CHINA BIWEEKLY

RMB Internationalization Business Promotion Office
Global Business Division

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■ BIWEEKLY DIGEST

[Economy]

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- **IMF 2019 Outlook on Growth of World Economy Lowered to 3.3%. Outlook on China Raised to 6.3%**
- **CPI and PPI for March 2019 Show Substantial Respective Increases of 2.3% and 0.4% Year-on-Year (YoY)**

[Trade/Investment]

- **March Exports Recover to Positive Growth, Increasing 14.2% YoY**

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- **China's Digital Economy in 2018 Worth RMB 31 Trillion, One-Third of GDP**
- **China's Consumer Market Grows 9.0% in 2018 Driven by Growth in Online Shopping**

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- **Foreign Reserve Balance in March Shows Increase for Five Consecutive Months**
- **Internationalization of RMB Continues, Becoming World's Fifth Largest Reserve Currency**

[Economy]

◆International Balance of Payments in 2018: Current Account Surplus Shrinks and Capital Account Increases. Foreign Investments in Securities Increase 30%

The State Administration of Foreign Exchange announced China's 2018 international balance of payments on March 29.

<Current account balance>

The 2018 current account balance resulted in a surplus of USD 49.1 billion. The extent of the surplus is approximately one-fourth of what it was in the previous year and represents 0.4% of the GDP, marking a decrease for the third consecutive year as it approaches equilibrium (Figs. 1 and 2).

The breakdown shows that the trade balance saw a 17% reduction in the surplus compared to the previous year. On the other hand, deficits in the balance for services recorded a 12.9% increase in the deficit, with intellectual property usage fees, transportation, and travel showing increases of 26.4%, 19.5%, and 8.1% in the extent of deficit respectively, suggesting effects from increased foreign payments (Fig. 1).

<Capital and financial account balance>

The capital and financial account balance saw a surplus of USD 111.1 billion, with the surplus margin increasing 6.2 times year-on-year (YoY) (Fig. 1).

The inflow of direct investments increased 22.5% YoY for a total of USD 203.5 billion, of which stock capital inflow saw a YoY increase of 9.8% to reach a total of USD 154.4 billion (Fig. 1).

Inflow of securities investments saw an increase of 28.9% YoY for a total of USD 160.2 billion, of which stock investments generated a 67.7% increase in inflow with USD 60.7 billion, and bonds resulted in a 12.7% increase YoY with USD 99.5 billion (Fig. 1).

Regarding the increase in securities investments, authorities pointed out that the accelerating opening up of the Chinese capital market and the inclusion of A-shares in the MSCI Emerging Markets Index (added in June 2018) are behind generating remarkable amounts of capital inflow, especially with regards to the increase in value of Chinese government bonds held by foreign central banks, as well as the Shanghai-Hong Kong Stock Connect (an investment channel that connects the Shanghai Stock Exchange and the Hong Kong Stock Exchange).

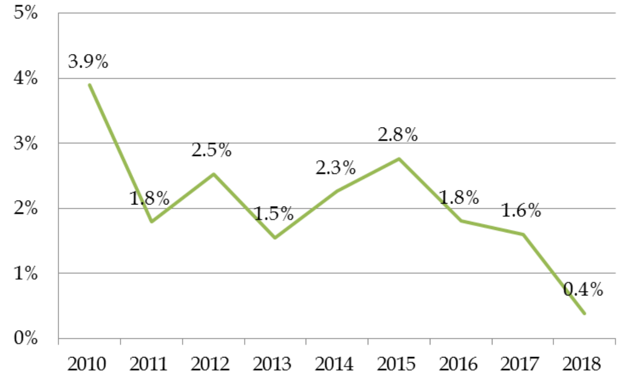
Bloomberg L.P. announced in April 2019 that it will start gradually adding RMB-denominated government bonds and development bank bonds to the Bloomberg Barclays Global Aggregate Index, suggesting that foreign securities investments in China will further increase.

