

CHINA BIWEEKLY

RMB Internationalization Business Promotion Office

BTMU Global Business Division

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■ BIWEEKLY DIGEST

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[Economy]

◆ **Population development plan through 2030: Addressing declining birth rate and aging population a challenge**

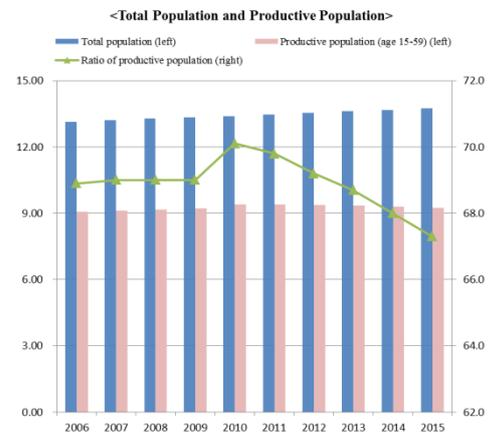
The State Council recently announced the national development plan for 2016- 2030.

Regarding the current status, the Council stated that China had a total population of 1.375 billion as of the end of 2015, and an annual average natural rate of increase of around 0.5% during the term of the 12th Five-Year Plan (2011-2015). By population by age group, the ratio of elderly population aged 60 and above reached 16.1% while the productive population aged 15 to 59 continued to decline after peaking in 2011. The male-to-female birth ratio was 113.5:100, the urbanization ratio of the de jure population increased to 56.1% in 2015 from 50.0% in 2010, and the average life expectancy extended to 76.3 years.

Regarding the demographics for the next 15 years, the total population is expected to peak in around 2030 as the speed of population growth slows after around 2021-2025 due to a decrease in women of childbearing age and a rise in death rate caused by population aging. Aging is expected to accelerate as the percentage of elderly population aged 60 and above rises to approx. 25% by 2030 while the population aged 0-14 years drops to approx. 17%. The Council further stated that male-to-female

birth ratio will reach equilibrium through economic and social development and the “two-child policy,” and the style of the family will diversify with the gradual increase in single-person households, single-parent households, and households without children.

The Council set targets to (1) increase the total population to 1.45 billion in 2030 by appropriately raising the birth rate by 2020 through the “two-child” policy, (2) balancing the male-to-female ratio, (3) raising health levels and extending the average life expectancy, and (4) increasing the average years of schooling for the productive population, and pledged to actively address population aging and enhance public services, while achieving population increase simultaneously with environmental conservation.



Source: Created based on the data published by the NBS

Item	Index	Unit	2015	2020	2030
Total population	Total population	100M	13.8	14.2	14.5
	Birth rate	%	1.5-1.6	1.8	1.8
Population structure	Male-to-female birth ratio		113.5	≤112	107
Population distribution	Urbanization ratio of de jure population	%	56.1	60	70
Other	Average life expectancy	Years	76.3	77.3	79
	Average years of schooling for productive population	Years	10.2	10.8	11.8

Source: Created based on the "national population development plan for 2016-2030" of the State Council

◆ **National People’s Congress opens on March 5: Stable growth given highest priority, target GDP growth rate lowered to around 6.5% in 2017**

At the National People’s Congress (NPC, the equivalent of the Japanese Diet) which opened on March 5, Prime Minister Li Keqiang announced the economic management policy for 2017 in a report on government activities.

Regarding specific policy management, he clarified the stance to put economic and social stability first, pledging to advance structural reforms while ensuring a stable growth by giving top priority to “maintaining a stable growth, securing employment, and preventing risks.”

Further, a policy to maintain a “proactive fiscal policy” and “prudent and neutral monetary policy” and to continue to pursue “three eliminations, one reduction and one improvement (Note)” through supply-side reforms was announced.

(Note) Three eliminations: Reducing excessive production, excessive real estate inventory, excessive corporate debts. One reduction: Reducing corporate costs. One improvement: Shoring up weak growth areas.

