

CHINA BIWEEKLY

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■ BIWEEKLY DIGEST

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[Economy]

◆ August Manufacturing PMI at 51.0, Above 50 for Six Consecutive Months

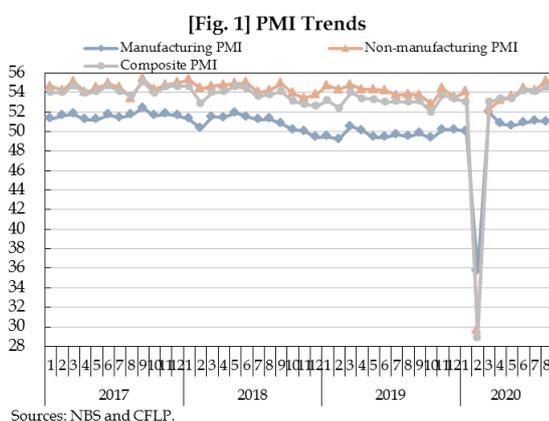
According to statistics jointly released by the National Bureau of Statistics (NBS) and the China Federation of Logistics and Purchasing (CFLP) on August 31, the August manufacturing PMI fell 0.1 point month-on-month (MoM) to 51.0, remaining above the economic sentiment benchmark figure of 50 for six consecutive months. The non-manufacturing PMI rose 1.0 point MoM to 55.2. It also surpassed 50 for six consecutive months, marking the highest level since hitting 55.0 in June 2018 (Fig. 1).

By manufacturing component, production fell 0.5 point MoM to 53.5 while new orders increased by 0.3 point MoM to 52.0. New export orders increased 0.7 point MoM to 49.1. Although it stayed below the benchmark of 50, the figure has been improving for four consecutive months. Meanwhile, employment increased 0.1 point MoM to 49.4 however remained below 50 for the fourth consecutive month. Expected production and business activities, which indicates future business confidence, increased 0.8 point MoM to 58.6, reaching the highest level since May 2018 when it was at 58.7 (Fig. 2).

The authorities commented that the economy continues to recover. However, it indicated that by size of business, small businesses continued to have a tough time with the index falling 0.9 point MoM to 47.7. More than 50% of small businesses are suffering a lack of demand, and more than 40% have funding difficulty. The authorities also pointed out that some companies in regions including Chongqing and Sichuan are affected by the torrential rainstorms causing procurement delays for raw materials, decreasing orders, contractions in output, and other effects.

In non-manufacturing, construction fell to 60.2 (down 0.3 point MoM), while services rose to 54.3 (up 1.2 points MoM). Among the industries in services sector, transport, telecommunications, etc. maintained above 60, while accommodation, restaurants, culture, sports, and leisure businesses recorded scores exceeding 57.

The composite PMI, which reflects the overall business confidence derived by weighted averages of the manufacturing PMI and non-manufacturing PMI, rose 0.4 point MoM to 54.5 (Fig. 1).



[Fig. 2] Trends of Major Components in the Manufacturing PMI

		Trends of Major Components in the Manufacturing PMI							
		Manufacturing PMI	Production	New orders	New export orders	Raw materials prices	Imports	Employment	Expected production & business activities
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
	Jun	49.4	51.3	49.6	46.3	49.0	46.8	46.9	53.4
	Jul	49.7	52.1	49.8	46.9	50.7	47.4	47.1	53.6
	Aug	49.5	51.9	49.7	47.2	48.6	46.7	46.9	53.3
	Sep	49.8	52.3	50.5	48.2	52.2	47.1	47.0	54.4
	Oct	49.3	50.8	49.6	47.0	50.4	46.9	47.3	54.2
	Nov	50.2	52.6	51.3	48.8	49.0	49.8	47.3	54.9
	Dec	50.2	53.2	51.2	50.3	51.8	49.9	47.3	54.4
2020	Jan	50.0	51.3	51.4	48.7	53.8	49.0	47.5	57.9
	Feb	35.7	27.8	29.3	28.7	51.4	31.9	31.8	41.8
	Mar	52.0	54.1	52.0	46.4	45.5	48.4	50.9	54.4
	Apr	50.8	53.7	50.2	33.5	42.5	43.9	50.2	54.0
	May	50.6	53.2	50.9	35.3	51.6	45.3	49.4	57.9
	Jun	50.9	53.9	51.4	42.6	56.8	47.0	49.1	57.5
	Jul	51.1	54.0	51.7	48.4	58.1	49.1	49.3	57.8
	Aug	51.0	53.5	52.0	49.1	58.3	49.0	49.4	58.6

Sources: NBS and CFLP.