[Fig. 1] Principal Items in International Balance of Payments

Item	2017 amount (USD Bn)	2018 amount (USD Bn)
Current account balance	195.1	49.1
Trade balance	475.9	395.2
Service balance	▲ 258.9	▲ 292.2
Transport	▲ 56	▲ 66.9
Travel	▲ 219.3	▲ 237
Intellectual property usage fee	▲ 23.9	▲ 30.2
Primary income balance (income)	▲ 10	▲ 51.4
Secondary income balance (current transfers)	▲ 11.9	▲ 2.4
Capital and financial account balance	17.9	111.1
Capital balance	▲ 0.1	▲ 0.6
Financial balance	18	111.7
Financial balance excluding reserve assets	109.5	130.6
Direct investment balance	27.8	107
(outflow)	(▲138.3)	(▲96.5)
(inflow)	(166.1)	(203.5)
Securities investment balance	29.5	106.7
(outflow)	(▲94.8)	(▲53.5)
(inflow)	(124.3)	(160.2)
Reserve assets	▲ 91.5	▲ 18.9
Foreign reserves	▲ 93	▲ 18.2
Errors and omissions	▲ 213	▲ 160.2

Source: Created based on data published by the State Administration of Foreign Exchange
*▲ denotes a negative balance
**Reserve assets are comprised of gold, special drawing rights (SDR), IMF reserve positions, foreign reserves, etc.
Increases in reserve assets are increases in foreign assets and are marked as negative on the international balance of payments (▲).

[Fig. 2] China's Current Account Surplus-to-GDP-Ratio



Source: Created based on data published by the State Administration of Foreign Exchange

◆IMF 2019 Outlook on Growth of World Economy Lowered to 3.3%. Outlook on China Raised to 6.3%

On April 9, the IMF released the April revision of its World Economic Outlook (WEO).

The IMF forecast for the world economy has been adjusted downward for three consecutive terms and was lowered 0.2 point from the previous outlook (January 2019) to 3.3%. The 3.6% growth rate outlook for 2020 remained unchanged. Changes in the global economy over the past year have made clear the economic slowdown of major countries. In addition to the intensification of trade tension between the United States and China slowing trade, the heightened uncertainty of the political administrations of many countries including the United Kingdom regarding its departure from the European Union has dampened corporate and investor sentiment, increasing the downward fluctuation risk of the world economy.

The 2019 outlook on the Chinese economy increased 0.1 point from the previous outlook to 6.3%. It was noted that this reflects factors such as the delay on raising tariffs on USD 200 billion worth of Chinese goods (from 10% to 25%) and the progress made on trade talks. However, since the driving force for growth is weak, the outlook for 2020 was lowered 0.1 point to 6.1%. Growth is expected to slow to 5.5% by 2024.

The outlook on the U.S. economy was lowered 0.2 point from the previous outlook to 2.3%. Although the employment situation and consumer spending continue to be robust, factors such as a slowing trend in investment, declining domestic demand resulting from the longest-ever partial shutdown of the federal government, as well as public spending that was lower than initial expectations contributed to the decrease. On the other hand, the transition to a monetary easing policy was noted as a positive factor, leading to the 2020 outlook being raised 0.1 point from the previous outlook to 1.9%.

The transition to a monetary easing policy by the United States, the strengthening of China’s economic stimulus measures, and expectations for the United States and China to reach an agreement on trade suggest that the world economy may start to make a turnaround from the second half of 2019.

<IMF World Economic Outlook>

Region	2019 (%)	2020 (%)	Remarks
World	3.3 (▲0.2)	3.6 (0.0)	・IMF revised down its 2019 outlook based on factors including U.S.-China trade friction slowing down trade worldwide, and the United Kingdom leaving the European Union dampening corporate and investor sentiment. ・A downward revision has been made for three consecutive terms.
China	6.3 (0.1)	6.1 (▲0.1)	・Progress in trade talks between the United States and China and economic support from both the fiscal and monetary sides have led to an upward revision of the 2019 outlook. ・In the mid- to long-term, China faces a structural transition to consumer- and service industry-led economic development as well as excess liabilities that lead to financial vulnerability, so the outlooks for 2020 and 2024 are predicted to be lowered to 6.1% and 5.5%, respectively.
U.S.	2.3 (▲0.2)	1.9 (0.1)	・The 2019 estimate was revised down because the partial shutdown of the Federal Government that lasted 35 days pushed down domestic demand and public spending did not reach initial estimates. ・Transition to a monetary easing policy revised the 2020 outlook upward.
Japan	1.0 (▲0.1)	0.5 (0.0)	・Financial support to mitigate the consumption tax hike was positively rated, but a decline in overseas demand led to a downward revision of the 2019 outlook.

