, GDP reached USD 6.15 trillion, up by 6.8% YoY. The industrial production grew steadily. The high technology manufacturing industry, the manufacturing of equipment industry and the strategic emerging industries have all maintained rapid growth. For the first 8 months of 2018, the growth rate of high technology manufacturing industry exceeded 10%, while the manufacturing of equipment industry and the strategic emerging industries both grew by 8.8%, which are markedly faster than the overall growth rate of the industrial enterprises above designated size. As for the services industry, the modern service industry showed a rapid growth, with strategic emerging service industry and high technology service industry both up by more than 10% over the previous year.

Figure 1 2013-2017 GDP and its growth rate

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By the end of year, money supply of broad sense (M2) was USD24.83 trillion, reflecting an increase of 8.2 percent, which is 3.1%p lower than the previous year. Prices were stable, with the CPI rising by 1.6%, which is 0.4%p lower than the previous year.

II. Sound and Steady Development of the Multi-tiered Capital Markets

1. Multi-Tiered Equity Markets

Exchange-traded stock market. As of the end of 2017, a total of 3,485 companies were listed on Shanghai Stock Exchange (SSE) and Shenzhen Stock Exchange (SZSE), with 433 new listings throughout 2017. Among all the listings, 1,872 companies were on the Main Board, 903 on the Small and Medium-Sized Enterprise Board (SME Board), and 710 on the ChiNext. The total market capitalization on the two stock exchanges stood at USD 8.4 trillion, up by 11.70% year-on-year. Total free-floating market capitalization reached USD 6.65 trillion, up by 14.21% year-on-year and accounting for 79.23% of the total market capitalization – 1.74 percentage points higher than the level in 2016. The total market capitalization of the two stock exchanges by the end of 2017 was equivalent to 68.56% of China’s GDP in 2016, ranking second in the world after the US.

419 A-share stocks were issued on SSE and SZSE in 2017, raising USD 246 billion in total, an 11.50% decrease from the year before. The total financing proceeds comprised USD 32.3 billion from initial public offerings, up by 33.78% YoY, and USD 213.6 billion from secondary offerings, down by 16.49% YoY. The total number of mergers and acquisitions transactions by listed companies was 2765 with trading amount USD 280 billion.

National Equities and Exchange Quotations (NEEQ). As of the end of 2017, NEEQ admitted 11,630 companies with a total market capitalization of USD 731.6 billion. Of these companies, 1,353 were admitted to the innovation tier and 10,277 were admitted to the base tier. The NEEQ provides financing support for the medium,
Regional Equity Trading Platforms. The regional equity trading platforms are positioned to be private equity markets for medium, small and micro-sized companies at provincial-level administrative regions, a key component of China’s multi-tiered capital markets as well as vehicles for local governments to integrate and implement supportive policies for medium, small, and micro-sized companies. By the end of 2017, 40 regional equity trading platforms were in operation, with 25,400 companies admitted and 80,000 on display, raising a cumulative USD 135.1 billion.

2. Exchange-Traded Bond Market. As of the end of 2017, the nominal value of outstanding exchange-traded bonds stood at USD 1.42 trillion, representing a year-on-year growth of 21.58%. A total of 2,433 bonds (including corporate bonds, asset-backed securities, local government bonds, and policy bank bonds) were issued on exchange-traded market in 2017, raising a gross total of USD 579.8 billion, up by 6.76% YoY, and a net total of USD 485.7 billion, up by 1.36% YoY, after principal repayment. In 2017, the exchange-traded bond market recorded USD 823.4 billion in spot transactions, a year-on-year growth of 8.44%. Repo transactions rose 11.40% to USD 38.54 trillion.

3. Securities Firms
There were 131 securities firms in operation at the end of 2017, with total assets of USD 0.91 trillion, net assets of USD 0.27 trillion and annual net profit of USD 16.73 billion. The total number of practitioners of securities industry is more than 350 thousand, up by 6% YoY.

