MIZUHO CHINA MONTHLY

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November 2018 Edition

Mizuho Bank, Ltd. China Business Promotion Department
Mizuho Bank (China), Ltd. Advisory Department

- Executive Summary -

China's Economy	Chinese Bond Market: Attracting More Attention

As interest rates have been low worldwide, the bond market in Mainland China (hereinafter referred to as the "Chinese bond market") has been attracting attention in the market as a favorable option for foreign bond investment. The use of the Bond Connect scheme introduced last year has become more active, while detailed plans to incorporate Chinese bonds into major bond indices have been made, which makes it likely for foreign financial institutional investors, including those in Japan, to expand investment in Chinese bonds. This article discusses the investment environment for Chinese bonds as well as the current use of the Bond Connect scheme, while introducing the "Study Group on Japan-China Financial Cooperation" held by the Financial Services Agency as part of involvement in China-related financial business in Japan.

Industrial and Regional Policies	The expansionary trend in China's outbound FDI under the Belt and Road strategy and the outlook for the future Part 2: China's Outbound FDI by Region

Ranked the world's second largest foreign direct investment (FDI) recipient after the United States, China, which has accepted large amounts of foreign investment, has also seen rapid increases in outbound FDI and in 2015 it reached the number-two position in global rankings. Whilst it slipped to third place in 2017, it leaped from sixth to second place in the investment balance league table, with outbound FDI topping inbound FDI for the third year running (all figures are based on Chinese government statistics). This report offers an overview of the expansionary trend in China's outbound FDI against the progress on its Belt and Road strategy and escalating trade friction with the United States, examines the investment trends of Chinese companies in major regions of the world, considers background factors and the orientation of corporate investment strategies and, having elucidated the outcomes and issues involved, explores adjustments to and future directions for Chinese outbound FDI strategies in its transition to sustainable economic growth.

News from the China Advisory Department	Latest Trends of the Chinese Insurance Market: Toward Deregulation

In 2017, the Chinese insurance market surpassed the Japanese market in terms of life insurance premium revenues and became the world's second-largest insurance market after the United States. Since November 2017, following announcements on a series of deregulation measures in the Chinese insurance market, some foreign-funded insurance companies have accelerated the expansion of their business. This article will explore the rapid development of deregulation measures in the Chinese insurance market, the moves of foreign-funded insurance companies, and future issues.

Chinese Bond Market: Attracting More Attention[1]

Ken Muramatsu
Global Strategy Department
Mizuho Securities Co., Ltd.
ken.muramatsu@mizuho-sc.com

The bond market in Mainland China (hereinafter referred to as the "Chinese bond market") has been attracting attention in the market as a favorable option for foreign bond investment. The Bond Connect scheme introduced last year has come into wider active use, along with which Japanese financial institutions have also gained licensing to mediate Bond Connect transactions while making detailed plans to incorporate Chinese bonds into various bond indices.

This article will discuss the investment environment in the Chinese bond market as well as the current use of the Bond Connect scheme, while also introducing the "Study Group on Japan-China Financial Cooperation" organized by the Financial Services Agency as part of involvement in China-related financial business in Japan.

1. Chinese bond market: Attracting attention as a favorable option for foreign bond investment

While Japan has introduced negative interest rates, Japanese institutional investors have recently been investing actively in foreign bonds. Many institutional investors, such as local banks, seem to be increasing their investment in U.S. bonds, as the U.S. economy has been strong and as it is possible to secure an interest rate at a certain level. On the other hand, *Nikkei Shimbun* pointed out that U.S. bond positions were becoming "bad debt" due to the appreciation of U.S. interest rates, with same being said for U.S. dollar procurement cost.[2] In many cases, Japanese institutional investors do not have foreign currencies on the debt end because of their fund procurement structure. It seems that they invested in U.S. bonds without hedging foreign exchange risks, in order to secure interest rates at a certain level, as a result of which there have been losses as a result of the appreciation of interest rates.

While it has become difficult to invest in U.S. bonds, there have been an increasing number of inquiries about the Chinese bond market from Japanese institutional investors. The bond market in China has recently been rapidly growing, and it has now become the world's third-largest bond market after the U.S. and Japan bond markets, respectively. Some have also pointed out that bonds with a high credit level such as government bonds or policy bank bonds have a certain scale and a high liquidity level. While interest rates are falling mainly in developed countries, the 10-year Chinese government bond yield has remained at the 3% level thanks to China's economic growth (Fig. 1). Given the general conditions such as the scale of the market and the liquidity level, as well as the yield level, it can be said that the Chinese bond market cannot be ignored as a favorable option for foreign bond investment.

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[1] For the details of the investment system for the bond market in Mainland China and news related to deregulation, please refer to Mizuho Financial Group's "Actual Business in Chinese Bond Transactions," Kinzai Institute for Financial Affairs Inc. (2017).

[2] "Disposal of non-performing loans started by regional banks," *Nikkei Shimbun* (Aug. 14, 2018)

Figure 1: Interest rates in major countries

	Ten-year government bond yield
China	3.63%
U.S.	2.94%
Australia	2.58%
Germany	0.40%
Japan	0.11%

Source: Researched by the author based on figures as of September 10, 2018

2. Use of the Bond Connect scheme: Growing more active[3]

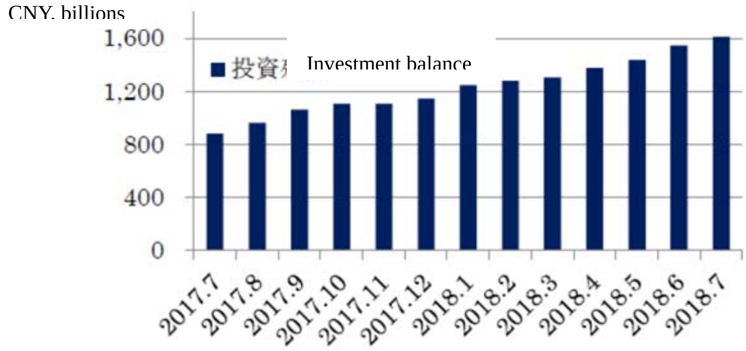
With regard to investment in the Chinese bond market, market participants have also been witnessing the improvement in access to the market. In July 2017, the Bond Connect scheme was introduced. This scheme is a structure that allows investors to invest in the Chinese bond market through Hong Kong. As a result, there have been a number of advantages such as: (1) the scheme provides an option to invest freely without any limitation on the investment value or on fund transfers, (2) it is possible to register with the People's Bank of China (PBOC) through Bond Connect Company Limited, established for this particular purpose, and (3) it is possible to make the use of the infrastructure in Hong Kong for security settlement as well as the CFETS (China Foreign Exchange Trade System) electronic transaction platform in Mainland China. It thus seems that many investors consider the use of the Bond Connect scheme as an extension of their investment in Hong Kong. It should also be mentioned that the Bond Connect scheme has been intermittently improved in terms of its structure even after its initial introduction. In August 2018, for example, the Delivery Versus Payment (a system in which both the delivery of securities and the payment for securities are reciprocally conditioned and in which one is not executed unless the other is also executed at the same time), which had long been asked for, was introduced. It was also announced that foreign investors would be exempted from withholding tax and value-added tax for the duration of three years. As the points of concern for foreign investors have been swept away, Japanese institutional investors are also expected to use the scheme more actively in the times head.

It should be pointed out that investment in the Chinese bond market through the Bond Connect scheme has been steadily increasing since its introduction, and the investment balance as of the end of July 2018 reached CNY 1.6 trillion (approximately JPY 27 trillion) (Fig. 2). The number of foreign institutional investors that participate in the Bond Connect scheme reached 205 as of April 2018, among which there are Japanese financial institutions as well as the Tokyo offices of Chinese banks. Furthermore, the local subsidiaries of MUFG Bank and Mizuho Bank have obtained licensing as a market maker in the Bond Connect scheme so as to act as a local broker in carrying out mediation business operations. As investment by Japanese institutional investors has been increasing, local securities business by Japanese financial

[3] For the Bond Connect scheme, please refer to the author's article, "Liberalization of Bond Investment as Expected Through the 'Bond-Connect' Program," published in *Mizuho China Monthly* in July 2017.

institutions is also expected to grow more active in the times ahead.

Figure 2: Investment balance in the Bond Connect scheme



Source: Bond Connect

3. Incorporation into bond indices

As a stimulus toward the expansion of investment in the Chinese bond market, market participants are expecting that Chinese bonds will be incorporated into various bond indices. Investors involved in passive fund management such as pension fund investment tend to make their decisions based on indices not only in stock investment but also in bond investment. Therefore, if Chinese bonds are incorporated in major bond indices, it is highly possible for pension funds to flow into the Chinese bond market. The Chinese bond market has so far been excluded from bond indices due to foreign exchange and capital restrictions. However, thanks to the recent deregulation exemplified by the introduction of the Bond Connect scheme, etc., Chinese bonds have been gradually incorporated into major bond indices (Fig. 3).

