CHINA BIWEEKLY

RMB Internationalization Business Promotion Office
Global Business Division

July 29th 2019

■ BIWEEKLY DIGEST

[Economy]

- **2018 Chinese Cities Competitiveness Ranking: Shenzhen Retains Lead from Previous Year**
- **Markets to be Opened Up Faster, Downward Pressure on Economy Increasing**
- **GDP Growth Rate for 2Q 2019 Slows Down to 6.2%: Underlying Picture is Improving**

[Industry]

- **June Auto Sales Fall 9.6% YoY while New Energy Vehicles See an 80.0% Gain**
- **Second Environmental Inspection: First Round Starts in Six Provinces/Municipalities**

[Trade/Investment]

- **China Keeps World No. 2 Ranking for Receiving Foreign Investment in 2018**
- **110 Products Newly Excluded from U.S. Punitive Tariffs on China**
- **June: Exports Down 0.3% YoY, Imports Down 7.3% YoY**

[Finance/Exchange]

- **June Foreign Reserves Increase for the Second Month in a Row**

[Economy]

◆2018 Chinese Cities Competitiveness Ranking: Shenzhen Retains Lead from Previous Year

On June 24, the Chinese Academy of Social Sciences (CASS), a government think tank, published its 17th report on the competitiveness of China's cities. The report announced that Shenzhen placed first in the ranking of total economic competiveness by city for 2018. The report evaluated the economic competitiveness of 293 cities in mainland China, Hong Kong, Macau, and Taiwan.

The top three cities were Shenzhen, Hong Kong, and Shanghai, remaining unchanged from the previous year. Top-ranking Shenzhen, according to its own official reports, has a population of 13.03 million, a GDP of RMB 2.4222 trillion (approximately USD 366.06 billion), and a GDP per capita of RMB 189,568 (USD 28,647). The size of Shenzhen's GDP corresponds to that of the entire country of Malaysia (which had a GDP of USD 354 billion in 2018).

According to the report, cities in the southern region's Guangdong-Hong Kong-Macau Greater Bay Area and the eastern region's Yangtze River Delta Area dominated the top rankings. The report's analysis of the cities' competitiveness stated that the trend of an economic shift to the south was advancing further, and the regions were becoming more polarized. The CASS is recommending that the government address this issue by taking proactive measures, as a widening of the north-south divide could affect the sustainability of development nationwide.

[Figure 1] 2018 Ranking of Total Economic Competitiveness, Top 50 Cities

Rank	(Prev. year)	City	Region	Population (Mn)	GDP (RMB Bn)	GDP per capita (RMB)	Rank	(Prev. year)	City	Region	Population (Mn)	GDP (RMB Bn)	GDP per capita (RMB)
1	→ (1)	Shenzhen	South	13.03	2,422.2	189,568	26	↑ (32)	Zhenjiang	East	3.20	405.0	126,906
2	→ (2)	Hong Kong	South	7.25	2,503.8	336,046	27	→ (27)	Nantong	East	7.31	842.7	115,320
3	→ (3)	Shanghai	East	24.24	3,268.0	135,000	28	↓ (26)	Jinan	East	7.46	785.7	106,302
4	↑ (5)	Guangzhou	South	14.90	2,285.9	155,491	29	↑ (41)	Zhuhai	South	1.89	291.5	159,400
5	↑ (6)	Beijing	North	21.54	3,032.0	140,000	30	↑ (31)	Hefei	Central/West	8.09	782.3	97,470
6	↑ (8)	Suzhou	East	10.72	1,860.0	173,480 ※	31	↓ (28)	Quanzhou	South	8.70	846.8	973,331 ※
7	↑ (9)	Nanjing	East	8.44	1,282.0	151,969 ※	32	↓ (29)	Xi'an	Central/West	10.00	835.0	834,677 ※
8	↑ (10)	Wuhan	Central/West	11.08	1,484.8	135,136	33	↑ (37)	Yangzhou	East	4.53	546.6	120,944
9	↓ (4)	Taipei	Taiwan	2.68	N/A	N/A	34	↑ (45)	Taichung	Taiwan	2.80	N/A	N/A
10	↑ (13)	Dongguan	South	8.39	827.9	98,939	35	↑ (46)	Kaohsiung	Taiwan	2.77	N/A	N/A
11	↑ (14)	Wuxi	East	6.57	1,143.9	174,300	36	↓ (34)	Fuzhou	South	7.74	785.7	102,037
12	↓ (11)	Foshan	South	7.91	993.6	125,680 ※	37	↑ (38)	Taizhou	East	4.64	510.8	109,988
13	↑ (15)	Chengdu	Central/West	16.33	1,534.3	94,782	38	↑ (39)	Jiaxing	East	4.73	487.2	103,858
14	↑ (12)	Macau	South	0.67	378.7	573,528	39	↓ (35)	Yantai	East	7.12	783.3	110,231
15	↑ (22)	New Taipei	Taiwan	3.99	N/A	N/A	40	↓ (36)	Xuzhou	East	8.80	675.5	76,915
16	↓ (7)	Tianjin	North	15.60	1,881.0	120,606 ※	41	↓ (40)	Nanchang	Central/West	5.55	527.5	95,116 ※
17	↑ (19)	Xiamen	South	4.11	479.1	118,015	42	↑ (44)	Shaoxing	East	5.04	541.7	107,853
18	↑ (20)	Changzhou	East	4.73	705.0	149,275	43	↓ (42)	Zibo	East	4.70	506.8	107,720
19	↑ (21)	Hangzhou	East	9.81	1,350.9	140,180	44	↓ (43)	Shijiazhuang	North	10.95	608.3	55,723
20	↓ (18)	Changsha	Central/West	8.15	1,100.3	134,933 ※	45	↑ (53)	Weihai	East	2.83	364.1	128,674 ※
21	↓ (16)	Zhengzhou	Central/West	10.14	1,014.3	101,349	46	↑ (49)	Guiyang	Central/West	4.88	379.8	78,449
22	↓ (17)	Qingdao	East	9.39	1,200.2	128,459	47	↑ (48)	Changchun	Northeast	7.51	717.6	95,663
23	↑ (24)	Ningbo	East	8.20	1,074.6	132,603	48	↑ (66)	Tainan	Taiwan	1.89	N/A	N/A
24	↓ (23)	Chongqing	Central/West	31.02	2,036.3	65,933	49	↑ (51)	Wenzhou	East	9.25	600.6	65,055
25	→ (25)	Zhongshan	South	3.31	363.3	110,585	50	↑ (76)	Zhoushan	East	1.17	131.7	112,490

