CHINA BIWEEKLY

RMB Internationalization Business Promotion Office
Global Business Division

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■ BIWEEKLY DIGEST

[Economy]

- **Manufacturing PMI for May rises to 51.9, up 0.5 points month-on-month**
- **2017 Number of people employed up 370,000 to 776.4 million nationwide**

[Trade/ Investment]

- **Reduction of import tariffs on automobiles and auto parts from July 1**
- **Inward foreign direct investment for April rises 1.9% year-on-year (YoY) and outward foreign direct investment increases 72.9% YoY**
- **Announcement of plans for deepening the reforms and opening-up of three pilot free trade zones (Guangdong, Tianjin and Fujian)**
- **Average annual wages in urban China for 2017 rise 10% YoY**
- **Tariff cuts on 1,449 daily commodities from July 1**
- **Executive meeting of the State Council Standing Committee: Decision to further promote inviting foreign investment**

[Finance/Exchange]

- **MSCI Emerging Markets Index: Chinese A-shares included from June 1**

[Economy]

◆Manufacturing PMI for May rises to 51.9, up 0.5 points month-on-month

According to the May 31 announcement by the National Bureau of Statistics (NBS) and the China Federation of Logistics & Purchasing (CFLP), the manufacturing PMI for May increased 0.5 point month-on-month (MoM) to 51.9, surpassing 50 points, which is the turning point in judging the economy, for the 22nd consecutive month.

The main indices rose MoM across the board. Production gained 1.0 point to 54.1, new orders added 0.9 point to 53.8, new export orders rose 0.5 point to 51.2, and imports increased 0.7 point to 50.9. By industry, high-tech and equipment manufacturing exceeded the average, gaining 1.0 point to 54.8 and 1.3 points to 53.0 MoM respectively.

<Trends in Major Manufacturing PMI Indicators>

		Manufacturing PMI	Production	New Orders	New Export Orders	Raw Materials Price Index	Imports	Employment	Expected Production and Business Activities
17	Jan.	51.3	53.1	52.8	50.3	64.5	50.7	49.2	58.5
	Feb.	51.6	53.7	53.0	50.8	64.2	51.2	49.7	60.0
	Mar.	51.8	54.2	53.3	51.0	59.3	50.5	50.0	58.3
	Apr.	51.2	53.8	52.3	50.6	51.8	50.2	49.2	56.6
	May	51.2	53.4	52.3	50.7	49.5	50.0	49.4	56.8
	Jun.	51.7	54.4	53.1	52.0	50.4	51.2	49.0	58.7
	Jul.	51.4	53.5	52.8	50.9	57.9	51.1	49.2	59.1
	Aug.	51.7	54.1	53.1	50.4	65.3	51.4	49.1	59.5
	Sep.	52.4	54.7	54.8	51.3	68.4	51.1	49.0	59.4
	Oct.	51.6	53.4	52.9	50.1	63.4	50.3	49.0	57.0
	Nov.	51.8	54.3	53.6	50.8	59.8	51.0	48.8	57.9
	Dec.	51.6	54.0	53.4	51.9	62.2	51.2	48.5	58.7
18	Jan.	51.3	53.5	52.6	49.5	59.7	50.4	48.3	56.8
	Feb.	50.3	50.7	51.0	49.0	53.4	49.8	48.1	58.2
	Mar.	51.5	53.1	53.3	51.3	53.4	51.3	49.1	58.7
	Apr.	51.4	53.1	52.9	50.7	53.0	50.2	49.0	58.4
	May	51.9	54.1	53.8	51.2	56.7	50.9	49.1	58.7

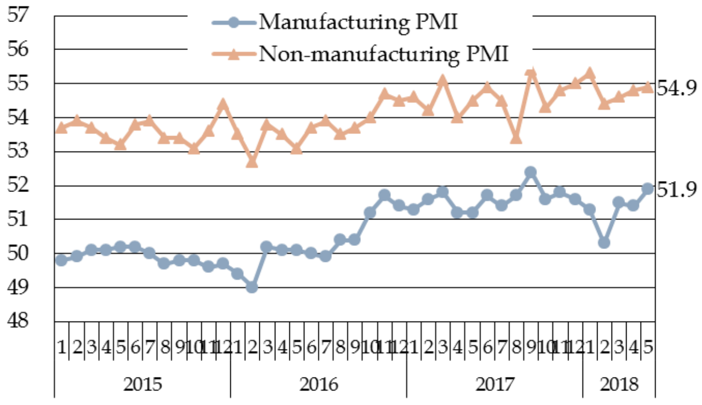
Source: Created based on data released by NBS and CFLP
Note: Historical data for Expected Production and Business Activities has been revised, as the calculation method was changed in Jan. 2017.