Source: Created based on IMF's "World Economic Outlook" (revised in April 2019)

Note: Figures in () show the difference between the January 2019 and April 2019 outlooks

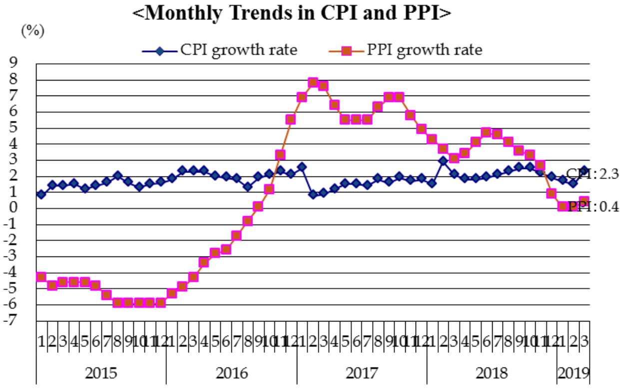
◆CPI and PPI for March 2019 Show Substantial Respective Increases of 2.3% and 0.4% Year-on-Year (YoY)

According to an April 11 announcement by the National Bureau of Statistics (NBS), the consumer price index (CPI) for March increased 2.3% YoY, with the growth rate increasing 0.8 point, rising for the first time in six months. The producer price index (PPI) increased 0.4% YoY, which is a growth rate 0.3 percentage point greater than the previous month and the first increase in nine months, suggesting a recovery in domestic demand.

By category, the CPI for food increased significantly by 4.1% YoY (February: 0.7% YoY), while non-food also rose 1.8% YoY (February: 1.7% YoY). The scarcity of harvested vegetables in early spring, low temperatures, a lot of rain, as well as the tightened supply of pork as the hog cholera outbreak draws to an end have generated considerably higher prices YoY for vegetables (up 1.7% in February to 16.2% in March) and pork (down 4.8% in February to up 5.1% in March).

By industry, turnarounds were made in the PPI for petroleum/natural gas drilling, which increased 9.7% YoY (down 0.6% in February) and the processing of petroleum/coal and other fuels, which rose by 3.5% YoY (down 0.9% in February). Furthermore, while electrical equipment and component manufacturing dropped 1.8% YoY (February: down 2.0%) and automobile manufacturing fell off by 0.6% YoY (February: down 0.7%), both demonstrated a smaller extent of decline. Growth in manufacturing of computers, communications, and other electrical equipment increased more in March, up 0.2% from the 0.1% increase in February.

<Monthly Trends in CPI and PPI>



Source: Created based on data released by the NBS

[Trade/Investment]

◆March Exports Recover to Positive Growth, Increasing 14.2% YoY

According to the trade statistics bulletin (in USD) released by the General Administration of Customs (GACC) on April 12, March exports grew 14.2% YoY (February: down 20.7% YoY) to USD 198.67 billion and imports fell 7.6% YoY (February: down 5.2% YoY) to USD 166.02 billion, with exports making a turnaround from the 20% drop in February. However, a look at cumulative figures for January through March reveals that exports have only grown 1.4% YoY to USD 551.76 billion and imports have fallen 4.8% YoY to USD 475.45 billion, which is thought to be the result of reduced trade with the U.S. (Fig. 1).

