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MACROECONOMY

Resilience to be the hallmark of 2018

Improved industrial profits in April show domestic growth remains robust

By **XIN ZHIMING** and **WANG YANFEI**

China's improving industrial profits in April, bolstered mainly by high profit margins in the steel, chemical and auto industries, show that the world's second-largest economy remains resilient, analysts said.

The nation's industrial firms made 576 billion yuan ($90.14 billion) of profits in April, up by 21.9 percent year-on-year, the fastest pace since October, according to figures released on Sunday by the National Bureau of Statistics.

In March, the growth rate was 3.1 percent year-on-year. The combined growth of profits in the first four months was 15 percent.

The improved profitability in April was mainly bolstered by higher industrial output and sales, rebounding factory inflation, improving profit margins in sectors such as steel, chemical and auto, and a low comparison base in the same month of last year, He Ping, a senior official of the NBS, said in a statement.

In terms of sectoral performance, profits in coal mining and related sectors rose 15.5 percent year-on-year, while those in oil and natural gas more than tripled. The profits of firms processing oil, coal and other fuel products rose by 19.6 percent year-on-year, and chemical manufacturing registered a 23 percent growth in profits.

Profits of nonferrous metal processing enterprises dropped 15.8 percent while those in the computer, telecommunications and other electronic equipment sectors fell 5.3 percent, according to the NBS.

The data suggest China's industrial sector remains on track despite the country's efforts to curb pollution and its recent trade disputes with the United States, and that earlier concerns about significant economic slowdown have proved to be unnecessary, analysts said.

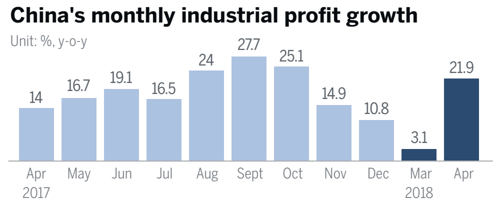
Industrial output rose by 7 percent year-on-year last month, and the producer price index, which measures factory-gate inflation, rose 3.4 percent in the same month, up 0.3 percentage point compared with March. However, the slowing growth of retail sales and fixed asset investment triggered concerns about a slowing economy.

"The notable recovery in industrial enterprise profitability in April indicates that China's domestic growth remains resilient," Eva Yi, senior economist at China International Capital Corp in Hong Kong, said in a research note.

Guo Lei, chief macroeconomics analyst of GF Securities, said: "The April profit growth, the fastest since October, has shown that it is an overreaction to be pessimistic about the economy."

A technician adjusts the arms of robots at a new energy vehicle manufacturing plant in Yiwu, Zhejiang province.
LYU BIN / FOR CHINA DAILY

China's monthly industrial profit growth



* January and February 2018 data not available
Source: National Bureau of Statistics
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Previously, there were expectations of a cooling of the economy in the second quarter, but the April profit data showed that such expectations are not well-founded, he said.

"Resilience will be the most important characteristic of the (Chinese) economy this year."

Zhao Wei, an analyst at Changjiang Securities, said that as production picks up in the second quarter, the economy may become more resilient than in the first quarter. Moreover, a possible rise in oil prices would push up domestic producer price inflation, which, combined with improving economic activity, will continue to raise industrial profitability in the second quarter.

Bloomberg contributed to this story.

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Testing times ahead for Chinese investment in US

By **LI XIANG** in Beijing and **SHI JING** in Shanghai

The road for Chinese companies to invest in the United States could still be bumpy this year even though the two countries sought to ease their economic disputes and agreed not to engage in a trade war, experts said.

Chinese companies could face much lengthier and more complex procedures to have their merger and acquisition deals reviewed and approved by the US government and the increasing uncertainty could prompt them to look away from the US as an investment destination in the short term, according to lawyers who offer legal advice and services to Chinese companies.

"There's been great concern expressed by Chinese companies about whether or not it's worth the effort (investing in the US) … If it's not going to be seen favorably from the beginning then they'll look elsewhere to figure out another place to invest," said Wendy Wysong, a partner of London-based law firm Clifford Chance, who practices in Hong Kong.