Source: Rankings created based on data released by the CASS. ※ denotes per capita calculation by MUFG Bank based on official population and GDP figures.
Population, GDP, and GDP per capita data is for 2018; created based on official data released by each city. Original HKD/MOP figures for HK and Macau were converted into RMB.

The CASS report also analyzed the urbanization of China. The report stated that the urban population rate in 2018 was 59.6% and was predicted to rise above 70% by 2035. The CASS's analysis stated that China had entered the latter stage of urban centralization. The CASS pointed out that while the urban expansion was causing an increased population influx into the cities, developments in industrial technology and the move away from labor-intensive industries will have an effect on employment. Furthermore, the CASS mentioned that there is also a future risk of increased public service expenditures due to population aging.

In conjunction with the report, the CASS also released competitiveness rankings for the cities' business environment (which measures the ease of establishing and running a company), sustainability (which measures the potential for long-term development), and livability. For the competitiveness of the business environment, Hong Kong, Beijing, and Shanghai made up the top three (Figure 2).

[Fig. 2] 2018 City Competitiveness Rankings by Category

Rank	Business environment	Sustainability	Livability
1	Hong Kong	Hong Kong	Hong Kong
2	Beijing	Beijing	Wuxi
3	Shanghai	Shanghai	Hangzhou
4	Shenzhen	Shenzhen	Nantong
5	Guangzhou	Guangzhou	Guangzhou
6	Nanjing	Hangzhou	Nanjing
7	Hangzhou	Nanjing	Macau
8	Tianjin	Macau	Shenzhen
9	Chongqing	Chengdu	Ningbo
10	Qingdao	Suzhou	Zhenjiang

Source: Created based on data released by the CASS.

◆Markets to be Opened Up Faster, Downward Pressure on Economy Increasing

On July 2, Chinese Premier Li Keqiang spoke at the opening ceremony of the annual Summer Davos meeting held by the World Economic Forum (WEF) in Dalian. Premier Li announced China's plans to accelerate and enhance the opening-up to international markets of financial industries including securities and insurance, service industries including telecommunications and transportation, and advanced manufacturing. The lifting of foreign ownership caps on securities, futures, and life insurance was moved up one year to 2020. These financial industries currently have a foreign ownership limit of 51%, and the limit was initially planned to be abolished in 2021.

Plans to Accelerate and Enhance Opening-Up Announced by Premier Li at Summer Davos WEF Meeting in Dalian

Accelerate and enhance the opening-up of financial industries
・Foreign ownership caps (51%) in securities, futures, and life insurance will be lifted in 2020 (previously 2021). ・The two-way opening of the bond market will be expanded. ・Steadily advance FX rate mechanism reform and RMB convertibility under the capital account and keep the RMB FX rate stable.
Enhance the opening-up of service industries
・Foreign investment restrictions in value-added telecommunication services and transportation will be reduced.
Enhance the opening-up of the advanced manufacturing sector
・Support foreign businesses investing in advanced manufacturing (electronics/information technology, equipment manufacturing, pharmaceuticals, new materials, etc.); and in western China. ・Such foreign businesses will be eligible for preferential treatment for equipment import for self use, corporate income tax, and land use.
Other
・Overall tariff level will be lowered; the import of goods and services will be increased. ・Finish drafting supporting rules and regulations for the Foreign Investment Law (FIL) by end of 2019; enact with the FIL on January 1, 2020. ・Move faster to overhaul laws, regulations, and normative documents that are incompatible with the FIL. Eliminate all remaining restrictions outside the negative lists for the access of foreign investment by the end of 2019. ・Introduce a punitive compensation mechanism for intellectual property rights protection.