With regard to May's results marking the highest manufacturing PMI since October 2017, NBS commented that the manufacturing sector is accelerating its economic expansion. NBS also indicated that the real economy needs further enhanced financial support as the percentage of companies commenting that they had a sense of financial urgency increased for the third consecutive month to 40.1%.

The non-manufacturing PMI for May increased 0.1 points MoM to 54.9, rising for the third consecutive month. Among non-manufacturing sectors, services rose 0.2 points MoM to 54.0, while construction fell 0.5 points MoM to 60.1.

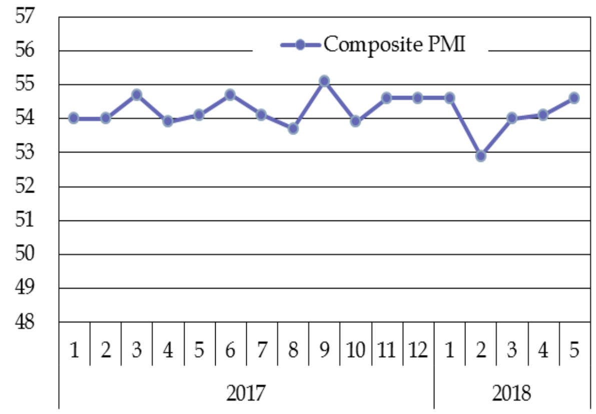
The composite PMI for May increased 0.5 points MoM to 54.6. The composite PMI is an index for monitoring the current status and the cyclic change of the overall economy, derived from a weighted average of the manufacturing PMI and the non-manufacturing PMI.

<PMI Trends>



Source: Created based on data released by NBS and CFLP

<Composite PMI Trends>



Source: Created based on data released by NBS and CFLP

◆2017 Number of people employed up 370,000 to 776.4 million nationwide

On May 21, the Ministry of Human Resources and Social Security announced the official statistics on human resources and social security in 2017. As of the end of 2017, the total number of people employed increased 370,000 year-on-year (YoY) to 776.4 million. By industry, Chinese employees working in primary industries make up 27.0% of the whole, continuing to decline from 27.7% in 2016, and the percentage in secondary industries also went down again YoY, this time reaching only 28.1% from 28.8% the year before. Meanwhile, the ratio of employees working in tertiary industries continued to expand, growing to 44.9% from 43.5% in 2016.

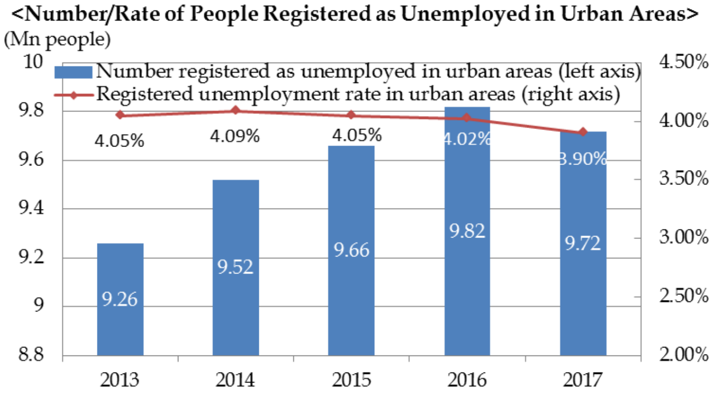
The number of people employed in urban areas went up by 10.34 million YoY to 424.62 million. As of the end of 2017, the number of people registered as unemployed in urban areas was 9.72 million, while the rate* improved 0.12 points YoY to 3.9%.

*The rate of people registered as unemployed (in urban areas) is the ratio of registered unemployed people to the total number of workers and registered unemployed people, excluding people registered as rural (or agricultural) households. A different unemployment rate measurement which investigates urban unemployment rates and includes people registered as rural households, etc., was 4.98% for December 2017.

