CHINA BIWEEKLY

RMB Internationalization Business Promotion Office
Global Business Division

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■ BIWEEKLY DIGEST

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- **November CPI rises by 2.2%, PPI by 2.7% Year-on-Year (YoY)**

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- **November trade statistics show a record-high surplus with the U.S.**
- **Time required for import clearance procedures is now halved to 50 hours**
- **Chongqing and Hainan announce minimum wage hikes**

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- **Foreign reserve balance in November increases for the first time in four months**

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[Economy]

◆Manufacturing PMI in Distinct Downward Trend, Recording 50.0 Points in November

On November 30, the National Bureau of Statistics (NBS) and the China Federation of Logistics & Purchasing (CFLP) announced that the November manufacturing PMI was 50.0, down 0.2 point month-on-month (MoM). This is the lowest level since July 2016 when the index recorded 49.9 points, going under 50.0 points, which is the turning point in judging the economy (Fig. 1).

Looking at the manufacturing PMI by component, indices for new export orders and imports fell below 50 points for the sixth and fifth consecutive month at 47.0 and 47.1 points respectively. New orders fell 0.4 point MoM to 50.4, dropping for the sixth consecutive month. In addition to the slowdown of imports and exports caused by trade conflicts, etc., domestic orders continue to decline (Fig. 2).

Expected Production and Business Activities, which indicates future business confidence, dropped considerably to 54.2 points, a decrease of 2.2 points MoM (Fig. 2).

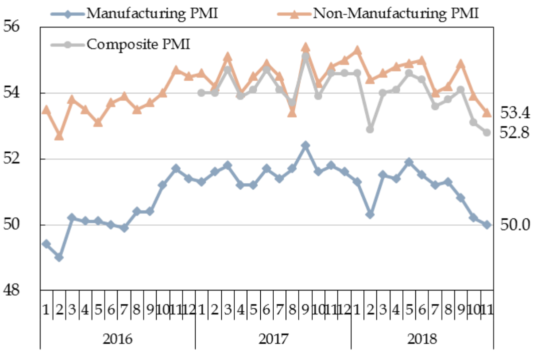
The non-manufacturing PMI for November fell for the second consecutive month to 53.4 points, down 0.5 point MoM, dropping for the second consecutive month (Fig.1).

By sector, while the service industry rose 0.3 point MoM to 52.4 points, the construction industry dropped to 59.3 points, a MoM decrease of 4.6 points.

The service industry saw increased business volume in home deliveries, telecommunications, and internet and software businesses due to online-shopping campaigns on Singles' Day on November 11.

Meanwhile, the composite PMI, a weighted average of the manufacturing and non-manufacturing PMIs that reflects the overall business sentiment in China, dropped 0.3 point MoM to 52.8 points (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

		Manufacturing PMI	Production	New Orders	New Export Orders	Raw Materials Prices	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
	Oct.	50.2	52.0	50.8	46.9	58.0	47.6	48.1	56.4
	Nov.	50.0	51.9	50.4	47.0	50.3	47.1	48.3	54.2

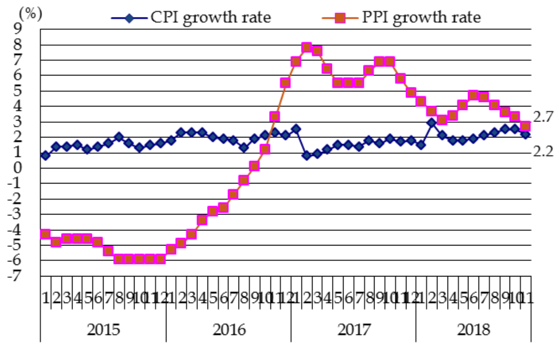
Source: Created based on data released by the NBS and the CFLP

◆November CPI rises by 2.2%, PPI by 2.7% Year-on-Year (YoY)

The National Bureau of Statistics (NBS) announced on December 9 that the November consumer price index (CPI) had increased by 2.2% year-on-year (YoY), 0.3 percentage point lower than the previous month. The producer price index (PPI) increased by 2.7% YoY, 0.6 percentage point lower than the previous month. PPI decreased month-on-month (MoM) for the fifth consecutive month.

By CPI category, food increased 2.5% YoY, falling 0.8 percentage point MoM, dampening the overall CPI. The price of pork notably fell below the previous year by 1.1% due to an outbreak of African swine fever. Non-food

<Monthly Trends in CPI and PPI>



Source: Created based on data released by the NBS increased by 2.1% YoY, falling 0.3 percentage point MoM.