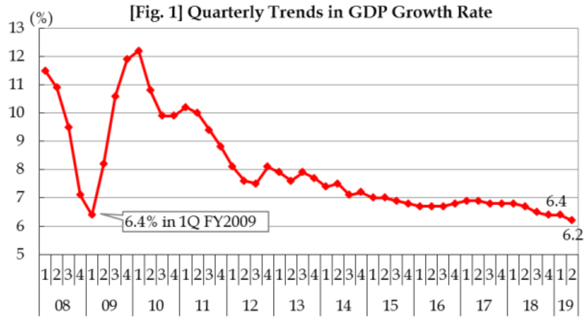
In his address, Premier Li spoke about China's economic performance in the first half of 2019, stating that it has been operating within a proper range. Li mentioned that the urban unemployment rate in May was at the low rate of 5%. He also said that the average number of newly registered businesses has risen to an average of about 19,000 every day, showing a vibrant market. On the other hand, Li also stated that as negative effects of external factors were being seen in some businesses and investment growth has been slowing, the Chinese economy does face some downward pressure, and that China was aware that there was an increased difficulty in maintaining economic performance. Li emphasized that it was necessary to support globalization, regulation, opening up markets, and stable economic growth.

This year, the Summer Davos meeting was held for three days starting on July 1. It hosted around 2,000 participants representing the political and business spheres of over 90 countries, and discussions were held on the topics of 5G, economic globalization, AI, and climate change.

◆GDP Growth Rate for 2Q 2019 Slows Down to 6.2%: Underlying Picture is Improving

On July 15, the National Bureau of Statistics (NBS) announced the main economic indicators for the first half of 2019. The GDP growth rate for the second quarter of 2019 slowed down by 0.2 percentage point from the previous term to 6.2%, falling below the level in the first quarter of 2009, right after the collapse of Lehman Brothers. Although the GDP growth rate for the January-June period remained within the Chinese government's annual target range of 6.0-6.5%, close attention is being paid to future policy trends to prevent any further slowdown.

[Fig. 1] Quarterly Trends in GDP Growth Rate



Source: Created based on data released by the NBS

[Fig. 2] Main Economic Indicators for June

Item	May 2019			Growth Rate	June 2019		
	Amount		YoY (%)		Amount		YoY (%)
Gross Domestic Product (GDP)		(Q1 FY2019)	6.4	↘		(Q2 FY2019)	6.2
Investment in fixed assets (excl. investments by rural companies)*	(RMB Bn)	21,755.5	5.6	↗	(RMB Bn)	29,910.00	5.8
State-owned sector	(RMB Bn)	(Unreleased)	7.2	↘	(RMB Bn)	(Unreleased)	6.9
Private sector	(RMB Bn)	13,082.3	5.3	↗	(RMB Bn)	18,028.90	5.7
Type of Industry: Primary	(RMB Bn)	583.7	▲ 2.3	↗	(RMB Bn)	843.00	0.6
Type of Industry: Secondary	(RMB Bn)	7,313.8	3.2	↘	(RMB Bn)	10,007.00	2.9
Type of Industry: Tertiary	(RMB Bn)	13,858.0	7.1	↗	(RMB Bn)	19,060.00	7.4
Value-added industrial production**	-	-	5.0	↗	-	-	6.3
Total retail sales of consumer goods	(RMB Bn)	3,295.6	8.6	↗	(RMB Bn)	3,387.80	9.8
Consumer price index (CPI)	-	-	2.7	→	-	-	2.7
Industrial producer price index (PPI)	-	-	0.6	↘	-	-	0.0
Industrial producer purchase price	-	-	0.2	↘	-	-	▲ 0.3
Exports	(USD Bn)	213.85	1.1	↘	(USD Bn)	212.84	▲ 1.3
Imports	(USD Bn)	172.19	▲ 8.5	↗	(USD Bn)	161.86	▲ 7.3
Trade balance	(USD Bn)	41.66	-	-	(USD Bn)	50.98	-
Inward foreign direct investment (actual basis)	(USD Bn)	9.47	4.6	↘	(USD Bn)	16.13	3.0

* Cumulative total since January 2019.

** Figures are calculated based on the data of independently-accounted state-run companies and non-state-run companies with annual sales of RMB 20 million or more.

Source: Created based on data released by the NBS.

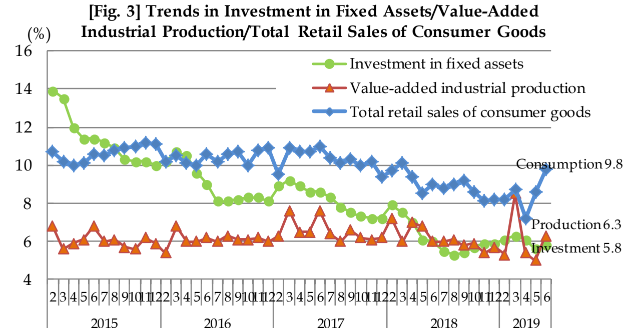
<Investment/production/consumption>

Cumulative investment in fixed assets for the January-June period increased by 5.8% year-on-year (YoY), extending 0.2 percentage point from the January-May period (up 5.6% YoY). While both infrastructure investment (YoY increases for Jan.-May and Jan.-Jun.: from 4.0% to 4.1%) and investment in manufacturing (from 2.7% to 3.0%) accelerated, real estate investment slowed down (from 11.2% to 10.9%) (Figs. 2, 3 & 4). In June, value-added industrial production grew 6.3% YoY, exceeding the results for May (up 5.0%) by 1.3 points month-on-month (MoM), while total retail sales of consumer goods rose 9.8% YoY, 1.2 points higher MoM (May: up 8.6%) (Figs. 2 & 3).

In the short term, investment, production, and consumption all saw improvements, with consumption in particular notably expanding for the second consecutive month. According to the NBS' analysis, the strong figures resulted from e-commerce giant Jingdong's successful annual sale on June 18, in celebration of the anniversary of its founding, and from growth in auto sales due to clearance sales prior to the implementation of new emission standards in some regions.