<Comparison of Main Economic Indices for 2016 and 2017>

Index	2016		2017
	Target	Result	Target
GDP growth rate	6.5-7.0%	6.7%	Around 6.5%
CPI inflation rate	Around 3.0%	2.0%	Around 3.0%
Money supply (M2) growth rate	Around 13.0%	11.3%	Around 12.0%
Export/import growth rate	-	▲6.8%	-
Deficits-to-GDP ratio	3.0%	-	3.0%
Urban job creation	10M or more	1,314	11M or more
Registered urban unemployment	4.5% or lower	4.02%	4.5% or lower

Source: Created based on the data published by the Chinese government

Regarding the main economic indices, the gross domestic product (GDP) growth target was lowered to “around 6.5%” for 2017 from “6.5-7.0%” for 2016. The Premier emphasized that “the target is in line with both economic principles and objective reality, helps lead and stabilize market expectations and facilitates the country's structural reforms, and also contribute to achieving the goal of building of a moderately prosperous society in all respects.”

Regarding urban job creation, the target was raised to “at least 11 million” for 2017 from “at least 10 million” for 2016. A policy was indicated to attach greater importance to employment, while emphasizing that an economic growth of around 6.5% would ensure achieving the new employment target.

As for broadly-defined money supply (M2), the year-on-year growth target for 2017 was lowered to “around 12.0%” from “around 13.0%” for 2016. The aim is to maintain stable liquidity and expedite the inflow of financial resources into the real economy. Further, continued reforms for interest rate liberalization and maintaining the RMB's stable position as an international currency were mentioned.

Regarding foreign company policy, the following were mentioned: Easing regulations on the entry of foreign companies in the service, manufacturing, and mining industries, supporting foreign companies list themselves and issue bonds in China, ensuring equality between domestic and foreign companies in setting industry standards and providing support through government procurement and other measures, allowing regional governments to establish their own preferential treatments for foreign companies within the scope of the law, and establishing 11 pilot high-level free trade zones.

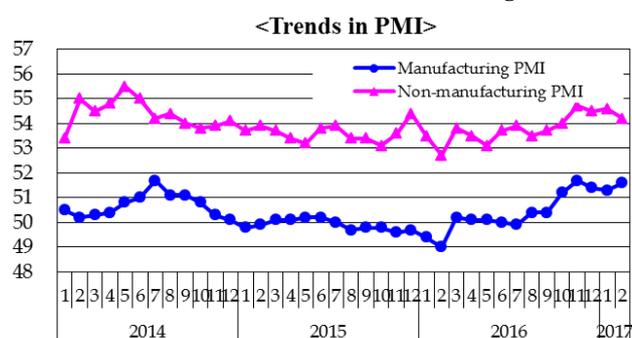
◆ **Manufacturing PMI for February rises to 51.6, up 0.3 points from the previous month**

According to the March 1 announcement by the National Bureau of Statistics (NBS) and the China Federation of Logistics & Purchasing (CFLP), the manufacturing PMI for February increased 0.3 points month-on-month (MoM) to 51.6, surpassing 50 points, which is the turning point in judging the economy, for the seventh consecutive month. Domestic and foreign demands are recovering and production activities are energizing, the organizations said.

The main indices rose across the board: Production gained 0.6 points MoM to 53.7, new orders added 0.2 points MoM to 53.0, imports increased 0.5 points MoM to 51.2 and new export orders rose 0.5 points MoM to 50.8. Further, the expected production and business activities index, which indicates the business confidence for future, rose 1.5 points MoM to 60.0, climbing for the second consecutive month and indicating that companies remain optimistic about the economy.

Meanwhile, more companies feel that labor cost is increasing. The percentage marked 42.3% among small companies, which exceeds the manufacturing industry average of 39.8% and raises concerns for rising costs.

The non-manufacturing PMI for February dropped 0.4 points to 54.2, but exceeded 54 for the fifth consecutive month and remains at a high level.



Source: Created based on the data published by NSB and CFLP

<Trends in the Main Manufacturing PMI Indexes>

	Manufacturing PMI	Production	New orders	New export orders	Import index	Employment index	Expected production and business activities
2016-Jan	49.4	51.4	49.5	46.9	46.4	47.8	51.3
Feb	49.0	50.2	48.6	47.4	45.8	47.6	53.3
Mar	50.2	52.3	51.4	50.2	50.1	48.1	54.8
Apr	50.1	52.2	51.0	50.1	49.5	47.8	55.0
May	50.1	52.3	50.7	50.0	49.6	48.2	55.1
Jun	50.0	52.5	50.5	49.6	49.1	47.9	55.2
Jul	49.9	52.1	50.4	49.0	49.3	48.2	55.8
Aug	50.4	52.6	51.3	49.7	49.5	48.4	56.4
Sep	50.4	52.8	50.9	50.1	50.4	48.6	57.3
Oct	51.2	53.3	52.8	49.2	49.9	48.8	58.2
Nov	51.7	53.9	53.2	50.3	50.6	49.2	59.0
Dec	51.4	53.3	53.2	50.1	50.3	48.9	58.2
2017-Jan	51.3	53.1	52.8	50.3	50.7	49.2	58.5
Feb	51.6	53.7	53.0	50.8	51.2	49.7	60.0