2017 revenue for social insurance funds (basic old-age, basic medical, unemployment, work injury, and maternity insurance) increased 25.4% YoY to RMB 6.72 trillion, while expenditure grew 21.9% YoY to RMB 5.71 trillion, maintaining a surplus of funds. As of the end of 2017, the number of people enrolled and the fund balance of each type of insurance were: 915.48 million people and RMB 5.02 trillion for basic old-age insurance, 1.18 billion people and RMB 1.32 trillion for basic medical insurance, 187.84 million people and RMB 555.2 billion for unemployment insurance, 227.24 million people and RMB 160.7 billion for work injury insurance, and 193 million people and RMB 56.4 billion for maternity insurance.

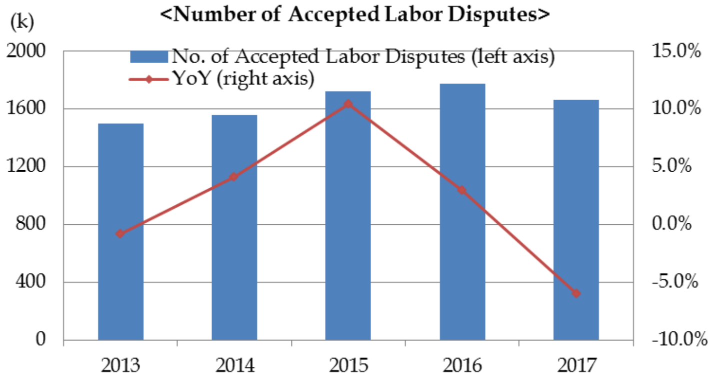
As for labor disputes, arbitration organizations across the country in 2017 accepted 1.67 million cases (down 6.0% YoY), and 1.99 million employees (down 12.4% YoY) were involved in disputes.

<Number/Rate of People Registered as Unemployed in Urban Areas>



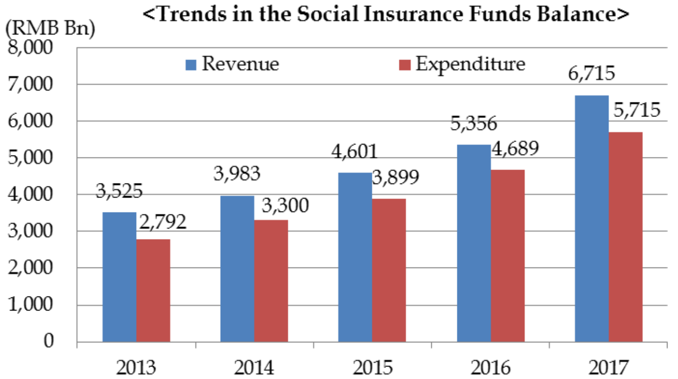
Source: Created based on data from the 2017 Human Resources and Social Security Development Statistical Report

<Number of Accepted Labor Disputes>



Source: Created based on data from the 2017 Human Resources and Social Security Development Statistical Report

<Trends in the Social Insurance Funds Balance>



Source: Created based on data from the 2017 Human Resources and Social Security Development Statistical Report

[Trade/ Investment]

◆Reduction of import tariffs on automobiles and auto parts from July 1

On May 22, the Customs Tariff Commission of the State Council announced the reduction of import tariffs on automobiles and auto parts and that the lower tariffs on automobiles would take effect on July 1.

For automobiles, the current tariffs on 135 types of passenger cars and four types of trucks, categorized based on their HS codes, will be slashed from 25% to 15% and from 20% to 15% respectively, lowering the average tariff from 21.5% to 13.8%.

For auto parts, the various tariffs of 25%, 20%, 15%, 10% and 8% on 79 types of parts will all be cut to a flat rate of 6%, lowering the average tariff rate from 10.2% to 6%.

Note: For details such as the items subject to the tariff cut and the HS codes, please refer to the Ministry of Finance website via the link below.

http://gss.mof.gov.cn/zhengwuxinxi/zhengcefabu/201805/t20180522_2903728.html

This tariff cut followed President Xi Jinping's announcement of a policy to cut import tariff rates in stages at the China-U.S. Summit last November and at the Boao Forum for Asia, with the aim of promoting the expansion of imports in China and the development of the national automotive industry.