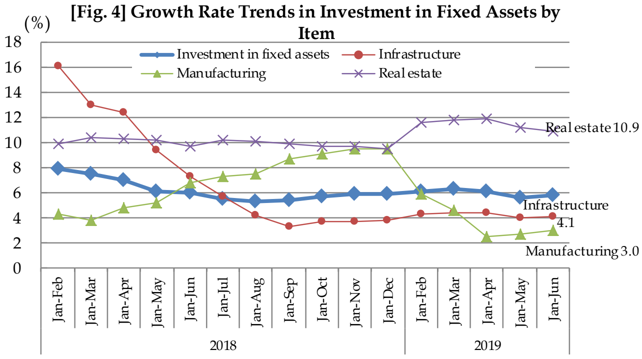
Meanwhile, investment and production slowed down and consumption increased only slightly for the January-June period compared to the January-March period. Changes in YoY growth rates from January-March to January-June were as follows: investment in fixed assets (from 6.3% to 5.8%), industrial production (from 6.5% to 6.0%), and total retail sales of consumer goods (from 8.3% to 8.4%).

[Fig. 3] Trends in Investment in Fixed Assets/Value-Added Industrial Production/Total Retail Sales of Consumer Goods



Note: Investment in fixed assets is the cumulative total since January 2019.
Industrial production and total retail sales of consumer goods for February are the cumulative total for January-February.
Source: Created based on data released by the NBS.

[Fig. 4] Growth Rate Trends in Investment in Fixed Assets by Item

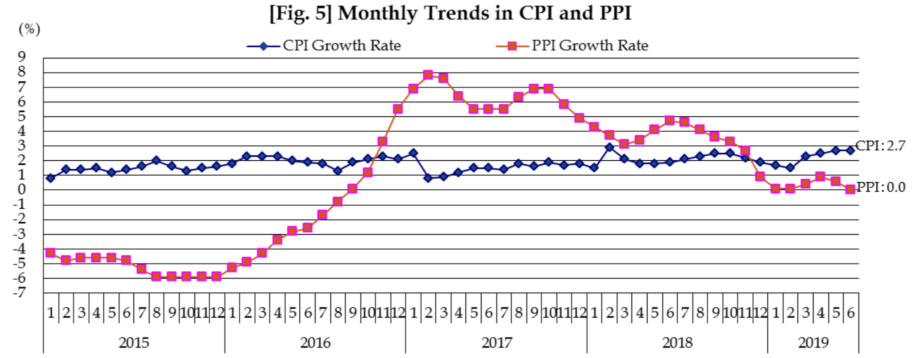


Source: Created based on data released by the NBS

<CPI/PPI>

The consumer price index (CPI) for June increased 2.7% YoY, with the growth rate remaining unchanged from the previous month. The producer price index (PPI) fell 0.6 point MoM, staying flat YoY. As for CPI, food prices remained high, primarily prices for fruit (up 42.7% YoY) and pork (up 21.1% YoY), while PPI fell for the second consecutive month. According to the NBS, this was due to the impact of the downturn in the international crude oil market, although weak domestic demand is also seen as a factor (Fig. 5).

[Fig. 5] Monthly Trends in CPI and PPI



Source: Created based on data released by the NBS

<Employment>

New employment in urban areas for the January-June period decreased by 150,000 people YoY to 7.37 million, although it accounts for more than half (67.0%) of the government's full-year target set at 11 million or more. The surveyed urban unemployment rate for June rose 0.1 point from the previous month to 5.1%, remaining below the full-year target of "around 5.5%." However, the upcoming arrival of the college graduation season in addition to the impact of the U.S.-China trade conflict seemingly adds more pressure to employment adjustment for the surplus workforce associated with ongoing structural reforms.

[Industry]

◆June Auto Sales Fall 9.6% YoY while New Energy Vehicles See an 80.0% Gain

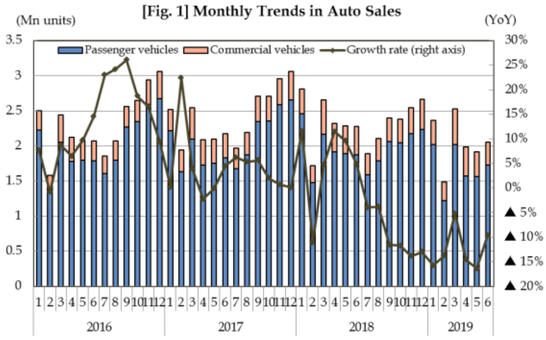
According to the announcement made by the China Association of Automobile Manufacturers (CAAM) on July 10, June auto sales fell 9.6% YoY to 2.056 million units, a smaller negative growth rate than the 16.4% drop in May. YoY decline continued for the 12th month. Cumulative sales for January-June were down 12.4% YoY to 12.323 million units (Figs. 1 & 2).

Sales of passenger vehicles in June fell 7.8% YoY to 1.728 million units, representing a smaller drop than in the previous month (May: down 17.4% YoY). Sales of commercial vehicles continued to be sluggish, with a decrease of 17.8% YoY to 329,000 units, expanding the rate of decline from the previous month, when sales had decreased 11.8% YoY (Fig. 2).

New energy vehicles sales leapt 80.0% YoY to 152,000 units, marking the biggest figure for the year to date. The cumulative volume for January-June was up 49.6% YoY to 617,000 units (Figs. 2 & 3).