Figure 3: Trends of major bond indices

	Bloomberg-Barclays Global Aggregate Index	JP Morgan Government Bond Emerging Market Index	Citi World Government Bond Index
Associated fund management balance	USD 2 trillion	USD 180–200 billion	USD 2–4 trillion
Expected value of capital inflow	USD 107 billion	USD 20 billion	USD 159 billion
Type of assets	Investment-grade sovereign and corporate bonds denominated both in domestic and foreign currencies	Investment-grade government bonds denominated only in the domestic currency	Sovereign bonds denominated only in the domestic currency
Duration	Minimum 1 year	13 months or above	Minimum 1 year
Potential percentage of China	5.9%	10% (CAP)	5.3%
Time of incorporation	From April 2019	Revised in the third quarter in 2018	Unknown

Source: Researched by the author

The incorporation of Chinese bonds into major bond indices would impact passive fund management. It has already been announced that Bloomberg, Barclays, and JP Morgan will include Chinese bonds into their bond indices from the next financial year. In the times ahead, market participants are looking out for the possible incorporation of Chinese bonds into the Citi World Government Bond Index, an index with the largest associated asset management balance.

4. Organization of the "Study Group on Japan-China Financial Cooperation" by the Financial Services Agency[4]

On October 5, 2018, the "Study Group on Japan-China Financial Cooperation" was held, with the Financial Services Agency as its secretariat. This study group consisted of specialists on Chinese business as well as representatives from financial institutions of various business types (Fig. 4). It seems that this study group can be understood as an event for public-private partnership meetings realized based on the healthy relationship between Japan and China with the purpose of further expanding financial cooperation, while also encouraging Japanese financial institutions to become involved in China-related financial business.

The financial cooperation between Japan and China has entered a new phase, and this is exemplified by the fact that the RQFII allocation of CNY 200 billion was given to Japan at the time of the visit by Chinese Premier Li Keqiang in May this year.[5] With such an action taken by the Chinese side, Japanese financial institutions should be aware of the fact that there is an important opportunity to expand China-related financial business. It means a lot for the Financial Services Agency to take the lead in establishing such a framework as the "Study Group on Japan-China Financial Cooperation" to be established in preparation for the time of the visit by Prime Minister Shinzo Abe to China scheduled at the end of October. Market participants should thus remain hopeful for future developments regarding this topic.

Figure 4: Structure of the "Study Group on Japan-China Financial Cooperation" (list of the study members)

As of October 5, 2018

Chairperson	Yuji Miyamoto	Chairman of the Miyamoto Institute of Asian Research (former Japanese ambassador extraordinary and plenipotentiary to China)
Specialists	Kiyoshi Inagaki	Representative of the Research Institute of Chinese Human Resources and Networks (former senior researcher of Mitsubishi Research Institute, Inc.)
	Kumiko Okazaki	Research director of the Canon Institute for Global Studies
	Naoto Saito	Chief researcher of Daiwa Institute of Research Ltd.
	Eiichi Sekine	Chief representative of Nomura Institute of Capital Markets Research's Beijing Representative Office
	Yosuke Tsuyuguchi	Professor with the Faculty of Economics at Teikyo University
	Hirokazu Yanaoka	Senior executive advisor of MUFG Bank, Ltd.

4 For details, please refer to the website of the Financial Services Agency (https://www.fsa.go.jp/singi/chuukinken/index.html).
5 For the matters agreed to at the time of the visit of Premier Li Keqiang to Japan on financial cooperation between Japan and China, please refer to the author's article "Financial Cooperation Between Japan and China Entering a New Phase" published in *Mizuho China Monthly* in July 2018.
https://www.mizuhobank.com/fin_info/cndb/economics/monthly/pdf/R512-0106-XF-0105.pdf

Private financial institutions		
Banks	Seiji Imai	Senior managing executive officer of Mizuho Bank, Ltd.
	Masahiko Oshima	Senior managing executive officer of Sumitomo Mitsui Banking Corporation
	Eiichi Yoshikawa	Member of the board of directors and deputy president of MUFG Bank, Ltd.
Securities	Keiko Tashiro	Senior executive managing director of Daiwa Securities Co. Ltd.
	Toshiyasu Iiyama	Executive vice president of Nomura Securities
Life insurance	Kazuhiko Arai	Executive officer of Sumitomo Life Insurance Company
	Norimitsu Kawahara	Executive officer of Dai-ichi Life Holdings, Inc.
	Kazuyuki Saigo	Executive officer of Nippon Life Insurance Company
	Kazunori Yamauchi	Managing executive officer of Meiji Yasuda Life Insurance Company
Property insurance	Hideshi Matsui	Director of Aioi Nissay Dowa Insurance Co., Ltd.
	Yuji Kawauchi	Executive officer of Sompo Holdings, Inc.
	Akira Harashima	Managing executive officer of Tokio Marine Holdings, Inc.
	Masahiro Matsumoto	Director and senior executive officer of Mitsui Sumitomo Insurance Company, Limited
Investment trust	Koki Miura	Executive managing director of Nomura Asset Management Co., Ltd.
Observer		Ministry of Finance, Bank of Japan, Japan Bank for International Cooperation (JBIC), Japan Exchange Group, Inc., Regional Banks Association of Japan, Japan Securities Dealers Association, and Investment Trusts Association

Source: Financial Services Agency

The Expansionary Trend in China's Outbound FDI under the Belt and Road Strategy and the Outlook for the Future

Part 2: China's Outbound FDI by Region

Yongyu Shao, Ph.D. and Economist
China Business Promotion Department
Mizuho Bank, Ltd.
yongyu.shao@mizuho-bk.co.jp

1. China's expansive Outbound FDI policy

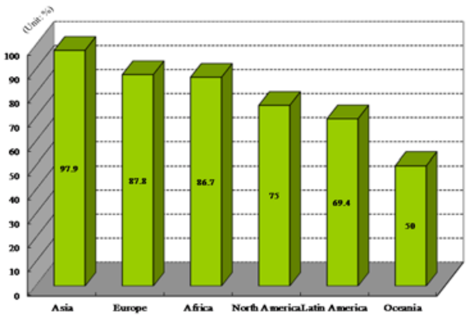
Corporate outbound FDI represents a key management strategy-related business decision and conditions in the destination region or country are of critical importance for companies when making concrete decisions on location choice. This report focuses exclusively on the regional strategies of Chinese corporations as they look to expand their global reach.

The bottom line is that China's outbound FDI is extraordinarily expansive (in terms of both the regions and industries it straddles), in part due to the financial muscle and management strengths of Chinese corporations, but the vastness of China and the diversity of its industries are also factors in this trend. The backing of the Chinese government is also believed to play a significant role in the global expansion strategies of its corporations.

Statistics show that more than 80 percent of the world's countries and regions are recipients of Chinese corporate outbound FDI (190 countries and regions). Chinese corporations have established a massive 37,200 companies overseas. As the regional distribution given in **Figure 1** shows, Asia is the largest recipient of Chinese outbound FDI, followed by Europe, Africa, North America and Latin America. The coverage ratios (the ratio of Chinese firms with operations in the countries of each region) for Latin America and Oceania are less than 70 percent, but Chinese firms have a larger presence in Africa than in North America.

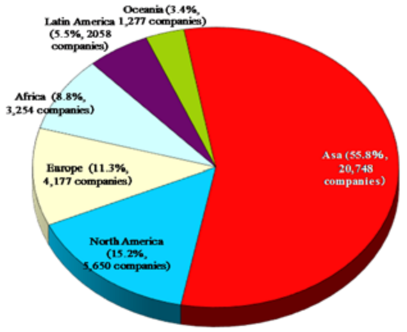
Figure 2 gives the numbers of overseas Chinese companies and their ratios to the total (cumulative totals as of 2016); 20,748 companies, or 55.8 percent of the total, are located in Asia, followed by North America with 5,600 companies (15.2%), Europe with 4,177 companies (11.3%), Africa with 3,254 companies (11.3%), Latin America with 2,058 companies (5.5%), and Oceania with 1,277 companies (3.4%).

Figure 1: Regional coverage ratios for Chinese outbound FDI



Source: Compiled from the **2016 Statistical Bulletin on China's Outward Foreign Direct Investment**, published by the Ministry of Commerce, National Bureau of Statistics, and State Administration of Foreign Exchange

Figure 2: Regional distribution of overseas Chinese companies (cumulative totals as of the end of 2016)

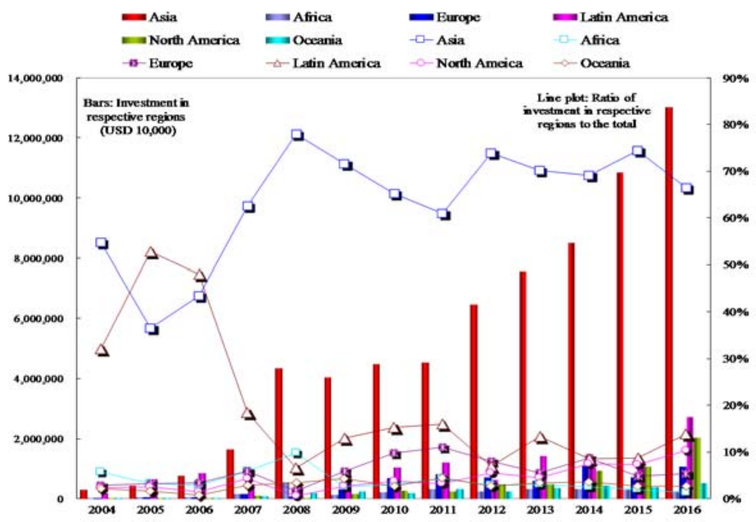


Source: As for Figure 1.