China's import tariff on small passenger cars (9 seats or less) will go down by 15% but still remain higher than in advanced countries such as EU countries (9.8%) or South Korea (8%). However, this tariff will be substantially lower than the rates in emerging countries such as India (60%) and Brazil (35%).

<Trends in the Number of Imported Automobiles in China and the Growth Rate>

Source: Created based on data released by the China Automobile Dealers Association

While China's annual domestic new auto sales for 2017 were 28.88 million units, the number of cars imported was 1.22 million units, accounting for 4.2% of the sales.

◆Inward foreign direct investment for April rises 1.9% year-on-year (YoY) and outward foreign direct investment increases 72.9% YoY

The Ministry of Commerce announced the statistical data for inward and outward foreign direct investment (FDI) on May 17 and 18.

<Inward FDI>

Regarding April inward FDI (excluding the financial sector), newly-established foreign corporations increased 39.5% YoY to 4,662 companies, and the amount of inward FDI (on an executed basis) rose 1.9% YoY (March: 2.6% YoY increase) to USD 9.09 billion.

In January-April, the number of newly-established foreign corporations skyrocketed 95.4% YoY to 19,002, while inward FDI climbed 2.0% to USD 43.6 billion on an executed basis.

By country or region, the amount of direct investment from Japan increased 11.9%* YoY (January-March: up 13.8%* YoY) to USD 1.41 billion, marking a double-digit increase for the second consecutive month. Investment from ASEAN also rose significantly by 63.8% YoY to USD 2.8 billion. The U.S. slightly increased investment by 1.0% YoY* to USD 1.01 billion. On the other hand, investment from the EU dropped 16.0% YoY to USD 3.00 billion. Meanwhile, the amount of investment from Belt and Road countries jumped 63.3% YoY to USD 2.91 billion. *Calculated in-house based on the inward FDI data released by the Ministry of Commerce

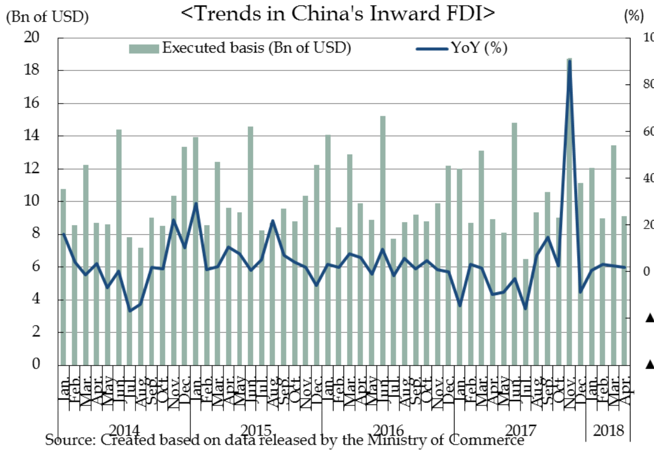
By industry, investment in the manufacturing sector leaped 21.5% YoY (January-March: up 15.5% YoY) to USD 12.92 billion, but investment in the service sector fell 5.8% YoY (January-March: down 3.2% YoY) to USD 29.91 billion.

<Outward FDI>

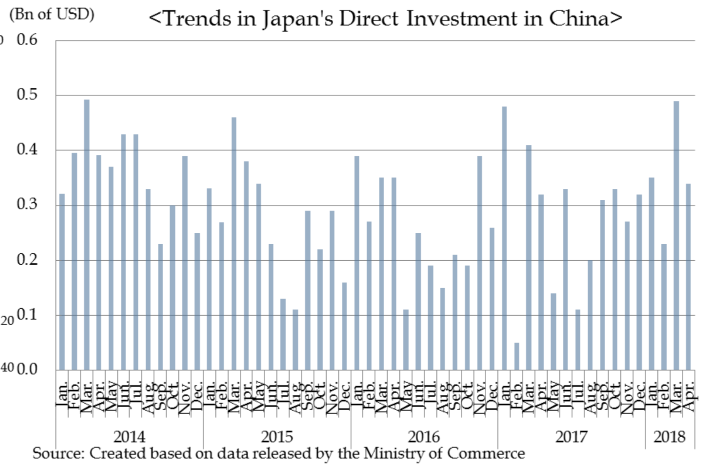
April outward FDI (excluding the financial sector) rocketed 72.9% YoY* (March: up 22.1% YoY*) to USD 10.08 billion,* marking a YoY increase for six consecutive months. The cumulative amount of investment for January-April increased 34.9% YoY (January-March: up 24.1% YoY) to USD 35.58 billion. *Calculated in-house based on the outward FDI data released by the Ministry of Commerce

By country or region, the amount of investment in Belt and Road countries rose 17.3% YoY (January-March: up 22.4% YoY) to USD 4.67 billion. The main countries for investment were Singapore, Laos, Malaysia, Vietnam, Indonesia, Pakistan, Thailand and Myanmar.