Factors such as growing US regulatory scrutiny, uncertainties in China-US trade discussions and the controversy involving Chinese telecommunication equipment maker ZTE Corp have cast a shadow on the outlook of the Chinese investment in the US.

In the first quarter, the value of outbound deals reached by Chinese companies contracted by 15 percent year-on-year to $94 billion, according to law firm Freshfields Bruckhaus Deringer.

The decline in Chinese outbound investment can be largely attributed to less investment in the US, as the US government is tightening its grip on mergers and acquisitions by Chinese companies, especially in the technology sector, said Alan Wang, corporate partner in Freshfields' global transactions group.

Stanley Jia, chief representative of law firm Baker McKenzie's Beijing office, said that M&As and corporate

$29 billion

investments of Chinese firms in the US last year

activity by Chinese companies in general will likely remain at a wait-and-see stage given the uncertainties in the China-US trade discussions and any material impact it could have on Chinese investment in the US.

"If we see broadening and retaliatory measures spreading, that would no doubt add uncertainty to the outlook in the short term, and businesses do not like uncertainty," Jia said. "Therefore, political risk assessment and regulatory planning are increasingly becoming an important part of an overall deal strategy."

Chinese investment in the US already saw a sharp decline last year. Chinese firms completed $29 billion worth of investments in the US last year, down 35 percent from the record $46 billion completed in 2016, according to a joint report by the National Committee on US-China Relations and Rhodium Group.

While tighter domestic regulation on risky overseas investment was one reason behind the decline, short-term unfavorable conditions in the US have clearly hit the deal-making appetite of Chinese companies.

Prominent transactions abandoned by Chinese investors due to irresolvable concerns by the Committee on Foreign Investment in the United States included Ant Financial's acquisition of Moneygram, Zhongwang's takeover of aluminium producer Aleris and Canyon Bridge Capital Partners' acquisition of Lattice Semiconductor.

Wysong at Clifford Chance said that Chinese companies that are looking to invest in the US need to consider what their obligations are. Clifford Chance has been representing ZTE Corp from 2012 till now.

"Putting aside the ZTE case, I think that any company that is dependent on US origin goods needs to consider the implications of the US export control laws and US economic sanctions, and the enforcement tools that the United States will bring to bear if they become concerned about a particular company's conduct," Wysong said.

"They must be aware that there are certain interests that the United States has. For example, with the recent withdrawal from the JCPOA (Joint Comprehensive Plan of Action), there are going to be secondary sanctions on particular industry sectors in Iran and non-US companies need to be aware of those," she pointed out.

Timothy Wilkins, a partner in Freshfeilds' global transactions group, said that CFIUS, the US inter-agency panel that reviews foreign acquisitions, has entered a more aggressive era of enforcement.

"One proof is the average time spent on the investigation process of overseas investment. While in 2015, less than 30 percent of the overseas investment into the US will go through a 40-day investigation, the rate now is over 70 percent. The time for a Chinese company to complete the investigation might last for up to five months," he said.

Nonetheless, the long-term outlook of Chinese outbound investment remains optimistic as it will be driven by factors such as the Belt and Road Initiative and the global economy needs Chinese capital to be deployed, according to law firm Baker McKenzie.

"We believe outbound M&A will restart its growth trend in 2018 with a modest increase compared to 2017," said Jia at Baker McKenzie.

"China will be increasingly driven by service sectors and consumer spending. It is likely that healthcare, pharmaceuticals and consumer-related industries will become increasingly important M&A sectors," he said.

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Qualcomm eyes big potential in Guizhou

By **MA SI** and **YANG JUN** in Guiyang

US chip giant Qualcomm Inc is considering integrating part of its server chip business into Guizhou Huaxintong Semiconductor Technology, its joint venture with China's Guizhou provincial government, said Cristiano Amon, president of Qualcomm.

