

CHINA BIWEEKLY

RMB Internationalization Business Promotion Office
Global Business Division

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■ BIWEEKLY DIGEST

[Economy]

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- **Manufacturing PMI Increases in March for First Time in Four Months**
- **People's Bank of China Survey: Business Sentiment in Banking Sector Improves in 1Q FY2019**

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- **Housing Prices in February for 70 Large- and Medium-sized Cities: Month-on-Month (MoM) Growth in 57 Cities, Decreasing for Four Consecutive Months**

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- **Inward and Outward Foreign Direct Investment for January and February Increases 3.0% and Falls 6.9%, respectively**
- **2019 Labor Day Holiday Changed to 4 Consecutive Days to Promote Travel**
- **Shanghai Raises Minimum Wage on April 1**

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[Economy]

◆Premier Li Keqiang Emphasizes Recovery of Chinese Economy at Boao Forum for Asia (BFA)

Premier Li Keqiang attended the Boao Forum for Asia (BFA) annual conference and delivered a keynote speech on March 28 in the province of Hainan, China. He mentioned that positive changes have been seen in the Chinese economy since the beginning of this year. He also reiterated that the government would accelerate its opening-up policy (outlined in the table below).

The premier brought up a number of positive changes in the current Chinese economy as the result of monetary easing and tax cuts by the government. In fact, major economic indicators, such as employment, consumer prices, and the balance of international payments showed steady growth. There have also been improvements in the indices for fixed asset investment and new manufacturing orders, as well as accelerated growth in areas such as power generation, trade, and cargo shipping since the beginning of March.

As destabilizing factors in the environment surrounding the Chinese economy are increasing, the growth rate may fluctuate to a certain extent on a monthly or quarterly basis. If faced with an unexpected change, the premier emphasized that the government will not resort to massive stimulus measures, or return to its previous approach of expansion in scale and inefficient growth; nor will it seek short-term growth at the expense of long-term development. In response to downward economic pressure, he added, the government will implement the previously announced tax and fee cut measures to energize market entities. Against growing financial pressure, the government will demand that administration at all levels substantially cut general expenditure and put idle assets and funds to better use in order to support the tax and fee cuts.

<Opening-Up Policy>

Formulate matching regulations for the Foreign Investment Law
<ul style="list-style-type: none"> • Formulate matching regulations for the Foreign Investment Law and lay down detailed and operable rules before the end of 2019. Ensure that these regulations enter into force together with the Foreign Investment Law on January 1, 2020. • Repeal or modify any regulations or rules that are incompatible with the Foreign Investment Law.
Further widen market access for foreign investment
<ul style="list-style-type: none"> • Revise again the negative list on the market access of foreign investment in general, the negative list for pilot free trade zones, and the catalogue of encouraged foreign investment industries by the end of June 2019. • Further shorten the negative lists. Expand the areas where foreign investment is allowed to include modern services sectors such as value-added telecommunications, medical institutions, and educational services along with transportation, infrastructure and energy and resources.
Open the financial sector wider
<ul style="list-style-type: none"> • Significantly widen the business scope of foreign banks, securities firms and insurance companies. • Make it easier for foreign-invested companies to make venture capital investments and set up investment companies. • Improve the relevant regulations governing foreign investors' strategic investment in listed companies and their mergers and acquisitions of domestic companies. • Further open up China's bond market.
Strengthen the protection of the lawful rights and interests of foreign investors
<ul style="list-style-type: none"> • Treat all companies registered in China as equals, whether domestic or foreign-invested. • Establish a stricter mechanism of punitive compensation for intellectual property rights (IPR) infringements and counterfeiting through the revised Patent Law that is currently on the table for deliberation. • Strictly enforce the clear-cut provisions in the Foreign Investment Law prohibiting forced technology transfer.

◆ Manufacturing PMI Increases in March for First Time in Four Months

On March 31, the National Bureau of Statistics (NBS) and the China Federation of Logistics & Purchasing (CFLP) announced that the March manufacturing PMI increased significantly, rising 1.3 points month-on-month (MoM) to 50.5. The index went above 50.0 points, which is the turning point in judging the economy, for the first time in four months (Fig. 1). The agencies explained that two factors seemed to contribute to this increase. First, the manufacturing industry returned to regular operations after the end of the Chinese New Year holidays. Second, the government implemented tax cut and cost reduction policies.

