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New policy tool avoids holiday cash shortage

Central bank governor reiterates that prudent monetary stance will remain

By **CHEN JIA**
chenjia@chinadaily.com.cn

Chinese central bank has innovated another policy tool to avoid a temporary cash shortage during the upcoming national holiday, while bearing in mind that too much money supply is the origin of asset bubbles that threaten financial stability.

The People's Bank of China, the central bank, introduced a new measure, the first in the world, called the "Temporary Reserve Utilization Facility", on Friday to unfreeze more cash for commercial banks during the seven-day Spring Festival holiday starting from Feb 16.

National commercial banks, including the "Big Five" and joint-stock commercial banks which will see a relatively large amount of cash withdrawals, are allowed to free up to 2 percent of their deposits that must be reserved in the central bank, or the "Legal Deposit Reserves", temporarily for up to 30 days, when they expect a shortage of money during the holidays, said a statement on the PBOC's website.

But it cannot be seen as a signal that the central bank will ease the overall monetary policy, as it is only a temporary measure to crack down on potential liquidity risks, according to analysts.

Central bank governor Zhou Xiaochuan reiterated in a New Year speech on Sunday that the "prudent monetary policy" would remain, and keep credit and total social financing growth at a "reasonable" rate.

Controlling the money supply is identified as one of the policy priorities to tame asset bubbles and reduce debt levels, according to the recent Central Economic Work Conference.

For the central bank of the world's second largest economy, balancing multiple targets, including controlling financial risks, supporting real economic growth, and advancing financial reform, is more like juggling balls, which requires policy innovations based on the country's special situation other than simply following traditional ways, said Zhang Monan, a researcher with the China Center for International Economic Exchanges.

As calculated by some financial institutions, the new facility is likely to release 1 trillion yuan ($153 billion) to 2 trillion yuan more into the money market. In 2017, cash withdrawals rose by around 1.8 trillion yuan during the month of the Spring Festival, according to a research report from CITIC Securities.

A similar innovation took place in January 2017, also during the Spring Festival, when the PBOC decided to use Temporary Liquidity Facilities (TLF), another unconventional monetary policy tool.

1.8 trillion yuan
growth in cash withdrawals during January 2017

"This year's policy can be seen as an update of the TLF and it can have stronger effects on encouraging bank lending when they feel liquidity pressure," said Nie Dan, a professor of finance at East China Normal University.

Meanwhile, starting from Monday, some commercial banks which issue a certain level of loans to support small- and micro-sized enterprises, startups and agriculture, can enjoy a drop of 0.5 to 1.5 percentage points of the required reserve ratio, meaning a further "targeted" easing of liquidity that is expected to release more than 100 billion yuan.

The easing of liquidity will directly reduce borrowing costs in the interbank market, which is indicated by Shanghai Interbank Offered Rate, as commercial banks will have more money to lend, which can then lift bond prices, according to Ming Ming, an analyst with CITIC Securities. The three-month Shibor boosted to a record-high since February 2015 on Friday, reflecting liquidity pressure at the end of 2017.

For the stock market, sufficient liquidity will boost investors' confidence and support a rise of stock prices in the short-term, said analysts.

A visitor tries a self-driving system at an auto expo in Hangzhou, capital of Zhejiang province. LI ZHONG / FOR CHINA DAILY

Self-driving tech to give nation cutting edge

By **JING SHUIYU**
jingshuiyu@chinadaily.com.cn

Burgeoning self-driving technologies are expected to give China an edge in advanced driver assistance systems, algorithms and software, analysts said.

ADAS — which mainly include radar, cameras and ultrasonic sensors to enhance safe driving — currently has a relatively low rate of market penetration in China.

"The rate in China is between 3 and 6 percent, while that in the United States or Europe is about 8 to 12 percent," according to Zheng Fangdan, a senior consultant at Chinese research firm CCID Consulting Co.

