CHINA BIWEEKLY

RMB Internationalization Business Promotion Office
Global Business Division

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■ BIWEEKLY DIGEST

[Economy]

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- **China publishes white paper on bilateral trade dispute with the US, analyzing the trade imbalance from multiple viewpoints**
- **Import tariff cuts on 1,585 items including industrial products from November 1**
- **September Trade Statistics Show 14.5% YoY Increase in Exports, UP 4.7 Points Month-on-Month**

[Finance/Exchange]

- **Foreign Reserve Balance in September Decreases for Second Consecutive Month**

[Economy]

◆ Manufacturing PMI for September falls 0.5 point month-on-month to 50.8

On September 30, the National Bureau of Statistics (NBS) and the China Federation of Logistics & Purchasing (CFLP) announced that the September manufacturing PMI was 50.8, down 0.5 point month-on-month (MoM). Although the index surpassed 50 points, which is the turning point in judging the economy, for the 26th consecutive month, it fell to the lowest level since September 2016, aside from the drop to 50.3 in February 2018 which was triggered by Chinese New Year. It showed the shrinkage in foreign demand due to the intensified trade dispute between China and the US, and decreasing production activities associated with it (Fig. 1).

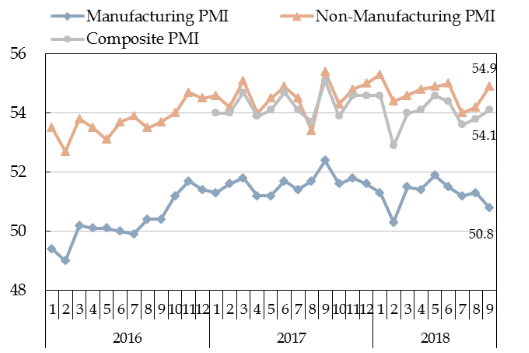
Looking at the manufacturing PMI by component, new export orders fell 1.4 points MoM to 48.0, dipping below 50 for the fourth consecutive month and marking its lowest level since February 2016. NBS commented that the third round of punitive tariffs on Chinese imports (valued at USD 200 billion) by the U.S. which went into effect on September 24 has had a certain impact on industries that are highly dependent on foreign countries such as machinery and textiles. Imports fell 0.6 point MoM to 48.5, and new orders dropped 0.2 point MoM to 52.0, indicating a decrease in domestic demand as well (Fig. 2).

Expected Production and Business Activities, which indicates future business confidence, fell 0.6 point MoM to 56.4. Although it exceeds 50, it is the lowest since the beginning of this year, and uncertainty about the future is increasing.

Meanwhile, non-manufacturing PMI for September grew 0.7 point MoM to 54.9, rising for the second consecutive month. By sector, the construction industry was strong, rising 4.4 points MoM to 63.4 (Fig. 1).

The composite PMI, a weighted average of the manufacturing and non-manufacturing PMIs that reflects the overall business sentiment in China, rose 0.3 point MoM to 54.1 (Fig. 1).

[Fig. 1] PMI Trends



Source: Created based on data released by the NBS and the CFLP
Note: Composite PMI began being announced in 2017

[Fig. 2] Trends in Major Components of the Manufacturing PMI

		Manaufacturing PMI	Production	New orders	New Export Orders	Raw Materials Price	Imports	Employment	Expected Production and Business Activities
2017	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
2018	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
	Jun.	51.5	53.6	53.2	49.8	57.7	50.0	49.0	57.9
	Jul.	51.2	53.0	52.3	49.8	54.3	49.6	49.2	56.6
	Aug.	51.3	53.3	52.2	49.4	58.7	49.1	49.4	57.0
	Sep.	50.8	53.0	52.0	48.0	59.8	48.5	48.3	56.4

Source: Created based on data released by the NBS and the CFLP

◆ IMF World Economic Outlook: Impact of Trade Conflicts Estimated, China's Growth Rate May Fall Below 6% in Worst-Case Scenario

On October 9, the IMF released its latest World Economic Outlook (WEO). The IMF forecast for China's 2018 growth rate remained unchanged from July at 6.6%. The growth rate forecast for 2019 was revised down 0.2 point to 6.2% from the previous forecast, and it was noted in the WEO that China's growth rate will gradually slow down although robust expansion will continue (Fig. 1).