Looked at over time (**Figure 3**) rather than in terms of cumulative totals, it becomes clear that Asia and Latin America account for the lion's share of total China's outbound FDI flows. With the exception of 2005 and 2006, Asia has been the recipient of the bulk of Chinese investment, accounting for almost 80 percent in the immediate aftermath of the global financial crisis of 2008, and whilst the rate dropped to around 60 percent in subsequent years it was back above 70 percent in 2012 and has stayed at this level. By contrast, whilst the ratio of Chinese FDI in Latin America dropped sharply from around 50 percent ahead of the financial crisis it has remained steady in the 10-percent range, reaching 15 percent in 2013, which is considerably higher than the rate of 5 percent recorded for Europe. The fourth, fifth and sixth positions are occupied by North America, Oceania and Africa, respectively, with each region accounting for less than 5 percent of total Chinese outbound FDI.

According to the latest edition of the Statistical Bulletin on China's Outward Foreign Direct Investment (2017), China's outbound FDI dropped by 19.3 percent to USD 158.29 billion in 2017. The range of target industries is wide, with investment in six key sectors topping USD 100 billion. China's outbound FDI broadly covers eighteen sectors of the national economy, with investment in business services, manufacturing, wholesale and retail trade, and financial services exceeding USD 10 billion, or more than 80 percent of the total. Six sectors have a stock balance of more than USD 100 billion: leasing and business services, wholesale and retail trade, information transmission, software and computer services, financial services, mining, and manufacturing, and account for 86.3 percent of total outbound FDI stocks. Chinese companies conducted 431 outward mergers and acquisitions (M&As) in 56 countries and regions in 2017, with the total value of verified transactions reaching USD 119.62 billion, with FDI totaling USD 33.47 million, which equates to 28 percent of total outward M&A transactions. Overseas financial intermediation reached USD 86.15 billion, representing an increase of more than 70 percent over the previous year and accounting for 72 percent of total M&A transactions. China's outward M&A deals M&A broadly cover eighteen sectors.

Figure 3: China's outbound FDI in the six major regions of the world and their ratios to the total



Source: As for Figure 1, the chart was compiled from respective editions of the Statistical Bulletin on China's Outward Foreign Direct Investment, which is published by MOFCOM, NBS, and SAFE. The ratios given are estimates.

Since the latest announcement has only been released to the press and the bulletin itself has yet to be published, the following paragraphs use the statistical bulletins for 2016 and previous years to provide an overview of the regional and industrial distribution of Chinese outbound FDI.

Firstly, **Table 1** gives outbound FDI totals for the top five sectors in the six major regions of the world. Leasing and business services[1] rank top in Asia and Latin America, whilst manufacturing takes first and second position in North America and Europe, respectively, with construction and mining topping the rankings in Africa and Oceania, again respectively, results that reflect the characteristics and natural resource reserves of each region.

Table 1: Top 5 sectors for China's FDI by region

Target region	Sector	Investment totals (USD billions)	Ratio to total (%)
Asia	Leasing and business services	3,855.0	42.4
	Financial services	1,189.5	13.1
	Wholesale and retail trade	1,170.0	12.9
	Mining	717.2	7.9
	Manufacturing	624.0	6.9
	Subtotal	7,555.7	83.2
Africa	Construction	113.0	28.3
	Mining	104.1	26.1

[1] Leasing and business services are referred to as "new services" in the MOFCOM Report on Developments in China's Outward Investment Cooperation 2017, and are included in items "70 Leasing industry" and "71 Business services" of the "L category" of the National Bureau of Statistics' Industrial Classification of National Economic Activities. Specifically, they cover an extremely broad range of industrial sectors, including the leasing of machinery and equipment, cultural items and commodities, services relating to corporate management, legal affairs, consulting, research, advertising, intellectual property, job placement and marketing, in addition to airline company and other commercial services. They are also thought to include a relatively large number of overseas investments targeting tax breaks and China-bound reinvestments, or reverse inflows.

	Manufacturing	50.9	12.8
	Financial services	45.6	11.4
	Scientific research and technical services	19.1	4.8
	Subtotal	332.7	83.4
Europe	Mining	238.6	27.3
	Manufacturing	175.1	20.1
	Financial services	144.4	16.6
	Wholesale and retail trade	78.7	9.0
	Leasing and business services	70.8	8.1
	Total	707.6	81.1
Latin America	Leasing and business services	690.4	33.3
	Information transmission, software and computer services	380.2	18.4
	Wholesale and retail trade	371.4	17.9
	Financial services	242.6	11.7
	Mining	159.3	7.7
	Subtotal	1,843.9	89.0
North America	Manufacturing	171.3	22.7
	Financial services	123.9	16.4
	Mining	95.9	12.7
	Leasing and business services	88.8	11.8
	Real estate	62.3	8.2
	Subtotal	542.2	71.8
Oceania	Mining	208.5	54.5
	Real estate	44.3	11.6
	Financial services	27.4	7.2
	Leasing and business services	20.0	5.2
	wholesale and retail trade	16.3	4.3
	Subtotal	316.5	82.8

Source: Compiled from the 2016 Statistical Bulletin on China's Outward Foreign Direct Investment, published by the MOFCOM, NBA and SAFE. Data are cumulative totals for the end of 2016.

The next section looks at trends in the sectoral distribution of China's outbound FDI in major regions of the world and explores the characteristics of those regions and the locational factors underpinning the decisions to invest.

2. Trends in the flow of Chinese capital to the regions around Asia

Let's first take a look at trends in Hong Kong – the largest recipient of China's FDI, and the Association of Southeast Asian Nations ASEAN).

Hong Kong has long been the leading destination for Chinese outbound FDI. Although Hong Kong is treated as a foreign country in Chinese statistics on overseas investment and trade, it is in fact a special administrative region of China. Progress on the economic integration of Hong Kong with Mainland China in recent years mean that it has become a less significant-cum important destination for Chinese outbound FDI, but it continues to account for an extremely large proportion of the whole (62% in 2015; 58% in 2016), and thus cannot be overlooked. **Table 2** provides a very simple overview of single year and cumulative total FDI flows and stocks as of 2016 and the ratios to the total for respective sectors of the economy.

Table 2: Trends in the sectoral distribution of China's FDI in Hong Kong (as of the end of 2016) (USD 10,000)

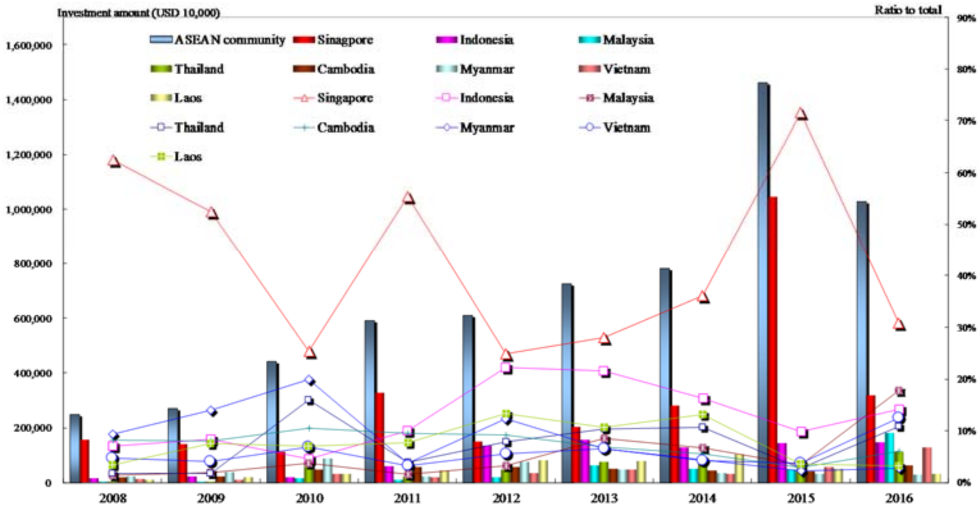
Sector	FDI flow	Share (%)	FDI stock	Ratio (%)
Leasing and business services	4,850,641	42.5	37,249,336	47.7
Financial services	1,580,559	13.8	10,504,616	13.5
Wholesale and retail trade	1,493,055	13.1	10,393,401	13.3
Mining	-302,300	-2.6	4,780,617	6.1
Manufacturing	1,069,730	9.4	3,909,454	5.0
Transport, storage and postal services	145,268	1.3	2,979,539	3.8
Real estate	924,429	8.1	2,745,304	3.5
Information transmission, software and computer services	516,238	4.5	1,687,897	2.2
Residential services, repairs and other services	447,929	3.9	1,316,396	1.7
Production and supply of electricity, heat, gas and water	174,316	1.5	686,586	0.9
Scientific research and technical services	89,342	0.8	479,375	0.6
Construction	93,916	0.8	456,605	0.6
Culture, sports and entertainment	130,595	1.1	380,029	0.5
Agriculture, forestry, animal husbandry and fisheries	78,846	0.7	187,876	0.2
Management of water conservation, environment and public facilities	61,775	0.5	166,855	0.2
Other sectors	68,922	0.6	150,603	0.2
Total	11,423,261	100.0	78,074,489	100.0

Source: Compiled from the 2016 Statistical Bulletin on China's Outward Foreign Direct Investment, published by MOFCOM, NBS and SAFE. Total FDI flow data are for 2016; the same applies hereunder.