Taking a closer look at the manufacturing PMI by component, the production index increased to 52.7 points (up 3.2 points MoM) and new orders increased MoM for the second consecutive month, rising 1.0 point to 51.6 points, with both indices exceeding 50.

Both export and import indices showed an improvement from the previous month, though they continued to fall below 50. New export orders recorded 47.1 (up 1.9 points MoM) and imports 48.7 (up 3.9 points MoM) (Fig. 2).

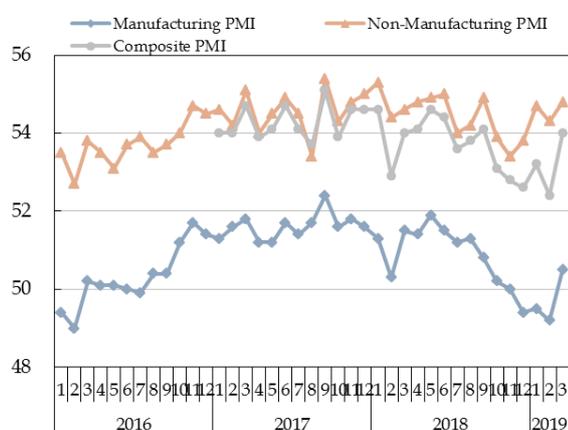
Expected Production and Business Activities, which indicates future business confidence, also rose to 56.8 (up 0.6 point MoM) (Fig. 2).

Looking at the manufacturing PMI by company size, the index for large corporates decreased to 51.1 (down 0.4 point MoM). By contrast, the indices for medium-sized and small corporates significantly increased to 49.9 (up 3.0 points MoM) and 49.3 (up 4.0 points MoM) respectively.

Furthermore, the non-manufacturing PMI in March rose to 54.8 points, up 0.5 point MoM (Fig. 1). By sector, the service industry increased by 0.1 point MoM to 53.6 points, and the construction industry by 2.5 points MoM to 61.7 points.

The composite PMI, a weighted average of the manufacturing and non-manufacturing PMIs that reflects the overall business sentiment in China, increased by 1.6 points MoM to 54.0 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

		Manu- facturing PMI	Produ- tion	New Orders	New Export Orders	Raw Materials Prices	Imports	Employ- ment	Expected Produ- tion and Business Activities
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
	Dec.	49.4	50.8	49.7	46.6	44.8	45.9	48.0	52.7
2019	Jan.	49.5	50.9	49.6	46.9	46.3	47.1	47.8	52.5
	Feb.	49.2	49.5	50.6	45.2	51.9	44.8	47.5	56.2
	Mar.	50.5	52.7	51.6	47.1	53.5	48.7	47.6	56.8

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

◆ People's Bank of China Survey: Business Sentiment in Banking Sector Improves in 1Q FY2019

On March 22, the People's Bank of China (PBoC) announced the results of a survey on business sentiment for the first quarter of FY2019 which was conducted with corporations, financial institutions and individuals. While there was an improvement in business sentiment in the banking sector, the worsening trend persists in the corporate sector.

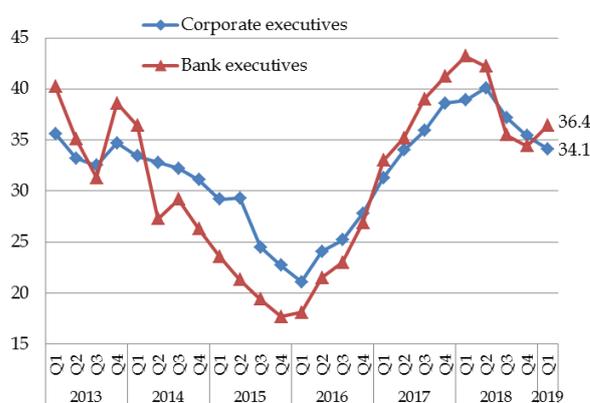
Macroeconomic sentiment among bank executives increased from 34.4 to 36.4, up 2.0 points from the previous term and showing an improvement for the first time in four terms (Fig. 1). The proportion of respondents who feel that the economy is slowing down declined from 32.2% in the previous term to 29.8% (Fig. 2).

