CHINA BIWEEKLY

RMB Internationalization Business Promotion Office
Global Business Division

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■ BIWEEKLY DIGEST

[Economy]

- **Main economic indicators for January-February: Industrial production sinks to lowest level in 10 years; investment in infrastructure and real estate accelerating**

[Industry]

- **February auto sales fall 13.8% year-on-year, posting a year-on-year decrease for the eighth consecutive month**

[Trade/Investment]

- **National People's Congress Eager to Attract Foreign Capital: Greater Protection of Foreign Companies' Interests and Provision of National Treatment**
- **February Trade Statistics Show 20% Decline Year-on-Year (YoY) in Exports Due to Last-Minute Shipments in January Before the New Year Holidays**
- **Foreign investment law to take effect in January 2020 and strengthen protection for foreign investment**

[Finance/Exchange]

- **Cross-Border RMB Settlements for February: Current Account Items Remain Strong**
- **Growth in New RMB Loans and Total Social Financing for February Drop Considerably Month-on-Month (MoM) due to Seasonal Factors**
- **Foreign Reserve Balance in February Shows Modest Increase for Fourth Consecutive Month**

[Economy]

◆Main economic indicators for January-February: Industrial production sinks to lowest level in 10 years; investment in infrastructure and real estate accelerating

On March 14, the National Bureau of Statistics (NBS) announced the main economic indicators for January-February. While growth in industrial production recorded the lowest level in 10 years, investment in fixed assets is showing signs of recovery. The NBS commented that the economic indicators have been stable since the beginning of the year amid continuing strong pressure toward economic downturn.

[Fig. 1] Main Economic Indicators for February

Item	December 2018			January 2019				February 2019		
	Amount		YoY (%)	Amount		YoY (%)		Amount		YoY (%)
Investment in fixed assets (excl. investments by rural companies)*	(RMB Bn)	63563.6	5.9	(RMB Bn)	-	-	↗	(RMB Bn)	4,484.9	6.1
State-owned sector	(RMB Bn)	(Unreleased)	1.9	(RMB Bn)	-	-	↗	(RMB Bn)	(Unreleased)	5.5
Private sector	(RMB Bn)	39405.1	8.7	(RMB Bn)	-	-	↘	(RMB Bn)	2,696.3	7.5
By industry: Primary industry	(RMB Bn)	2241.3	12.9	(RMB Bn)	-	-	↘	(RMB Bn)	95	3.7
By industry: Secondary industry	(RMB Bn)	23789.9	6.2	(RMB Bn)	-	-	↘	(RMB Bn)	1,386.4	5.5
By industry: Tertiary industry	(RMB Bn)	37532.4	5.5	(RMB Bn)	-	-	↗	(RMB Bn)	3,003.5	6.5
Value-added industrial production**	-	-	5.7	-	-	-	↘	-	-	5.3
Total retail sales of consumer goods***	(RMB Bn)	3589.3	8.2	(RMB Bn)	-	-	→	(RMB Bn)	6,606.4	8.2
Consumer price index (CPI)	-	-	1.9	-	-	1.7	↘	-	-	1.5
Industrial producer price index (PPI)	-	-	0.9	-	-	0.1	→	-	-	0.1
Industrial producer purchase price	-	-	1.6	-	-	0.2	↘	-	-	▲ 0.1
Exports	(USD Bn)	221.25	▲ 4.4	(USD Bn)	217.57	9.1	↘	(USD Bn)	135.24	▲ 20.7
Imports	(USD Bn)	164.19	▲ 7.6	(USD Bn)	178.41	▲ 1.5	↘	(USD Bn)	131.12	▲ 5.2
Trade balance	(USD Bn)	57.06	-	(USD Bn)	39.16	-		(USD Bn)	4.12	-
Inward foreign direct investment (executed basis)	(USD Bn)	13.71	23.2	(USD Bn)	124.1	2.8	↗	(USD Bn)	9.28	3.3

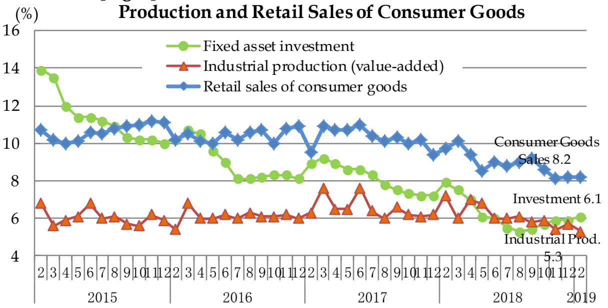
* Cumulative total from January
** February data is the cumulative total of January-February. Independently-accounted state-run companies and non-state-run companies with annual sales of RMB 20 million or more
*** February data is the cumulative total of January-February
Source: Created based on data released by NBS