Source: Created based on the data published by NSB and CFLP

(Note) Since January 2017, statistics method for expected production and business activities has changed. Accordingly, old data has been modified.

[Industry]

◆Home delivery industry: Development plan to triple sales in the next five years

On March 13, the State Post Bureau announced the 13th Five-Year Plan for the development of the home delivery industry, and set a goal to further develop the rapidly growing home delivery industry to energize logistics, expand domestic demand, and promote employment, and to almost triple the industry's sales to RMB800Bn from 2015 levels by 2020.

In China's home delivery market, the number of parcels handled and the total value of transactions expanded by 8.8 times and 4.8 times, respectively, during the period of the 12th Five-Year Plan

(2011-2015), with the number of business offices increasing to 183,000 from 64,000 nationwide, the number of users per day boosting by 8.8 times to 110 million, and the annual number of parcels per person growing 8.6 times to 15 parcels. Further, the use of home delivery in rural villages reached 5 billion parcels in total during these five years, and the sales of agricultural produce to urban areas and industrial products to rural areas exceeded RMB300Bn. The Bureau estimates that home delivery business has created over 1 million jobs directly and over 10 million jobs indirectly.

The development of the home delivery business also supported the expansion of online shopping, propped up consumer spending, and quickly developed into a new growth engine to serves as a source of employment, but the Bureau noted it also has many issues, such as: (1) the shortage of capability to supply delivery service, (2) absence of competitive Chinese companies in the international market, (3) intense price competition between companies, (4) gap in development between urban and rural areas, (5) lack of product diversity, (6) shortage of logistics infrastructure, (7) inadequate safety management for the parcels delivered, and (8) insufficient training system and low capability levels of employees.

As the policy direction going forward, the following were indicated: (1) strengthen companies by accelerating the merger of SMEs and enhancing brand power, (2) improve services by upgrading sorting, storage, and delivery centers and transportation infrastructure, (3) enhance innovation through the accelerated use of the Internet, IoT, big data, and AI, and the development of a consolidated service for delivery, finance, insurance, and customs, (4) accelerate globalization by building logistics networks that cover China and its surroundings, the One Belt One Road area, and the entire world.

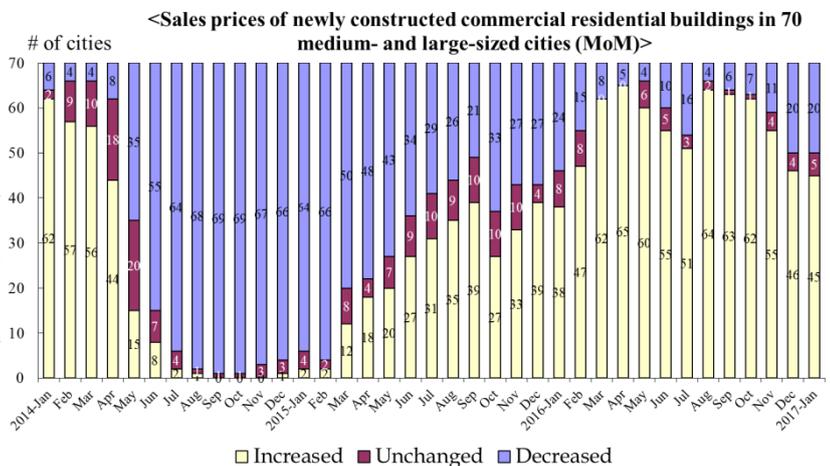
<Development Targets for Home Delivery Industry through 2020>		
	2015	2020
Home delivery sales (RMB100Mn)	2,770	8,000
Number of parcels delivered (100Mn parcels)	207	700
Coverage of rural villages by home delivery service (%)	70	90
Logistics centers with automatic sorting systems (10,000 m3 or larger)	61	150
Aircraft exclusively for home delivery parcels (units)	71	200
Rate of electronic delivery slip (%)	55	90
Ratio of R&D cost to home delivery sales (%)	0.6	1
Customer satisfaction (points)	74	75
Rate of delivery delays (%)	-	0.5
Rate of damaged parcels (%)	-	0.005
Rate of lost parcels (%)	-	0.003
Rate of complaints regarding home delivery (%)	0.0013	0.0011
Number of uses per person per year (parcel/person)	15	50
Rate of deliveries to smart home delivery boxes (%)	2	10