[Fig. 1] Overview of Trade Statistics for March

March 2019 Trade Statistics (USD Bn)		
	Amount	YoY
Exports	198.67	14.2%
Imports	166.02	▲7.6%
Trade Surplus	32.65	-
January-March 2019 Trade Statistics (USD Bn)		
	Amount	YoY
Exports	551.76	1.4%
Imports	475.45	▲4.8%
Trade Surplus	76.31	-

Source: Created based on data released by the GACC

[Fig. 2] Monthly Trends in Chinese Imports and Exports

Source: Created based on data released by the GACC

For exports from January to March by category, electronics/machinery rose 0.2% YoY, recovering to its positive growth from the January to February YoY drop of 5.0%, while high-tech equipment reduced decline, decreasing 2.2% YoY for the period compared to the 4.4% decrease for January to February. More specifically, integrated circuits and automobiles and chassis demonstrated strong growth, rising YoY 19.0% and 9.2% respectively.

On the other hand, for imports between January and March, continuing decline on an annual basis was seen in electronics/machinery, falling 8.0% YoY (January to February: down 7.4% YoY) and high-tech equipment, falling off 6.4% (January to February: down 6.6% YoY). Specifically, automobile parts fell 11.4% YoY and integrated circuits 7.7% YoY, both showing steep declines.

By country, trade with the United States between January and March shrunk 8.5% YoY to USD 91.11 billion, and imports fell 31.8% YoY to USD 28.45 billion, with large drops registered for both imports and exports. The trade surplus recorded a 7.6% increase YoY* and expanded to USD 62.66 billion* (Figs. 3 and 4).*Calculated by MUFG Bank based on data published by GACC.

With regard to trade with Japan, exports between January and March increased 2.6% YoY and imports fell 6.1% YoY. The total amount of trade combining imports and exports declined 2.1% YoY (January to February: down 0.9% YoY), recording a drop for the second consecutive month (Fig. 3).

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

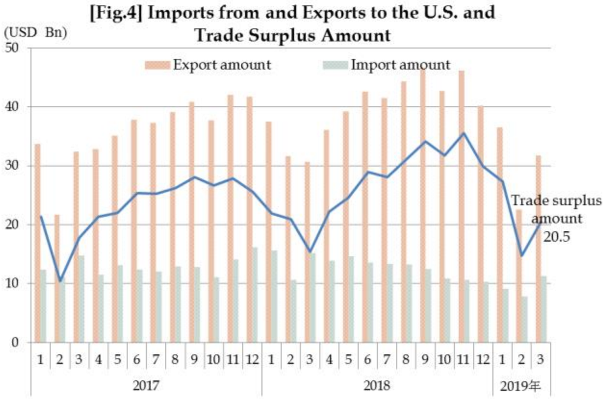
(USD Bn)

Country/Region	Exports	YoY	Imports	YoY	Trade balance	Total	YoY
United States	91.11	▲8.5%	28.45	▲31.8%	62.66	119.56	▲15.4%
Japan	35.30	2.6%	38.88	▲6.1%	▲ 3.58	74.17	▲2.1%
South Korea	26.14	5.7%	40.96	▲13.5%	▲ 14.82	67.10	▲6.9%
Hong Kong	60.63	▲7.1%	2.27	42.0%	58.36	62.91	▲5.9%
Taiwan	12.18	11.5%	37.98	▲6.1%	▲ 25.81	50.16	▲2.3%
Germany	19.14	10.0%	24.87	▲1.3%	▲ 5.73	44.02	3.3%
Australia	11.00	9.7%	26.90	4.1%	▲ 15.90	37.90	5.7%
Vietnam	20.05	12.3%	11.83	▲17.1%	8.22	31.88	▲0.8%
Malaysia	11.32	12.7%	15.06	5.7%	▲ 3.74	26.38	8.6%
Brazil	7.30	▲1.7%	17.75	23.8%	▲ 10.45	25.06	15.1%

Note: Top 10 countries/regions in total export/import amounts

Source: Created based on data released by the GACC

[Fig.4] Imports from and Exports to the U.S. and Trade Surplus Amount



Source: Created based on data released by the GACC

[Industry]

◆China's Digital Economy in 2018 Worth RMB 31 Trillion, One-Third of GDP

On April 2, Deputy Chief Yang of the Cyberspace Administration of China announced that the size of China's digital economy[1] in 2018 was RMB 31 trillion, which is one-third of its GDP.[2] The statement was made in the course of answering questions about the progress of constructing a "digital China" at a press conference for the 2nd Digital China Summit scheduled to be held from May 6 to 8 in Fuzhou City, Fujian Province.