January-February industrial production rose 5.3% year-on-year (YoY), the growth being 0.4 percentage point lower than in December 2018 (Figs. 1 and 2). By sector, automobile manufacturing and oil and natural gas mining decreased 5.3% YoY and 0.4% YoY respectively. Growth in manufacturing of railway vehicles, ships, aircraft, and other transportation equipment decreased significantly compared to December 2018, with YoY growth falling from 13.8% to 7.9%, a pattern also seen in the manufacturing of computers, communication equipment and other electronic equipment, which fell from 10.5% to 6.0%.

January-February investment in fixed assets increased 6.1% YoY, up 0.2 percentage point from 5.9% in December 2018 (Figs. 1 and 2). By category, while the growth in investment in the manufacturing industry was 5.9%, far less than the 9.5% recorded in December, growth in infrastructure investment increased from 3.8% to 4.3% and growth in real estate investment increased from 9.5% to 11.6%, boosting investment numbers overall (Fig. 3).

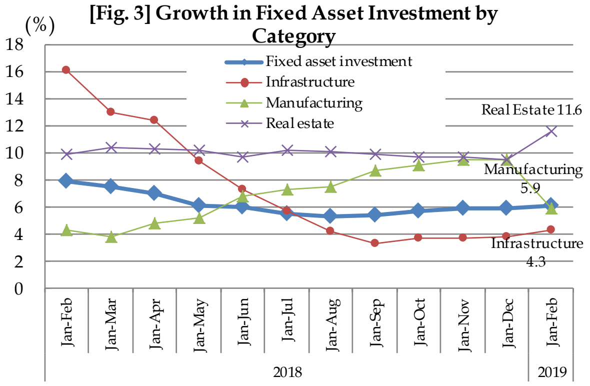
Total retail sales of consumer goods for January-February increased 8.2% YoY, unchanged from the YoY increase seen in December 2018 (Fig. 2).

[Fig. 2] Growth in Fixed Asset Investment, Industrial Production and Retail Sales of Consumer Goods



Notes: Cumulative total from January used for fixed asset investment
Cumulative total of January and February used for February data for industrial production and retail sales of consumer goods
Source: Created based on data released by NBS

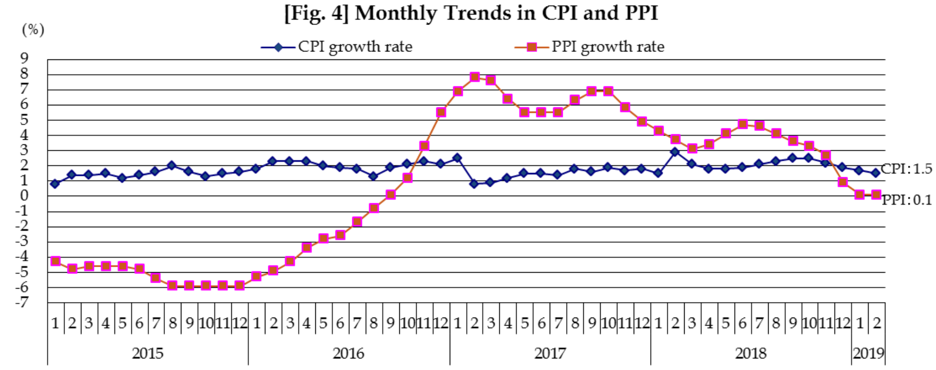
[Fig. 3] Growth in Fixed Asset Investment by Category



Source: Created based on data released by NBS

The February consumer price index (CPI) increased 1.5% YoY, down 0.2 percentage point from the previous month. By category, food increased 0.7% YoY and non-food increased 1.7% YoY. The producer price index (PPI) maintained the same growth rate from the month before, increasing 0.1% YoY (Fig. 4).