Source: Created based on the State Post Bureau's 13th Five-Year Plan for the development of the home delivery industry

◆House prices for 70 medium and large cities for January: Price increase shows signs of subsiding

On March 22, the National Bureau of Statistics (NBS) announced the house price index for 70 medium and large cities for January.

For newly constructed commercial houses, the price rose month-on-month (MoM) in 45 cities, down 1 city from the previous month, and dropped in 20 cities, remaining unchanged from the previous month. The rise was steepest in Sanya City (Hainan Province), Chongqing City, and Jiujiang City (Jiangxi Province) at +1.7%, +1.3%, and +1.1% MoM, respectively, while the fall was sharpest in Shenzhen City (Guangdong Province) and Wuxi City (Jiangsu Province) at ▲0.5% MoM.



Source: Prepared based on data published by the NBS

The average rise in house price from the previous month remained unchanged for first-tier cities (Note) (December: unchanged), rose 0.1% for second-tier cities (Note) (+0.2% in December), and remained flat for third-tier cities (Note) (+0.4% in December).

On a year-on-year (YoY) basis, house price rose in 66 cities, up 1 city from the previous month, and dropped in 4 cities, down 1 city from the previous month.

Specifically, it rose sharply in Hefei City (Anhui Province) at 44.2% MoM,

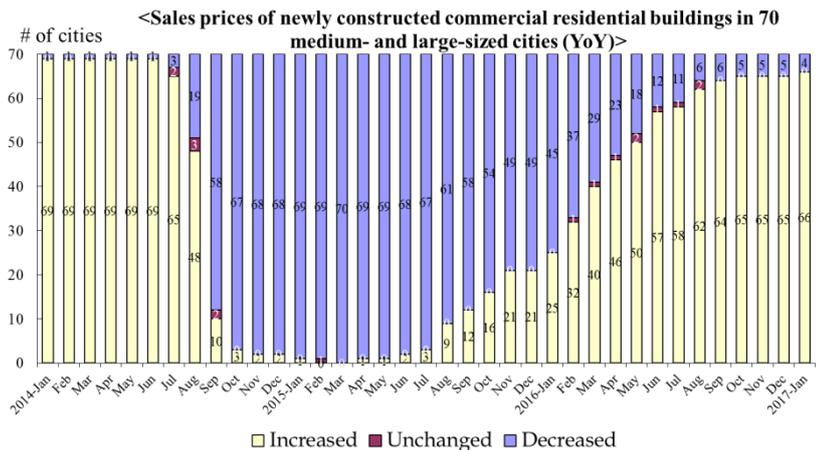
Xiamen City (Fujian Province) at 38.8% MoM, and Nanjing City (Jiangsu Province) at 37.3% MoM, and declined the most for Jinzhou City (Liaoning Province) at ▲2.3% MoM, Urumqi City (Xinjiang Autonomous Region) at ▲1.0% MoM, and Mudanjiang City (Heilongjiang Province) at ▲0.8%.

According to a survey of 15 cities including first-tier cities and some popular second-tier cities, house price dropped by 0.1-0.5% MoM in 11 cities, remained unchanged in 3 cities, and rose only in Guangzhou City (+0.6% MoM), with the increase shrinking for the fourth consecutive month. The NBS indicated that the restrictions on house purchase introduced in these cities at the end of September last year is still effective, and that the house price hike is continuing to subside.

(Note) First-tier cities: Beijing, Shanghai, Guangzhou and Shenzhen

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

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



Source: Prepared based on data published by the NBS

【Trade/ Investment】

Volume of port freight handled increases 3.2% YoY in 2016

On February 10, the Ministry of Transport announced the volume of freight handled by ports above the designated size (Note) in 2016. The total volume of freight handled increased 3.2% YoY to 11.83 billion tons, of which the volume of international freight increased 4.1% YoY to 3.76 billion tons.