The CAAM indicated that auto sales in June recovered due to clearance sales prior to the implementation of new emission standards on July 1 in some regions and last-minute demand before subsidies on new energy vehicles are reduced. Meanwhile, the CAAM also commented that no improvement in consumption was seen in the first half of this year and overall auto sales for the period fell below expectations, which has led them to forecast negative growth for full-year 2019, despite their estimation at the beginning of this year, which expected figures to be at the same level as 2018, with about 28.1 million units sold. As for new energy vehicles, they expect the sales to exceed two million units in 2020, considering that the figure has grown from 1.256 million units in 2018 to 1.6-1.7 million in 2019.

[Fig. 1] Monthly Trends in Auto Sales



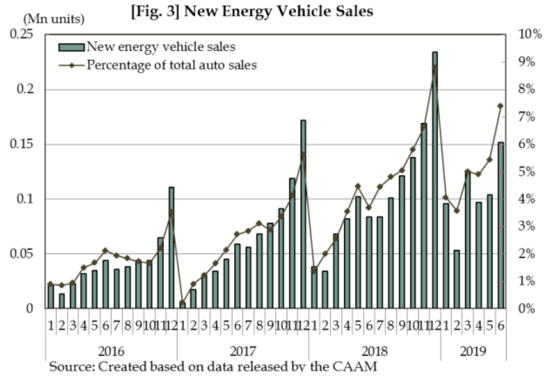
Source: Created based on data released by the CAAM

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

	June 2019		Jan-Jun 2019	
	Auto sales (Mn units)	YoY	Auto sales (Mn units)	YoY
Auto Sales	**2.056**	**▲9.6%**	**12.323**	**▲12.4%**
Passenger vehicles	1.728	▲7.8%	10.127	▲14.0%
Sedans	0.863	▲10.5%	4.962	▲12.9%
SUVs (sport utility vehicles)	0.739	0.30%	4.301	▲13.4%
MPVs (multi-purpose vehicles)	0.098	▲24.4%	0.670	▲24.0%
Crossover SUVs	0.028	▲36.4%	0.194	▲17.5%
Commercial vehicles	0.329	▲17.8%	2.196	▲4.1%
Buses	-	-	0.211	▲6.9%
Trucks	-	-	1.986	▲3.8%
New energy vehicles	0.152	80.0%	0.617	49.6%
Electric vehicles (EVs)	0.129	106.7%	0.490	56.6%
Plug-in hybrid vehicles (PHVs)	0.022	2.2%	0.126	26.4%
Fuel-cell electric vehicles (FCEVs)	484 (units)	14.6x	1,102 (units)	7.8x

Source: Created based on data released by the CAAM

[Fig. 3] New Energy Vehicle Sales



Source: Created based on data released by the CAAM

◆Second Environmental Inspection: First Round Starts in Six Provinces/Municipalities

The Ministry of Ecology and Environment (MEE) announced that they started the second extensive inspection of environmental protection. As in the first round, the inspection teams started inspections in six target provinces/municipalities (Shanghai, Fujian, Hainan, Chongqing, Gansu, and Qinghai) and at two companies (China Minmetals Corporation and China National Chemical Corporation) by July 15. Over the course of about one month, they will inspect the status of the targets' compliance with environment-related laws and policies, as well as remedial actions taken for issues identified in the first inspection, and will also accept reports and whistleblowing from citizens.

The first inspection took place from the end of 2015 to the end of 2017 in 31 provinces, autonomous regions, and municipalities nationwide, some of which also underwent a "revisit" to review status of corrections made in 2018. The second inspection is scheduled to last three years until 2021, with consequent revisits to be conducted in 2022.

Prior to the second inspection, the Chinese Communist Party Central General Office and State Council General Office published the implementation procedures for the Central Ecological and Environmental Inspection, stipulating the organization and staff responsible for the inspection, as well as the inspection targets, details, and procedures. Relevant State Council departments and state-run corporations directly under the administration of the central government were newly added as inspection targets. The procedures also stipulate punishments depending on the circumstances for any parties being inspected that unduly make a company suspend production or operations as a stopgap measure for the inspection.

[Trade/Investment]

◆China Keeps World No. 2 Ranking for Receiving Foreign Investment in 2018

On June 12, the United Nations Conference on Trade and Development (UNCTAD) released the World Investment Report 2019. According to the Report, inward foreign direct investment (FDI) in 2018 contracted 13.4% from the previous year to a total of USD 1.2972 trillion. In spite of this, inward FDI for China maintained positive growth of 3.7% to reach a total of USD 139 billion, allowing it to keep its No. 2 position for receiving foreign investment behind the United States (Figure 1).

<Global FDI>

The total amount of global FDI in 2018 decreased by 13.4% year-on-year (YoY) to USD 1.2972 trillion, decreasing for the third consecutive year. One factor in this is stricter screening processes on inward FDI that some countries have introduced. The number of large-scale M&A deals worldwide that were rejected increased to at least 22, double the number in 2017.