[Fig. 4] Monthly Trends in CPI and PPI



Source: Created based on data released by NBS

The surveyed urban unemployment rate at the end of February was 5.3%, rising 0.2 percentage point from the previous month. This is the second consecutive month in which the unemployment rate has increased, going from 4.9% at the end of December 2018 to 5.1% at the end of January. The NBS explained that this was due to the special factor of job-seeking in cities by workers registered as rural residents tending to increase temporarily after the Chinese New Year. The government set the target for this year's urban unemployment rate as "around 5.5%," slightly adjusting the 2018 target of "5.5% or less," with the current unemployment rate staying within the government's estimated range.

[Industry]

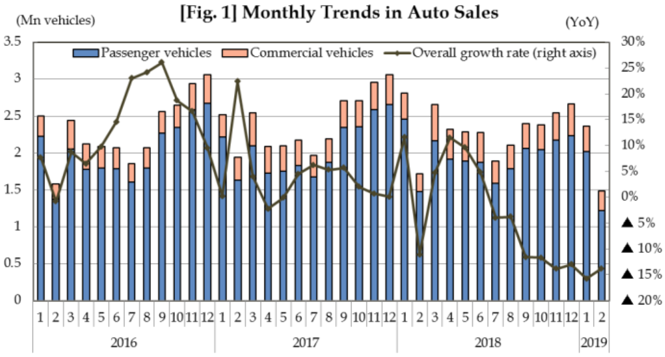
◆February auto sales fall 13.8% year-on-year, posting a year-on-year decrease for the eighth consecutive month

The China Association of Automobile Manufacturers (CAAM) announced on March 11 that February auto sales fell 13.8% YoY to 1.482 million units, marking a YoY decrease for the eighth consecutive month, although the decrease was smaller than the 15.8% YoY drop the month before (Fig. 1). Cumulative sales for January-February were down 14.9% YoY to 3.852 million units (Fig. 2).

February sales of passenger vehicles dropped 17.4% YoY to 1.22 million units. Sales of all types of passenger vehicles continue to fall significantly below the previous year's numbers (Fig. 2).

Meanwhile, February sales of commercial vehicles rose 8.0% YoY to 262,000 units, with the growth rate turning positive. Sales of both buses and trucks recorded year-on-year increases (Fig. 2). It is assumed that these results reflect increased infrastructure project activity with many projects being started beginning in February, and auto dealers securing their inventory of trucks in anticipation of heightened demand in March and April, which is normally a peak sales period for large trucks.

[Fig. 1] Monthly Trends in Auto Sales



Source: Created based on data released by CAAM

[Fig. 2] February 2019 Auto Sales and Growth Rate

	January 2019 Auto sales (Mn vehicles)	January 2019 YoY	February 2019 Auto sales (Mn vehicles)	February 2019 YoY	January-February 2019 Auto sales (Mn vehicles)	January-February 2019 YoY
Auto sales	**2.367**	**▲15.8%**	**1.482**	**▲13.8%**	**3.852**	**▲14.9%**
Passenger vehicles	2.021	▲17.7%	1.22	▲17.4%	3.243	▲17.5%
Sedans	0.986	▲14.9%	0.58	▲14.4%	1.566	▲14.7%
SUVs (sport utility vehicles)	0.879	▲18.9%	0.53	▲18.6%	1.411	▲18.6%
MPVs (multi-purpose vehicles)	0.13	▲27.4%	0.088	▲27.2%	0.218	▲27.4%
Crossover SUVs	0.026	▲26.0%	0.021	▲16.7%	0.048	▲22.1%
Commercial vehicles	0.346	▲2.2%	0.262	8.0%	0.608	2.0%
Buses	0.033	▲6.7%	0.019	0.1%	0.052	▲4.1%
Trucks	0.313	▲1.7%	0.243	8.7%	0.556	2.6%
New energy vehicles	0.096	138.0%	0.053	53.6%	0.148	98.9%
Electric vehicles (EVs)	0.075	179.7%	0.04	69.4%	0.114	127.9%
Plug-in hybrid vehicles (PHVs)	0.021	54.6%	0.013	18.6%	0.034	38.5%

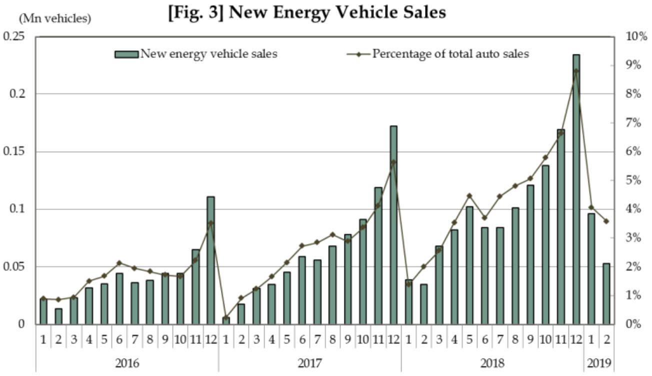
Source: Created based on data released by CAAM

Sales of new energy vehicles continue to grow steadily, jumping 53.6% YoY to 53,000 units (Figs. 2 and 3).