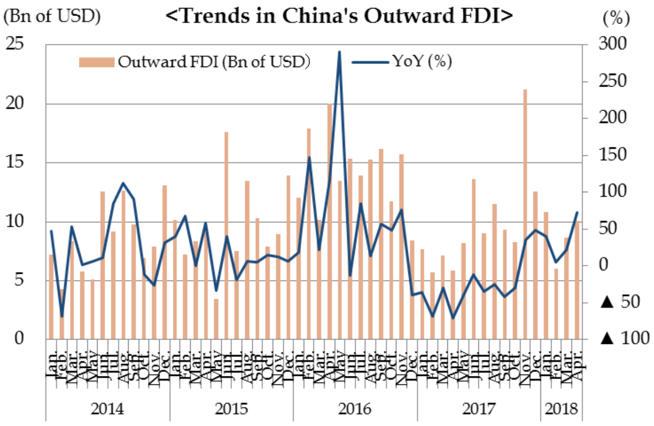
The breakdown of outward FDI by industry for January-April shows that the major industries for outward investment are leasing/trade and services, accounting for 28.5%, mining with 16.2%, manufacturing with 14.9% and communications/software/IT services accounting for 6.5%.



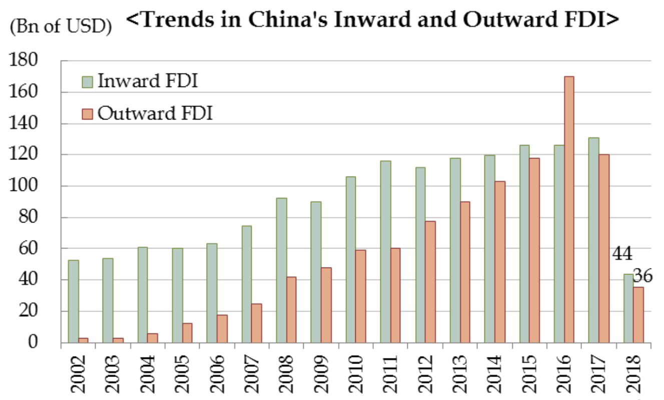
Source: Created based on data released by the Ministry of Commerce



Source: Created based on data released by the Ministry of Commerce



Source: Created based on data released by the Ministry of Commerce
Note: YoY comparison calculated in-house based on Ministry of Commerce data on outward FDI



Source: Created based on data released by the Ministry of Commerce
Note: The above data does not include the financial sector. According to the 2015 Statistical Bulletin of China's Outward Foreign Direct Investment (which includes the financial sector) jointly released by the Ministry of Commerce, National Bureau of Statistics, and SAFE, outward FDI surpassed inward FDI in 2015.

◆Announcement of plans for deepening the reforms and opening-up of three pilot free trade zones (Guangdong, Tianjin and Fujian)

On May 24, the State Council announced plans* for further promoting the reform and opening-up of three pilot free trade zones (FTZs), Guangdong, Tianjin and Fujian, which were launched in April 2015. With the three Pilot FTZs having achieved expected goals in stages, the State Council formulated a new set of plans incorporating regional characteristics and aiming to promote further system reforms and opening up of markets.

* Circulars of the State Council on Printing and Issuing the Plan for Further Deepening the Reform and Opening-up of the China (Guangdong/Tianjin/Fujian) Pilot Free Trade Zones (Guangdong: Gazette issue No. 13 [2018], Tianjin: Gazette issue No. 14 [2018], Fujian: Gazette issue No. 15 [2018])

In a press conference held on the same day, persons in charge from the two provinces and one municipality outlined the plans for deepening reforms and opening-up.