[1] China's digital economy includes the added value directly created by industries such as the electronic information equipment manufacturing industry, the electronic communications industry, and the IT service industry, as well as other industries that indirectly create added value by using digital technology.

[2] According to the White Paper on the Development of China's Digital Economy and Employment published by the China Academy of Information and Communications Technology (CAICT), the size of the digital economy in 2017 was RMB 27.2 trillion, a 20.3% increase from the previous year, and made up 32.9% of the GDP. The 2019 edition of the white paper is scheduled to be published soon.

The Deputy Chief listed the following points as the results of constructing a "digital China" in 2018.

Size of Economy	The size of China's digital economy at the end of 2018 was RMB 31 trillion, making up 1/3 of the country's GDP.
Network Infrastructure	The total length of fiberoptic cables at the end of 2018 was 43.58 million km. The number number of 4G users was 1.17 billion people, an increase of 170 million from the previous year. Progress has been made on determining standard specifications and the research on core 5G technology.
Big Data	62 central government institutions and 31 regional governments at the provincial, district, and city level can now connect to a platform to share and exchange information.
Satellite Positioning System	BeiDou 3 has been completed and worldwide service provision has commenced.
International Cooperation	The G20 Digital Economy Development and Cooperation Initiative and the Belt and Road Digital Economy International Cooperation Initiative, both proposed by China, have been launched. Cooperation with relevant countries and regions on the construction and use of an information infrastructure facility showed results.

At the press conference, the National Development and Reform Commission of the People's Republic of China cited the 25.4% growth in online retail sales of commodities in 2018 compared to the previous year, which exceeded the overall growth in the total amount of retail sales of consumer goods by 16.4 points (an increase of 9.0% from the previous year), and how the creation of new industries and businesses has given rise to increased opportunities and employment with flexible workstyles that are not restricted by traditional forms of employment, to show that the digital economy is contributing to the expansion of the consumer market and the creation of jobs.

The focus in 2019 will be the further strengthening of innovation abilities, preparations for the commercial use of 5G, the upgrading of information infrastructures such as the promotion of IPv6 (internet protocol version 6), the industrialization of digital technology and the digitalization of industries, and the shrinking of disparities in digitalization standards between rural and urban areas.

In next month's Digital China Summit, forums will be held on topics such as digital health and industrial internet along with technological cooperation between regional governments and companies related to the digital economy and business meetings on projects. The main site is also equipped to allow people to experience 5G.

◆China's Consumer Market Grows 9.0% in 2018 Driven by Growth in Online Shopping

The China General Chamber of Commerce and China National Commercial Information Center revealed a report on the 2018 Chinese consumer market development situation and the 2019 development trends at a press conference on April 9. The total amount of retail and consumer product sales in 2018 increased 9.0% YoY to RMB 38.1 trillion. Although the growth slowed down from last year's 10.2%, with the exception of automobiles, spending has increased robustly, highlighting that it has been the driving force behind China's economic growth for five consecutive years. It estimated that growth in 2019 will be approximately 8.5%, around the same as the previous year.

The following characteristics were pointed out at the press conference with regard to the 2018 retail trends. (Please refer to the table on the right.)

- Growth in online retail is outstripping that of brick-and-mortar retailers.
- Growth in rural areas is faster than in urban areas.
- Food service establishments are growing more than consumer goods.
- Innovative companies have developed, giving rise to the "new retail" experience.
- Growth in department stores has slumped.