The shares of passenger car sales by the automaker's country were: 42.9% (523,000 units) for China, 24.0% (293,000 units) for Germany, 17.9% (218,000 units) for Japan, 8.9% (109,000 units) for the U.S., 5.0% (61,000 units) for South Korea, and 0.7% (8,000 units) for France. China, Germany, and South Korea have increased their shares (Fig. 4). The 281,000 vehicles sold by Japanese automakers represent a 4.1%* drop YoY, the first year-on-year decrease in seven months (Fig. 5).

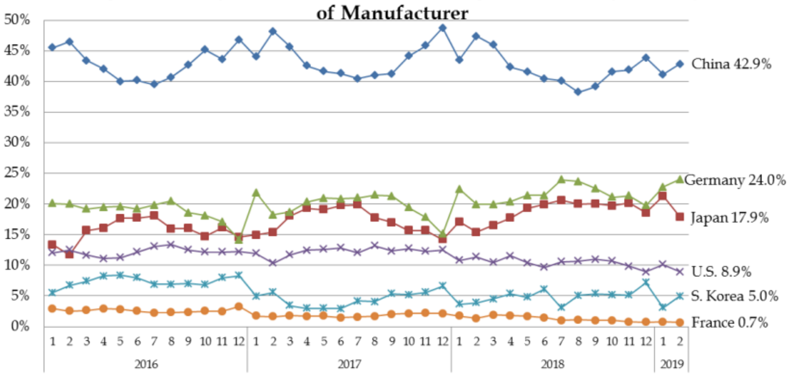
*Calculated by MUFG Bank based on sales data released by CAAM

[Fig. 3] New Energy Vehicle Sales



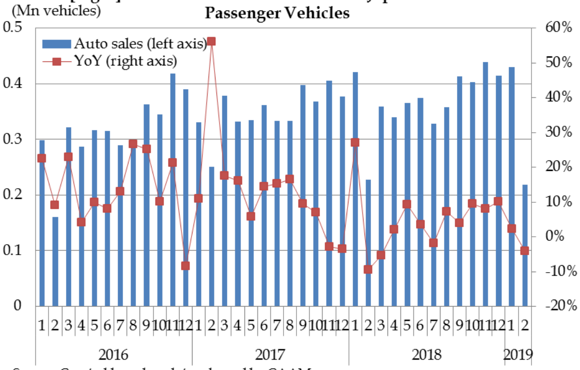
Source: Created based on data released by CAAM

[Fig. 4] Monthly Trends in Share of Passenger Car Sales by Country of Manufacturer



Source: Created based on data released by CAAM

[Fig. 5] Auto Sales and Growth Rate of Japanese Brand Passenger Vehicles



Source: Created based on data released by CAAM
Growth rates are calculated by MUFG Bank based on CAAM data

[Trade/Investment]

◆National People's Congress Eager to Attract Foreign Capital: Greater Protection of Foreign Companies' Interests and Provision of National Treatment

During the National People's Congress (NPC) (March 5 to 15, 2019), representatives from the National Development and Reform Commission and the Ministry of Commerce explained the 2019 foreign investment policy on March 6 and 15 respectively in the regular press conferences for high-level officials.

Concerning the current economic situation, the officials indicated their view that the world is facing a major turning point unlike anything experienced in the previous century and emphasized that maintaining stable foreign investment in China will be essential to underpin the slowing domestic economy.

More specifically, a new foreign investment law will be discussed and passed on the last day of the NPC to extend national treatment to foreign companies before and after their entry into the Chinese market, lift related restrictions set in government policies and administrative regulations, strengthen the protection of foreign companies' legitimate rights and interests, and create an equal and transparent competitive environment.

At the same time, they announced that the lists indicating the industries subject to foreign investment restrictions and encouragement (the negative list and the Catalogue of Encouraged Foreign Investment Industries) would be revised and showed their intention to accelerate the opening up of the Chinese market to foreign capital against the backdrop of the U.S.-China trade dispute.