In the meantime, macroeconomic sentiment among corporate executives dropped further to 34.1, down 1.3 points from the previous term (Fig. 1). The proportion of respondents who feel that the Chinese economy is slowing down increased for the third consecutive term and was recorded as 33.0% (Fig. 3).

In a survey of depositors in urban areas on their willingness to save, spend or invest their money, 45.0% of respondents indicated their intention to save more, up from 44.1% in the previous term. Furthermore, 29.2% indicated their intention to invest more, rising from 27.3% in the previous term. By contrast, those who intend to spend more dropped to 25.9% from 28.6% in the previous term, marking the first decrease in three terms (Fig. 4).

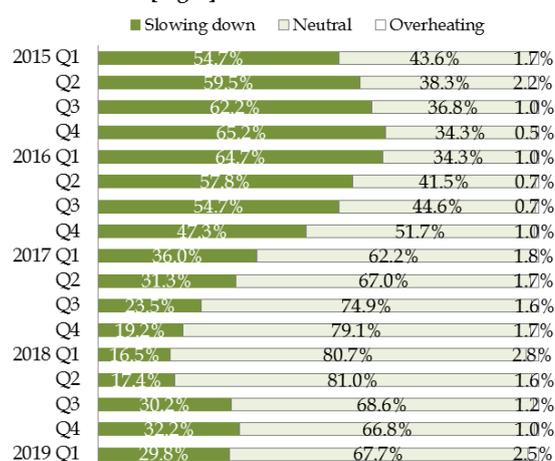
The depositors also answered about what they want to spend more on within the next three months (multiple answers allowed). The top ten responses included: ① education (30.6%), ② travel (29.7%), ③ healthcare (26.2%), ④ housing (21.5%), ⑤ high-priced merchandise (20.8%), ⑥ entertainment, culture and leisure (17.1%), and ⑦ insurance (15.2%), with education taking over the top spot from travel.

[Fig. 1] Macroeconomic Sentiment Index



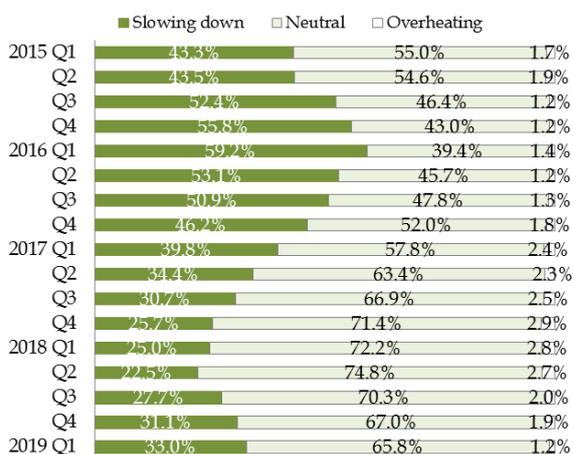
Source: Created based on data released by the PBoC

[Fig. 2] Bank Executives' Business



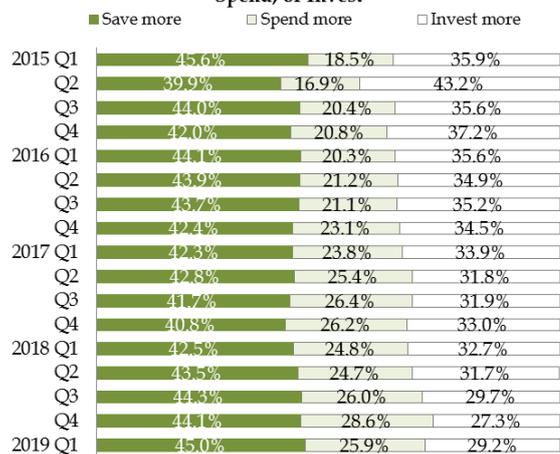
Source: Created based on data released by the PBoC

[Fig. 3] Corporate Executives' Business Sentiment



Source: Created based on data released by the PBoC

[Fig. 4] Urban Depositors' Willingness to Save, Spend, or Invest



Source: Created based on data released by the PBoC

The 1Q FY2019 employment confidence index, which indicates urban depositors' sentiment in regard to the current employment situation, rose to 45.8 points, improving 0.3 point from the previous term (Fig. 5) and moving up to the same peak result in recent years as the one recorded in 1Q FY2018. In this index, higher points mean that more people feel there has been an "increase in jobs."

