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RMB Internationalization Business Promotion Office
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■ BIWEEKLY DIGEST

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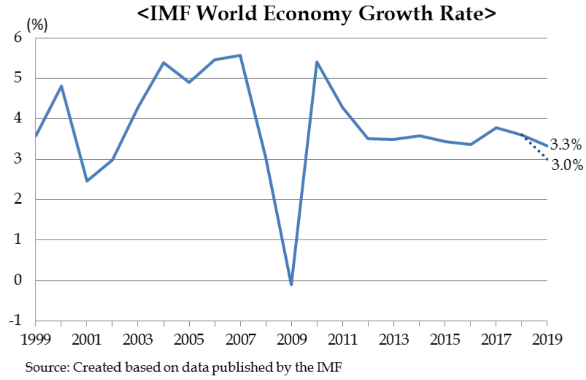
[Economy]

◆IMF Estimates Effects of U.S.-China Trade War to Drive Down Global Economic Growth by 0.3 Point



On May 23, the IMF announced estimates claiming that the worsening of the U.S.-China trade war will cause a 0.3% decline in the global economic growth rate. In the World Economic Outlook revised in April, the IMF had revised the global economic growth rate 0.2 point down from the previous term to +3.3%. If it is revised another 0.3 point downward, it will drop to +3.0%.

Regarding the U.S.-China trade war, the U.S. stated on May 10 that the third round of tariffs levied on USD 200 billion worth of Chinese goods would be raised from 10% to 25%. China retaliated by announcing the raising of tariffs on USD 60 billion worth of U.S. goods starting June 1.

The IMF indicated that the U.S.-China trade war has negatively affected consumers and manufacturers in both countries and reduced trade, and although the damaging effects on the world economy are currently limited, it warned that if the trade barriers were increased, it would disrupt the global supply chain, delay the development of advanced technology, and reduce productivity on a global scale.

As for the exchange of retaliatory additional tariffs, nearly all tax revenues resulting from the raising of tariffs on goods imported from China to the U.S. are being borne as a cost by U.S. importers, with part of the cost burden being passed on to consumers. The IMF pointed out that if the tariffs are further increased, the burden on consumers will increase further as well.

The IMF also claimed that increased tariffs have a limited effect on correcting imbalances in trade. According to statistics released in March, the U.S. trade deficit with China decreased slightly, but exports to China also decreased, suggesting that the primary factor in determining trade balance is not tariffs, but macroeconomic factors in the opposing country such as supply and demand. Furthermore, the IMF stated that it would make a detailed report on the effects of the trade war during the June G20 summit.

◆Leading Group on Employment Established to Strengthen Employment Stability

On May 22, the State Council issued a circular on the establishment of the Leading Group on Employment, which will oversee the direction, management, and adjustment of employment stability. The Group will be responsible for discussing, implementing, adjusting, and inspecting the progress of each region. Vice-Premier Hu Chunhua was appointed as the leader of the group, which is comprised of members selected from over 20 government agencies including the Ministry of Human Resources and Social Security, National Development and Reform Commission, Ministry of Industry and Information Technology, Ministry of Finance, and Ministry of Commerce.

According to statistics published in April, employment conditions are currently stabilizing, as shown by an urban unemployment rate, for which this year's target is 5.5%, of 5.0%, an improvement of 0.2 point from the previous month. However, since the stabilization and expansion of employment is dependent on economic growth, the government seems to be concerned as the environment enveloping the Chinese economy, both within and beyond its borders, is becoming more complicated. By concentrating the collective efforts of each field through the establishment of the group, it is assumed that the leaders will adjust and confirm the direction of the government's fiscal and monetary policies from the standpoint of employment, based on statistical data such as unemployment rates and job openings.

◆May Manufacturing PMI at 49.4, First Time Below 50 in Three Months

On May 31, the National Bureau of Statistics (NBS) and the China Federation of Logistics & Purchasing (CFLP) announced that the manufacturing PMI (Purchasing Managers' Index) for May was 49.4. This is a drop of 0.7 percentage point from last month, and the first time in three months that it fell below 50, the point at which business confidence turns negative (Figure 1).