<National Development and Reform Commission Press Conference (excerpt)>

◇ Incentives to attract foreign investment (2019)
Reduce the number of items on the negative list for foreign investment
- Release the revised negative list in 2019
- Ease restrictions in the agriculture, mining, manufacturing, and service industries
Increase the number of items listed in the Catalogue of Encouraged Foreign Investment Industries
- Release the revised Catalogue in 2019
- Provide preferential treatment for investment in applicable industries, such as exemption from customs duties on imported manufacturing equipment and preferential land supply. Apply preferential treatment of a 15% reduction of corporate income tax in western China
Ensure national treatment of foreign businesses before and after entering the Chinese market
- Abolish regulatory restrictions before market entry for industries not on the negative list
- Apply treatment of foreign companies after market entry that is equal to that of Chinese companies for government procurement, standard-setting, industrial policies, science and technology policies, listing on stock exchanges, etc.
Increase the convenience of foreign investment procedures
- Simplify notification (declaration) procedures further
- Provide prioritized support for important investments in new energy, advanced manufacturing, electronics and information, etc. (land supply, energy use, urban planning, etc.)
Protect foreign companies’ interests by law
- Enact, publish, and enforce the foreign investment law

<Ministry of Commerce Press Conference (excerpt)>

◇ Improvement of the investment environment in China through the foreign investment law
Establish a system for foreign investment management through national treatment and negative lists
- Clarify restrictions on foreign investment on the negative list, and manage foreign companies in other industries in the same manner as Chinese companies
Create a fair competitive environment
- Apply all preferential treatment given to Chinese companies to foreign companies
Strengthen the protection of foreign companies' legitimate rights and interests
- Enhance protection of intellectual property, and put prohibition of forced technology transfer through administrative measures in statutory form
- Ensure the free transfer of funds into and out of China for distribution of dividends, removal of capital in China, etc.
- Ensure consistent administration of government policies regardless of changes of local officials
◇ Actions to support the Belt and Road Initiative
Focus on projects that are beneficial for all parties concerned
- Focus on projects that improve the infrastructures and livelihoods of the countries that are invested in
Build zones for economic and trade cooperation outside the Belt and Road area
- Improve the existing zones and build new zones
Increase the number of events to promote trade and investment
- Continue to hold the China International Import Expo and create more platforms for promoting trade and investment
Use cross-border EC
- Increase online business with countries in the Belt and Road Initiative region, and create an online “silk road”
Promote free trade agreements (FTAs)
- Improve existing FTAs and cultivate new ones

◆February Trade Statistics Show 20% Decline Year-on-Year (YoY) in Exports Due to Last-Minute Shipments in January Before the New Year Holidays

On March 8, the General Administration of Customs (GACC) released a trade statistics bulletin (in USD), which indicated that February exports fell 20.7% YoY (9.1% increase YoY in January) to USD 135.24 billion and imports dropped by 5.2% YoY (1.5% decrease YoY in January) to USD 131.12 billion. Both exports and imports registered a YoY decrease. Exports in particular diminished significantly, showing a double-digit drop from January, where trade amounts grew steadily due to last-minute shipments before the Chinese New Year holidays (Figs. 1 and 2).

Meanwhile, the cumulative results for January and February, in which the impact of the New Year holidays is absorbed, show that exports and imports fell 4.6% and 3.1% YoY respectively, slowing down from growth of over 20% for January-February 2018 (when exports and imports were up 24.4% and 21.7% YoY respectively). This suggests that the foreign trade environment has changed significantly (Fig. 1).

[Fig. 1] Overview of February Trade Statistics

Trade Statistics for February 2019 (USD Bn)		
	Amount	YoY change
Exports	135.24	▲20.7%
Imports	131.12	▲5.2%
Trade surplus	4.12	-
Trade Statistics for January-February 2019 (USD Bn)		
	Amount	YoY change
Exports	353.22	▲4.6%
Imports	309.51	▲3.1%
Trade surplus	43.71	-

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

The January-February YoY growth of some exports turned negative despite recording double-digit growth in the same period of the previous year. Electronics/machinery declined by 5.0% YoY (10.6% increase YoY in 2018) and high-tech equipment dropped 4.4% YoY (11.9% increase YoY in 2018). More specifically, mobile phones and related components, LCDs, and auto parts dropped significantly by 23.7%, 8.9%, and 8.1% respectively. Exports of clothes and shoes also fell sharply, by 14.6% and 11.3% respectively.