[Fig. 5] Trends in Urban Depositors' Employment Confidence Index



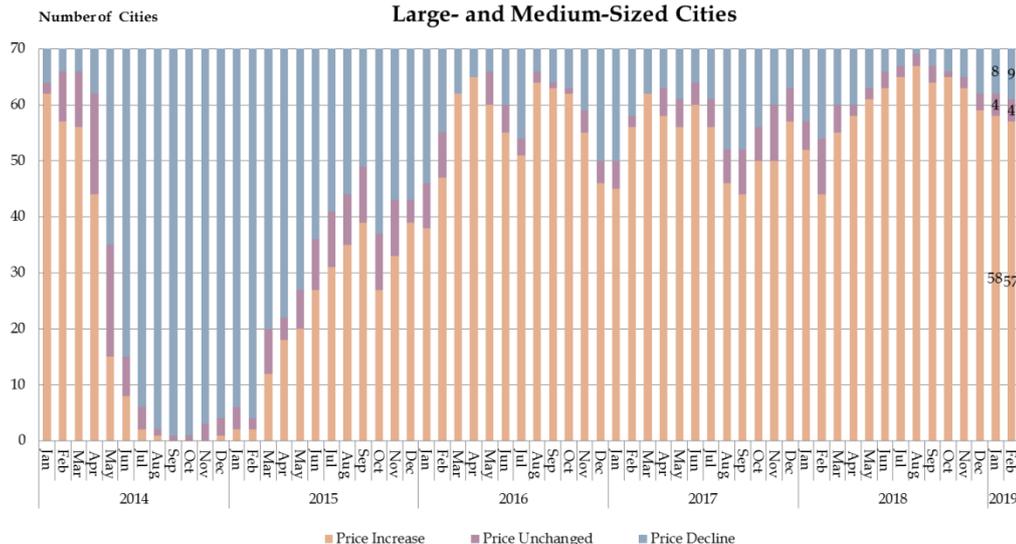
Source: Created based on data released by the PBoC

[Industry]

◆Housing Prices in February for 70 Large- and Medium-sized Cities: Month-on-Month (MoM) Growth in 57 Cities, Decreasing for Four Consecutive Months

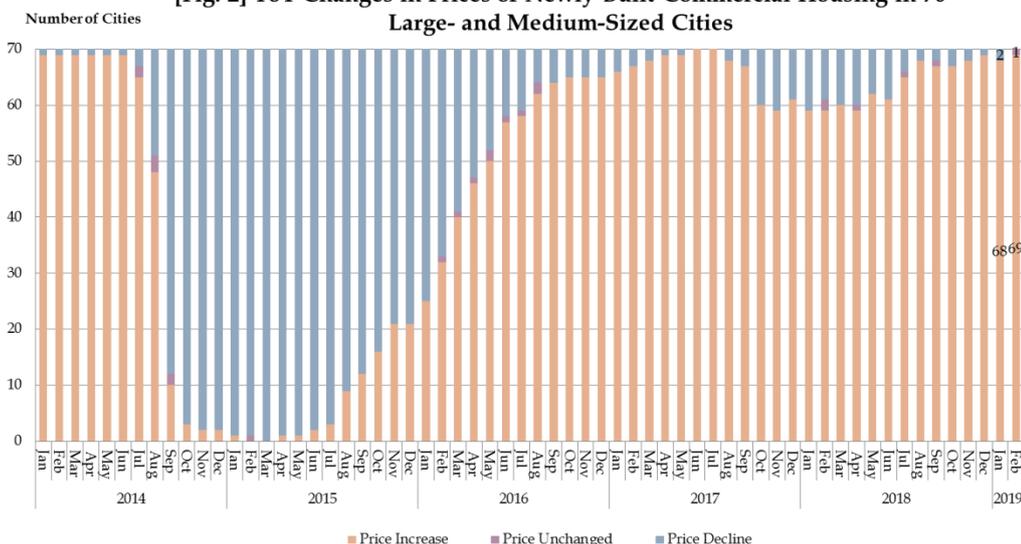
On March 15, the National Bureau of Statistics (NBS) announced the housing price indices for 70 large- and medium-sized cities for February. Sale prices of newly constructed commercial residential buildings rose on a month-on-month (MoM) basis in 57 cities in February, down one city from the previous month and showing a decrease for four consecutive months, while prices slumped in nine cities, up one city from the previous month (Fig. 1). On a year-on-year (YoY) basis, prices rose in 69 cities, up one from the previous month. Housing prices in the remaining city, Xiamen in Fujian Province, remained unchanged from the previous month (Fig. 2).