In order to establish the Guangdong-Hong Kong-Macau Greater Bay Area cooperative model area, the Guangdong pilot FTZ aims to promote initiatives such as further expanding the service sector to Hong Kong and Macau and developing business for persons certified in fields such as finance, accounting, and law.

As a part of the construction of the Jingjinji (Beijing-Tianjin-Hebei) coordinated development model area, the Tianjin pilot FTZ aims to construct a borderless investment and loan platform across the Jingjinji region and the Hebei Xiong'an New Area (a state-level development area spreading across the three counties of Hebei and its surrounding regions).

In addition, the Fujian pilot FTZ aims to further increase its superiority as a base for economic cooperation with Taiwan and cooperation with the Belt and Road countries and regions along the 21st century maritime Silk Road.

<Overview of Plans for Deepening Reforms and Opening-up of 3 Pilot FTZs>

	Guangdong Pilot FTZ	Tianjin Pilot FTZ	Fujian Pilot FTZ
Goals	By 2020, put the appropriate systems in place for a hub for international marine transportation, trade and finance in order to establish the "Guangdong-Hong Kong-Macao Greater Bay Area" cooperative model region as an advanced region for a new open-economy system and a high-level base open to foreign markets.	By 2020, build a new open-economy system and enhance international competitiveness in order to establish the Jingjinji (Beijing-Tianjin-Hebei) coordinated development model region.	By 2020, establish a comprehensive reform pilot area that combines opening-up and innovation, a model region for Mainland-Taiwan economic cooperation, and a base for cooperation with Belt and Road countries and regions along the 21st Century Maritime Silk Road.
Key measures	・Provide residents of Guangdong, Hong Kong and Macau with financial IC cards and mobile financial services to make cross-border trips more convenient for them. ・Provide support for establishing a comprehensive pilot area for cross-border EC in Zhuhai. ・Consider establishing a trading center for futures including CO_2 emissions trading. For details, visit the State Council website below. **http://www.gov.cn/zhengce/content/2018-05/24/content_5293009.htm**	・Encourage finance lease companies, etc. which meet conditions to provide support for construction relating to key industrial projects for the Jingjinji coordinated development by issuing bonds and asset securitization products through the interbank market. For details, visit the State Council website below. **http://www.gov.cn/zhengce/content/2018-05/24/content_5293012.htm**	・Allow financial institutions located in the pilot FTZ that meet conditions to open Taiwan dollar accounts for foreign companies and individuals. ・Provide support for constructing China-ASEAN industrial parks in the pilot FTZ. For details, visit the State Council website below. **http://www.gov.cn/zhengce/content/2018-05/24/content_5293013.htm**

Source: Created based on the Circulars of the State Council on Printing and Issuing the Plan for Further Deepening the Reform and Opening-up of the China (Guangdong/Tianjin/Fujian) Pilot Free Trade Zones released by the State Council

◆Average annual wages in urban China for 2017 rise 10% YoY

On May 15, the National Bureau of Statistics (NBS) announced that the average annual wage for non-private sector* employees in China's urban areas for 2017 increased 10.0% YoY to RMB 74,318, with the growth rate expanding by 1.1 percentage points YoY.

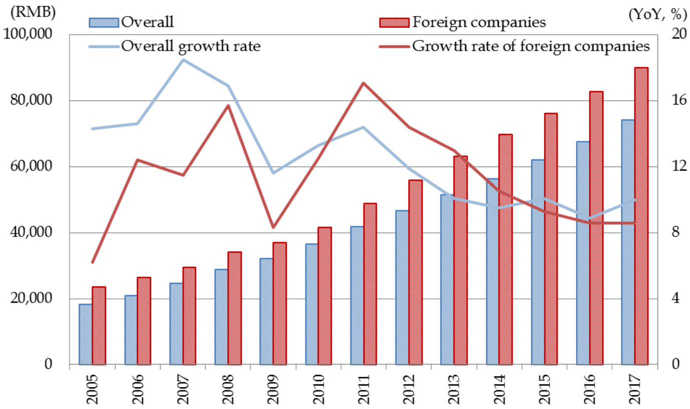
*This refers to non-private companies in urban areas (including state-owned companies, collective-owned companies, limited liability/shareholding corporations, foreign companies, and Hong Kong, Macau and Taiwan-affiliated companies.). 180 million employees from 1.675 million companies were surveyed.

