CHINA BIWEEKLY

RMB Internationalization Business Promotion Office
BTMU Global Business Division

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■ BIWEEKLY DIGEST

[Economy]

- **OECD forecasts China's growth rate for 2017 at 6.5%, calls for eliminating financial risks and focusing on structural reforms**
- **Hebei Xiongan New Area launched as a new state economic zone following Shenzhen and Shanghai's Pudong New Area**
- **Seven new pilot free trade zones officially launched on April 1**
- **March 2017: CPI rises 0.9% and PPI gains 7.6% YoY**

[Industry]

- **March auto sales increase 4% YoY**

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- **March 2017: Exports rise 16.4% YoY and imports grow 20.3% YoY**
- **China falls to second in trade in goods in 2016 for the first time in four years**

[Finance/ Exchange]

- **March: Foreign reserves increase for the second consecutive month**

BIWEEKLY DIGEST

[Economy]

◆OECD forecasts China's growth rate for 2017 at 6.5%, calls for eliminating financial risks and focusing on structural reforms

On March 21, the Organization for Economic Co-operation and Development (OECD) released the Economic Survey of China 2017.

The Survey forecasts China's economic growth rate to slow to 6.5% in 2017 and 6.3% in 2018 from 6.7% in 2016 as the population aging and the economy rebalances from investment to consumption. Nevertheless, the Chinese economy will continue to drive the world economy as the country's per-capita GDP continues to grow strongly to double by 2020 from 2010 levels.

As the issues in the Chinese economy, the report named increasing financial risks due to rising corporate debts, increase in non-bank loans, overcapacity in some industries, and soaring housing prices. Particularly, the Survey mentioned China's corporate debt levels (excluding the financial sector) that have exceeded those of developed countries in 2016 at 170% of GDP, of which two-thirds belonged to state-owned enterprises (SOEs), and suggested effective solutions for eliminating risks including phasing out the implicit government guarantee for SOEs and prohibiting leveraged investment in the capital market.

The Survey also cited the large, persistent income disparities, and stated that the income transfer system must be reformed by improving the social security and tax systems to achieve a "moderately prosperous society".

The Chinese economy is maturing and slowing, but is now on to a more sustainable growth trajectory. To further improve the quality and resilience of growth going forward, the Survey proposed promoting innovation in broad industrial areas, establishing more effective corporate governance, and implementing the reforms of SOEs.

◆Hebei Xiongan New Area launched as a new state economic zone following Shenzhen and Shanghai's Pudong New Area

<Location of Hebei Xiongan New Area>

(Source) Created from the release of the Chinese government

On April 1, the Central Committee of the Communist Party of China and the State Council announced the establishment of Hebei Xiongan New Area. The Area, which will be built in Hebei Province as a state economic zone like Shenzhen and Pudong in Shanghai, was described as a "major historic and strategic choice" that would be "crucial for the millennium to come." It was announced that the Area will be constructed as an important national strategic project which will contribute to the joint development of the Beijing-Tianjin-Hebei (Jing-jin-ji) area and the decentralization of the non-capital functions of Beijing.

The Hebei Xiongan New Area spreads across the three counties of Xiong, Rongcheng, and Anxin, and parts of surrounding regions, and is located behind Beijing City, Tianjin City, and Baoding City of Hebei Province. The development will cover approx. 100 km² initially, approx. 200 km² in the medium-term, and approx. 2,000 km² in the long-term. The area is characterized by convenient transportation, favorable ecological environment, and high tolerance for resource and environmental burden, and is considered to satisfy the high requirements for development and construction.