PPI for each industry slowed down generally MoM in spite of increases in the oil and natural gas drilling industry, which jumped up 24.4% (up 42.8% in October) YoY, and in oil, coal, and other fuel processing, which showed an increase of 17.6% (up 24.0% in October) YoY. Factors which seemingly caused the sluggishness include a drop in international crude oil prices and decelerating domestic production.

CPI is currently growing at a pace of around 2%, below the annual target of approximately 3% set by the government.

[Industry]

◆Innovation in the electronics and information technology manufacturing industry developed significantly in 2017

On November 27, the Ministry of Industry and Information Technology (MIIT) released a report summarizing trends in the composite development indices for the Chinese electronics and information technology manufacturing industry in 2017. The indices were calculated using the year 2014 as a baseline and evaluate the (1) industry size, (2) corporate and product competitiveness, (3) industry development environment, (4) industry revenue, (5) research and development and innovation, and (6) industry development opportunities.

According to the report, the composite index for the electronics and information technology manufacturing industry grew significantly in 2017 to reach 164.7 points, up 30.2 points year-on-year (YoY). MIIT believes the growth in the research and development and innovation (by 83.3 points), corporate and product competitiveness (37.9 points), and industry development environment (23.6 points) contributed greatly to the overall result (Figs. 1 and 2). Moreover, MIIT pointed out that there had been significant technological innovation in supercomputers, integrated circuits (ICs), fiber-optic communications, etc., and that the environment for innovation had improved further in AI, smart manufacturing, cloud computing, IoT, etc. boosted by government initiatives.

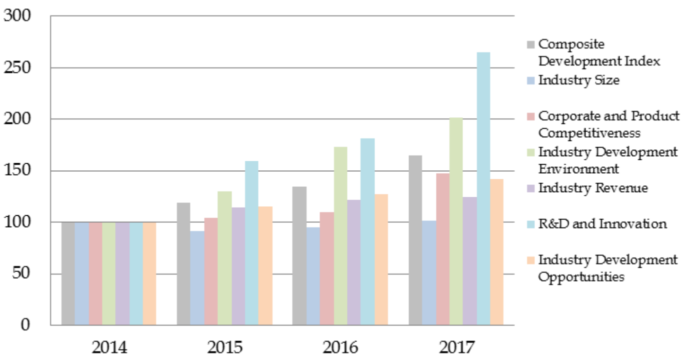
[Fig. 1] Composite Development Indices for the Electronics and IT Manufacturing Industry in 2017

(By Item) (2014 baseline: 100)

Item		2017	YoY
Composite Development Index		164.7	+30.2
Item	R&D and Innovation	265.1	+83.3
	Corporate and Product Competitiveness	147.6	+37.9
	Industry Development Environment	202.1	+23.6
	Industry Development Opportunities	142.0	+15.1
	Industry Size	101.1	+6.4
	Industry Revenue	124.9	+3.0

Source: Report on the composite development indices for the Chinese electronics and information technology manufacturing industry(2018)

[Fig. 2] Changes in the Composite Development Indices for the Electronics and IT Manufacturing Industry by Item



Source: Report on the composite development indices for the Chinese electronics and information technology manufacturing industry (2018)

The report focuses on the IC and cell phone industries and introduces the relevant data.

The composite development index for the IC industry was 127.7 points, increasing by 8.9 points YoY. MIIT described the development as characterized by (1) enhanced manufacturing capacity (a 13.1% increase in IC export volume and a 9.8% increase in IC export value YoY), (2) improved corporate abilities (a 9.9% increase in the number of newly listed companies and a 24.9% increase in current share prices YoY), (3) active investment (a 27.2% increase in the amount invested in fixed assets YoY), and (4) improved corporate earning capacity (a 9.3% increase in total revenue YoY). On the other hand, MIIT pointed out that there is a still a significant gap between the Chinese industry and the level of the international cutting-edge, as it is not prepared to respond to diversifying demand, the core technology and basic studies are inadequate, and there is not enough collaboration between upstream and downstream participants of the supply chain on research and development (Figs. 3 and 4).