When comparing the types of companies, foreign companies rose 8.6% YoY to RMB 90,064, staying at the same growth level as in the previous year but maintaining their top-ranked position in terms of wage level. Meanwhile, state-owned companies jumped 11.8% to RMB 81,114, marking the largest growth rate.

By region, East China increased 10.1% YoY to RMB 84,809 to take the lead, while Central China saw the largest growth rate, rising 10.7% YoY to RMB 61,193. Meanwhile, Northeast China rose 8.5% YoY to RMB 59,514, the lowest-ranking region for both the amount of wages and the growth rate.

As for the type of industry, wages for internet-related businesses were up 8.7% YoY to RMB 133,150, finishing at No. 1 for the second consecutive year.

<Trends in Average Annual Wages in the Non-Private Sector>



Source: Created based on data released by NBS

NBS explained that the main factors behind the higher growth rate for average wages in 2017 were the improved profitability of industrial companies as a whole, wage hikes driven by the improved profitability of industries related to coal and steel in particular through the elimination of surplus production capacity, and the substantially higher wages provided by emerging industries as exemplified by internet-related services.

<Average Wages in the Non-Private Sector by Region>

Region	Wage (RMB)	YoY
East	84,809	10.1%
West	68,323	9.4%
Central	61,193	10.7%
Northeast	59,514	8.5%

Source: Created based on data released by NBS

<Average Wages in the Non-Private Sector by Registered Company Category>

Registered Category	Wage (RMB)	YoY
Foreign companies	90,064	8.6%
Limited liability/shareholding corporations	85,028	8.6%
State-owned companies	81,114	11.8%
Hong Kong, Macau and Taiwan companies	73,016	8.2%

Source: Created based on data released by NBS

<Average Wages in the Non-Private Sector / Top 10>

Industry	Wage (RMB)	YoY
Information technology-related	133,150	8.7%
Financial	122,851	4.6%
Scientific research and technical services	107,815	11.6%
Production and supply of electricity, energy, gas and water	90,348	7.7%
Health and social services	89,648	12.0%
Culture, sports and entertainment	87,803	9.9%
Education	83,412	12.0%
Leasing-related services	81,393	6.0%
Public management and social security-related	80,372	13.3%
Transport, storage and postal	80,225	8.9%

Source: Created based on data released by NBS

◆Tariff cuts on 1,449 daily commodities from July 1

On May 31, the Customs Tariff Commission of the State Council released an official statement on reducing import duties on consumer goods for daily use (Tariff Committee Notice [2018] No.4), announcing that it will cut import tariffs on items in 1,449 categories by Harmonized System Code (HS Code) effective July 1. The average tariff rate of the items in question will fall to 6.9% from the current average of 15.7%, with an average cut of 55.9%.

<Overview of items subject to the July 1 tariff cut>

◇Clothing, shoes, hats, miscellaneous interior goods, cultural and sports products: 894 categories in total	(Average tariff rate: Down to 7.1% from current 15.9%)
･Clothing such as coats, jackets, shirts, pants, sportswear, and baby clothes. ･Shoes such as athletic shoes, plastic shoes, or leather shoes. ･Hats, bags and briefcases, textiles for the home, kitchenware, watches, and sports and fitness supplies.	
◇Home electronics: 98 categories in total	(Average tariff rate: Down to 8.0% from current 20.5%)
･Washing machines, refrigerators, air conditioners, televisions, electric fans, dishwashers, electric toothbrushes, juicers, food processors, electric shavers, vacuum cleaners, water heaters, water dispensers, air purifiers, water purifiers, rice cookers, bread machines, ovens, coffee makers, cameras, etc.	
◇Foods and beverages: 387 categories in total	(Average tariff rate: Down to 6.9% from current 15.2%)
･Farmed and fished aquatic products such as fish, shrimp, crabs, shellfish, etc. ･Processed food such as sausages, cookies, sweets or cakes, mineral water, fruit juice, ice cream, canned foods, seasonings, etc.	
◇ Daily chemical products, medical and health products: 70 categories in total	(Average tariff rate: Down to 2.9% from current 8.4%)
･Detergents, skin/hair/oral care products, perfumes, certain medicines and health products, etc.	