[Fig.1] MoM Changes in Prices of Newly-Built Commercial Housing in 70 Large- and Medium-Sized Cities



Created based on data published by the National Bureau of Statistics (NBS)

[Fig. 2] YoY Changes in Prices of Newly-Built Commercial Housing in 70 Large- and Medium-Sized Cities



Source: Created based on data published by the National Bureau of Statistics

On a MoM basis, cities with large increases include Xining (Qinghai Province) with a 2.3% increase and Dalian (Liaoning Province) and Dali City (Yunnan Province) with increases of 1.8% each. In contrast, cities that saw large drops include Quanzhou (Fujian Province) and Yueyang (Hunan Province), which both recorded declines of 0.4% MoM. Cities that saw considerable increases on a YoY basis include Xi'an (Shaanxi Province) with a 24.2% increase and Hohhot (Inner Mongolia) with a 23.0% increase. Xi'an has recorded six consecutive months of growth over 20%, while Hohhot has recorded three consecutive months.

Rates of increase on a MoM basis in first-, second-, and third-tier cities were 0.3%, 0.7%, and 0.4%,

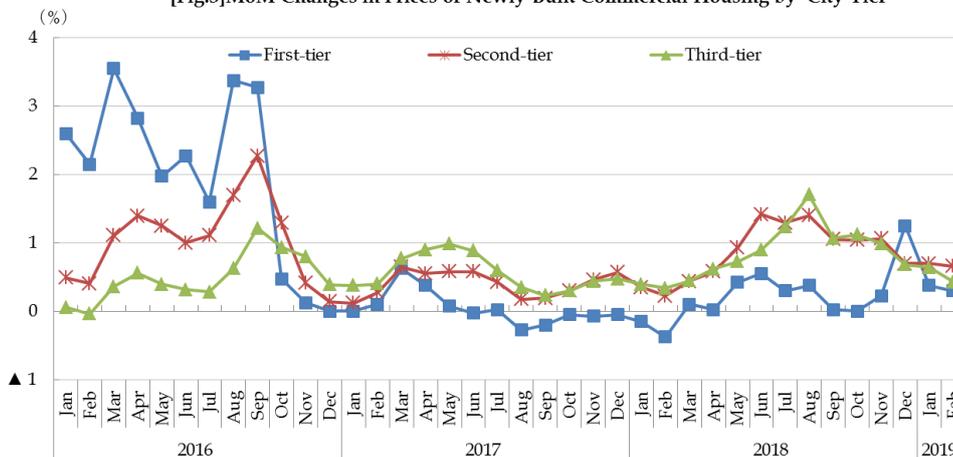
respectively. The growth rate fell in first- and third-tier cities and remained flat in second-tier cities (Figure 3). On the other hand, the average YoY growth in first-, second-, and third-tier cities was 4.1%, 12.0%, and 11.1%, respectively, all increasing from the previous year (Fig. 4).

* First-tier cities: Beijing, Shanghai, Guangzhou, and Shenzhen

Second-tier cities: 31 cities including provincial capitals and sub-provincial cities

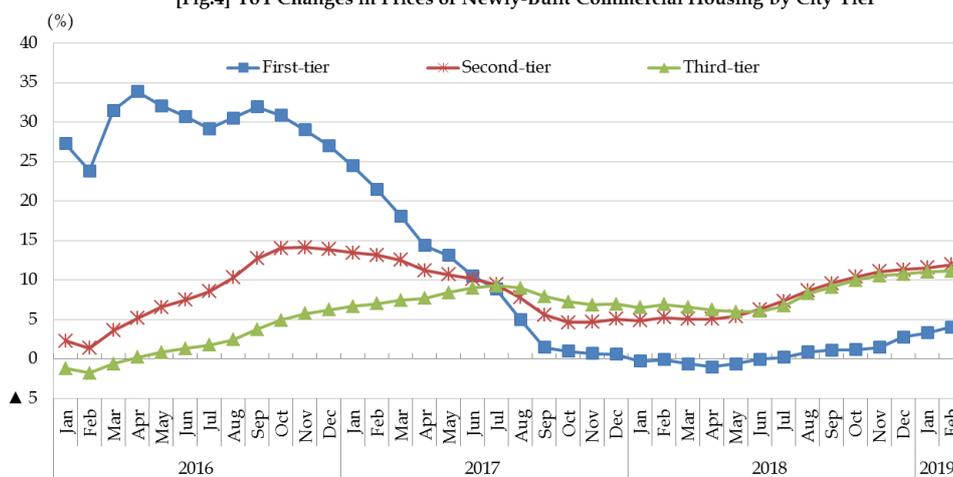
Third-tier cities: 35 of the 70 cities excluding the first- and second-tier cities above