<2018 Retail Sales and Growth Rate>

Item	Sales (RMB 1Tn)	Growth YoY
Total sales of retail and consumer products	38.1	9.0%
Online sales of physical products	7.0	25.4%
Sales by brick-and-mortar retailers	-	5.9%
Rural areas	5.5	10.1%
Urban areas	32.6	8.8%
Food establishments	4.3	9.5%
Goods	33.8	8.9%
Large retailers (mainly department	-	0.7%

*Created based on data released by the China General Chamber of Commerce and China National Commercial Information Center

The following consumer trends were also noted to have gathered momentum.

- A transition from owning things to receiving services.

  An increase in service expenditure (YoY increases in growth rate per capita: housework 32.1%, food 21.7%, medical care 20.5%).
- Shifting from famous brands to pursuing individuality.
- Changing from placing emphasis on affordability to balancing quality with high cost-performance.

Healthy, organic and low-fat foods are popular. For household electronics, multi-function smart machines are popular.

- Increased motivation to spend on novel and imported goods.
- Diversification of purchasing habits;

  Demand for omnichannel and 24-hour services

The consumer market in 2019 is expected to grow 8.5% YoY. In addition to implementing various measures for employment stability, social security, and strengthening the protection of consumer rights, the government will develop distribution networks in rural areas, promote the development of a new retailing category, increase imports, and implement new policies that encourage the purchase of automobiles and household electronics that use alternative energy and are energy-efficient in an effort to relieve consumer concerns and to further develop an environment that promotes the stable operation of relevant industries.

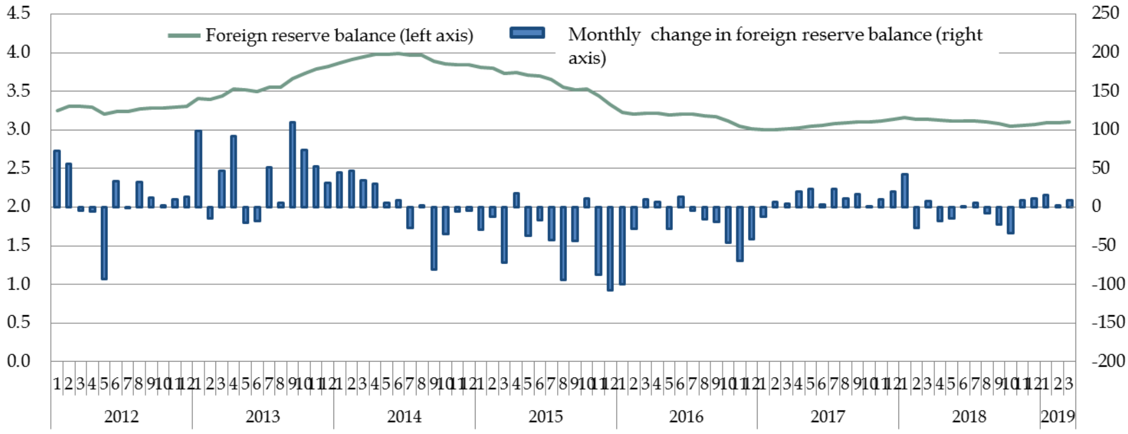
[Finance/Exchange]

◆Foreign Reserve Balance in March Shows Increase for Five Consecutive Months

According to the announcement made on April 7 by the People's Bank of China, the foreign reserve balance in March increased USD 8.6 billion to USD 3.0988 trillion, showing an increase for the fifth consecutive month.

Regarding the foreign reserve balance in March, the State Administration of Foreign Exchange said that the appreciation of the dollar against other major currencies caused the value of receivables to decline when expressed in USD. On the other hand, the prices of principal country bonds rose, resulting in a slight increase.

<Balance of China's Foreign Reserve Balance (by month)>

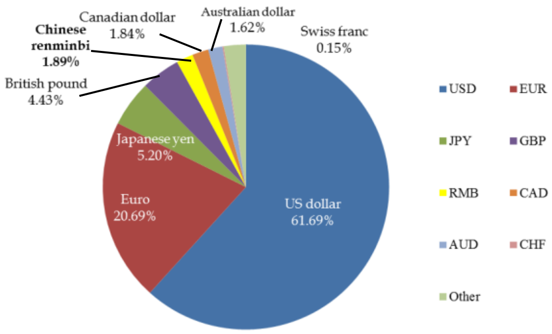


Source: Created based on data published by the People's Bank of China.