4. Two-way Opening-up of Securities Industry
In November 2017, the Chinese government announced further opening-up policies to increase the foreign equity cap on securities firms, fund management firms and futures firms to 51% and to gradually remove restrictions on business scope of foreign-invested securities firms. The foreign equity cap will be removed entirely.
year later. By the end of 2017, there were 13 joint-venture securities companies, 44 joint-venture fund management companies, and two joint-venture futures firms in China. 31 domestic securities companies and 24 domestic fund management companies set up or acquired 56 subsidiaries overseas. 20 domestic futures firms established 21 subsidiaries abroad.

Strengthening Cooperation with Belt and Road Countries. This year is the 5 year anniversary of the Belt and Road Initiative. To bolster financial services for Belt and Road projects, Chinese financial institutions have cooperated with financial institutions with Belt and Road countries and regions. In “going global”, as of the end of 2017, 31 securities companies and 24 fund management companies had altogether established or acquired 57 business entities in Belt and Road countries and regions (55 in Hong Kong, 1 in Singapore, and 1 in Laos). In “bringing in”, as of the end of 2017, CSRC had approved 32 institutions from 8 Belt and Road countries including Singapore, Brunei, Malaysia, and Thailand to participate the QFII scheme, with a cumulative approved investment quota of around USD14.9 billion. The RMB Qualified Foreign Institutional Investors (RQFII) pilot now covers six Belt and Road countries including Singapore, Qatar, and Hungary, with a total investment quota of USD 48.9 billion.

III. Challenges lying ahead
Although China's capital market has made rapid progress in recent years, it is still facing some challenges. Major ones are as follows:

1. The rapid development of financial industry requires the strengthening of regulatory coordination

The last decade has witnessed the fastest development of China's financial industry, with the increasing business relevance of different financial institutions and the emergence of new financial forms. The rapid growth of the financial industry also brings new risks across industries and markets which bring more challenges to
financial regulation. Therefore, the Chinese government has proposed to strengthen the overall coordination of financial supervision to improve the supervision of shadow banks, Internet finance and financial holding companies and further improve financial surveillance.

Meanwhile, it is also a hot topic of using regulatory technology (Regtech) to improve supervision efficiency in recent years. Recently, China Securities Regulatory Commission (CSRC) issued the “CSRC Overall Construction Plan of regulatory technology”, which proposed that based on the strengthening of electronic and network supervision, applying big data, cloud computing, artificial intelligence (AI) and other high-tech approaches to provide comprehensive and accurate data and analysis services for securities regulation, with the aim to form an overall and whole process support to securities regulation. This will lead to new regulation models and by doing so, the regulatory authorities are able to achieve real-time monitoring of market operation and identify abnormal trading behaviors.

2. The opening up of capital market puts forward higher requirements for the governance of listed companies.

In 2018, China’s securities market accelerated its pace of opening up: the CSRC issued “Measures on the Administration of Foreign-funded Securities Companies” to promote the opening up of the securities and futures industry; the expansion of the daily trading volume of Shanghai-HK Connect and Shenzhen-HK Connect; the incorporation of A-shares into MSCI index and the A-share account opening policy for foreign investors to enrich the capital market investors etc. With the wider opening up of the capital market, the entry of foreign investors proposed higher requirements on the corporate governance of listed companies, among which ESG (Environmental Social Responsibility and Corporate Governance Assessment) investment is one of the most important investment concepts. Now more than 20% of the assets in the main markets of Europe and the United States take ESG into consideration. ESG is the framework for overseas investors to choose the target, which is divided into three
dimensions: environment, social and governance to implement investment on social responsibility. Due to the first incorporation of MSCI, the ESG rating of Chinese companies has just launched. In order to improve the corporate governance structure and enhance the confidence of investors at home and abroad, it is urgent to construct the framework of ESG investment system in China's capital market.

3. The increase of external uncertainty put an impact on the capital market.
At present, the risks and difficulties encountered by the global economy are gradually increasing. The growth of major economies is slowing down, with rising inflation expectations and tightening monetary policy cycle. With the raising of Federal Reserve's interest rate and the shrinking of the balance sheet, the yield of US Treasury bonds in general shows a rising momentum and both global asset prices and non-US currency exchange rates are under certain pressures, especially for the developing countries. In addition, trade protectionism is on the rise, and more adverse external environment factors faced by the capital market have been spread to the domestic, which increase the pressure on the stable of China’s economy, and put an impact on the capital market.