Thanks to the driverless-car push, the country's ADAS market is estimated to grow to 87.7 billion yuan ($13.5 billion) in 2020 from 11.7 billion yuan in 2015, she said at a recent seminar.

The uptrend in China corresponds with estimated global figures.

According to a Goldman Sachs report, the market for advanced driver-assistance systems and autonomous vehicles is estimated to grow from $3 billion in 2015 to $96 billion in 2025 and $290 billion in 2035.

Algorithms and software, the "key building blocks" in delivering autonomous cars, will see substantial growth in the future, Zheng said.

Yu Jie, co-CEO of Beijing-based JointWyse Automotive Co, agreed. He said: "We predict further strides in software capabilities for interpreting visual and other inputs driven by sensors to make fully autonomous driving a reality."

$13.5 billion
size of China's ADAS market in 2020

Demand for sensors, networking and other elements vital to autonomous driving would also be created, he added.

Their comments came as China has been working to clarify the legal landscape for autonomous vehicles, which are on a fast ramp to commercial availability.

Last month, the nation's first guideline on road tests of autonomous motor vehicles was released by local authorities in Beijing.

Later, the Ministry of Transport said that it would conduct research prior to issuing policies this year on autonomous technologies.

The government might issue the first nationwide license plate for testing driverless cars this June, Zhu Xichan, a professor from the School of Automotive Studies of Tongji University, said at the World Autonomous Vehicle Ecosystem Conference held in November.

Though the promise of autonomous cars is exciting, "innovation comes with risks", said the report from Goldman Sachs.

"Turning control over to software could lead to new hacking vulnerabilities and other hazards — liability issues that companies can't ignore. Cars that allow drivers to intervene in emergencies is a more likely scenario," the investment bank said.

Companies will likely focus on fine-tuning partial automation over the next few years, to overcome software challenges facing self-driving vehicles, it said.

Currency stability seen as key task

By **LI XIANG**
lixiang@chinadaily.com.cn

China's foreign exchange regulator will likely focus on keeping the country's currency stable this year while allowing greater flexibility in the exchange rate, economists said on Monday, with some believing there may still be potential for the yuan's further appreciation against the US dollar.

Yuan bulls enjoyed a cheerful year in 2017 as the currency strengthened by more than 6.3 percent against the US dollar, its greatest annual gain in nine years.

A string of factors including resilient domestic growth, tighter monetary conditions and stricter regulatory scrutiny of cross-border capital flows supported the strengthening of the Chinese currency.

Looking to 2018, economists said that the continuous recovery in global trade and China's current account surplus will continue to support the value of the yuan.

An employee counts cash at a bank in Taiyuan, capital of Shanxi province. ZHANG YUN / CHINA NEWS SERVICE

They added that while the possible appreciation of the US dollar in 2018 could weigh on the value of the Chinese currency, a stronger euro may help offset the impact as the yuan's exchange rate is determined by a basket of currencies.

"The global recovery will continue to drive China's foreign trade and the country will still see a considerable trade surplus, meaning that there is still room for the yuan's appreciation," said Xiao Lisheng, a senior researcher of international finance at the Chinese Academy of Social Sciences.

Assuming that there is no major shift in China's foreign exchange policy, Xiao said the yuan could further gain by 2 to 3 percent against the US dollar in 2018.

Xie Yaxuan, an economist at China Merchants Securities, said that maintaining a stable exchange rate of the yuan will continue to be the priority for China's foreign exchange regulator and any major reform of the current exchange rate mechanism is unlikely this year.

Economists at Ping An Securities expected that the value of the yuan will see two-way fluctuations in the 6.6 to 7.0 band against the US dollar in 2018 as the Chinese regulator will continue to use policy tools to offset any potential sharp depreciation of the currency if necessary.

While China's foreign exchange regulator has been closely monitoring the country's cross-border capital flows, Xiao from the CASS said that the regulator will likely loosen capital controls to facilitate bilateral investment and key initiatives such as the Belt and Road Initiative.