Let's now take a look at trends China's FDI in the ASEAN community over time (**Figure 4**).

Of the ASEAN community's ten member states, Singapore, which is home to large numbers of Chinese, has long been the leading destination for Chinese outbound FDI. Its resemblance to Hong Kong is one of the attractions, with its convenience as an international financial center, its sophisticated tertiary industry and abundance of high-quality human resources also being major draws. Following Singapore, Indonesia, Malaysia, Thailand and Vietnam are also major recipients of Chinese capital. Whilst the ratios to total China's outbound FDI are not constant, these countries remain preferred destinations for Chinese investment thanks to their low labor costs, sales markets, and processing bases.

Figure 4: Trends in China's FDI in the ASEAN community (2008-2016)



Source: Compiled from the 2016 Statistical Bulletin on China's Outward Foreign Direct Investment, published by MOFCOM, NBS, and SAFE. The ratios given are estimates.

Table 3 gives the sectoral distribution of China's FDI (in the ASEAN community) as of the end of 2016 as ratios to total investment. Manufacturing accounts for 18 percent of total FDI stocks, increasing to a substantial 35 percent of total FDI flows in 2016 and demonstrating that the ASEAN community's manufacturing sector has become a key destination for Chinese investment. Leasing and business services ranks in second place, followed by wholesale and retail trade (which accounted for the second largest share of total FDI flows in 2016). Clearly, the ASEAN member states have become a major destination for Chinese companies looking to develop their international business and reach these markets for product sales.

Table 3: Trends in the sectoral distribution of China's FDI in the ASEAN community (as of the end of 2016) (USD 10,000)

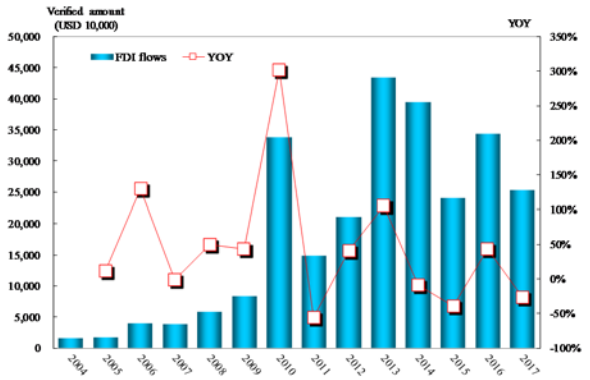
Sector	FDI flows	Share (%)	FDI stock	Share (%)
Manufacturing	354,370	35	1,314,969	18
Leasing and business services	137,106	13	1,122,250	16
Mining	24,119	2	1,016,925	14
Wholesale and retail trade	196,304	19	968,975	14
Production and supply of electricity, heat, gas and water	66,424	7	912,135	13
Financial services	45,400	4	457,319	6
Construction	63,487	6	450,678	6
Agriculture, forestry, animal husbandry and fisheries	37,370	4	313,845	4
Real estate	124,590	12	198,793	3
Transport, storage and postal services	-67,010	-7	182,306	3
Scientific research and technical services	7,364	1	71,912	1
Information transmission, software and computer services	19,125	2	60,017	1
Residential services, repairs and other services	15,515	2	56,598	1
Hotels and catering services	1,759	0	11,977	0
Culture, sport and entertainment	3,149	0	7,917	0
Management of water conservation, environment and public facilities	-1,877	0	6,954	0
Education	581	0	1,660	0

Sector	FDI flows	Share (%)	FDI stock	Share (%)
Other sectors	92	0	179	0
Total	1,027,868	100	7,155,409	100

Source: As for Table 2.

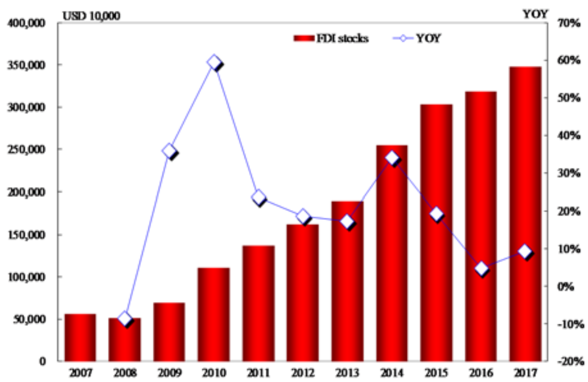
Figure 5 and **Figure 6** plot Chinese corporate investment trends in Japan, which is another key market and technological center in Asia, though the Chinese statistics are widely at variance with those of Japan[2]. Although China's FDI in Japan is not necessarily increasing annually in FDI flows, Chinese companies invested an average of more than USD 300million annually in five-year period spanning 2012 and 2017. China's outbound FDI stocks in Japan is increasing by around 10 percent annually and in 2017 reached USD 3.48 billion. Looking ahead, China's FDI in Japan is expected to continue growing as Japan eases its regulations (on foreign capital) and Sino-Japanese relations improve. Specifically, growth in business collaboration in sectors such as environmental protection, energy conservation, nursing and healthcare, and tourism, is forecast to lead to more investment.

Figure 5: Trends in China's FDI in Japan in FDI flows



Source: Compiled from the 2016 Statistical Bulletin on China's Outward Foreign Direct Investment, published by MOFCOM, NBS and SAFE. The ratios given are estimates.

Figure 6: Trends in China's FDI in Japan in FDI stocks



Source: As for Figure 5.

Table 4 and **Table 5** present data on China's FDI in Australia and Russia, which nations, whilst not belonging to Asia are close to it and as major destinations for mining sector investment are worth looking at as they offer some pointers on the characteristics of Chinese outbound FDI. In FDI stocks, China's FDI in the mining sectors of the two regions accounts for 57.4 percent and 47.6 percent, respectively, of total FDI stock, which is a considerable amount; the corresponding figures for outbound FDI flows in 2016 are 23.4 percent and 41.9 percent, respectively, which is again high. These figures suggest that resource acquisition is the key driver behind Chinese investment in the two nations. The sectors attracting the second largest amount of Chinese

[2] Differences in the way in which the figures are tallied mean that there is substantial variance in the statistics on capital inflows reported by the governments of Japan and China. For example, Japanese statistics show some years in which net inflows of Chinese investment to Japan turn negative, but there is no evidence of this in the Chinese statistics. It should be noted that, Korea, which is another industrialized nation in East Asia, has been omitted from the discussion here because there is no evidence of any marked increase in Chinese investment in that nation and it accounts for a mere fraction of total outbound FDI (0.6% in 2016).

investment differ between the two nations, however, with real estate ranking second in Australia (accounting for 31.8% of total flows in 2016) and agriculture, forestry, animal husbandry and fisheries accounting for some 20-30 percent of Chinese investment in Russia in both FDI flows and stocks.

Table 4: Trends in the sectoral distribution of China's FDI in Australia (as of the end of 2016) (USD 10,000)

Sector	FDI flow	Share (%)	FDI stock	Share (%)
Mining	97,790	23.4	1,915,218	57.4
Real estate	133,217	31.8	410,608	12.3
Financial services	-17,989	-4.3	247,222	7.4
Leasing and business services	32,841	7.8	180,813	5.4
Manufacturing	22,407	5.4	126,205	3.8
wholesale and retail trade	21,517	5.1	115,944	3.5
Transport, storage and postal services	38,920	9.3	79,439	2.4
Agriculture, forestry, animal husbandry and fisheries	22,792	5.4	71,120	2.1
Management of water conservation, environment and public facilities	5,000	1.2	38,534	1.2
Construction	11,218	2.7	34,420	1.0
Production and supply of electricity, heat, gas and water	10,028	2.4	29,461	0.9
Residential services, repairs and other services	10,587	2.5	26,404	0.8
Sanitation and social welfare services	25,187	6.0	25,301	0.8
Scientific research and technical services	2,020	0.5	15,763	0.5
Other sectors	3,153	0.8	18,604	0.5
Total	418,688	100.0	3,335,056	100.0

Source: As for Table 2.