[Fig.3] MoM Changes in Prices of Newly-Built Commercial Housing by City Tier



Source: Created based on data published by the National Bureau of Statistics (NBS)

[Fig.4] YoY Changes in Prices of Newly-Built Commercial Housing by City Tier



Source: Created based on data published by the National Bureau of Statistics (NBS)

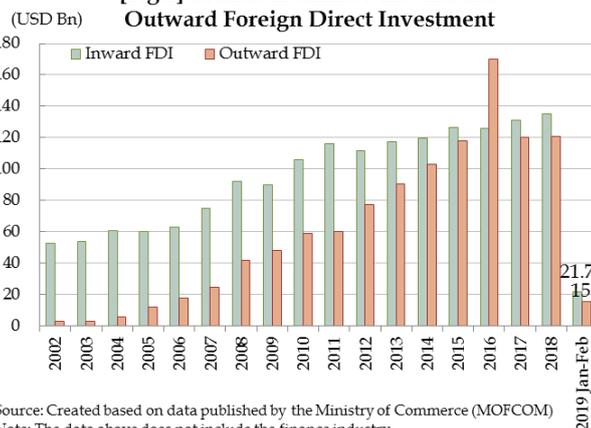
[Trade/Investment]

◆ Inward and Outward Foreign Direct Investment for January and February Increases 3.0% and Falls 6.9%, respectively

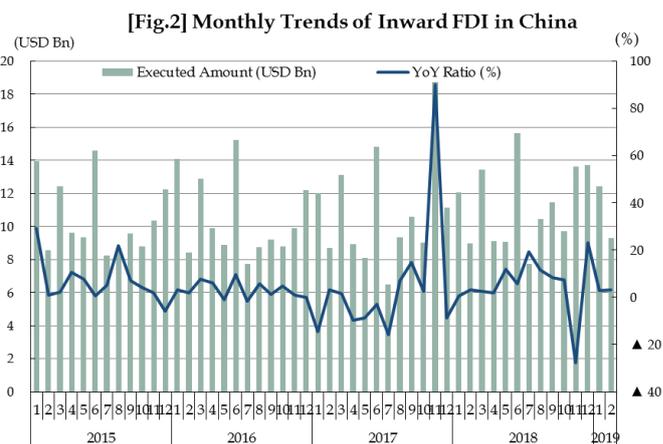
On March 20 and 21, the Ministry of Commerce (MOFCOM) announced the statistics for inward and outward foreign direct investment (FDI) in terms of the executed amount and excluding the financial sector. January to February inward FDI rose 3.0% YoY to USD 21.69 billion, while outward FDI fell 6.9%* YoY to USD 15.66 billion (Fig. 1). For the single month of February, inward FDI rose 3.3% YoY to USD 9.28 billion and outward FDI increased 7.5%* to USD 6.47 billion,* marking increases from the previous year (Figs. 2 and 3).

*Calculated by MUFG Bank based on outward FDI amounts published by the Ministry of Commerce

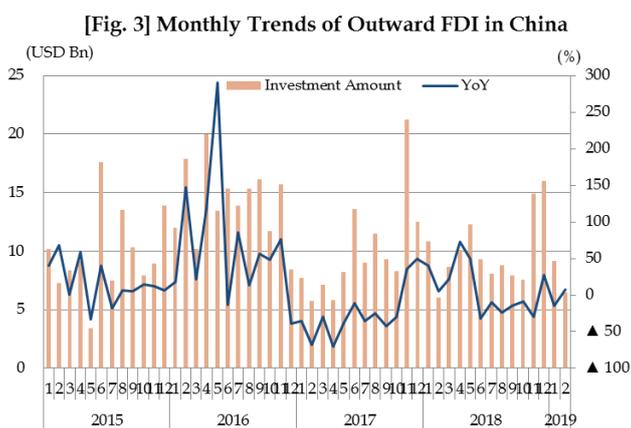
[Fig.1] Trends in China's Inward and Outward Foreign Direct Investment



Source: Created based on data published by the Ministry of Commerce (MOFCOM)
Note: The data above does not include the finance industry.