Mobike motors into car-sharing market

By **YANG JUN** in Guiyang and **OUYANG SHIJIA** in Beijing

Bike-sharing titan Mobike Technology Co Ltd recently officially launched its car-sharing service in China's southwestern Guizhou province, marking the company's first attempt to expand into the short-term car-rental market.

The Beijing-based firm said last Friday that the first batch of new energy vehicles would be rolled out in Guian New Area and Guiyang in Guizhou province. Users will be able to unlock, park, lock and make payments in the same app they use to rent shared bikes via a newly added car-rental feature.

The official launch of shared cars came shortly after Mobike announced in November a strategic partnership with Guian New Area and Sitech, a local electric car company, to launch a fleet of shared automobiles, aiming to seek new momentum in the market outside its core bike-sharing businesses.

Mobike CEO Wang Xiaofeng said the partnership would help develop a smart and green transport system, as Mobike had strengths in technologies such as internet of things and mobile internet, and Guian New Area and Sitech had advantages in new energy resources and electric charging points.

"Buoyed by internet of things technologies, the new shared vehicles will be connected to Mobike's shared bikes, which will meet local residents' diversified travel needs and become a favorable means to complement the public transport system," he added.

Mobike's expansion into car-sharing comes as the firm's bike-sharing business has stabilized and the domestic bike-sharing market has matured.

200 million
total number of Mobike users

Mobike has amassed more than 200 million users and operates over 8 million shared bikes in more than 200 cities in 12 countries, including Singapore, the United Kingdom, Italy, Japan, the United States and Thailand.

"Actually the shared cars can provide an alternative tailored traveling choice for users, and the potential for the future market is huge," Zhang Xu, a Beijing-based internet analyst, said in an earlier interview with China Daily.

A report released last year by PwC's strategy consulting business Strategy& supported Zhang's view, saying the total fleet in the domestic car-sharing market amounted to around 30,000 at the beginning of 2016 and the overall market will continue to grow rapidly at a rate of over 50 percent.

Contact the writers at ouyangshijia@chinadaily.com.cn

AI meets clothing retail in 'magic mirror'

By **HE WEI** in Shanghai
hewei@chinadaily.com.cn

The application of artificial intelligence has gone far beyond driverless cars or futuristic robotics that outsmart men in the strategy board game Go.

In China, AI is playing a vital role in changing shopping experiences by using algorithms to track, analyze and satisfy each consumer's specific needs.

In the latest instance, shoppers in Guangdong province are among the first group to experience smart clothing recommendation powered by an intelligent fitting room in apparel stores such as Jack & Jones and Vero Moda.

Through facial recognition technologies, a "magic mirror" system allows customers to immediately view themselves in the clothes they pick, according to Bestseller A/S, the company behind the brands.

> **If you pick a pair of jeans, the machine will present five alternatives in 10 different colors."**
>
> **Chen Huaiyu**, a store chief

By factoring in gender, age, climate and other predilections, it can also swap those clothes with other recommendations, removing the need to constantly shuttle between clothing racks and changing rooms.

To enjoy the perks of such services, customers must first activate the brands' virtual membership card via WeChat, China's most popular chat-to-payment app, and allow for facial payment.

China's tech giants have wasted little time in placing their chips on AI-backed retail.

During the annual Nov 11 shopping festival, Alibaba Group Holding Ltd supported Shiseido to install an electronic mirror that allowed customers to try lipsticks virtually and complete the purchase with a few taps on the screen.

Designer apparel shop Alain de has introduced such smart mirrors since October and responses have been brisk, according to Chen Huaiyu, a store chief at the brand's outlet in Joy City, a mall in Shanghai.

"If you pick a pair of jeans, the machine will present five alternatives in 10 different colors," she said. "It can also recommend the most suitable tops, bags and other accessories to go along (with) your selection, effectively boosting our sales."

Smart recommendations and virtual fitting rooms are set to be a huge business reshaping the retail sector, said Huang Zhongsheng, co-founder and CEO of Haomaiyi, which provides such technology for Alibaba's Tmall site.