[Fig. 1] IMF Forecasts for Economic Growth Rate

	2018		2019	
	Economic growth projection	Difference from July projection	Economic growth projection	Difference from July projection
World	3.7%	▲0.2%	3.7%	▲0.2%
China	6.6%	unchanged	6.2%	▲0.2%
U.S.	2.9%	unchanged	2.5%	▲0.2%
Japan	1.1%	+0.1%	0.9%	unchanged

Source: Created based on data in the IMF "World Economic Outlook" (October 9, 2018)

The WEO revised down the outlook for the global growth rate for both 2018 and 2019 by 0.2 point to 3.7% from the previous forecast (Fig.1), indicating that the downside risk to the global economy has grown over the past six months due to intensified trade conflict, concern over accelerating capital outflow from emerging countries caused by steeper than anticipated U.S. interest rate hikes, etc.

<Estimated impact of trade conflicts>

Furthermore, the WEO includes an estimate of the impact of the intensifying trade conflicts on each country or region and on the entire world in five different scenarios* according to the extent of retaliatory tariffs between the U.S. and its trade partners including China (Fig. 2). The report indicates that the intensified trade conflicts and the deviation from a multilateral, rule-based trade system will destabilize financial markets and slow investment and trade.

* The five trade scenarios hypothesized by the IMF:

- Scenario 1: Already implemented additional/retaliatory tariff policies. They include raising existing 10% tariffs on USD 200 billion worth of U.S. imports from China for 25% (effective from January 1, 2019), and China's retaliatory policy.
- Scenario 2: Adds to scenario 1 an additional 25% tariff on USD 267 billion worth of U.S. imports from China, with China's retaliation of 25% tariff on USD 130 billion worth of China imports from the U.S.
- Scenario 3: Adds to scenario 2 an additional 25% tariff on USD 350 billion worth of U.S. imports of vehicles and vehicle-related products from China, and retaliation from affected regions on an equivalent amount of U.S. exports.
- Scenario 4: Adds to scenario 3 the impact on confidence in the economy and companies' investment planning.
- Scenario 5: Adds to scenario 4 the impact of a future credit crunch on companies.

[Fig. 2] Impact of Trade Conflicts on Each Country's GDP Growth Rate by Scenario

(%)

	World		China		United States		Japan	
	2018	2019	2018	2019	2018	2019	2018	2019
Scenario 1	▲ 0.06	▲ 0.11	▲ 0.16	▲ 0.56	▲ 0.11	▲ 0.15	0.00	0.03
Scenario 2	▲ 0.06	▲ 0.20	▲ 0.16	▲ 1.16	▲ 0.11	▲ 0.20	0.00	0.08
Scenario 3	▲ 0.06	▲ 0.25	▲ 0.16	▲ 1.00	▲ 0.11	▲ 0.61	0.00	▲ 0.04
Scenario 4	▲ 0.29	▲ 0.50	▲ 0.43	▲ 1.27	▲ 0.23	▲ 0.74	▲ 0.16	▲ 0.23
Scenario 5	▲ 0.29	▲ 0.78	▲ 0.43	▲ 1.63	▲ 0.23	▲ 0.91	▲ 0.16	▲ 0.47

Source: Created based on data in the IMF "World Economic Outlook" (October 9, 2018)

The worst-case Scenario 5, in which participants implement all conceivable additional/retaliatory tariff measures, expanding the impact not only to companies' investment planning but also to financial markets, would drive down global economic growth by 0.8% in 2019.

Scenario 1, which takes into consideration the raised U.S. tariffs scheduled for January of next year in addition to existing tariffs, is the most optimistic, but in China, even this scenario will lower growth in 2019 by 0.6%. Scenario 5 is estimated to bring growth down by 1.6%.

The U.S. growth rate will suffer significant negative effects in scenario 3 or worse based on the premise of tariffs being raised on imported vehicles and vehicle-related products. The effect will be magnified under increasingly negative scenarios, dragging down growth by 0.9% in the case of scenario 5.