Looking at each indicator, the new orders index was 46.5 (down 2.7 points month-on-month [MoM]), and the imports index was at 47.1 (down 2.6 points MoM), representing another precipitous drop in import- and export-related indicators after they had improved slightly in March and April.

Other indicators also saw drops from last month despite recent performance rising above 50. The new orders index dropped to 49.8 (down 1.6 points MoM), the first time it went below 50 in 4 months, while the production index fell to 51.7 (down 0.4 point MoM).

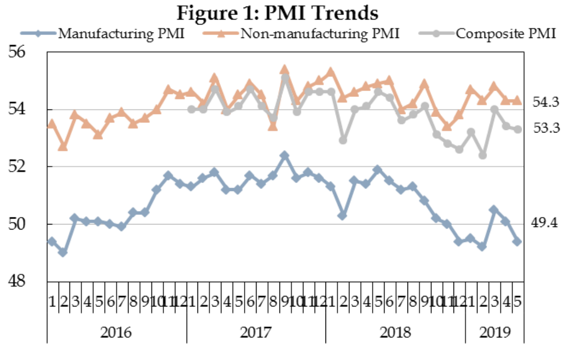
Moreover, the expected production and business activities index, the indicator of future business confidence, suffered a significant drop to 54.5 (down 2.0 points MoM) (Figure 2).

Examining the manufacturing PMI broken down by company size reveals drops across the board, with large businesses at 50.3 (down 0.5 point MoM), medium-size businesses at 48.8 (down 0.3 point MoM), and small businesses at 47.8 (down 2.0 points MoM). Small businesses in particular suffered a sudden blow to business confidence.

The non-manufacturing PMI for May stayed flat compared to last month at 54.3 (Figure 1). By industry, the service sector was up 0.2 point MoM to 53.5, while construction dropped 1.5 points to 58.6.

Finally, the composite PMI, which is calculated using a weighted average of the manufacturing and non-manufacturing PMIs to reflect the overall economic sentiment, decreased by 0.1 point to 53.3 points (Figure 1).

Figure 1: PMI Trends



Source: Created using official data from the NBS and the CFLP.
Note: Composite PMI figures began being announced in 2017

Figure 2: Trends of Main Indicators in Manufacturing PMI

		Manufact-uring PMI	Production	New orders	New export orders	Raw materials prices	Imports	Employ-ment	Expected production 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
	Apr	50.1	52.1	51.4	49.2	53.1	49.7	47.2	56.5
	May	49.4	51.7	49.8	46.5	51.8	47.1	47.0	54.5

Source: Created using official data from the NBS and the CFLP.

◆GDP Growth for 2019 Projected to be 6.4%, Government Targets Reachable: Chinese Academy of Social Sciences

On May 29, the government think tank Chinese Academy of Social Sciences (CASS) released the Economic Blue Book Spring Edition: Chinese Economic Forecast Analysis for 2019. The report forecast the Chinese GDP growth rate for 2019 to be 6.4%, in line with the government's target of 6.0-6.5%.

Regarding the current state of the economy, CASS states that the global economy lacks the ability to recover with trade disputes stemming from anti-globalist sentiment, causing China to face domestic issues such as excess production capacity, slumps in domestic demand, and increasing financial risks. Despite all this, however, the primary economic indicators for Q1 2019 surpassed forecasts, which CASS determined to be a reflection of progress in economic structure optimization and the results of supply-side structural reforms. CASS expressed that although the forecasted 2019 GDP growth is a slight decrease compared to the previous year, it is staying within a reasonable range, and the targets set by the government are within reach.

Looking at indicators separately, fixed assets investment is predicted to see growth of 6.0% for the full year of 2019 (2018: 5.9%). Infrastructure investment will reportedly maintain steady growth and continue to be a driving force that supports the economy as a whole. Cost reduction measures for state-owned enterprises are also expected to work positively for driving private-sector investment.