(Note) Sea ports handling at least 70 million tons of freight or inland river ports handling at least 50 million tons of freight in 2009

In terms of the freight handled by sea ports and inland river ports, the volume handled by sea ports increased 3.0% YoY to 8.08 billion tons, of which international freight gained 3.7% YoY to 3.37 billion tons. The volume handled by inland river ports increased 3.6% to 3.75 billion tons, of which international freight increased 7.7% YoY to 0.39 billion tons.

The top five sea ports with the largest amount of freight were Ningbo-Zhoushan (Zhejiang Province), Shanghai, Tianjin, Guangzhou (Guangdong Province), Tangshan (Hebei Province). The top five sea ports with the largest volume of international freight were Ningbo-Zhoushan (Zhejiang Province), Shanghai, Qingdao (Shandong Province), Tianjin, and Tangshan. The five top inland river ports with the largest freight volume were Suzhou (Jiangsu Province), Nantong (Jiangsu), Nanjing (Jiangsu), Chongqing, Taizhou (Jiangsu), while those with the largest volume of international freight were located mostly in Jiangsu Province, namely Suzhou (Jiangsu), Nantong (Jiangsu), Zhenjiang (Jiangsu), Nanjing (Jiangsu), Foshan (Guangdong Province)..

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<Volume of Freight Handled by Ports above the Designated Size in 2016>

Sea port	All freight		International freight		Inland river port	All freight		International freight	
	Volume (Mt)	YoY (%)	Volume (Mt)	YoY (%)		Volume (Mt)	YoY (%)	Volume (Mt)	YoY (%)
Ningbo-Zhoushan (Zhejiang)	917.8	3.2	431.3	2.4	Suzhou (Jiangsu)	573.8	6.3	151.5	7.5
Shanghai	643.0	▲ 0.9	379.5	0.4	Nantong (Jiangsu)	223.3	2.3	56.7	10.0
Tianjin	550.0	1.8	295.0	▲ 1.2	Nanjing (Jiangsu)	216.9	1.1	23.1	2.7
Guangzhou (Guangdong)	521.8	4.3	123.7	4.2	Chongqing	172.2	9.3	5.5	8.2
Tangshan (Hebei)	515.8	4.7	292.7	6.5	Taizhou (Jiangsu)	167.7	▲ 0.2	15.3	2.4
Qingdao (Shandong)	500.8	3.4	332.8	4.3	Yueyang (Hunan)	138.4	5.3	3.2	22.5
Dalian (Liaoning)	428.7	3.4	135.4	3.9	Wuhu (Anhui)	131.0	9.0	2.8	17.7
Rizhao (Shandong)	350.6	4.0	233.7	10.8	Zhenjiang (Jiangsu)	130.9	0.6	26.6	17.1
Yingkou (Liaoning)	347.0	2.5	76.8	▲ 2.9	Jiangyin (Jiangsu)	130.2	6.5	22.3	45.1
Yantai (Shandong)	265.4	5.5	91.0	6.0	Wuhan (Hubei)	90.0	6.4	8.0	▲ 4.9
Zhanjiang (Guangdong)	255.2	15.8	75.9	18.7	Huzhou (Zhejiang)	86.7	7.6	1.0	▲ 9.9
Huanghua (Hebei)	245.1	47.1	32.3	89.9	Jiaxing (Zhejiang)	82.3	▲ 4.2	0.7	▲ 13.8
Shenzhen (Guangdong)	214.2	▲ 1.3	181.5	▲ 1.2	Hangzhou (Zhejiang)	72.9	▲ 22.2	0.0	-
Xiaomen (Fujian)	209.0	▲ 0.6	98.7	▲ 4.1	Foshan (Guangdong)	65.1	6.0	22.9	▲ 4.9
Beibuwan Port (Guangxi Zhuang Autonomous Region)	204.2	▲ 0.3	118.6	▲ 5.5	Shanghai	57.1	▲ 16.4	-	-
Lianyungang (Jiangsu)	202.1	2.3	110.8	10.8	Wuxi (Jiangsu)	55.8	▲ 27.0	0.2	▲ 1.9
Qinhuangdao (Hebei)	186.0	▲ 26.5	14.7	▲ 6.1	Total	3,749.1	3.6	388.4	7.7
Fuzhou (Fujian)	145.8	4.4	59.1	7.6	(Note) Sea ports handling at least 70 million tonnes of freight or inland river ports handling at least 50 million tonnes of freight in 2009				
Quanzhou (Fujian)	125.5	2.5	36.3	7.3	Source: Created based on the announcement by the Ministry of Transport				
Total	8,081.4	3.0	3,373.5	3.7					