Meanwhile, YoY growth for certain imported products in January and February turned negative while growth had been positive throughout 2018. Electronics/machinery declined by 7.4% YoY (13.0% increase YoY in 2018) and high-tech equipment dropped 6.6% YoY (14.9% increase YoY in 2018). More specifically, there were significant decreases in LCDs, automobiles and vehicular chassis, and integrated circuits, falling by 19.5%, 11.5%, and 8.6% respectively. Imports of soybeans also showed a considerable decline, down 9.5% YoY.

Looking at statistics by country, January-February trade with the U.S declined YoY: exports dropped 14.1% YoY to USD 59.3 billion and imports from the U.S. fell 35.1% YoY to USD 17.18 billion, with a more significant slowdown in imports than exports. The January-February trade surplus decreased by 2.0%* to USD 42.11 billion,* slightly below the previous year's level (Fig. 3), and the trade surplus in February declined 29.8%* YoY to USD 14.72 billion, showing a significant drop YoY (Fig. 4)

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

As for trade with Japan, January-February exports and imports dropped 0.9% YoY, with exports down 1.1% YoY and imports down 0.7% YoY. Trade is overall rather sluggish compared to the positive growth in 2018, when there was an 8.1% increase YoY for total exports and imports (Fig. 3).

[Fig. 3] January-February 2019 Import/Export Amounts and Growth Rates by Country/Region

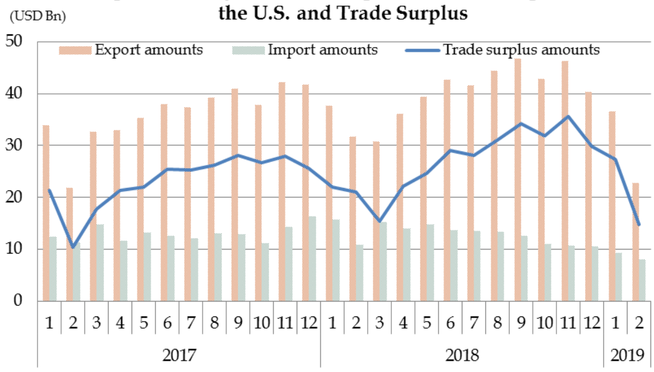
(USD Bn)

Country/ Region	Exports	YoY	Imports	YoY	Trade balance	Total Exports/ Imports	YoY
U.S.	59.30	▲14.1%	17.18	▲35.1%	42.11	76.48	▲19.9%
Japan	22.55	▲1.1%	24.83	▲0.7%	▲ 2.29	47.38	▲0.9%
South Korea	16.64	4.9%	26.18	▲13.7%	▲ 9.54	42.82	▲7.3%
Hong Kong	36.63	▲10.6%	1.49	61.3%	35.14	38.12	▲9.0%
Taiwan	7.48	4.7%	24.40	▲3.0%	▲ 16.92	31.88	▲1.3%
Germany	12.68	5.3%	16.42	2.8%	▲ 3.74	29.10	3.9%
Australia	7.01	3.3%	17.83	5.1%	▲ 10.82	24.84	4.6%
Vietnam	11.35	2.2%	7.26	▲30.2%	4.09	18.62	▲13.5%
Malaysia	6.98	5.3%	9.43	5.6%	▲ 2.45	16.41	5.5%
Brazil	4.84	▲8.4%	12.52	33.5%	▲ 7.68	17.36	18.4%

Note: Top 10 countries/regions by total amount

Source: Created based on data released by the GACC

[Fig. 4] Monthly Trends in Imports from and Exports to the U.S. and Trade Surplus



Source: Created based on data released by the GACC

On March 9, Ni Yuefeng, Minister of the GACC and Customs Commissioner-General, said in response to a question posed by a member of the press that exports and imports are growing steadily and emphasized that the outlook for trade is promising, as preliminary reports indicate that exports jumped 39.9% YoY and total trade grew 24.7% YoY for the period from March 1 to 8 (in RMB).

◆Foreign investment law to take effect in January 2020 and strengthen protection for foreign investment

On March 15, the National People's Congress (the equivalent of the Diet in Japan) passed and enacted a foreign investment law to regulate foreign investment in China. It will take effect on January 1, 2020, and the three existing laws governing foreign investment, a law for wholly foreign-owned enterprises, one for Chinese-foreign equity joint ventures, and one for Chinese-foreign contractual joint ventures, will be abolished on the same day.