Although consumption growth is currently slowing, various current measures to stimulate consumption along with the developing "consumption upgrade" (consumer preferences evolving to higher-quality items) will spur future consumption. Growth of total retail sales of consumer goods is projected to be 8.2% (2018: 9.0%).

The consumer price index (CPI) is at 1.9% (2018: 2.1%), showing gentle growth. CASS stated that the excess production capacity and adjustments to inventory, along with tax cuts providing corporate cost relief, are factors that contribute to the curbing of rising product prices.

[Trade/Investment]

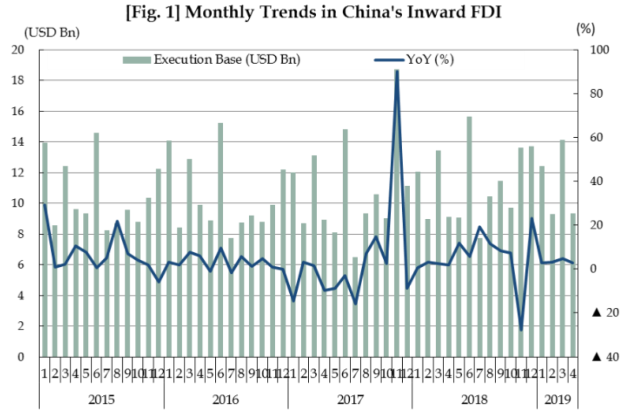
◆April Inward Foreign Direct Investment Increases 2.8% while Outward Decreases 6.5%

The Ministry of Commerce announced the statistics for April's inward and outward foreign direct investments (FDI; on an executed basis and excluding financial institutions) on May 16 and 20.

Inward FDI for April rose 2.8% YoY to USD 9.34 billion, which is a decrease from the previous month's YoY growth of 4.9%. Outward FDI for April fell 6.5%* to USD 9.43 billion,* falling into negative territory from the previous month's 10.0% growth. The amount, however, exceeded that of inward FDI (Figs. 1-2). Cumulative statistics from January to April for inward FDI show a 3.5% increase YoY of USD 45.14 billion, while a 2.6% drop to USD 34.64 billion was recorded for outward FDI (Fig. 3).

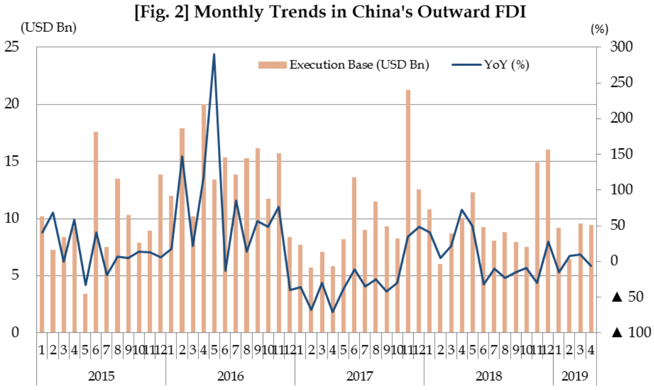
*Calculated by MUFG Bank based on outward FDI amounts published by the Ministry of Commerce.

[Fig. 1] Monthly Trends in China's Inward FDI



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

[Fig. 2] Monthly Trends in China's Outward FDI



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

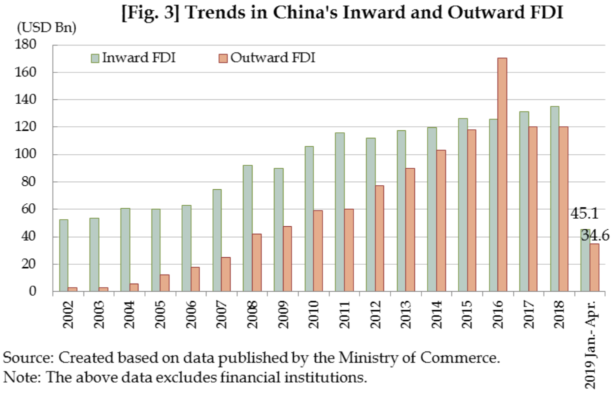
<Inward FDI>

The number of new foreign companies established between January and April decreased 31.4% YoY to 13,039, which is a steep drop from the previous year, but the investment amount increased 3.5% YoY, suggesting large investments in each new company.