Japan is not expected to be affected in scenario 1 or 2 until 2019. However, its 2019 growth rate may be lowered by as much as 0.5% in scenario 5.

The WEO indicates that some counties or regions may enjoy short-term benefits as substitutional exporters to the countries involved in the trade conflicts. However, on a long-term basis, every country and region will suffer negative impacts from the trade conflict, since said benefits will disappear as the countries involved find better sources for onshore procurement. Additionally, scenario 3 would signal downturn risk for Canada, Mexico, and Japan, all of which have strong ties to the U.S. auto market.

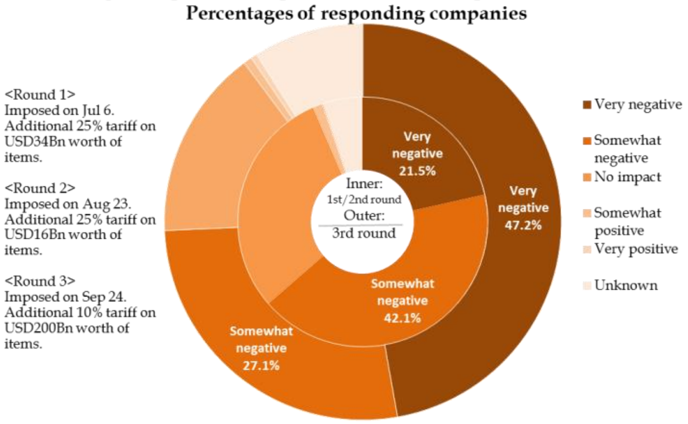
◆ Over 60% of U.S. Companies in China See Negative Impact from U.S.-China Trade Friction

AmCham China and AmCham Shanghai announced the results of a survey on the impact of the U.S.-China trade conflict they conducted with their member companies (432 valid respondents) from August 29 to September 5. The survey revealed that more than 60% of the U.S. companies operating in China believe they will be impacted negatively by the additional tariff measures between the U.S. and China.

<Impact of U.S. punitive tariffs on imports from China>*

The percentages of companies that felt the first and second rounds of U.S. punitive tariffs (an additional 25% tariff on USD 50 billion worth of items) had a "very negative" or "somewhat negative" impact were 21.5% and 42.1% respectively, making for more than 60% combined. As the third round (an additional 10% tariff on USD 200 billion worth of items) came into effect, many more companies thought they would suffer a "very negative" (47.2%) or "somewhat negative" impact (27.1%), with more than 70% of the respondents expressing pessimism about the impact of the trade tariffs (Fig. 1). The machinery, electronics, and auto industries would seemingly be affected the most (Fig. 2).

[Fig. 1] Impact of U.S. punitive tariffs on imports from China: Percentages of responding companies



Source: Created based on data released by AmCham China and AmCham Shanghai

[Fig. 2] Impact of U.S. punitive tariffs on imports fromChina by sector: Percentages of responding companies

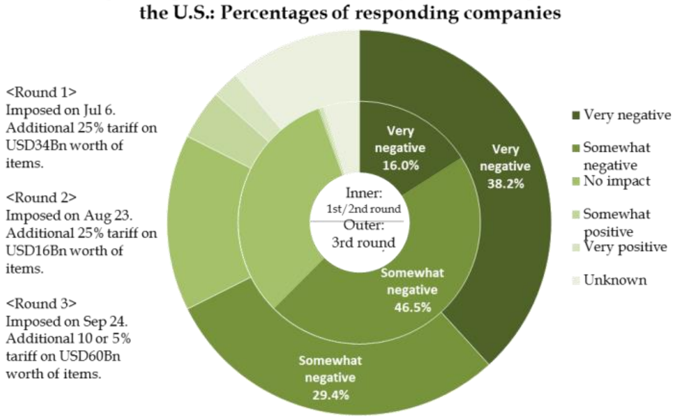
1st and 2nd Rounds
- Machinery (82.6%) - Electronics (81.3%) - Auto (80.5%)
3rd Round
- Auto (88.9%) - Machinery (86.9%) - Electronics (81.2%)