[Figure 1] Global FDI Rankings for 2018, Top 20 Countries/Regions

(Units: USD Bn)

Inward FDI			Outward FDI		
Rank	Country/Region	Amount	Rank	Country/Region	Amount
1st (1)	USA	251.8	1st (2)	Japan	143.2
2nd (2)	China	139.0	2nd (3)	China	129.8
3rd (3)	Hong Kong	115.7	3rd (9)	France	102.4
4th (5)	Singapore	77.6	4th (6)	Hong Kong	85.2
5th (7)	Netherlands	69.7	5th (5)	Germany	77.1
6th (4)	UK	64.5	6th (14)	Netherlands	59.0
7th (6)	Brazil	61.2	7th (7)	Canada	50.5
8th (8)	Australia	60.4	8th (4)	UK	49.9
9th(17)	Spain	43.6	9th (13)	South Korea	38.9
10th (9)	India	42.3	10th (8)	Singapore	37.1
11th (15)	Canada	39.6	11th (12)	Russia	36.4
12th (13)	France	37.3	12th (10)	Spain	31.6
13th (12)	Mexico	31.6	13th (156)	Switzerland	26.9
14th (11)	Germany	25.7	14th (28)	Saudi Arabia	21.2
15th (16)	Italy	24.3	15th (15)	Italy	20.6
16th (18)	Indonesia	22.0	16th (17)	Sweden	20.0
17th (19)	Israel	21.8	17th (21)	Taiwan	18.0
18th (21)	Vietnam	15.5	18th (18)	Thailand	17.7
19th (20)	South Korea	14.5	19th (20)	UAE	15.1
20th (14)	Russia	13.3	20th (157)	Ireland	13.3

Note: Numbers in parentheses indicate previous year's ranking.
Source: Created based on the World Investment Report 2019 released by UNCTAD.

FDI to developed economies in particular saw a large slump, with a YoY decrease of 26.7% to USD 556.9 billion. FDI to the EU saw a precipitous drop of 55.2% YoY to USD 171.9 billion, while a drop in M&A investments in the USA saw the country's inward FDI decrease 9.2% YoY to USD 251.8 billion. Despite this, the USA has still retained its No. 1 ranking for receiving foreign investment for the 13th year running (Figure 1).

Conversely, the FDI to developing economies grew 2.2% YoY to USD 706 billion, with investment in Asia particularly robust, growing 3.9% YoY to USD 511.7 billion. Elsewhere, Africa saw great growth albeit on a smaller scale, rising 10.9% YoY to USD 45.9 billion.

In the Report's prospects for global FDI in 2019, UNCTAD expressed that in light of the 40% YoY increase in greenfield investments in 2018, related investments are expected to continue to increase in

2019, with global FDI projected to increase 10% YoY and recover to USD 1.5 trillion. However, the Report cautioned that trade tensions also pose a downward risk in the future.

<Chinese FDI>

In 2018, the amount of inward FDI to China rose 3.7% YoY to USD 139 billion, which kept China in second place for receiving foreign investment for the second year in a row (Figure 1). Looking at the results by industry, FDI in manufacturing saw a YoY increase of 20%. By country of origin, significant growth was seen in investment from the UK at 150.0% YoY and from Germany at 79.0% YoY. The Report speculated that M&A megadeals involving British beverage maker Diageo and Germany's BMW were factors in these increases. Furthermore, the number of foreign companies newly established in China rose 70% YoY to reach a scale of over 60,000 in 2018.

Regarding outward FDI in 2018, despite a drop in absolute terms of 18.0% YoY to a total of USD 129.8 billion, China moved up in the ranks of investment-originating countries from third to second (Figure 1). According to the report, the reasons for the drop included a continuation in the tightening of controls over outward investment in certain fields (real estate, entertainment, sports clubs, etc.) by the Chinese government in 2018. Stricter investment screening regulations for Chinese capital investment in regions such as the USA and the EU also played a part. However, FDI from China to the ASEAN region continued its upward trend, with large-scale M&A investments being made in the service industries of Singapore, Indonesia, and the Philippines.

◆110 Products Newly Excluded from U.S. Punitive Tariffs on China

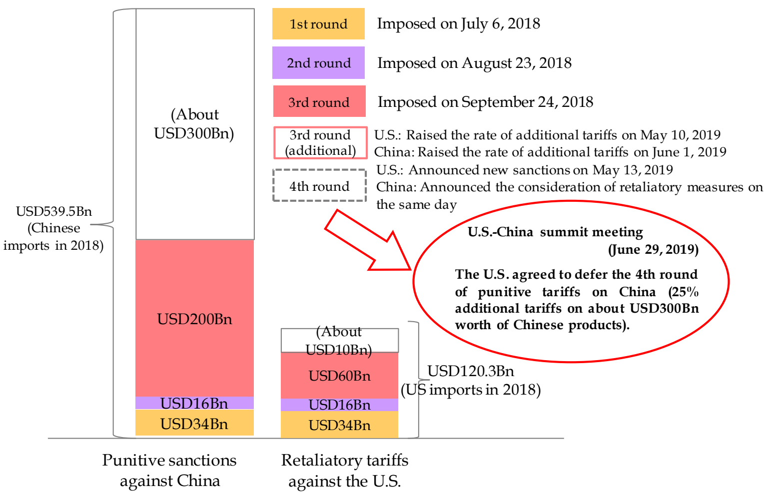
On July 9, the Office of the United States Trade Representative (USTR) announced that 110 types of products will be newly excluded from the list of Chinese products subject to the first round of the U.S. punitive tariffs (an additional 25% tariff on 818 types of Chinese products worth USD 34 billion, imposed on July 6, 2018) (Fig. 1).