Table 5: Trends in the sectoral distribution of China's FDI in Russia (as of the end of 2016) (USD 10,000)

Sector	FDI flow	Share (%)	FDI stock	Share (%)
Mining	54,238	41.9	618,186	47.6
Agriculture, forestry, animal husbandry and fisheries	43,276	33.5	300,671	23.2
Manufacturing	22,257	17.2	115,659	8.9
Leasing and business services	3,695	2.9	111,635	8.6
Wholesale and retail trade	5,223	4.0	40,591	3.1
Real estate	22	0.0	37,164	2.9
Financial services	3,633	2.8	31,426	2.4
Construction	-293	-0.2	23,819	1.8
Residential services, repairs and other services	-5,737	-4.4	6,462	0.5
Scientific research and technical services	2,066	1.6	5,155	0.4
Transport, storage and postal services	144	0.1	3,202	0.3
Information transmission, software and computer services	45	0.0	1,826	0.1
Other sectors	738	0.6	2,155	0.2
Total	129,307	100.0	1,297,951	100.0

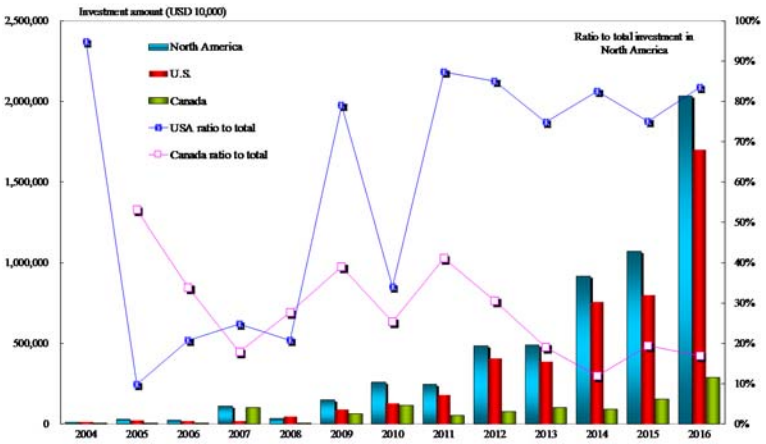
Source: As for Table 2.

Leasing and business services ranks in fourth position in both nations, with manufacturing and wholesale and retail trade both enjoying relatively high positions, suggesting that corporate location strategies are being driven by the resource reserves of Australia and Russia and by industry characteristics. The fact that manufacturing is the third largest destination for Chinese investment in Russia (accounting for 17.2% of total flows in 2016) again argues that there will be further growth in equipment transfer and investment in Russia's manufacturing sector in the years ahead.

3. China's FDI in Europe and North America as a location strategy

China's FDI in North America comprises investment mainly in the United States and Canada, but in recent years it is America that has witnessed the largest growth in share. As **Figure 7** shows, whilst China's FDI stocks in the United States and Canada converged briefly in 2010, Chinese investment in the former has increased rapidly in subsequent years, keeping account for more than 70 percent of total stock until 2016. This argues that the United States is the major destination for Chinese investment in North America and it is thus this data that I will focus on here.

Figure 7: The United States vast share of China's FDI in North America



Source: As for Figure 18. The data for China's FDI in North America also includes that bound for Bermuda, as well as the United States and Canada.

As **Table 6** shows, manufacturing is the leading target for Chinese investment in the United States (accounting for 35.3% of flows and 25.1% of stock), followed by financial services (which accounts for 17.3% of stock), leasing and business services, real estate, and information transmission, software and computer services. Wholesale and retail trade, mining, and scientific research and technical services, account for less than 10 percent of both FDI flows and stocks, but the share of total investment in these sectors is comparatively large.

Table 6: Trends in the sectoral distribution of China's FDI in the United States (as of the end of 2016) (USD 10,000)

Sector	FDI flow	Share (%)	FDI stock	Share (%)
Manufacturing	599,498	35.3	1,518,212	25.1
Financial services	-354,764	-20.9	1,049,164	17.3
Leasing and business services	162,992	9.6	695,116	11.5
Real estate	232,634	13.7	571,873	9.4
Information transmission, software and computer services	493,152	29.0	544,576	9.0
Wholesale and retail trade	95,770	5.6	401,776	6.6
Mining	50,619	3.0	308,190	5.1
Scientific research and technical services	122,154	7.2	302,511	5.0
Culture, sport and entertainment	186,555	11.0	235,386	3.9
Construction	46,768	2.8	126,631	2.1
Residential services, repairs and other services	21,668	1.3	98,657	1.6
Transport, storage and postal services	1,383	0.1	56,172	0.9
Hotels and catering services	22,928	1.4	52,894	0.9
Production and supply of electricity, heat, gas and water	5,130	0.3	50,033	0.8
Agriculture, forestry, animal husbandry and fisheries	4,445	0.2	25,940	0.4
Education	4,195	0.2	10,443	0.2
Sanitation and social welfare services	1,717	0.1	5,372	0.1
Management of water conservation, environment and public facilities	1,237	0.1	5,051	0.1
Total	1,698,081	100.0	6,057,997	100.0

Source: As for Table 2.

China's FDI in Europe (the EU), which has a very similar investment climate to that of the United States, reveals a number of commonalities with China's FDI in America (**Table 7**). Manufacturing is the leading target for China's FDI, accounting for 23 percent of total stock and 36.6 percent of flows in 2016, which figures are almost identical to those for the United States. Again, there is considerable spread in the figures for investment in the various sectors ranking second and below, though conditions for investment in industrial technology, financial services, commerce, real estate, and scientific research and technical services are favorable, and as in the United States these are seen as attractive investment targets for Chinese investment.

Table 7: Trends in the sectoral distribution of China's FDI in the EU (as of the end of 2016) (USD 10,000)

Sector	FDI flow	Share (%)	FDI stock	Share (%)
Manufacturing	365,467	36.6	1,606,859	23.0
Mining	7,661	0.8	1,534,022	22.0
Financial services	62,460	6.2	1,404,813	20.1
Wholesale and retail trade	162,179	16.2	725,859	10.4
Leasing and business services	143,560	14.4	557,824	8.0
Real estate	11,591	1.2	315,562	4.5
Scientific research and technical services	68,386	6.8	208,073	3.0
Production and supply of electricity, heat, gas and water	42,407	4.2	176,276	2.5
Transport, storage and postal services	12,601	1.3	116,518	1.7

Agriculture, forestry, animal husbandry and fisheries	17,245	1.7	80,699	1.2
Hotels and catering services	11,499	1.2	78,516	1.1
Culture, sport and education	45,059	4.5	55,268	0.9
Information transmission, software and computer services	25,176	2.5	49,481	0.7
Residential services, repairs and other services	4,847	0.5	30,717	0.4
Construction	3,853	0.4	17,155	0.2
Education	6,812	0.7	17,001	0.2
Other sectors	8,623	0.8	9,026	0.1
Total	999,426	100	6,983,669	100.0

Source: As for Table 2.

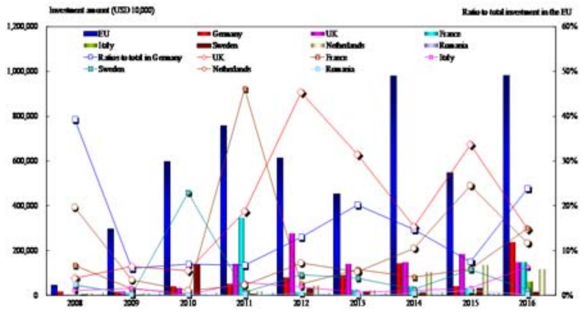
Figure 8 shows trends in China's FDI in the EU over time and reveals the United Kingdom, Germany and France to be the top destinations, though the Netherlands and Italy have been receiving increasing amounts of Chinese investment since 2014, which is fast reaching the levels seen in the top three European destinations.

These are all leading industrialized nations that have active diplomatic and economic relations with China, and there is significant economic interaction and industrial cooperation at the regional level between the EU and China, which argues that China's FDI in the EU will remain steady over the coming years.

Again, Latin America is the second largest destination for China's outbound FDI following Asia (**Figure 9**) . In 2016, which was a record year for Chinese outbound FDI, investment in Latin America also reached a record high, more than doubling the level for the previous year. By sector, leasing and business services is the leading target for Chinese investment accounting for 33.3 percent of the total, followed by information transmission, software and computer services (18.4%), wholesale and retail trade (17.9%), financial services (11.7%), and mining (7.7%; all figures being the ratios to total stock). Many Latin American nations have large populations, are rich in natural resources, and are recording economic growth rates on a par with China's, suggesting that the region is seen as an attractive market by Chinese corporations.

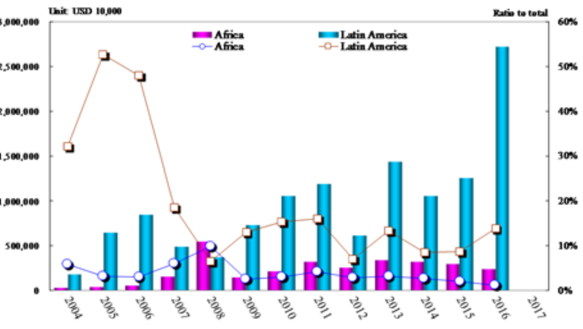
By contrast, Chinese investment in Africa, with its many developing nations, its poorly developed investment climate, immature markets and other constraints, lags far behind that in Latin America. The Chinese government has made assistance for Africa a priority and is strengthening its cooperation with the region and it is possible that there will be growth in China's FDI in Africa in the years ahead (in 2017, China's FDI in Africa increased 1.7-fold of the previous year, from USD 2.4 billion to USD 4.1 billion, and it accounts for around 2.6-2.7 percent of total flows, which puts it on a par with Australia).