By country or region, investments from Japan were down 2.1% YoY to USD 1.38 billion, falling from the January to March growth of 1.6% into negative territory. On the other hand, investments from Korea and Germany increased approximately twofold, by 108.4% and 93.2% to USD 2.98 billion and USD 850 million, respectively. Meanwhile, investments from the U.S. rose 21.8% YoY to USD 1.23 billion, maintaining double-digit growth but slowing down considerably from the 65.6% YoY growth shown between January and February (Fig. 4).

By industry, investment in the manufacturing sector increased 7.5% YoY to USD 13.89 billion, while investments in the service industry increased 1.7% YoY to USD 30.04 billion, with a sustained high growth rate demonstrated by the manufacturing industry.

[Fig. 3] Trends in China's Inward and Outward FDI



Source: Created based on data published by the Ministry of Commerce.
Note: The above data excludes financial institutions.

[Fig. 4] Top 10 Countries/Regions Contributing to China's Inward FDI for Jan.-Apr. 2019

Rank	Country/Region	Investment Amount (USD Bn)	YoY (%)
1	Hong Kong	310.6	1.4
2	South Korea	29.8	108.4
3	Singapore	20.4	▲ 19.4
4	Japan	13.8	▲ 2.1
5	Taiwan	13.2	▲ 23.7
6	U.S.	12.3	21.8
7	U.K.	8.9	0.0
8	Germany	8.5	93.2
9	Macau	5.8	▲ 12.1
10	The Netherlands	5.1	▲ 16.4

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

<Outward FDI>

By country or region, outward FDI from January to April decreased 1.2%* YoY to USD 4.61 billion in countries participating in the Belt and Road Initiative, falling from the 4.2% growth between January and March into negative territory.

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

Looking at the breakdown of outward FDI by industry, leasing and commercial services comprised 25.8%, manufacturing 19.7%, communications and software/IT services 11.6%, wholesale and retail 8.6%, and construction 7.9%.

◆January-March Trade in Services: Exports Increase 10.3% YoY; Remarkable Growth in Technology- and Knowledge-Based Services

According to the Ministry of Commerce's announcement on May 9 on trade in services between January and March, exports of services recorded RMB 463.49 billion, up 10.3% YoY, while imports of services recorded RMB 828.49 billion, down 1.3% YoY. While imports slipped into negative territory from double-digit growth rates YoY due to the effects of the U.S-China trade war, exports maintained their solid trend and recorded double-digit growth. The service trade balance deficit decreased 14.3% YoY to RMB 365 billion (Fig. 1).

[Fig.1] Jan.-Mar. 2019 Trade in Services Amount and Growth

	Exports of Services		Imports of Services		Balance (RMB Bn)
	Amount (RMB Bn)	Growth	Amount (RMB Bn)	Growth	
Jan.-Mar. 2018	413.52	12.6%	839.52	10.8%	▲ 426.00
Jan.-Mar. 2019	463.49	10.3%	828.49	▲1.3%	▲ 36.50

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

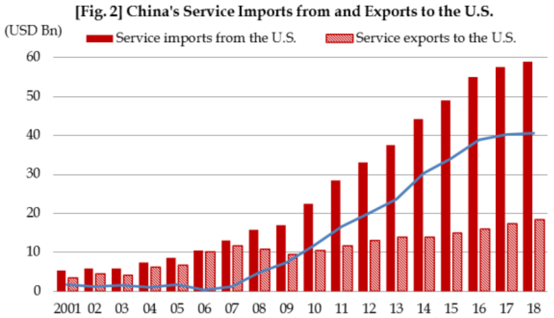
Looking at exports by field, maintenance and repair services increased 89.5% YoY, charges for the use of intellectual property 52.4%, telecommunication services 15.1%, and insurance services 11.7%, all exceeding average growth rates and driving overall exports. The Ministry of Commerce claims that the increase in exports of these technological and knowledge-based services signifies the structural improvements in trade in services.