The remarks came after Huaxintong said it would roll out its first server chip by the end of this year. The move is part of Qualcomm's broader push to tap into China's booming cloud computing market and take on its US rival Intel Corp's dominant position in server chips.

Amon said Qualcomm will not withdraw from developing data center technologies, and the company is evaluating whether it is possible to integrate part of its server chip business into Huaxintong.

Based in Guiyang, Huaxintong was established in 2016. Qualcomm owns a 45 percent stake in the joint venture, with the Guizhou provincial government accounting for the remainder. The total investment in Huaxintong has exceeded 2.85 billion yuan ($446 million).

Wang Kai, CEO of Huaxintong, unveiled StarDragon as the brand for the company's server chips and said its first-generation server chip is built using the advanced chip manufacturing process of 10 nanometers.

The company's team has not only absorbed licensed technologies from Qualcomm, but also worked out the customized encryption algorithm according to China's security standards, Wang added.

Designed on the basis of ARM architecture, its chips feature far lower power consumption than Intel's X86-based processors, which can greatly help reduce energy costs. Power consumption accounts for around 30 to 50 percent of IT costs, according to Li Guanyu, deputy head of the informatization and software service department at the Ministry of Industry and Information Technology.

"As the demand for real-time data processing capabilities will surge in future, the global industry desires high-efficiency, low-energy and low-cost servers," Li said.

In 2017, the market size of the global cloud industry hit around $260 billion and that figure will exceed $410 billion in 2020, highlighting the huge potential of the industry. The China market is expected to grow at a compound annual rate of 30 percent, according to data from market research company Gartner Inc.

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The stand of Qualcomm Inc attracts visitors at the 2018 China International Big Data Industry Expo in Guiyang, Guizhou province. YANG JUN / CHINA DAILY

Sinopec confident of uptick in oil trade

By **ZHENG XIN**
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China Petroleum and Chemical Corp, or Sinopec, the world's largest refiner, expects crude oil trade between China and the US to show further growth as the world's two biggest economies play complementary roles as producers and exporters of oil.

The energy trade between China and the US has been steady and complementary, with massive potential for further cooperation, said Lyu Dapeng, spokesperson of the company.

If the two countries can deepen cooperation in the fields of energy trade, it will be a win-win for both sides, he said.

According to Lyu, Sinopec is the company that imports the most amount of crude oil worldwide, with imports accounting for 60 percent of its total crude processing volumes. It is also the first company in the Asia-Pacific region that has imported crude from the US.

The company's trading arm Unipec purchased 16 million barrels, or about 533,000 barrels per day, of US crude in June, according to Reuters, the largest volume ever to be lifted in a month by the company.

60 percent

proportion of imports in Sinopec's total crude processing volumes

Sinopec has been working on diversifying its imports of crude in recent years to increase vigilance against risks, and the company is only willing to buy more crude oil if the US oil remains attractively priced compared with global competition, said Lyu.

Analysts believe increasing US crude oil exports will help the United States reduce its trade deficit with China, which will in turn help ease the threat of trade disputes between the world's two biggest economies.

Wang Lu, an Asia-Pacific oil and gas analyst at Bloomberg Intelligence, said oil and gas offer solutions to cutting the US trade gap with China as the countries work toward a wider trade agreement and there is a lull in trade disputes.

"Record-high US oil output and surging demand for gas in China provide a foundation to further boost trade in the long run, and we believe China is set to buy more US oil, extending last year's trend and reducing the trade deficit," she said.

"We believe China can more than double its oil trade with the US this year from 2017, while higher volume and rising oil prices in 2018 may triple the value of last year's oil trade, which was worth $4.4 billion, or 1.2 percent of 2017's trade deficit."

Average US crude oil production may rise to a record 10.7 million barrels a day this year, setting the stage for more exports, she added.

Figures from Bloomberg Intelligence show that the US market share as a percentage of China's total oil imports rose to 3.5 percent in the first quarter from 1.8 percent in 2017, while that of the Middle East fell to 42.3 percent from 43.4 percent.