◆ “Consumption Promotion Month” Campaign to Be Held Across China to Restore Consumption

At a press conference on September 4, the Ministry of Commerce (MOFCOM) revealed its plan to host a “Consumption Promotion Month” nationwide campaign lasting one month from September 9 to October 8. While this campaign has been held every year since 2012, the government pledges to work harder than ever on this year’s campaign in an attempt to boost consumption out of the pandemic-induced slump in which it still remains.

Specifically, the government plans to host more than 2,800 events combining online and offline exhibitions and demonstrations in 179 focused cities nationwide. The events are expected to be joined by over 100,000 businesses.

These events will focus on key products (automobiles, home electronics, interior, agricultural products,

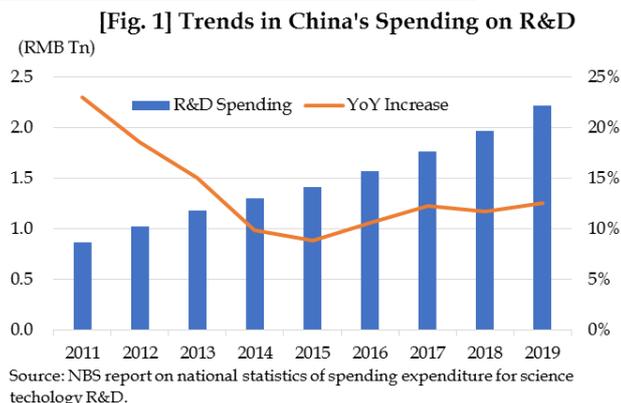
etc.) and key sectors (locally produced goods, renowned Chinese brand goods, high-quality imported goods, domestic sales of goods originally intended for exports, etc.). They will also focus on themes with renewed consumption concepts such as greenery, health, culture, innovation, the “stay-at-home” economy, and the night-time economy.

Moreover, the government will foster efforts between the government and businesses to boost consumption. These efforts include financial assistance by regional governments, reduction or exemption of settlement fees for commodities by financial institutions, and distribution of coupons by e-commerce operators and businesses.

[Industry]

◆ China's Research and Development Expenditure in 2019 Up 12.5% YoY to RMB2.2Tn

On August 27, the National Bureau of Statistics, the Ministry of Science and Technology, and the Ministry of Finance jointly released a report on national statistics of expenditure for science technology research and development (R&D). According to the report, China's total spending on R&D in 2019 hit a record high level of RMB 2.21436 trillion, increasing by 12.5% year-on-year (YoY). The increase rate also expanded 0.7 point YoY, maintaining two-digit growth for four consecutive years since 2016 (Fig. 1). The ratio of total R&D to the country's GDP increased 0.09 point YoY to 2.23%.



R&D spending in basic research rose 22.5% YoY to RMB 133.56 billion, a growth rate exceeding the overall growth average (12.5%). Basic research accounted for 6.03% of the total spending, rising 0.49 point YoY into the 6% range for the first time. This reflected the ongoing progress of the central government's policy in January 2018 for a full-scale enhancement of basic research, although the gap between China and other developed countries, with basic research ratios generally at 15% or higher, remains wide.

By sector, spending on corporate R&D increased 11.1% YoY to RMB 1.69218 trillion, while government-run research organizations spent 14.5% more YoY to RMB 308.08 billion, and higher educational institutions spent 23.2% more YoY to RMB 179.66 billion. Corporate R&D spending accounts for 76.4% of the overall R&D, making it a major contributor.