Source: Created based on data released by AmCham China and AmCham Shanghai

<Impact of China's retaliatory tariffs on imports from the U.S.>*

For the first and second rounds of China's retaliatory tariffs (an additional 25% tariff on USD 50 billion worth of items), the percentages of companies that felt a "very negative" or "somewhat negative" impact were 16.0% and 46.5% respectively, while the percentages for the third round (an additional 10% or 5% tariff on USD 60 billion worth of items) were 38.2% and 29.4% respectively, resulting in a total for the three rounds of over 60% of the respondents foreseeing a negative impact on their companies (Fig. 3). The agriculture and chemicals industries among others are expected to be affected the most (Fig. 4).

[Fig. 3] Impact of China's retaliatory tariffs on imports from the U.S.: Percentages of responding companies



Source: Created based on data released by AmCham China and AmCham Shanghai

[Fig. 4] Impact of China's retaliatory tariffs on imports fromthe U.S. by sector: Percentages of responding companies

1st and 2nd Rounds
- Agriculture (88.9%) - Chemicals (80.8%) - Healthcare, Auto (75%)
3rd Round
- Miscellaneous (86.7%) - Chemicals (84.6%) - Aviation (81.8%)

Source: Created based on data released by AmCham China and AmCham Shanghai

* For details on the additional tariff measures between the U.S. and China, please refer to the "Digest" article in our September 19, 2018 issue.

http://www.bk.mufg.jp/report/inschiweek/418091901.pdf (in Japanese)

More specifically, the main responses as to where negative impact would be seen were "lower profits" (50.8%), "higher production costs" (47.1%), "decreased demand for our products" (41.8%), and "having to raise our product prices" (37.1%).

The respondents indicated that they had to review their business strategy, including "postponing or cancelling investment" (31.1%),"revising the supply chain (component procurement/assembly outside the U.S.)" (30.9%), "revising the supply chain (component procurement/assembly outside China)" (30.2%), to name but a few of the leading measures.

64.6% of the responding companies will continue to produce in China for the time being, answering that they were not considering shifting their production base outside of China. Meanwhile, Southeast Asia, India, Bangladesh, Pakistan, Sri Lanka, and the U.S. were at the top of the list of potential relocation destinations.

◆ Consumption in Retail and Restaurant Sectors During National Day Holidays Up 9.5% Year-on-Year (YoY)

On October 7, the Ministry of Commerce of China (MOFCOM) announced that nationwide sales in the retail and restaurant sectors during this year's National Day holidays (from October 1 through 7) reached approximately RMB 1.4 trillion, with daily spending growing 9.5% year-on-year (YoY). The growth rate fell below the 10.3% recorded in 2017, slowing down for the eighth consecutive year (Fig. 1).

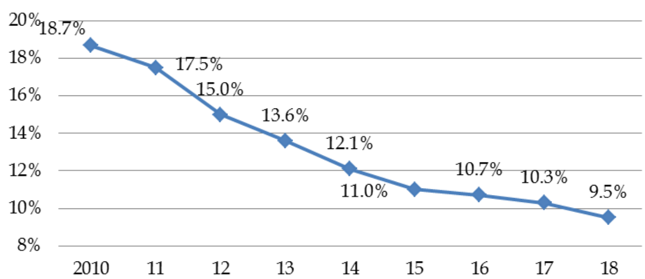
Consumption this year was characterized by booming sales of organic foods, clothing, jewelry, 4K televisions, and smart phones.

Meanwhile, according to a report from a company that manages a movie website, both box office sales (down 20.0% YoY to RMB 2.17 billion) and audience numbers (down 23.0% YoY to 61.5 million) from September 30 to October 7 fell far below the previous year's numbers. The report commented that the poor results were partly due to movie viewers becoming more concerned about word-of-mouth ratings, and to a lack of highly acclaimed movies at that time.

According to a report on tourism big data for the 2018 National Day holidays released on October 9 by China Tourism Academy (CTA) under the Ministry of Culture and Tourism, the number of tourists who visited various parts of China during the holidays (seven days from October 1 through 7) increased 9.4% YoY (previous year: up 11.9%) to 726 million, and sales related to travel rose 9.0% (previous year: up 13.9%) to RMB 599.1 billion. Meanwhile, according to the State Immigration Administration, 6.94 million people traveled internationally, 8.2% more than last year. The top five travel destinations were Thailand, Japan, Hong Kong, Vietnam and Singapore, indicating that relatively nearby Asian countries were popular choices.