Figure 8: Trends in China's FDI in major EU countries (2008-2016)



Source: Compiled from the 2016 Statistical Bulletin on China's Outward Foreign Direct Investment, published by MOFCOM, NBS and SAFE. The ratios given are estimates.

Figure 9: Trends in China's FDI in Africa and Latin America



Source: As for Figure 8.

4. The achievements and challenges of China's outbound FDI in regional development terms

As the above paragraphs have demonstrated, China's outbound FDI has spread to all corners of the globe and into a diverse range of industries, and this has yielded significant achievements. The size of such achievements depends, in large part, on corporations making rational decisions (choices), but the assistance, guidance and strategic incentives offered by China's government have also played a key role in the nation's success in investing overseas. As China's outbound FDI has passed through its multiple stages it is difficult to assert that it has stayed true to the trajectory outlined by policy, but Chinese corporations have invested aggressively in the industrialized nations of the world that hold the key industrial technologies in their bid to catch up with the developed world (**Table 8**) and have tended largely to favor outbound M&A transactions over greenfield investment as a strategic means of achieving their investment goals more quickly, and there can be no doubt that this has contributed to their rapid multinationalization and to the enhancement of their (global) capabilities. Outbound FDI in the form of M&A transactions is an effective strategy for securing resources and acquiring technology, but may not necessarily be consistent with industrial overcapacity in China, with foreign technology transfer or with stable, long-term overseas operations. Specifically, if Chinese corporations continue to expand their investment in the various countries and regions of the world, aligning their choice of location to correspond to the characteristics of a broad cross section of industries (**Table 9**), the recipients may be more amenable to greenfield investment than M&A deals, and the necessity and potential offered by the former are likely to become ever more significant given the growth in Chinese outbound FDI in Belt and Road regions in the coming years.

Table 8: Advanced technology clusters in certain advanced countries and regions towards which the Chinese government is guiding investment

Country / region	Major advanced technology category
U.S.	Software, micro-electro communication technologies, advanced processing and manufacturing technologies, materials, sensor and imaging technologies, ICT, biotechnology, energy technologies, etc.
Japan	ICT, electronics, life science, healthcare, natural resource and energy, environmental technology, material processing, machine manufacturing, etc.
Germany	Chemical, precision equipment, ICT, biotechnology, energy, construction, transportation, machinery, food and drugs, agriculture, raw materials exploration and remanufacture, environmental protection technology
France	Land and air transport technology, computers and electronics, synthetic chemistry, medical research, food processing technology, environmental and quality of life improvement technologies
U.K.	Biopharmaceuticals, computers and machine manufacturing technologies
Singapore	Biopharmaceuticals, electronics and precision engineering, oil processing and refining technologies
Korea	Transport equipment, chemicals, digital technology, ICT, new materials for electronics and energy, new functional bio materials, environmental engineering technologies, new energy, advanced nuclear power generation technologies
EU	Hygiene and life science technologies, ICT, advanced manufacturing technologies, energy and environmental conservation technologies, raw materials manufacture and processing technologies, bioelectronic technologies, opto-electronic technology

Source: Excerpted and modified from Guosheng Zhang, "A Policy Study on Chinese Outward Direct Investment Strategy", 経済科学出版社 Economy Science Press, 2015. The original is based on the Catalogue of Industries for Foreign Direct Investment, which is issued by the National Development and Reform Commission and MOFCOM.

Table 9: Factors affecting location choice for outbound FDI in different industries

Sector	Factors affecting location choice	Location options (countries, regions)	Major advantages and characteristics
Resource development	・ Natural resource reserves ・ Policy on natural resource development in the target country ・ Economic standards in the target country ・ Trade relations between China and the target country and the physical distance between the two	Southeast Asia, Africa, Latin America	・Abundant natural resources ・Relatively few obstructions to investment
		Russia, Canada, Australia	・Abundant natural resources ・High investment costs ・ Numerous obstacles to investment
Manufacturing	High-end manufacturing: ・Skill levels ・Market size ・Investment climate	Europe, North America	・Large markets ・Markets are organized and skill levels are high ・ Major markets for high-end products
	Low-end manufacturing: ・Market potential ・Cost factors	Developing nations in Asia, Africa and Latin America, etc.	・ Regions with potential for development ・Extensive markets ・ Low-cost labor and raw materials ・Investment incentives
High-tech industry	・R&D capabilities ・Human resources ・ Environmental conditions	The industrialized nations of North America, Japan, and	・The regions in which science and technology emerged ・ Numerous highly skilled

Sector	Factors affecting location choice	Location options (countries, regions)	Major advantages and characteristics
	relating to the application and development of technology	Europe, etc.	professionals ・Advanced industry bases
		Korea, Taiwan, Singapore, Russia, the Middle East	・Low-cost highly skilled human resources ・A good investment climate ・Latecomer's advantage
Services	・Market size ・ Investment climate (corporate management standards, product differentiation, corporate governance, etc.)	Both developed and developing nations	・Large markets ・A good investment climate

Source: As for Table 8.

More recently, the intensification and extension of trade friction between China and the United States that is rooted in Chinese techno-nationalism could come to be seen as a major constraint on FDI in America, and in this respect, there can be no denying that regional development strategies are becoming more critical than ever before. China's FDI in the United States dropped by a third in 2017, whilst investments in Europe and Africa rose to above 70 percent. China has already achieved major success in its technological advances and industrial development, but it will need to promote further investment growth in both the developed and the developing nations of the world. With its rising domestic labor costs and its superior technological and managerial capabilities, China could improve its global image by injecting large amounts of capital into the industrialization of developing countries, into manufacturing sector development and into the creation of new jobs.

FDI in countries along the Belt and Road is increasing thanks to the increased efforts of the Chinese government and the response of numerous countries and regions around the world, but this growth in investment has yet to stabilize. **Table 10** extracts the content of the Vision and Actions for the Belt and Road that was announced by the Chinese government in late March 2015 relating to outbound FDI projects. These cover a broad range of infrastructure projects, as well as improvements in international trade, global investment, international cooperation in emerging industries, and the global supply chain, and are expected to offer numerous opportunities for investment not only to Chinese corporations but also to companies in the countries connected to the Belt and Road.

Table 10: International investment projects outline in the Vision and Actions on Jointly Building the Belt and Road

Sector	Projects offering the potential for major investment
Enhancing connectivity in transport infrastructure	➢ Focus on the key passageways, junctions and projects, and give priority to linking up unconnected road sections and removing transport bottlenecks
Enhancing connectivity in energy infrastructure	➢ Work in concert to ensure the security of oil and natural gas pipelines and other transport routes, build cross-border power supply networks and power transmission routes, and cooperate proactively in regional power grid upgrades and improvements

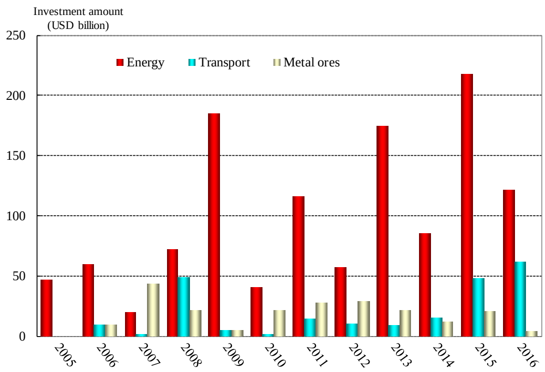
Enhancing connectivity in telecom infrastructure	➢ Jointly advance the construction of cross-border optical cables and other communications trunk line networks, improve international communications connectivity and create an Information Silk Road
Promoting cooperation in international trade	➢ Expand trading areas, improve the trade structure, explore new growth areas of trade and promote trade balance. Make innovations in the forms of trade and develop cross-border e-commerce and other modern business models.
Promoting cooperation in international investment	➢ Expand mutual investment areas, deepen cooperation in agriculture, forestry, animal husbandry and fisheries, agricultural machinery manufacturing and farm produce processing, and actively promote cooperation in marine product farming, deep-sea fishing, aquatic product processing, seawater desalination, marine biopharmaceuticals, ocean engineering technology, environmental protection industries, marine tourism and other fields.
Promoting cooperation in strategic emerging industries	➢ Push forward with cooperation in emerging industries, promote cooperation with other countries along the Belt and Road in new-generation information technology, biotechnology, new energy technology, new materials and other emerging industries, in accordance with the principles of mutual complementarity and mutual benefit.
Improving the distribution of industrial chains	➢ Improve the division of labor and distribution of industrial chains by encouraging the entire industrial chain and related industries to develop in concert; establish R&D, production and marketing systems; and improve industrial supporting capacity and the overall competitiveness of regional industries. Increase the openness of the service industry to Belt and Road countries, promote the development of regional service industries, and seek new models for investment cooperation.
Promoting financial integration	➢ Deepen financial cooperation and promote the creation of a currency stability system, investment and financing system, and credit information system in Asia. Expand the scope and scale of bilateral currency swaps and settlements with other countries along the Belt and Road, establish and develop a bond market in Asia, promote joint efforts in the establishment of the Asian Infrastructure Investment Bank and BRICS New Development Bank.