Meanwhile, the composite development index of the cell phone industry was 127.7 points, 4.2 points lower YoY. In 2017, cell phone production in China increased by 2.2% YoY, but the growth rate decelerated considerably compared to the 13.6% increase in 2016, as demand for smartphones worldwide has been mostly satisfied and consumers are holding off on purchases until the fifth generation of cellular mobile communications (5G) service starts. On the other hand, MIIT said that product and corporate competitiveness is improving as the share of global sales of cell phones manufactured by Chinese makers Huawei, Xiaomi, and Oppo increased by 4.4 points YoY and Huawei is gaining influence in the high-spec smartphone business (Figs. 3 and 4).

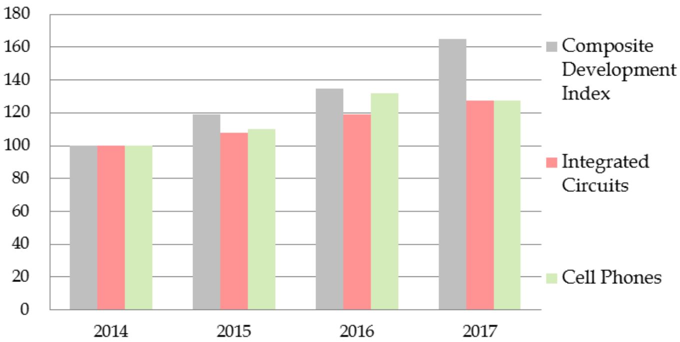
[Fig. 3] Composite Development Indices for the Electronics and IT Manufacturing Industry in 2017

(By Key Industry) (2014 baseline: 100)

Item		2017	YoY
Composite Development Index		164.7	+30.2
By key industry	Integrated Circuits	127.7	+8.9
	Cell Phones	127.7	▲4.2

Source: Report on the composite development indices for the Chinese electronics and information technology manufacturing industry(2018)

[Fig. 4] Changes in the Composite Development Indices for Electronics and IT Manufacturing by Key Industry



Source: Report on the composite development indices for the Chinese electronics and information technology manufacturing industry(2018)

[Trade and Investment]

◆November trade statistics show a record-high surplus with the U.S.

On December 8, the General Administration of Customs (GACC) released a trade statistics bulletin (in USD) which indicated that November exports rose by 5.4% year-on-year (YoY) to USD 227.42 billion and imports were up 3.0% YoY to USD 182.67 billion, both significantly contracting by 10.2 and 18.4 percentage points month-on-month (MoM) respectively (Figs. 1 and 2). By product, electronics/machinery increased 3.0% YoY* (October: up 15.3%*) and high-tech equipment rose 2.8% YoY* (October: up 19.5%*), with the growth rate for both falling off notably compared to the previous month.

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

The cumulative total for January-November resulted in 11.8% YoY growth in exports to USD 2.27204 trillion, and 18.4% YoY growth in imports to USD 1.97244 trillion.

[Fig. 1] November Trade Statistics

(USD Bn)

November (October)		
	Amount	YoY
Exports	227.42 (217.28)	+5.4% (+15.6%)
Imports	182.67 (182.37)	+3.0% (+21.4%)
Trade Surplus	44.75 (34.02)	-
Cumulative Amount for Jan-Nov (Jan-Oct)		
	Amount	YoY
Exports	2,272.04 (2,044.84)	+11.8% (+12.6%)
Imports	1,972.44 (1,790.64)	+18.4% (+20.3%)
Trade Surplus	299.59 (254.20)	-

Source: Created based on data released by the GACC

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

Source: Created based on data released by the GACC

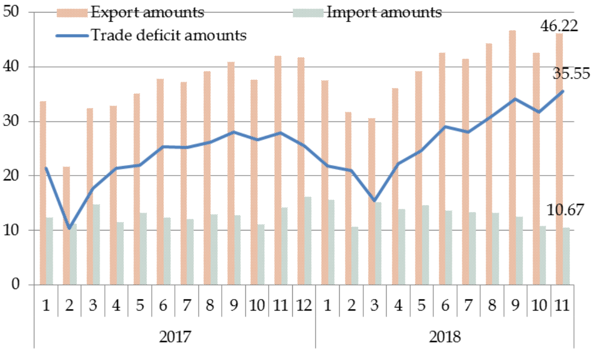
In November, imports from the U.S. plummeted 25.0% YoY* to USD 10.67 billion, while exports increased by 9.8% YoY* to USD 46.22 billion. This served to increase China's trade surplus with the U.S. 27.6% YoY* to USD 35.55 billion,* marking a record high for a single month (Fig. 3). Cumulative results from January to November were USD 438.17 billion for exports and USD 144.65 billion for imports, while the cumulative trade surplus came in at USD 293.52 billion* (Fig. 4).