For the past five years, the scale of China's trade in services has been second only to the U.S. Out of Chinese trade in goods and services as a whole, the proportion that is made up by trade in services has increased each year. It was 14.7% in 2018 and expanded to 15.6% for the period from January through March 2019.

At a press conference held on the 22nd, the Ministry of Commerce stated that it will open up the service field, accelerate the digitalization of services, and strengthen cooperation with countries in the Belt and Road Initiative region to promote trade in services. It also announced that the China International Fair for Trade in Services (CIFTIS), which is held every other year in Beijing, will now be held every year. This year, the fair will be held from May 28 to June 1 and 1,690 companies from China and abroad are expected to exhibit.

Looking at China's service trade balance by country, the U.S. is the country with which China has the greatest deficit in trade in services, but according to an announcement by the U.S. Department of Commerce, while China's trade deficit with the United States was USD 4.92 billion in 2008 and continued to expand to USD 40.21 billion in 2017, the results for 2018 were almost unchanged from the previous year with a deficit of USD 40.53 billion, showing signs of slowing (Fig. 2).

[Fig. 2] China's Service Imports from and Exports to the U.S.



Source: Created based on data published by the U.S. Department of Commerce Bureau of Economic Analysis

◆Promotion of Industrial Transfer to Central Development Districts

The Ministry of Commerce hosted a symposium on undertaking industrial transfer in central China's national economic and technological development zones from May 19 to 20 in Nanchang, Jiangxi Province, and confirmed that it will promote the receiving of industrial transfers in China's central region.

At the symposium, it was noted that in recent years, the Ministry of Commerce had directed the receiving of transfers by national economic and technological development zones in the central region by promoting innovation and investment, thus making the central region a key recipient of industrial transfers from the east. It was also pointed out that a new trend for both domestic and international industrial transfers is the emphasis not only on labor, land, and energy costs, but also on the consumer market, the industrial technology environment, and business environment, which call for supply side structural reforms. It was stressed that the development zones in the central region must increase their competitiveness by strengthening cooperation with development zones in other regions and by optimizing the industry structure.

Furthermore, President Xi Jinping visited Jiangxi Province from May 20 to 22. On the 21st, he led a symposium on activities to promote the revitalization of the central region. The President set forth eight points related to activities to be steadily promoted in order to revitalize the central region, which is one of the central government's important policies, such as digitalization, promoting the high-quality development of the manufacturing industry by harnessing networked and other technologies, creating a highly transparent and fair business environment, improving conditions that make it difficult for small- and medium-sized companies in the private sector to secure funding, strengthening cooperation with eastern and coastal regions and with foreign countries, and proactively attracting emerging industries such as advanced manufacturing.

◆Tariff Increases for Third Round of U.S. Sanctions: U.S. Extends Entry Date for Cargo Arrivals

The United States Trade Representative (USTR) announced on May 31 that, regarding the tariff rate rise from 10% to 25% enacted on May 10 which would affect over USD 200 billion worth of Chinese goods as part of the third round of sanctions against China, the effective entry date into the United States which would make the goods subject to the higher tariffs would be extended.

The USTR originally stated that Chinese goods shipped prior to the tariff rate rise enforcement date of May 10 would be subject to the original 10% tariff if they arrived before June 1 and subject to the higher rate of 25% if they arrived in the U.S. on or after June 1. In this announcement, the USTR explained that after considering matters regarding tax administration and the time required for marine transportation, the entry date was extended from June 1 to June 15.

◆China Releases White Paper on Trade Dispute with U.S.; Will Not Compromise on "Principles" but Wishes to Solve with "Dialogue"

On June 2, the State Council released a white paper titled "China's Position on the China-U.S. Economic and Trade Consultations." This is the second such white paper after one which focused on the U.S.-China trade dispute was released on September 24 last year.