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



Source: Created based on data published by the Ministry of Commerce
Note: YoY calculated by MUFG Bank based on outward FDI data published by MOCFCOM

<Inward FDI>

The number of newly-established foreign companies in January and February was down to 6,509 companies, a sharp 26.4% decline YoY. However, the investment amount saw a 3.0% increase YoY, suggesting that the amount per investment was large.

By country or region, FDI from Hong Kong accounts for approximately 70% of the total share with USD 15.59 billion, but this number includes investments from mainland China and foreign countries that were made via Hong Kong. FDI from the United States, Germany, and South Korea increased considerably YoY 39.1%,* 34.5%,* and 30.5%,* respectively. In contrast, FDI from the U.K., Luxembourg, Taiwan, and Japan decreased YoY 32.1%,* 27.8%,* 16.3%,* and 10.3%* respectively (Fig. 4).

*Calculated by MUFG Bank based on inward FDI amounts published by MOCFCOM

By industry, investment in the manufacturing sector rose 8.6% YoY to USD 6.8 billion, while investment in the service sector was also up, increasing 0.2% YoY to USD 14.6 billion, suggesting large growth in the manufacturing sector.

<Outward FDI>

While outward FDI saw an overall drop YoY, investments in countries in the Belt and Road Initiative region saw a robust 7.0% increase YoY to USD 2.3 billion.

Moreover, by industry, the manufacturing sector saw a large increase of 16.7% YoY to USD 3.21 billion. In terms of the breakdown by industry, the leasing and commercial business comprised 28.2%, the manufacturing industry 20.5%, and wholesale and retail 10.2%.

◆2019 Labor Day Holiday Changed to 4 Consecutive Days to Promote Travel

The General Office of the State Council announced on March 22 that this year's Labor Day holiday will be changed from Wednesday, May 1 to the four days beginning on May 1 and ending on Saturday, May 4.

In a change from the national holidays for 2019 that were announced last December, Thursday, May 2 and Friday, May 3 have also been made days off, which combined with Saturday, May 4 creates four consecutive days of holidays. Sunday, April 28 and Sunday, May 5 will be compensatory working days.

The National Development and Reform Commission explained that the changes were made to reflect public opinion and social conditions after various opinions and proposals calling for reforms to holidays were brought up in previous meetings, such as the recent National People's Congress.

[Fig. 4] China's Inward FDI for January to February 2019
(Top 10 Countries and Regions)

Rank	Country/Region	Investment Amount (in USD Bn)	YoY Change (%)
1	Hong Kong	15.59	0.6
2	South Korea	1.07	30.5
3	Singapore	1.00	4.2
4	Taiwan	0.72	▲16.3
5	United States	0.64	39.1
6	Japan	0.52	▲10.3
7	The Netherlands	0.40	-
8	Germany	0.39	34.5
9	U.K.	0.19	▲32.1
10	Luxembourg	0.13	▲27.8

Source: Created based on data published by the Ministry of Commerce
Note: YoY calculated by MUFG Bank based on data published by MOCFCOM

The notification that discusses this matter (GOC Issuance [2019] No. 3) requests all regions and sectors to take effective measures to ensure transportation capacity, enhance tourist services, and increase product supply, suggesting the expectation of a rise in travel and spending over the 4-day holidays.

◆Shanghai Raises Minimum Wage on April 1

On March 25, the Shanghai Municipal Government announced that it would raise the city's minimum wage from RMB 2,420 (last revised in April 2018) to RMB 2,480. The new minimum wage took effect on April 1, 2019.

Besides Shanghai, Chongqing and Shaanxi have also raised the minimum wage this year. Below are the three cities or provinces in China that have the highest and lowest minimum wages.

- 3 highest: Shanghai (RMB 2,480), Shenzhen (RMB 2,200), Guangzhou (RMB 2,100)
- 3 lowest: Qinghai (RMB 1,500), Anhui (RMB 1,550), Hunan (RMB 1,580)