The new foreign investment law consists of 42 articles that stipulate the promotion, protection, and management of foreign investment, aiming to further protect and attract foreign investment. The law will stipulate the policy for accepting investment, and the organizational operation of foreign companies shall comply with the Company Law of the People's Republic of China.

For the original text of the law please access the URLs below.

<Original text> http://www.npc.gov.cn/npc/xinwen/2019-03/15/content_2083532.htm

[Finance/Exchange]

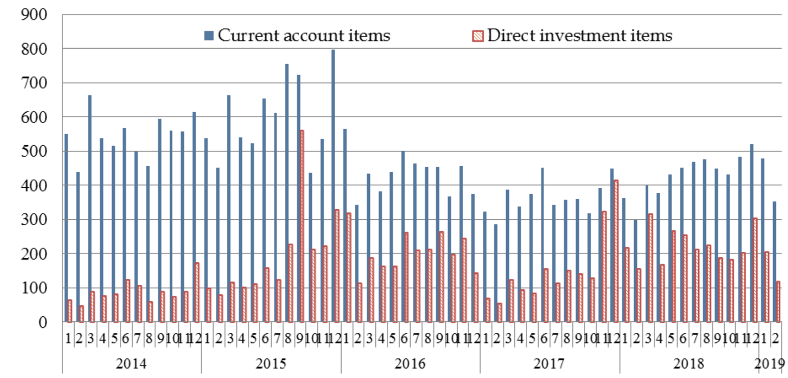
◆Cross-Border RMB Settlements for February: Current Account Items Remain Strong

On March 10, the People's Bank of China (PBOC) announced that February cross-border RMB settlements continued to be strong for current account items, which grew 18.4%* YoY to RMB 352.19 billion, while direct investments fell 23.4%* YoY to RMB 117.34 billion (Fig. 1).

Among current account items, trade of goods increased by 20.2% YoY to RMB 266.22 billion and trade in services rose 13.3%* YoY to RMB 85.97 billion. On the other hand, inward foreign direct investment decreased by 18.4% YoY* to RMB 93.74 billion and outward foreign direct investment fell dramatically, decreasing 38.3% YoY* to RMB 23.6 billion.

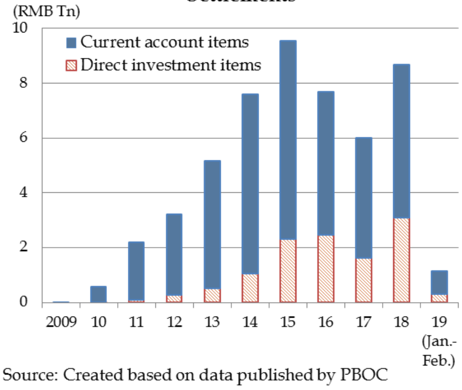
* Calculated by MUFG Bank based on data published by PBOC

[Fig. 1] Monthly Trends in Cross-Border RMB Settlements



Source: Created based on data published by PBOC

[Fig. 2] Yearly Trends in Cross-Border RMB Settlements



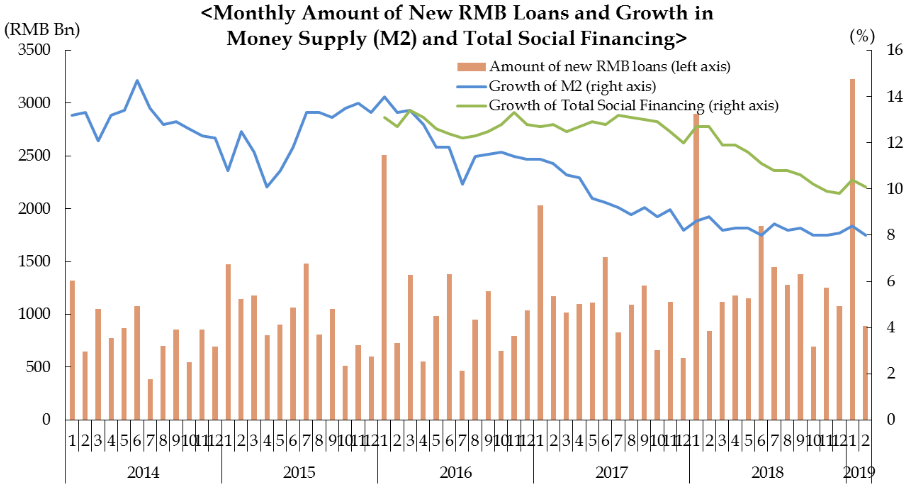
Source: Created based on data published by PBOC