Source: Excerpted from the "Vision and Actions on Jointly Building Silk Road Economic Belt and 21st-Century Maritime Silk Road", issued by the NDRC, Ministry of Foreign Affairs, and MOFCOM (on March 30, 2015).

Major projects such as the establishment of the Silk Road Fund, the operations of the Asian Infrastructure Investment Bank (AIIB), and the convening of a Forum on China-Africa Cooperation (FOCAC, in Beijing on September 3) are expected to stimulate investment in the Belt and Road regions. According to a research paper published by the Chinese Academy of Social Studies Institute of Political and Economic Studies[3], whilst Chinese investment in Belt and Road regions is increasing, too much emphasis is being given to countries in the ASEAN community. As might be expected, the top three sectors for large-scale investment in this region are energy, transport and metal ore mining (**Figure 10**), and whilst investment in large-scale projects by major regional contractors is also on the increase, the sectors attracting the most investment are again energy and transport, which is social infrastructure development, and real estate. For China, the task will be to find ways of getting private-sector investment on track and to generate synergies between private and public investment so as to realize the vision presented in the government document presented in **Table 10**.

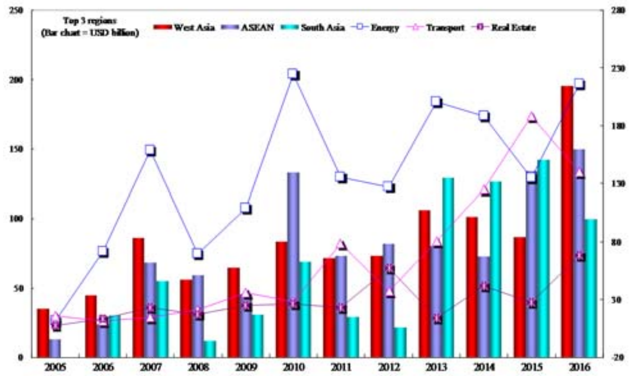
[3] Wang Yongzhong and Li Xichen, "Characteristics of China's Direct Investment in Countries along the Belt and Road", International Taxation in China, No. 5, 2017

Figure 10: Top 3 sectors for large-scale Chinese investment in Belt and Road countries (2005-2016)



Source: Compiled from Working Paper No. 201703, issued by the International Investment Office of the Institute of World Economics and Politics, Chinese Academy of Social Studies, May 27, 2017.

Figure 11: Chinese investment in large-scale projects by major regional contractors in Belt and Road countries



Source: As for Figure 10.

The demand for market expansion and industrial development that will come with improvements in the climate for investment and higher incomes for local residents will create the demand for the advance into those countries and regions of the industries and corporations that best suited to them and the adoption of appropriate technologies, and since fulfilling that demand will become more critical than ever. The Chinese government will need to adjust its investment policy accordingly, and to promote investment in the Belt and Road region that combines the forces of corporations in other developed and semi-developed countries. In this sense, tie-ups between Chinese and Japanese companies aimed at increasing international private-sector investment and expanded local operations will become increasingly important and is likely to be welcomed by local societies and people alike.

[Continued in Part 3: China's Outbound FDI by Industry]

Latest Trends of the Chinese Insurance Market: Toward Deregulation

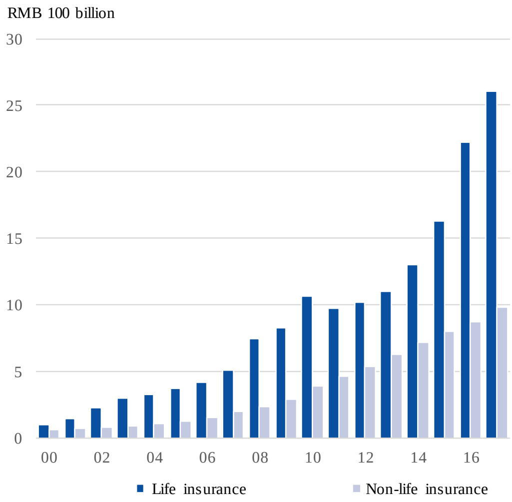
Business Opportunities and Issues as Related to Foreign-funded Insurance Companies

Min Wang PhD; manager
China Business Promotion Department
Mizuho Bank, Ltd.
min.wang@mizuho-bk.co.jp

1. Growing Chinese insurance market and the status of the market entry of foreign-funded companies

The Chinese economy has grown at a faster pace than the world's average. In 2010, China became the world's second-largest economy only after the United States. Backed by various factors such as the sophistication of consumption along with higher national income and strong demand for elderly services, the Chinese commercial insurance market has continued to grow at high rates in recent years. According to the China Banking and Insurance Regulatory Commission (CBIRC), the revenue from Chinese life insurance premiums and that from Chinese non-life insurance premiums reached RMB 2.6746 trillion and RMB 1.541 trillion in 2017, respectively (Fig. 1). In 2017, the Chinese insurance market surpassed the Japanese market in terms of life insurance premium revenues and became the world's second-largest insurance market after the United States.

Figure 1: China's insurance premium revenues



Source: Compiled by Mizuho Bank based on information from CBIRC

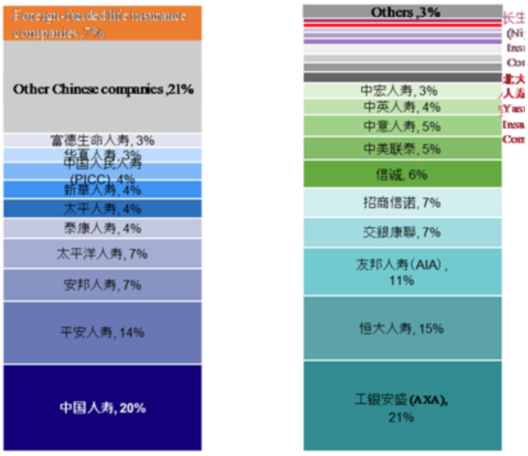
On the other hand, a look at policyholders of life insurance that accounts for about 60% of total insurance premium revenues in China reveals the following fact: While China has achieved rapid growth, insurance is not widespread in China due to the large population and for other reasons. In 2017, the per capita life insurance premium in China was just USD 225, about one-eleventh of Japan, which is lower than the world average of USD 353.[1] Given this, there will be sufficient room for growth in the Chinese insurance market.

According to statistics by the CBIRC, as of the end of 2017, there were a total of 85 life insurance companies in China, with 57 Chinese companies and 28 foreign-funded companies. The revenue share of foreign-funded life insurance companies was about 7% of total (Fig. 2). In addition, of the 85 non-life insurance companies operating in China, 22 are foreign-funded companies, and their revenue share was just about 2% of the total (Fig. 3). Amid

[1] "Chinese life insurance market becomes world's second largest," by Yuki Katayama, researcher at the Insurance Research Department of NLI Research Institute

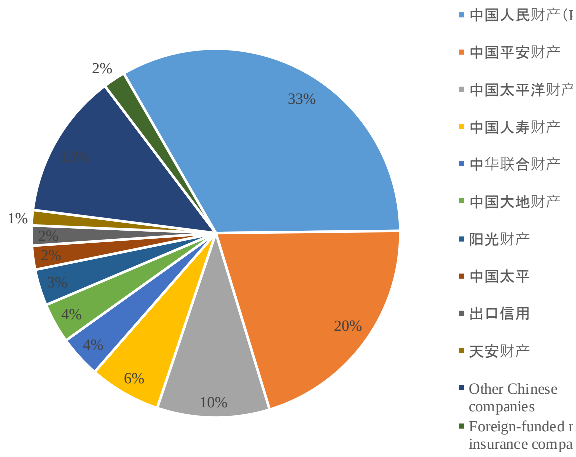
such a situation, the Chinese government in 2017 announced measures to ease foreign ownership limits in financial institutions.

Figure 2: Market share breakdown in the Chinese life insurance market in 2017 (based on insurance premium revenues)



Sumitomo Life Insurance Company holds a 10% stake in the People's Insurance Company of China (PICC), the eighth-largest insurance company in terms of insurance premium revenues.
Source: Compiled by Mizuho Bank based on materials from CBIRC

Figure 3: Market share breakdown in the Chinese non-life insurance market in 2017 (based on insurance premium revenues)



Source: Compiled by Mizuho Bank based on materials from CBIRC

2. Rapid development of deregulation measures and the moves of foreign-funded insurance companies

At the 5th National Financial Work Conference held in May 2017, China decided to establish a committee under the State Council to oversee financial stability and development. Chinese financial authorities announced that this would promote the opening-up of the financial sector in a proactive and speedy manner, specify the order of implementation, and facilitate two-way opening-up in the financial sector.