CTA stated that there was a clear difference in preferred travel products and travel-related spending by age group during the holidays. The younger generation, born in the 1990s (age 18–28), spent more on shopping and entertainment, while the group born in the 1980s (aged 28–38) prioritized accommodation, and those born in the 1970s (age 38–48) prioritized the quality of their food and beverages. When it came to their purpose for traveling, the higher the age group, the more they intended to spend their leisure time at resorts and enjoy natural landscapes. Younger generations were shown to prefer theme parks and going to the theatre or to concerts (Fig. 2).

[Fig. 1] Growth Rate of Sales in the Retail and Restaurant Sectors during the National Day Holidays



Source: Created based on data released by MOFCOM

[Fig. 2] Travel Preferences by Decade of Birth

	Theme Parks	Cultural Landscapes	Leisure destinations /Resorts	Theatre/ Concerts	Natural Landscapes
2000s (age 8-18)	36.6%	42.4%	1.6%	0.8%	18.6%
1990s (age 18-28)	22.5%	45.6%	2.0%	0.5%	29.4%
1980s (age 28-38)	27.8%	38.7%	2.7%	0.6%	30.1%
1970s (age 38-48)	15.7%	46.5%	2.9%	0.4%	34.5%

Source: Created based on the China Tourism Academy report on tourism big data for the 2018 National Day Holidays

[Trade/Investment]

◆China publishes white paper on bilateral trade dispute with the U.S., analyzing the trade imbalance from multiple viewpoints

China's State Council published a white paper titled "The Facts and China's Position on China-U.S. Trade Friction" on September 24. The report analyzed China-U.S. trade relations from various angles and expressed the Chinese government's stance on the Trump administration's accusations of unfair trade by China.

<The China-U.S. trade structure>

China and U.S. trade relations today are the result of their comparative strengths and the choices of the market alongside the progress of economic globalization. The two countries have a complementary relationship, and it is necessary to assess the trade imbalance with the U.S. from diversified viewpoints that include services and investment in addition to trade in goods. The report stressed that to resolve the issue of the imbalance, the two countries need to make concerted efforts toward restructuring.

The U.S. deficit in trade in goods has increased steadily since 1992 (Fig. 1), reaching USD 395.9 billion in 2017. This makes China the country the U.S. has the largest trade deficit with. While the U.S. stands at the high end of global value chains and mainly exports capital goods and intermediary goods to China, China is at the low end, mainly exporting consumer goods and finished products to the US. In this sense, the relationship of the two countries is highly complementary (Fig. 2). The report also pointed out that the profit structure is not balanced; Chinese companies earn their profits from manufacturing and processing, while the U.S. companies do so with business processes such as product design, supplying components, or marketing.

Meanwhile, China's most sizeable deficit for trade in services is currently with the U.S. The deficit has swelled by a factor of 30 in the last ten years and rose to USD 40.2 billion in 2017 (Fig. 3). China's deficit with the US is mainly in the areas of travel, transport, and royalties for intellectual property. According to the report's analysis, China's payments for U.S. intellectual property reached USD 7.2 billion in 2017, doubling from 2011.

Looking at sales numbers for overseas subsidiaries funded by direct investment, sales by U.S. corporate subsidiaries based in China reached USD 481.4 billion in 2015, far more than the USD 25.6 billion in sales by Chinese subsidiaries in the U.S. The report pointed out that when giving consideration to the sales of overseas local subsidiaries, trade between the U.S. and China has delivered balanced benefits in general (Fig. 4).

[Fig. 1] China's imports of goods from and exports of goods to the U.S.