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

Turning to trade with Japan, the cumulative total for January-November in exports increased 8.1% (Jan-Oct: up 8.5%) YoY, while imports grew 11.0% (Jan-Oct: up 12.4%) YoY. The growth rates for both exports and imports slowed down from the previous month. China's trade balance with Japan resulted in a deficit of USD 32 billion (Fig. 4).

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

[Fig. 3] Monthly Trends in Imports and Exports from the U.S. and Trade Deficit



Source: Created based on data released by the GACC

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

(USD Bn)

Country/Region	Exports	YoY	Imports	YoY	Trade	Total	YoY
U.S.	438.17	12.9%	144.65	5.0%	293.52	582.82	10.9%
Japan	134.41	8.1%	166.41	11.0%	▲ 32.00	300.82	9.7%
South Korea	98.36	5.4%	190.52	18.8%	▲ 92.16	288.87	13.9%
Hong Kong	276.03	13.6%	7.18	7.4%	268.85	283.21	13.4%
Taiwan	44.16	12.2%	164.92	17.2%	▲ 120.76	209.08	16.1%
Germany	70.46	10.3%	98.52	12.2%	▲ 28.06	168.98	11.4%
Australia	43.52	16.9%	98.07	12.3%	▲ 54.56	141.59	13.7%
Vietnam	76.01	18.3%	59.09	35.1%	16.92	135.09	25.1%
Brazil	30.86	18.8%	71.06	31.0%	▲ 40.20	101.91	27.1%
Malaysia	41.29	11.0%	58.41	18.6%	▲ 17.11	99.70	15.3%

Note: Top 10 countries/regions by total amount

Source: Created based on data released by the GACC

While exports to the U.S. were pushed ahead of additional U.S. tariffs on Chinese imports announced to begin in January 2019, overseas demand from other regions slowed down. The growth rate of overall exports for November remained positive, but fell significantly MoM. The growth of overall exports may decrease further as the last-minute demand from the U.S. diminishes in the future.

◆Time required for import clearance procedures is now halved to 50 hours

At a press conference held on November 30, the General Administration of Customs (GACC) announced that the time required for import clearance procedures at Chinese customs had been reduced by almost half, going from 97 hours in the year before to 50 hours. This announcement is considered to represent the GACC making an appeal regarding their efforts to improve trading convenience amidst growing concern over the trade dispute with the U.S.

At the conference, updates were given on the status of the implementation of specific objectives for improving the port operations environment and promoting the convenience of cross-border trading* that were issued in an October work plan in response to the decisions of the State Council executive meeting in September. The major topics were as follows:

<Objectives and Implementation Status of the Work Plan to Improve the Convenience of Trade>

	Objectives listed in the work plan	Implementation status
Time reduction	✓Reduce general customs clearance time for imports and exports by one-third from 2017 by the end of 2018. ✓Reduce this time by half from 2017 by the end of 2021.	✓The general customs clearance time has been reduced by 40% or more. ✓The time required for import clearance procedures has been cut from 97.4 hours in December 2017 to 50.1 hours.
Streamlining administrative procedures (electronification/paperless operations)	✓Reduce the types of regulatory credentials to 48 by November 1, 2018. ✓Reduce this number by one-third or more from 2017 by the end of 2018.	✓86 regulatory credentials were reduced to 46 including 42 types that can be applied for online using the "Single Window" clearance platform.
	✓Enhance cooperation and link-ups for the "Single Window" clearance platform with banks, insurance companies, private sector airlines, railways, ports, and other relevant organizations.	✓8 new services were added to be handled by the "Single Window" clearance platform (in addition to 26 existing services)
	✓Promote the shift to using paperless tax payment certificates through collaboration with relevant organizations including the Ministry of Finance.	✓Dedicated certificates for customs procedures are now available online. Until now, these certificates had to be picked up at customs offices.
Cost reduction	✓Release the list of fees collected at ports by October 2018. Prohibit the collection of unlisted fees. ✓By the end of 2020, reduce the fees collected on exported and imported containers by half from 2017.	✓Each local government has conducted investigations and listing of fees collected at ports. Lists were issued before October 31.

The GACC also stated that the customs clearance procedures related to cross-border e-commerce need to be streamlined urgently as overall customs operations are increasing. They indicated their intention to promote one-time applications for tax procedures, data sharing through connecting the "Single Window" clearance platform and the cross-border e-commerce platform, and the utilization of AI including the introduction of robots for cargo inspection.