By region, R&D growth rates in the Central Region (up 17.7% YoY to RMB 416.26 billion) and the Western Region (up 14.8% YoY to RMB 285.85 billion) exceeded the growth in the Eastern Region (up 10.8% YoY to RMB 1.51225 trillion).

By industry, the amount of R&D spending was high in the manufacture of computer, communication and other electronic equipment (RMB 244.81 billion), the manufacture of electric machinery and equipment (RMB 140.62 billion), and the manufacture of automobiles (RMB 128.96 billion).

OECD announced that in 2018, China's total spending on R&D became the world's second largest amount next to the U.S.. The country's R&D has been invigorated in recent years with rapid increases in the numbers of R&D personnel, papers published, and patent applications. However, some have pointed out issues that the country could improve. It is indicated that the quantity of R&D is currently valued over the quality, and that there are not enough investments in basic research compared to developed countries.

◆ 124 Chinese Companies Rank Among the Fortune Global 500 2020, Surpassing the U.S. For the First Time

On August 10, U.S. business magazine Fortune released the Fortune Global 500 for 2020, a ranking of the largest companies in the world. 117 companies from mainland China were ranked among the top 500 companies in terms of annual sales. Combined with those headquartered in Hong Kong, the total number of ranked Chinese companies amounted to 124, surpassing that of the U.S. (121 companies in 2020) for the first time.

Fortune commented that the growth of Chinese companies combined with the expansion of China's economy resulted in what we see, further remarking that the number of Chinese companies ranked has been increasing rapidly since 2008. Three Chinese companies, China Petroleum & Chemical Corporation (Sinopec), the State Grid Corporation of China (State Grid), and the China National Petroleum Corporation (owner of PetroChina), were ranked among the world's top 10 this year. State Grid notably jumped up the ranks from 5 to 3 (Fig. 1).

[Fig. 1] Fortune Global 500 (Ranking by Sales Amount): Top 10 Companies

Ranking	Company Name	Sales (USD Bn)	Total revenue (USD Bn)	Country
1	Walmart	524.0	14.9	U.S.
2	China Petroleum and Chemical Corporation (Sinopec)	407.0	6.8	China
3	State Grid Corporation of China (State Grid)	383.9	8.0	China
4	China National Petroleum Corporation (PetroChina owner)	379.1	4.4	China
5	Royal Dutch Shell	352.1	15.8	Netherlands
6	Saudi Aramco	329.8	88.2	Saudi Arabia
7	Volkswagen Group	282.8	15.5	Germany
8	BP	282.6	4.0	UK
9	Amazon.com	280.5	11.6	U.S.
10	Toyota Motor	275.3	19.1	Japan

Source: Fortune Global 500 2020

Conversely, the average revenue of the 124 Chinese companies in the ranking was just below USD3.6Bn, barely half that of the 121 U.S. companies (USD7Bn), and even below the overall average of the 500 global companies (USD4.1Bn). Improving profitability is a challenge that Chinese companies are expected to take up going forward.

◆Chinese Semiconductor Industry Increases Sales by 16.1% Year-on-Year (YoY) in First Half of 2020

According to an announcement by China Semiconductor Industry Association (CSIA) on August 12, 2020, the sales of integrated circuitry (IC) for January to June 2020 increased 16.1% YoY to RMB 353.9 billion, recording a growth of 4.3 points from the previous year when it increased 11.8% YoY. There were remarkable YoY increases, especially in the design sector which jumped 23.6% to RMB 149.1 billion. Manufacturing rose 17.8% to RMB 96.6 billion, and packaging and testing went up 5.9% to RMB 108.2 billion .

IC imports for the January to June period increased 25.5% YoY to 242.3 billion units with a 12.2% rise in the monetary amount at USD 154.6 billion. IC exports also increased 13.8% to 112.6 billion units, with the monetary figure jumping 10.5% to USD 50.51 billion. In a time when overseas trade in general has been slowing down due to COVID-19, both IC imports and exports demonstrated outstanding performance with double-digit growth.