Source: Created based on data from the Bureau of Economic Analysis, US Department of Commerce

[Fig. 2] China's major imports from and exports to the U.S. in 2017

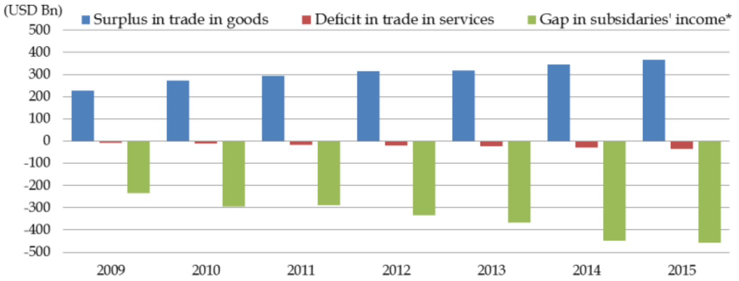
China's imports from the U.S. (first 2 HS code digits)	Share
Chapter 85: Electric products and components	11.3%
Chapter 84: Nuclear reactors, furnaces, mechanical apparatus and components	10.7%
Chapter 87: Automobiles and components, excluding railway cars	9.8%
Chapter 12: Seeds, kernels, plants for animal feed	9.5%
Chapter 88: Aircraft, spacecraft and components	9.2%
Chapter 90: Optical, photographic, measuring, testing, and precision medical devices	7.6%
China's exports to the U.S. (first 2 HS code digits)	**Share**
Chapter 85: Electric products and components	24.9%
Chapter 84: Nuclear reactors, furnaces, mechanical apparatus and components	21.3%
Chapter 94: Furniture, bedding, mattresses, etc.	6.8%
Chapter 95: Toys, game articles, sport articles and components	4.3%
Chapter 61: Clothes and accessories (knitted or crocheted apparel only)	3.7%
Chapter 39: Plastic articles	3.6%

Source: Created based on data released by the General Administration of Customs of China

[Fig. 3] China's imports of services from and exports of services to the U.S.

Source: Created based on data from the Bureau of Economic Analysis, US Department of Commerce

[Fig. 4] Overview of China's benefits from trade with the U.S.



Source: Created based on data from the Bureau of Economic Analysis, U.S. Department of Commerce
*Sales of the U.S. subsidiaries of Chinese corporations - sales of Chinese subsidiaries of the U.S. corporations

<Forced technology transfer in China>

U.S. companies transferring their technology to Chinese companies is a voluntary behavior as part of the process of establishing production capacity in China in order to lower production costs and tap into the emerging market, and to build partnerships with Chinese companies. Meanwhile, China is working on the development of their own technology as well, spending RMB 1.8 trillion in R&D in 2017, a level which is second only to the U.S. in the world.

<"Made in China 2025" policies>

The UN Conference on Trade and Development (UNCTAD) announced that in the last 10 years, 101 countries and regions around the world have announced new industrial development strategies order to respond to the fourth industrial revolution. The U.S. government has also formulated a number of industrial policies since 2009 in areas such as manufacturing, robotics, and AI. The Made in China 2025 initiative was formulated against such a backdrop, inspired by U.S. policy papers such as the Advanced Manufacturing Partnership (2011), and in compliance with WTO rules. The report stressed that Made in China 2025 policies apply equally to foreign–invested companies and Chinese companies, and is a market-centered and open blueprint for industrial development.

<Impact of and response to trade friction between China and the U.S.>

While China's total exports were USD 2.26 trillion in 2017, USD 250 billion, which is only about 10% of the total, was subject to the punitive tariffs imposed on China by the U.S. Furthermore, when considering China's GDP being in excess of USD 12 trillion, the ratio of low-value-added processing trade in its exports, and China's diversifying industrial structure, the impact of China-U.S. trade friction on the Chinese economy is considered limited.

Going forward, China will aim for stable economic management by focusing its efforts on (1) expanding domestic demand and reinforcing weak areas such as infrastructure, agriculture, and environmental protection, (2) reducing the burden on businesses, improving the business environment, and expanding the opening of the Chinese market to foreign businesses, and (3) exploiting new overseas markets and enhancing capabilities to adapt to changes in businesses.

The white paper is scheduled to be published in six languages including Japanese, in addition to the Chinese and English versions already published.