Source: Created based on the announcement from the Ministry of Finance

Note: For details on the items included, their HS codes, etc., please refer to the following link to the Ministry of Finance website (in Chinese): http://gss.mof.gov.cn/zhengwuxinxi/zhengcefabu/201805/t20180531_2914284.html

The Ministry of Finance stated that the customs tariff reduction is being implemented as one of the measures to further open up the Chinese market following President Xi Jinping's announcement of the customs tariff reduction at the Boao Forum for Asia in April 2018.

The Chinese government has cut tariffs on imports of selected daily commodities four times since June 2015 to encourage domestic consumption instead of purchasing from overseas and in response to more sophisticated consumer needs. This fifth cut greatly surpasses the previous four rounds both in the number of items included and in the scope of the reduction.

◆Executive meeting of the State Council Standing Committee: Decision to further promote inviting foreign investment

At the executive meeting of the State Council Standing Committee held on May 30, Premier Li Keqiang made it a policy to further commit to inviting foreign investment in order to open up the Chinese economy even more and to maintain China's status as one of the world's major destinations for foreign direct investment.

Existing regulations on market entry specifically mentioned were thorough implementation of previously established initiatives to ease regulations in manufacturing sectors including the automotive, shipbuilding, and aircraft industries, improving the qualified foreign institutional investors (QFII) system, encouraging foreign investors to participate in RMB-denominated futures trading in crude oil and iron ore, and supporting foreign-invested financial institutions in underwriting local government bonds.

For the sake of facilitating investment, the negative lists for foreign investors (both the nationwide and pilot free trade zone versions) will be revised, with the release of the new lists slated to take place by June 30. In addition, provincial governments will be assigned authority over the setting up or business alterations of foreign companies with a total investment of up to USD 1 billion in projects on the negative lists, and visa issuance procedures for foreign employees hired by enterprises registered in China will be expedited (aiming for visa issuance within two business days).

In order to protect the legitimate interests of foreign enterprises, infringements, counterfeiting, abuse, trade secret infringement, and trademark squatting were brought up as targets that should be severely dealt with. The ceiling for compensation for intellectual property infringement shall also be raised significantly.

Additional policies include enhancement of the role of development zones at national levels in attracting more foreign investment, reducing business costs through broader political support for fund-raising, land use, and social insurance systems, and encouraging investment in the central and western regions and in such sectors as modern agriculture, ecological preservation, advanced manufacturing, and modern services.

Furthermore, concerning the revised version of the negative list for foreign investors, the Ministry of Commerce announced at the press conference on May 31 that sectors including energy, natural resources, infrastructure, transportation, commercial distribution, and expert services would be included in the easing of restrictions in addition to the financial and automotive sectors.

[Finance/ Exchange]

◆MSCI Emerging Markets Index: Chinese A-shares included from June 1

Starting on June 1, Morgan Stanley Capital International (MSCI) began including Chinese A-shares*1 in its emerging markets index.*2

226 large-cap A-shares selected from stocks traded between mainland China and Hong Kong (through Stock Connect) will be included in two phases in June and September, incorporating five percent of the target companies' current market cap .

After the September inclusion, Chinese A-shares will have a weight of 0.8% in the MSCI Emerging Market Index, which is likely to result in more than USD 20 billion of capital inflows into China's A-shares market. Chinese equities as a whole, including B-shares*1 traded in mainland China and already used for the index, H-shares*1 listed on the Hong Kong stock exchange, red-chips,*1 and shares in Chinese companies that are listed on overseas exchanges, will account for 31.3% of the index.

MSCI commented that the impact would be considerably huge when China's stock and bond markets, which are the world's second- and third-largest respectively, join the global capital market. MSCI also implied that there is a possibility of increasing the weight of Chinese A-shares in the future depending on how much progress is made in further opening up China's capital market

*1 A-shares: RMB-denominated shares in Chinese companies incorporated and listed in mainland China, for investors within mainland China as well as for qualified foreign institutional investors.

B-shares: Foreign currency-denominated shares in Chinese companies incorporated and listed in mainland China, for investors within mainland China and foreign investors.

H-shares: Shares in Chinese companies incorporated in mainland China and listed in Hong Kong.

Red-chips: Shares in Chinese companies incorporated outside mainland China and listed in Hong Kong.

*2 MSCI Emerging Markets Index: A widely-trusted investment index for emerging markets provided by MSCI. The index includes 845 stocks across 24 countries and regions as of the end of April 2018.