In addition to the U.S.-China trade friction, many challenges beset the Chinese semiconductor industry for the future of its development as the COVID-19 crisis drastically changes the global environment around the semiconductor industry.

At the World Semiconductor Conference held in Nanjing on August 26, CSIA Vice Chairman Wei Shaojun presented his view that China is estimated to import over USD 300 billion in IC this year for the third consecutive year as the country is heavily dependent on IC imports especially in the high-end sector. He added a long-term system to stimulate both investment and technology development was indispensable to grow the semiconductor industry in the country, but adequate funds have yet to be injected for domestic research and development (R&D). In addition, he stressed that opening-up and global cooperation were necessary because a complete network of supply chains cannot be established within the country alone.

During his lecture at the conference, the deputy director general of the Electronic Information Department of the Ministry of Industry and Information Technology (MIIT), Yang Xudong, presented four policies to develop the semiconductor industry in the future: 1) providing more support for R&D by businesses and accelerating R&D for core technologies, 2) encouraging scientific/basic research institutes to share information that will lead to research achievements, 3) maintaining the policy to

for foreign investors and taking an active stance to attract leading semiconductor companies abroad, and 4) promoting cross-border collaboration and ratification of international standards.

On August 4, the Chinese government released a circular entitled “Several Policies to Promote the High-quality Development of an Integrated Circuit Industry and Software Industry in the New Era” with an aim to accelerate the development of the semiconductor industry through the idea of preferential treatments for finance and taxation, investment and loans, exports and imports, and human resources.

[Trade/Investment]

◆Deficit in Trade in Services for January-July Contracts by 49% YoY

According to MOFCOM’s announcement on September 1, trade in services for the January to July period suffered from a substantial YoY decrease in the number of overseas tours due to the spread of COVID-19, with exports of RMB 1.08527 trillion (down 1.4% YoY) and imports of RMB 1.53404 (down 22.8% YoY), both of which ending up with lower results than the year before. Meanwhile, the deficit in trade in services contracted 49.4% YoY, lowering to RMB 448.77 billion,

Breaking down by category, exports performed well YoY particularly in knowledge-based services: royalties for intellectual property rights surged up 31.9%, information and communications services increased 16.9%, insurance services rose 12.9%, and telecommunications/computer/information services went up 16.9%. For imports as well, knowledge-based services recorded remarkable results YoY in information and communications services (up 28.5%) and financial services (up 16.6%). Knowledge-based services increased their share across all services by 9.7 points to 44.0% YoY, indicating the structural reform in trade in services is actually progressing.

At the China International Fair for Investment and Trade (CIFIT) held from September 4 to September 9, Chinese President Xi Jinping delivered a keynote speech in which he made it clear that China would further open up the market of services for foreign investors. Specific efforts raised by the president include establishing a negative list framework for foreign investors in trade in services, easing the standards to enter service-related markets, increasing imports of services, accelerating international cooperation in the digital sector, and delivering more enhanced protection for intellectual property rights.

For the first several years since its inception in 2012, CIFIT was held every two years. Since 2019, however, it has been held each year, regarded as one of the three major trade fairs in China along with the China Import and Export Fair (Canton Fair) and the China International Import Expo (CIIE). This year’s CIFIT had exhibition areas segmented by themes, such as winter sports, culture, finance, 5G communications, education, services/robots, public health/sanitation, and Chinese medicine, and a total of about 22,000 companies and institutions from 148 countries around the world held exhibitions.

[Finance/Exchange]

◆Foreign Reserve Balance Up in August for Fifth Consecutive Month

The People's Bank of China (PBOC) announced on September 7 that its foreign exchange reserves at the end of August had increased by USD 10.22 billion over the previous month to USD 3.16461 trillion, marking the fifth consecutive month of growth.

This increase could be explained by two reasons. Firstly, assets denominated in other foreign currencies have been valued higher in association with the weaker USD. Secondly, the inflows of funds from foreign investors anticipating the recovery of the Chinese economy have contributed to an increase in the foreign exchange reserves.