◆ Import tariff cuts on 1,585 items including industrial products from November 1

In a Standing Committee held on September 26, the State Council decided to cut import tariffs on 1,585 items, primarily industrial products. Based on the decision, the Customs Tariff Commission of the State Council released an official statement and a list of items concerned (Tariff Committee Notice [2018] No. 9)[1] on September 30. The import tariff cuts will be implemented from November 1.

Tariffs on a total of 1,585 items including electric/machinery equipment, textiles, building materials, and paper products will be cut. The State Council stated that reducing tariffs mainly on industrial products that are in high demand in China, such as electric/machinery equipment, components, and raw materials, will lead to industries being improved through the use of equipment employing advanced technologies imported from overseas, and to the supplying capability of industries being enhanced by reducing companies' production cost.

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

Types of products	Number of items	Average tariff
◇Textiles, building materials, base metal products, steel products, etc.	677	11.5%→8.4%
◇Machinery for textiles, light industry, construction, general-purpose, and metal processing, power machinery, farm machinery, electric transmission/substation facilities, electric equipment, electric meters, and components for related equipment, etc.	396	12.2%→8.8%
◇Non-metallic mineral products, inorganic chemicals, wood/paper products, jewels, etc.	390	6.6%→5.4%
◇Products for which the tariff cut will help improve convenience of trade (Organization and consolidation of tariff rates for products in the same category or similar categories)	122	12.3%→8.5%
Total	1,585	10.5%→7.8%

Source: Created based on an announcement by the Customs Tariff Commission of the State Council

Following President Xi Jinping's announcement of the reduction of tariffs at the Boao Forum for Asia in April 2018, tariff cuts were implemented on May 1 for 28 medicinal items[2] and on July 1 for 218 car and auto parts items[3] and 1,449 goods for daily use.[4]. A third round of tariff cuts on 484 IT-related items[5] based on the WTO Information Technology Agreement (ITA) has also been implemented.

The State Council stated that this year's series of tariff cuts is expected to lower the tax burden on consumers and companies by about RMB 60 billion, and the average tariff on all import items will drop to 7.5% from 9.8% a year ago. They stressed China's stance of protecting free trade, noting that proactive tariff cuts are important measures for further opening up the market and expanding imports, and express the firm maintenance of the opening-up strategy, which is a win-win for China.

Notes: Please refer to the following links to the Ministry of Finance website for details on the items the tariff cuts apply to.

(1) http://gss.mof.gov.cn/zhengwuxinxi/zhengcefabu/201809/t20180930_3033432.html

(2) http://gss.mof.gov.cn/zhengwuxinxi/zhengcefabu/201804/t20180423_2874912.html

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

(4) http://gss.mof.gov.cn/zhengwuxinxi/zhengcefabu/201805/t20180531_2914284.html

(5) http://gss.mof.gov.cn/zhengwuxinxi/zhengcefabu/201712/t20171215_2777552.html

◆ September Trade Statistics Show 14.5% (YoY) Increase in Exports, Up 4.7 Points Month-on-Month

On October 12, the General Administration of Customs (GACC) released a trade statistics bulletin (in USD), which indicated that exports in September rose 14.5% YoY to USD 226.69 billion, expanding 4.7 points in growth rate month-on-month (MoM), while imports increased 14.3% YoY to USD 195 billion, the growth rate slowing down by 5.7 points MoM (Figs. 1 and 2). The growth in exports is probably in part because exports to the U.S. were pushed ahead of the third round of additional U.S. tariffs on Chinese imports taking effect on September 24.

The cumulative total for January-September showed steady growth in both imports and exports with YoY increases of 12.2% in exports (to USD 1.82665 trillion) and 20.0% in imports (USD 1.60528 trillion). GACC is of the opinion that the factors that contributed to the expansion of trade include the opening up of new overseas markets, which has led to increased trade with the Belt and Road Initiative regions and emerging markets including Africa and Latin America at a rate that surpasses the overall average, and a series of tariff cuts in the current year.