In a report to the 19th National Congress of the Communist Party of China held in October 2017, President Xi Jinping said: “We will adopt policies to promote high-standard liberalization and facilitation trade and investment… we will significantly ease market access, further open the service sector, and protect the legitimate rights and interests of foreign investors.” Then, at a U.S.-China summit meeting held the next month during U.S. President Donald Trump’s visit to China, China unveiled measures to ease restrictions on foreign ownership in financial institutions. More specifically, China said it would raise foreign ownership limits in life insurance companies from 50% to 51% in 2020 and eliminate the limits in 2021.

Furthermore, at a section meeting of the Boao Forum for Asia on April 11, 2018, People’s Bank of China (China’s central bank, PBOC) Governor Yi Gang mentioned details of deregulation for foreign investors and future schedules. In accordance with President Xi’s statement on the previous day, Yi unveiled a plan to steadily implement the opening-up and outlined six key measures, which would be implemented by June 30, 2018, to open up the financial market to foreign investors.

Under such circumstances, China announced in June 2018 that it would allow foreign investors meeting certain conditions to operate as insurance agents and loss adjusters in China. In addition, it also said that it would abolish limitations on the scope of business for foreign-funded insurance brokerage companies so as to give them the same treatment as that of Chinese local insurance brokers (see Fig. 4).

Figure 4: Overview of deregulation measures for China's life insurance market until October 2018

Target	Conventional restrictions	Details of deregulation	Governing laws and regulations
Insurance company	Foreign ownership limits in life insurance companies: 50%	The limits will be raised to 51% in 2020. * The limits will be completely abolished in 2021.	8/2017: Guofa [2017] No.39 10/2018: The *Detailed Rules for the Implementation of the Regulation of the People's Republic of China on the Administration of Foreign-Funded Insurance Companies* is being revised by the CBIRC.
	A representative office within the territory of China must be maintained for not less than two years prior to the establishment of a foreign-funded insurance company.	The regulation will be abolished (The law upon which the basis is formed is being revised at present.)	4/2018: PBOC Gov. Yi Gang's statement
Insurance agent	Foreign investors are not allowed.	The following can operate such business: (1) A professional insurance agent established within the territory of China by <u>a professional overseas insurance agent having not less than three years of continuous operating experience</u> or (2) a professional insurance agent established within the territory of China by <u>a professional foreign-funded insurance company having not less than three years of continuous operating experience in China</u>.	6/2018: CBIRC [2018] No. 30
Loss adjuster	Foreign investors are not allowed.	The following can operate such business: (1) A loss adjuster established within the territory of China by an <u>overseas loss adjuster having not less than three years of continuous operating experience</u> or (2) a loss adjuster established within the territory of China by <u>a foreign-funded insurance company having not less than three years of continuous operating experience in China</u>.	6/2018: CBIRC [2018] No. 29
Insurance broker	Foreign investors are not allowed.	The limits on the scope of business for foreign-funded insurance brokers will be abolished, and such brokers will be treated in the same manner as Chinese-funded insurance brokers.	4/2018: CBIRC [2018] No. 19

* In the "Special Administrative Measures on Foreign Investment Access to Pilot Free Trade Zones (Negative List, 2018 version)" issued in June 2018 by the Ministry of Commerce of the People's Republic of China (MOFCOM) and the NDRC, the foreign ownership limits in life insurance companies were raised from 50% to 51%. However, the governing regulation, *Detailed Rules for the Implementation of the Regulation of the People's Republic of China on the Administration of Foreign-Funded Insurance Companies*, is being revised as of October 2018.
Source: Compiled by Mizuho Bank based on materials from CBIRC and NDRC and on reports by Xinhua News Agency

In order to achieve the easing of foreign ownership limits, the Ministry of Commerce of the People's Republic of China (MOFCOM) and the National Development and Reform Commission (NDRC) in June 2018 promulgated the "Special Administrative Measures on Foreign Investment Access to Pilot Free Trade Zones (Negative List, 2018 version)" and raised foreign ownership limits in life insurance companies from 50% to 51%. However, as of October 22, 2018, when this article was being written, revision work is still underway for the *Detailed Rules for the Implementation of the Regulation of the People's Republic of China on the Administration of Foreign-Funded Insurance Companies*, which specifies the restrictions on foreign-funded insurance companies.[2] Thus, foreign ownership limits likely will be effectively eased after the completion of the revision scheduled in 2020.

Following the series of deregulation measures mentioned above, foreign-funded insurance companies are now eyeing business opportunities in China's insurance market, which will be more open to foreign businesses, and some have rapidly accelerated the expansion of their businesses, including multiple strategies using over-the-counter sales at banks, which are a main sales channel, and insurance agents, etc. (Fig. 5).

Meanwhile, since June 2018, due to the escalating U.S.-China trade conflict, etc., there have been no applications filed by foreign-funded insurance companies, according to available information. This indicates that foreign-funded insurance companies are taking a wait-and-see attitude.

Figure 5: Moves of foreign-funded insurance companies in the Chinese market after April 2018

27-Apr	The CBIRC permitted Britain's Willis Group Holdings Limited to broaden the scope of business for its insurance brokerage company. This company became the first foreign-funded insurance broker permitted to broaden its scope of business.
2-May	The CBIRC permitted ICBC-AXA to begin preparation for setting up an asset management company (AMC). It will be the first foreign-funded AMC affiliated with an insurance company.
4-May	General Insurance (Bermuda) submitted to the CBIRC an application for permission to prepare to establish a foreign-funded life insurance company.
9-May	Germany's Allianz Group Holdings plans to establish a 100%-owned Allianz (China) Insurance Group Company in Shanghai and has begun preparations for such.
23-May	Mitsui Sumitomo Insurance Company reached an agreement with Colonial Mutual Life Assurance Society Limited (CMLA,) a life insurance subsidiary of leading Australian bank Commonwealth Bank of Australia, to purchase from CMLA the 37.5% shares in BoCommLife Insurance Company Limited for RMB 4.325 billion. Mitsui Sumitomo Insurance submitted an application for permission to Chinese authorities.
1-Jun	Italian insurance company Generali announced that its Shenzhen-based insurance agent established jointly by China National Petroleum Corporation (CNPC) had officially begun operations. The joint insurance agent will open its first branch in Shanghai, with other branches being opened in Beijing, Guangdong, Jiangsu, and Zhejiang within the year. The new company will sell the life and non-life insurance products of Generali China Life Insurance, a joint venture between Generali and CNPC, for the wealthy class in China.

Source: Created by Mizuho Bank based on materials from the CBIRC and on reports by Xinhua News Agency

3. Future issues facing foreign insurance companies

With the series of deregulation measures in 2018, China has pushed for the opening-up of its insurance market. On the other hand, there are high expectations of the Chinese government and consumers for foreign-funded insurance companies in terms of complementing the social security system, responding to diversified consumers' needs, strengthening compliance systems to deal with the cybersecurity law, etc., and stabilizing the financial market.

However, foreign ownership deregulation alone is not enough for foreign-funded insurance companies to fully exert their abilities and meet a wide range of consumer needs. As an expert says: "In the non-life insurance sector, foreign ownership limits were abolished in 2003, but foreign-funded insurance companies can operate business

[2] http://bxjg.circ.gov.cn/web/site0/tab5168/info4108928.htm

only in places where their offices are located, in principle. For that and other reasons, their market share is only 2%,"[3] the share of foreign-funded life insurance companies stood at about 7%, as of this writing. Therefore, in order for foreign-funded insurance companies to further expand and improve their services, restrictions on their business operation areas and other restrictions should be eased, along with the recent foreign ownership deregulation.

So far, foreign-funded insurance companies have formed partnerships with Chinese banks and companies as well as domestic insurance companies in order to overcome the lack of offices due to restrictions on the opening of new branches. If 100% foreign ownership is permitted, cooperation with partner companies having local business foundations will be a great success factor in the insurance market, where it is important to establish sales channels.

In addition, advanced FinTech technologies are widely used in China. Ping An Insurance Company, a private insurance company that is second largest both in China's life and non-life insurance markets, announced in February 2018 that it would establish a fund of USD 1 billion to invest in startup companies in the fields of finance and medicine/health so as to introduce the latest technologies into the Chinese insurance market. The company has been actively investing in the fields of FinTech and artificial intelligence (AI). Furthermore, it streamlined loss adjustment operations by using AI, introduced electronic signature/voice/facial recognition technologies, and is automating call centers. With these measures, it had automated 90% of all operations related to contracts and loss adjustment of small-amount insurance products by January 2018. It can be said that China has entered a new era where foreign-funded insurance companies can overcome the lack of domestic offices thanks to the spread of mobile payment services and innovations in the fields of FinTech and AI, and can cultivate new markets for low-profit products even in inland China.

The Chinese insurance market has high growth potential and is seen as a promising business field in China. For foreign insurance companies, in order to understand the Chinese market and consumers, it will be one of the key success factors toward cultivating new markets and will certainly establish profitability by finding helpful partners and utilizing advanced FinTech technologies.

[3] "China heading for the opening up of the life insurance market," written by Keiichi Fujita, senior researcher at the Office of International Research and Cooperation of the Ministry of Finance, Policy Research Institute