◆Direct investment for January: Significant decline in outward foreign direct investment

On February 16 and 20, the Ministry of Commerce announced statistics for inward and outward foreign direct investment for January.

<Inward foreign direct investment (IDI)>

For IDI for January (excluding financial services), the number of newly established foreign firms was 2,010 companies, up 0.1% YoY. Actual IDI dropped 14.7% (*) YoY to USD12Bn posting a greater decline than in December 2016 of ▲0.2% (*).

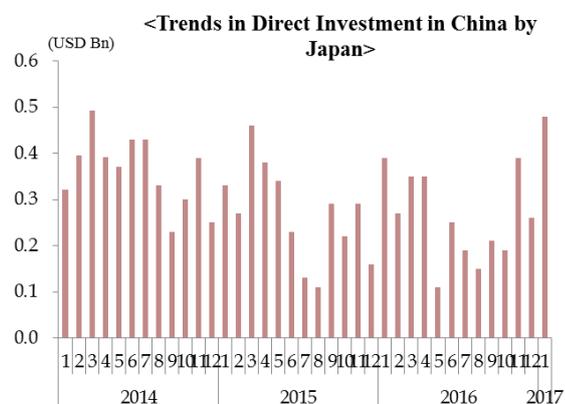
By country/region, direct investment from Japan increased 23.1% YoY (*) to USD480Mn, taking an upturn, and investment from EU also increased considerably to USD1.08Bn, up 20.2% YoY. Meanwhile, investment from the ASEAN fell 6.1% YoY to USD400Mn.

By industry, investment in the service industry accounted for 73.9%, with a marked growth in investment in high-tech services such as information technology services.

As the reason for the decline in IDI, the Ministry cited the concentration of investment in January last year and the fact that this year's Chinese New Year holidays fell on January, and emphasized that the result for January does not represent the trend for the entire year, as investment tends to fluctuate in January.



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



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

(*) Calculated by BTMU based on the amount of IDI announced by the Ministry of Commerce

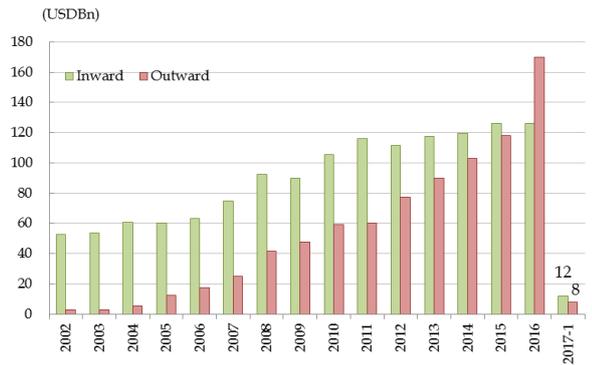
<Outward foreign direct investment (ODI)>

ODI for January (excluding financial services) plummeted to USD7.73Bn, down 35.7% YoY and falling below the amount of IDI.

In terms of breakdown by industry, manufacturing and ICT services accounted for 37.5% (January 2016: 13.4%) and 11.5% (January 2016: 5.6%) , respectively, both increasing YoY.

The Ministry projects that ODI will be stable but struggle to grow in 2017 amid a weak recovery of the global economy. It further stated that the risk and uncertainty of ODI is rising as some countries remain unable to fix their economic policies due to the considerable fluctuation of the recent international monetary market, and indicated the policy to support ODI by domestic companies that meet certain conditions.

<Trends in China's Inward and Outward Direct Investment>



Source: Created based on the data published by the Ministry of Commerce
 Note: Excluding the financial services industry. According to the Statistical Bulletin on China's Outward Direct Investment in 2015 (including finance business) released by the MOFCOM, NBS and SAFE, outward direct investment exceeded inward direct investment in 2015.