* Notice by the State Council of Printing and Issuing the Work Plan for Optimizing Port Business Environment to Enhance Cross-Border Trade Facilitation (Guo Fa No.37 [2018], effective October 13, 2018).

◆ Chongqing and Hainan announce minimum wage hikes

The governments of the City of Chongqing and Hainan Province have announced minimum wage hikes.

- Chongqing: From RMB 1,500 to RMB 1,800 effective as of January 1, 2019.

- Hainan: From RMB 1,430 to RMB 1,670 effective as of December 1, 2018.

After this revision, the three regions with the highest and lowest minimum wages are as follows:

<Three highest regions>

Shanghai: RMB 2,420, Shenzhen: RMB 2,200, and Guangzhou: RMB 2,100.

<Three lowest regions>

Qinghai: RMB 1,500, Anhui: RMB 1,550, and Hunan: RMB 1,580.

<Minimum Wage Hikes in Chongqing and Hainan>

Region	Previous Rate	Revised Rate	Rate of Increase
Chongqing	RMB 1,500 (effective in Jan 2016)	RMB 1,800 (effective in Jan 2019)	20.0%
Hainan	RMB 1,430 (effective in May 2016)	RMB 1,670 (effective in Dec 2018)	16.8%
◇ Provinces and cities that have raised minimum wages or announced minimum wage hikes since the start of 2018: Jiangxi, Liaoning, Shanghai, Guangxi Zhuang Autonomous Region, Xinjiang Uyghur Autonomous Region, Yunnan, Tibet Autonomous Region, Shandong, Guangdong, Sichuan, Beijing, Jiangsu, Henan, Anhui, Chongqing, and Hainan (total of 16 regions)			

Source: Created based on regional government announcements.
Note: Rates of increase are calculated by MUFG Bank.

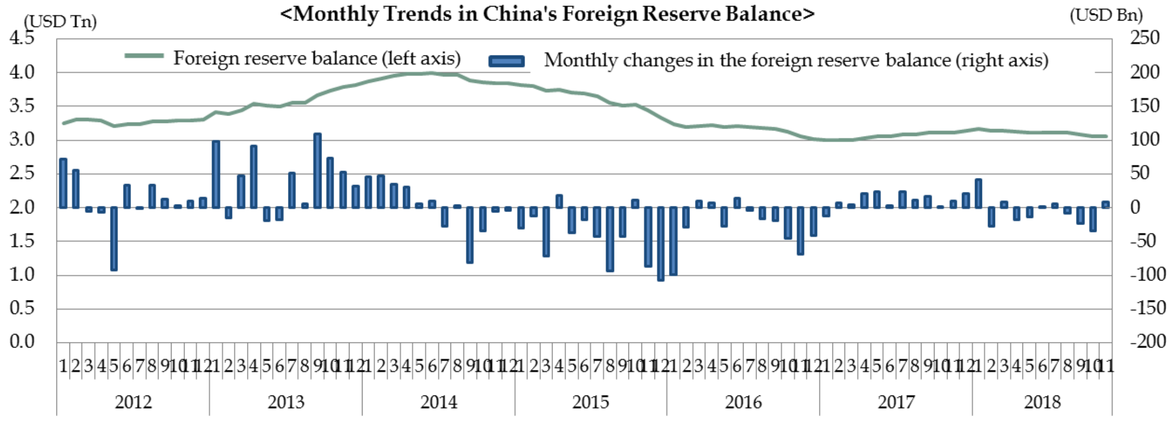
[Finance/Exchange]

◆ Foreign reserve balance in November increases for the first time in four months

The People's Bank of China (PBoC) announced on December 7 that China's foreign exchange reserves increased in November for the first time in four months, rising by USD 8.6 billion to USD 3.0617 trillion. The increase was seemingly caused by the modest appreciation of the US dollar against other major currencies and the increased valuation of bonds held by China due to the lower interest rate on U.S. government bonds.

The State Administration of Foreign Exchange (SAFE) presented their view that the outlook for the foreign reserve balance showed that a stable amount of foreign reserves would be maintained as a whole even with some fluctuation, as the domestic economy has been resilient in spite of growing uncertainty over the external environment.

<Monthly Trends in China's Foreign Reserve Balance>



Source: Created based on data released by the PBoC