◆Growth in New RMB Loans and Total Social Financing for February Drop Considerably Month-on-Month (MoM) due to Seasonal Factors

On March 7, the PBOC announced that new RMB loans in February increased by RMB 46.5 billion YoY to RMB 885.8 billion, showing a large MoM drop from January, when new loans hit a record high on a monthly basis. Growth in total social financing,* which indicates the amount of money supplied to the real economy, decreased by RMB 484.7 billion to RMB 703 billion, a considerable decline from the RMB 4.64 trillion recorded in January.

* Total social financing = RMB loans + foreign currency loans + entrusted loans + trust loans + bank acceptances + corporate bonds + stocks issued by non-financial firms + insurance company payouts + investment properties + others

Money supply (M2) as of the end of February rose 8.0% YoY, down 0.4 point from the previous month. Total social financing increased by 10.1% MoM. While it was 0.3 point lower than the MoM increase of 10.4% in the previous month, the rate of increase has improved from the beginning of the year, maintaining a double-digit increase for the second consecutive month.



Source: Created based on data published by the PBOC
* Growth of total social financing began being published in January 2016

The PBOC pointed out that long-term observation is necessary, as results in January and February vary due to the New Year holidays, but said this year's financing situation had gotten off to a good start and was growing stably, as cumulative RMB loans for January and February rose RMB 374.8 billion YoY and total social financing grew RMB 1.05 trillion, both showing a YoY increase.

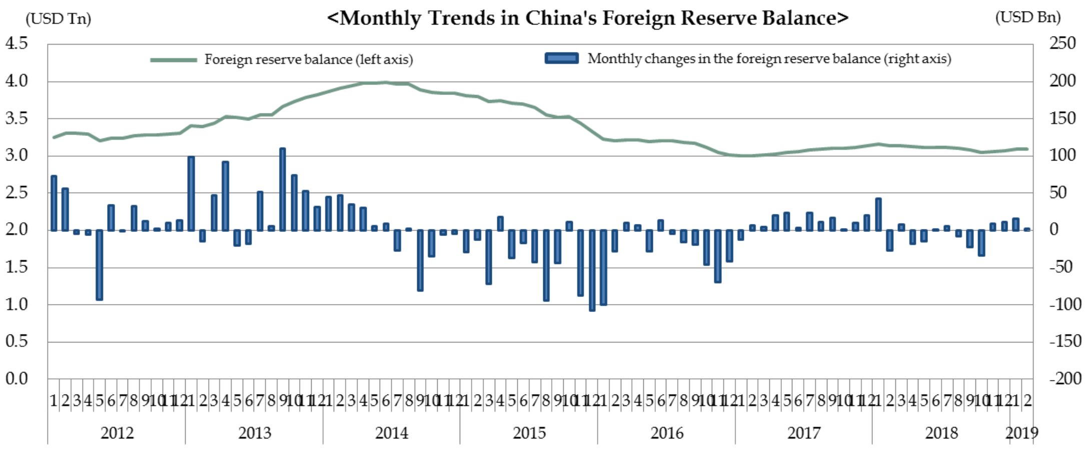
According to the Report on the Work of the Government from the National People's Congress (equivalent to the Japanese Diet) that opened on March 5, the Chinese government will maintain its moderate monetary policy, and the target growth for money supply (M2) and total social financing are set to a level in keeping with the nominal GDP (10% in 2018). The PBOC said the February results are in line with the target values.

Moreover, the Report also mentions a plan to increase loans provided by large commercial banks to small and micro businesses by 30% or more from the previous year. It also clearly indicates the government's intention to enhance support for the real economy, in particular to solve the cash flow problems of private companies that possess advanced technology and promising products.

◆Foreign Reserve Balance in February Shows Modest Increase for Fourth Consecutive Month

The People's Bank of China (PBOC) announced on March 7 that China's foreign currency reserves increased in February for the fourth consecutive month, rising by USD 2.3 billion MoM to USD 3.0902 trillion.

According to the analysis of the State Administration of Foreign Exchange, the slight monthly increase in February was due to a reduction in the USD value of assets in other currencies caused by appreciation of the USD against other key currencies while prices of government bonds rose in major countries.



Source: Created based on data released by the PBOC