◆Internationalization of RMB Continues, Becoming World's Fifth Largest Reserve Currency

According to the COFER (Currency Composition of Official Foreign Exchange Reserves)* data announced by the IMF on March 29, the total amount of foreign reserves around the world as of the end of December 2018 was USD 10.72769 trillion, of which USD 202.79 billion were assets denominated in Chinese renminbi. The share of renminbi among the world's foreign reserves was 1.89%, marking a 1.23% increase from 2017 and overtaking the Canadian dollar (1.84%) and the Australian dollar (1.62%) to move up two places from seventh to fifth largest (Figs. 1 and 2).

[Fig. 1] Foreign Reserves Worldwide by Currency at the end of 2018



Source: Created based on the IMF "Currency Composition of Official Foreign Exchange Reserves" published on March 29, 2019

* The IMF creates and publishes the data based on voluntary reporting from 149 countries and regions around the world. Currently, reserves in eight major currencies including the U.S. dollar, Japanese yen, and Chinese renminbi are distinguished in COFER data (not grouped under "other"). The Chinese renminbi made its first such separate appearance in the fourth quarter of 2016.

On the other hand, although the US dollar has the overwhelming top share at 61.69%, its share has been decreasing for three consecutive terms. The IMF pointed out that assets denominated in Chinese renminbi have been increasing since October 2016 when it was adopted as one of the special drawing right (SDR) currencies and this has led to countries reducing their dependence on the US dollar and diversifying their foreign reserves (Fig. 2).

[Fig.2] Composition of the World's Total Foreign Reserves

(Upper row: Currency Lower row: Share percentage)

2016				2017				2018			
Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
USD	USD	USD	USD	USD	USD	USD	USD	USD	USD	USD	USD
65.46	65.22	64.70	65.36	64.68	63.83	63.52	62.72	62.78	62.39	61.94	61.69
EUR	EUR	EUR	EUR	EUR	EUR	EUR	EUR	EUR	EUR	EUR	EUR
19.55	19.41	19.67	19.14	19.28	19.95	20.06	20.16	20.36	20.25	20.48	20.69
GBP	GBP	GBP	GBP	JPY	JPY	JPY	JPY	GBP	JPY	JPY	JPY
4.63	4.54	4.39	4.34	4.54	4.63	4.52	4.90	4.67	4.86	4.98	5.20
JPY	JPY	JPY	JPY	GBP	GBP	GBP	GBP	JPY	GBP	GBP	GBP
3.68	4.10	4.21	3.96	4.27	4.41	4.49	4.53	4.59	4.47	4.49	4.43
CAD	CAD	CAD	CAD	CAD	CAD	CAD	CAD	CAD	CAD	CAD	**RMB**
1.81	1.83	1.91	1.94	1.90	1.93	2.00	2.03	1.86	1.90	1.95	**1.89**
AUD	AUD	AUD	AUD	AUD	AUD	AUD	AUD	AUD	**RMB**	**RMB**	CAD
1.72	1.70	1.80	1.69	1.77	1.75	1.77	1.80	1.70	**1.83**	**1.80**	1.84
CHF	CHF	CHF	**RMB**	**RMB**	**RMB**	**RMB**	**RMB**	**RMB**	AUD	AUD	AUD
0.19	0.18	0.18	**1.07**	**1.07**	**1.07**	**1.12**	**1.23**	**1.40**	1.70	1.69	1.62
Other	Other	Other	CHF	CHF	CHF	CHF	CHF	CHF	CHF	CHF	CHF
			0.17	0.17	0.17	0.17	0.18	0.17	0.16	0.16	0.15
2.96	3.02	3.14	Other	Other	Other	Other	Other	Other	Other	Other	Other
			2.35	2.34	2.24	2.33	2.44	2.47	2.43	2.51	2.48

Source: Created based on the IMF "Currency Composition of Official Foreign Exchange Reserves" released on March 29, 2019