[Fig. 1] List of products granted exclusion from U.S. punitive tariffs on China (1st Round)

	Announced date	No. of items	Major products excluded
1st Set of Exclusions	December 28, 2018	31	Certain types of hydraulic linear acting engines and motors, self-contained drinking water-cooling apparatus, etc.
2nd Set of Exclusions	March 25, 2019	33	Telescoping cylinders, self-propelled drills, air brakes for trains, etc.
3rd Set of Exclusions	April 18, 2019	21	Roller machines for processing paper, fabric, etc., water oxidizers and chlorinators, etc.
4th Set of Exclusions	May 14, 2019	40	Marine engines, forklifts, certain kinds of water distillation machinery, etc.
5th Set of Exclusions	June 4, 2019	89	Plastic reservoirs for motor vehicle brake master cylinders, printed circuit assemblies, push-button switches, etc.
6th Set of Exclusions (current batch)	July 9, 2019	110	Heat exchangers and drums for heat recovery systems, compression-ignition engines, various parts for pumps, wire rope drum, aluminum electrolytic capacitors, etc.

Source: Created based on the announcements of the USTR and various news reports.
Note: Details of the items excluded from punitive tariffs are listed under the following link on the USTR website (U.S.).
https://ustr.gov/issue-areas/enforcement/section-301-investigations/section_301-china/34-billion-trade-action

[Fig. 2] Imposition of Additional Tariffs between the U.S. and China



Note: The exports/imports for 2018 are based on announcements by the United States Department of Commerce.

Exclusions were granted upon U.S. companies' requests on the basis of investigations into ① whether the particular product is available only from China, ② whether the additional tariff on the particular product would cause harm to U.S. interests, and ③ whether the particular product is related to the "Made in China 2025" industrial program. The number of excluded products announced this time was larger than any of the past five announcements made since December 2018. The number has reached 324 in total, which highlights the growing need to take into account how the punitive tariffs actually impact U.S. companies or the overall U.S. economy.

Exclusion is applied retroactively from July 6, 2018 and extends for one year from the announcement for each type of product.

[Fig. 3] Summary of Additional Tariffs Imposed by the U.S. and China

	U.S. tariffs levied on Chinese goods		Chinese tariffs levied on U.S. goods	
1st Round Imposed on Jul 6, 2018 (USD34Bn)	Additional 25% tariff on 818 types of Chinese products		Additional 25% tariff on 545 types of U.S. products	
	HS code (Headings)	Product description	HS code (Headings)	Product description
	8536	Relays for switching, protecting or making connections to or in electrical circuits	1201	Soybeans
	8413	Pumps for liquids, liquid elevator	8703	Passenger motor vehicles
	8431	Parts suitable for use with construction machinery, machine tools	1007	Grain sorghum
	8703	Passenger motor vehicles and other motor vehicles	0206	Edible meat offal
	8471	ADP disk drive units, storage units (storage units)	2303	Residues of starch or sugar manufacture
	8541	Semiconductor devices, light-emitting diodes		
	8544	Insulated wires and cables, optical fiber cables		
	8421	Centrifuges, filtering or purifying machinery, cleaning machines		
	8501	Motors and generators		
	8481	Cocks, valves and similar appliances		
2nd Round Imposed on Aug 23, 2018 (USD16Bn)	Additional 25% tariff on 279 types of Chinese products		Additional 25% tariff on 333 types of U.S. products	
	HS code (Headings)	Product description	HS code (Headings)	Product description
	8542	Electronic integrated circuits	4707	Waste and scrap paper
	8543	Electrical devices with specific functions	2711	Petroleum gases
	8541	Semiconductor devices, light-emitting diodes	9018	Instruments and appliances used in medical, surgical, dental or veterinary sciences
	7308	Iron or steel structures and parts	7404	Scrap copper
	8486	Machines and apparatus for manufacture of semiconductor devices or electronic integrated circuits	7602	Scrap aluminum
	8501	Motors and generators	8536	Lamp holders, plugs, sockets
	8536	Relays for switching, protecting or making connections to or in electrical circuits	8703	Passenger motor vehicles
	8503	Parts suitable for use solely or principally with electric motors and generators		
	3920	Plastic sheets and film (not reinforced)		
	3921	Other plastic sheets and film		
3rd Round Imposed on Sep 24, 2018	Additional 10% tariff on 5,745 types of Chinese products worth USD200Bn		Additional 5% or 10% tariff on 5,207 types of U.S. products worth	
	HS code (Headings)	Product description	HS code (Headings)	Product description
	8418	Refrigerators and freezers	2711	Liquefied natural gas (LNG)
	8415	Air-conditioning machines	2603	Copper ores and concentrates
	8528	Monitors and projectors: reception apparatus for televisions	8479	Machines and mechanical appliances
	9403	Other furniture and parts thereof	9031	Measuring or checking instruments, appliances and machines
	9405	Lamps and lighting fittings and parts thereof	7003	Cast glass and rolled glass, in sheets or profiles
	4202	Trunks, suitcases, other cases, pouches, bags	9013	Lasers: other optical appliances and instruments
	3926	Other plastic articles	4703	Chemical wood pulp, soda or sulfate
	8708	Motor vehicle parts and accessories	9018	Instruments and appliances used in medical, surgical, dental or veterinary sciences
	0302	Fish, fresh or chilled, excluding fish fillets and other fish meat		
4th Round (Implementation TBD)	Up to a 25% additional tariff on 3,805 types of Chinese products worth		Intent to take retaliatory measures announced	
	HS code (Headings)	Product description		
	8517	Cellular telephones		
	8471	Automatic data processing machines (computers)		
	8525	Digital cameras		
	9503-9508	Toys and sporting goods and parts thereof		
	6201-6217	Clothing		
	6401-6406	Footwear		