In the paper, China explained its position regarding the additional tariff hikes imposed by both the U.S. and China, the enforcement of U.S. sanctions and similar measures on certain private Chinese corporations, and the escalation of the trade dispute between the two countries. China states that while it will never give ground on issues of principle, it hopes to resolve the conflict through dialogue and consultation.

Regarding the failure to reach an agreement in the 11th round of cabinet-level consultation on May 9 and 10, China reemphasized its stance that it will never give ground to the United States on three "issues of principle."

The Three "Issues of Principle:"

1. All additional tariffs between the two countries must be removed.

2. China's purchase of U.S. goods should be realistic.

3. The text in an agreement should ensure a proper balance.

Elsewhere regarding disputes on the trade and economic front, China states that such disputes "need to be solved through dialogue and consultation," and is seeking a mutually beneficial agreement with the U.S.

At the press conference on June 2, the State Council avoided any announcement of top-level talks between the U.S. and China that would take place at the G20 Summit to be held in Osaka on June 28 and 29. Also at the conference, in response to the placement of Chinese firms on the U.S. entity list which restricts exports to individuals, companies, and governmental authorities which work against the interests of national security, China announced its plans to create its own "unreliable entity list" which would place special controls on individuals, organizations, and companies which pose a threat to its national security. In light of these factors, the future of talks between the two countries remains uncertain.

◆Ministry of Commerce: Downward Pressure Building on Overseas Trade, Focusing on Creating New Demand

On May 24, the Ministry of Commerce released its Report on China's Foreign Trade Situation (Spring 2019).

The total of exports and imports for January-March stands at RMB 7.51 trillion, up 3.7% year-on-year (YoY). Drilling down, growth continues to be mostly stable, with exports up 6.7% YoY to RMB 7.674 trillion, and imports up 0.3% YoY to RMB 3.2377 trillion. On the other hand, the Ministry of Commerce has expressed that with the slowdown of growth and rising protectionism being seen worldwide, uncertainty regarding the foreign market has been rising and overseas trade is experiencing increasing downward pressure.

Looking at the total imports and exports for January to March with China's main trading partner countries and regions, the EU rose 11.5% YoY, ASEAN went up 8.1% YoY, and Japan grew 3.2% YoY. By contrast, the U.S. was down 11.0% YoY, with both exports down 3.7% and imports down 28.3%. The Ministry pointed out that this was in part due to a drop from inflated numbers that came about after a rush to export goods to the U.S. before the third round of tariffs took effect. The Ministry also indicated that some companies were undergoing rapid changes to their global production systems, with a trend of accelerating the offshore relocation of production centers becoming apparent.

In the absence of any signs that the U.S.-China trade dispute would be alleviated, the Ministry outlined its trade policy as focused mainly on diversifying export destinations, increasing the scale of imports, and upgrading its processing trade. Specifically, it aims to leverage channels, such as the inaugural China-Africa Economic and Trade Expo in Changsha, Hunan Province on June 27-29 this year and the second (following on from last year) China International Import Expo to be held on November 5-10 in Shanghai, to spur new demand from inside China and abroad, ease effects from the trade dispute with the U.S., and stabilize trade.

[Finance/Exchange]

◆MUFG Bank Obtains Chinese Securities Fund Limit of RMB 6 Billion, Highest for International Bank

MUFG Bank was recently granted a Renminbi Qualified Foreign Institutional Investor (RQFII) fund limit of RMB 6 billion by the China Securities Regulatory Commission and the State Administration of Foreign Exchange.

The RQFII program allows direct investment in stocks and bonds listed on onshore Chinese markets from offshore (outside of China) investors in Renminbi. The Chinese authorities set limits for each country, with Japan having been allocated a limit of RMB 200 billion in May 2018. The RMB 6 billion limit obtained by MUFG Bank represents the largest amount for a bank worldwide.