Turning to trade with the U.S., while exports rose significantly by 14.0% YoY* to USD 46.69 billion in September, imports fell off YoY by 1.2%* to USD 12.56 billion. The trade surplus with the U.S. marked a new record high for a single month at USD 34.13 billion.* Cumulative results from January to September show both exports and imports slowing down compared to January-August, with YoY increases of 13.0% and 9.4% respectively and imports seeing more serious deceleration (Fig. 3). GAAC stated that they will make efforts to further simplify custom procedures, abolish unreasonable fees for administrative services, etc. to reduce the impact of the China-U.S. trade dispute on companies.

*Calculated by MUFG Bank based on data released by GACC.

Meanwhile, as for trade with Japan from January to September, exports were up 8.5% YoY (up 8.0% YoY in January-August), while imports were up 12.5% YoY (up 13.9% YoY in January-August), slowing down slightly from the previous month (Fig. 4). China's trade balance with Japan resulted in a deficit of USD 27.99 billion.*

*Calculated by MUFG Bank based on data released by GACC.

[Fig. 1] September Trade Statistics

(USD Bn)

September (August)		
	Amount	YoY
Exports	226.69 (217.43)	+14.5% (+9.8%)
Imports	195.00 (189.52)	+14.3% (+20.0%)
Trade Surplus	31.69 (27.91)	-
Cumulative Amount for Jan-Sep (Jan-Aug)		
	Amount	YoY
Exports	1,826.65 (1,604.35)	+12.2% (+12.2%)
Imports	1,605.28 (1,410.69)	+20.0% (+20.9%)
Trade Surplus	221.38 (193.66)	-

Source: Created based on data released by GAAC

[Fig. 2] Monthly Trends in China's Imports and Exports

Source: Created based on data released by GAAC

[Fig. 3] September Trade Statistics with the U.S.

(USD Bn)

September (August)		
	Amount	YoY
Exports to the U.S.	46.69 (44.39)	+14.0% (+13.2%)
Imports from the U.S.	12.56 (13.33)	▲1.2% (+2.7%)
Trade Surplus with the U.S.	34.13 (31.06)	+21.5% (+18.4%)
Cumulative Amount for Jan-Sep (Jan-Aug)		
	Amount	YoY
Exports to the U.S.	348.82 (303.44)	+12.9% (+13.4%)
Imports from the U.S.	123.03 (110.81)	+8.3% (+11.1%)
Trade Surplus with the U.S.	225.79 (192.64)	+15.5% (+14.6%)

Source: Created based on data released by GACC
Note: Surplus amounts and growth rates were calculated by MUFG Bank

[Fig. 4] Jan-Sep 2018 Import and Export Amounts and Growth Rates by Country/Region

(USD Bn)

Country/Region	Exports	YoY	Imports	YoY	Total	YoY
U.S.	348.82	13.0%	123.03	9.4%	471.85	12.1%
Japan	107.86	8.5%	135.85	12.5%	243.71	10.7%
South Korea	79.84	6.3%	154.72	21.7%	234.56	16.0%
Hong Kong	218.01	13.5%	5.52	3.5%	223.53	13.2%
Taiwan	35.18	11.4%	133.60	21.1%	168.78	19.0%
Germany	57.10	10.5%	80.81	14.0%	137.90	12.5%
Australia	34.36	18.5%	79.95	12.5%	114.32	14.2%
Vietnam	60.40	20.3%	45.57	40.2%	105.97	28.1%
Brazil	25.46	21.8%	56.29	23.0%	81.75	22.6%
Malaysia	33.19	12.3%	47.47	18.4%	80.66	15.8%

Note: Top 10 countries/regions by total amount
Source: Created based on data released by GACC

[Finance/Exchange]

◆ Foreign Reserve Balance in September Decreases for Second Consecutive Month

The People's Bank of China (PBoC) announced on October 7 that China's foreign exchange reserves decreased for the second month in a row, falling by USD 22.7 billion in the month of September to USD 3.87 trillion.

The State Administration of Foreign Exchange (SAFE) described the slight decrease in the foreign reserve balance in September as caused by multiple factors such as turbulence in the USD rate against major currencies, a small slip in major sovereign bonds, etc. SAFE holds the view that the foreign exchange market will remain generally stable for the time being.

<Trends in China's Foreign Reserve Balance (Monthly)>

Source: Created based on data released by the PBoC