Source: Created based on materials from the U.S. and Chinese governments

◆June: Exports Down 0.3% YoY, Imports Down 7.3% YoY

According to the trade statistics bulletin (in USD) released by the General Administration of Customs (GACC) on July 12, June exports decreased by 1.3% YoY (May: up 1.1% YoY) to USD 212.84 billion, and imports decreased by 7.3% YoY (May: down 8.5% YoY), falling to USD 161.86 billion. Compared to the previous month, exports once more turned around into negative territory. Both exports and imports decreased YoY (Figs. 1 & 2).

The cumulative total from January to June shows that exports are up 0.1% YoY (Jan.-May: up 0.4% YoY) to USD 1.17115 trillion, and imports are down 4.3% YoY (Jan.-May: down 3.7% YoY) to USD 989.99 billion (Fig. 1).

[Fig. 1] Overview of Trade Statistics for June

June 2019 Trade Statistics (USD Bn)		
	Amount	YoY
Exports	212.84	▲1.3%
Imports	161.86	▲7.3%
Trade Surplus	50.98	-
Jan-Jun 2019 Trade Statistics (USD Bn)		
	Amount	YoY
Exports	1,171.15	0.1%
Imports	989.99	▲4.3%
Trade Surplus	181.16	-

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

By country, trade with the United States between January to June showed a decrease in exports of 8.1% YoY (Jan.-May: down 8.4% YoY) to USD 199.40 billion, with imports from the U.S. shrinking 29.9% YoY (Jan.-May: down 29.6% YoY) to USD 58.92 billion. From the beginning of this year, imports have been running about 30% below the previous year's level. The trade surplus saw its margin increase by 5.0% YoY* (Jan.-May: up 5.4% YoY*) to USD 140.48 billion, increasing month-on-month (MoM) for the fourth consecutive month (Figs. 3 & 4).

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

Trade with Japan between January and June saw a decrease in exports of 1.1% YoY (Jan.-May: down 1.8% YoY) to USD 69.53 billion, as well as a decrease in imports by 6.4% YoY (Jan.-May: down 6.7% YoY) to USD 81.61 billion. Despite continuing yearly declines, the amount by which they declined was smaller for both exports and imports compared to the previous month (Fig. 3).

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

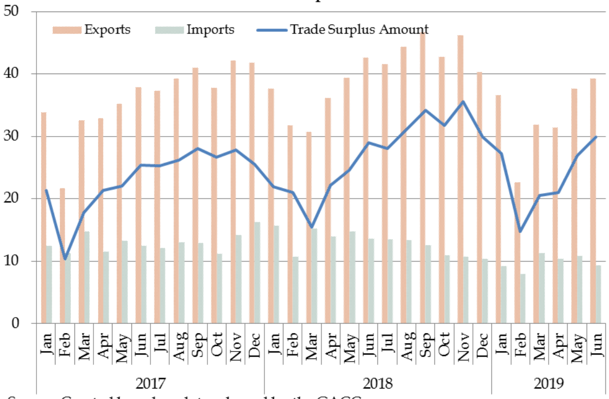
(USD Bn)

Country / Region	Exports	YoY	Imports	YoY	Trade Balance	Total Export / Import Amount	YoY
United States	199.40	▲8.1%	58.92	▲29.9%	140.48	258.33	▲14.2%
Japan	69.53	▲1.1%	81.61	▲6.4%	▲ 12.08	151.14	▲4.0%
South Korea	55.07	2.5%	84.55	▲14.6%	▲ 29.48	139.62	▲8.6%
Hong Kong	129.16	▲6.3%	4.59	24.2%	124.57	133.75	▲5.5%
Taiwan	25.43	9.3%	79.05	▲7.0%	▲ 53.63	104.48	▲3.5%
Germany	38.79	6.4%	51.84	0.8%	▲ 13.05	90.64	3.2%
Australia	22.09	2.0%	56.65	8.1%	▲ 34.56	78.75	6.3%
Vietnam	44.58	14.3%	25.35	▲5.7%	19.23	69.93	6.1%
Malaysia	24.35	12.7%	33.00	9.3%	▲ 8.66	57.35	10.7%
Brazil	15.64	▲8.9%	36.48	4.5%	▲ 20.84	52.13	0.1%

Note: Top 10 countries/region by total export/import amounts

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 Amount



Source: Created based on data released by the GACC

[Finance/Exchange]

◆June Foreign Reserves Increase for the Second Month in a Row

According to an announcement by the People's Bank of China (PBOC) on July 8, the foreign reserve balance in June increased USD 18.2 billion over the previous month, increasing for the second consecutive month and reaching a balance of USD 3.1192 trillion. The size of the increase is the largest seen since February 2018.

The composition of the currencies in the foreign reserve is not publically released. However, non-USD assets are believed to make up one third of all the assets. The regulator claims that as the US dollar decreased in value against other major currencies in June, rises in the USD conversion rates of assets were a contributing factor to the foreign reserve balance increase.

China's Foreign Reserve Balance (Monthly)

Source: Created based on data released by the PBoC.