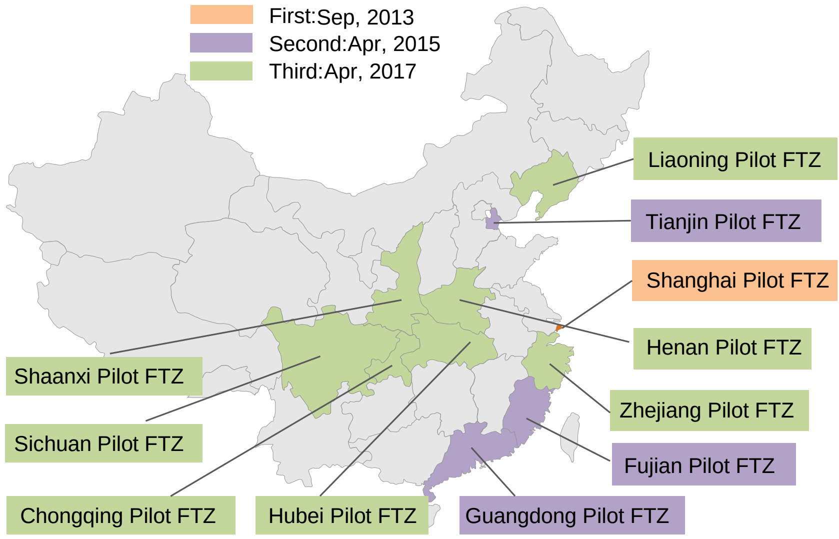
As the future vision for development, the following were indicated: (1) Construction of a green smart city of top international levels, (2) construction of a beautiful eco-city, (3) development of high-tech industries and accumulation of innovative elements, (4) providing high-quality administrative services, public facilities, and urban management, (5) construction of high-efficiency, environment-friendly transportation infrastructure, (6) enhancement of the role of the market in resource distribution through system reforms, and (7) promoting complete opening up.

◆Seven new pilot free trade zones officially launched on April 1

On March 31, the State Council announced the overall plan for the pilot free trade zones to be established in the provinces of Liaoning, Zhejiang, Henan, Hubei, Chongqing, Sichuan, and Shaanxi, and the new free trade zones were launched on the next day, April 1.

The overall plan described the geographic area and unique initiatives of each zone. Whereas the four existing free trade zones (Shanghai, Guangdong, Tianjin, and Fujian) are located on the coast, the seven new ones are concentrated in northeast and west-central China to back the growth of Northeast China, construction of “One Belt, One Road”, and development of the Yangtze River Economic Belt.

Specific policies include developing modern services in all seven free trade zones, including high-end facility manufacturing, and modern logistics and financial services, in addition to policies specific to each zone (see the diagram below for specific policies for each zone).



(Source) Created from the release of the Chinese government

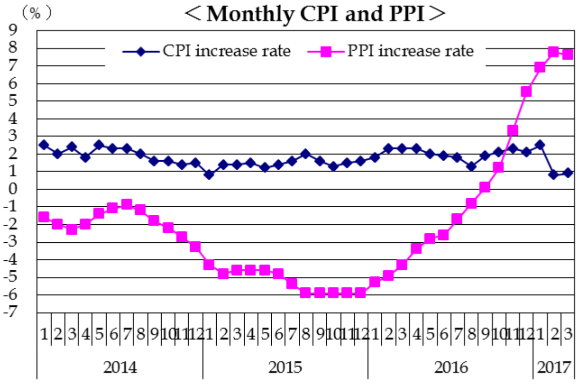
<Characteristics of each new pilot free trade zone (FTZ)>

	Areas	Area (km^2)	Major policies
China (Liaoning) Pilot FTZ	Dalian, Shenyang, Yingkou	119.89	Deepen the reforms of SOEs, improve the competitiveness of old industrial bases in the northeast. Strengthen the ties with Northeast Asia.
China (Zhejiang) Pilot FTZ	Zhoushan Islands, Zhoushan Island (north), Zhoushan Island (south)	119.95	Construct an international marine services base and an international logistics base for petroleum and other large-volume products.
China (Henan) Pilot FTZ	Zhengzhou, Kaifeng, Luoyang	119.77	Strengthened function as a transportation hub for constructing the "One Belt One Road", build an international complex channel for transportation and logistics.
China (Hubei) Pilot FTZ	Wuhan, Xiangyang, Yichang	119.96	Construct a strategic base for emerging and high-tech industries and a model district for industrial transfer, and drive the development of central China and the Yantze River Economic Belt.
China (Chongqing) Pilot FTZ	Liangjiang, Xiying, Guoyuan Port	119.98	Serve as the hub for connecting the "One Belt One Road" region with the Yantze River Economic Belt, and a key base for the China Western Development strategy.
China (Sichuan) Pilot FTZ	Chengdu Tianfu New Area, Chengdu Qingbaijiang Railway Port, Chuannan Port	119.99	Construct a model zone for coordinated strategy between inland and coastal areas, and the key zone for opening up the inland areas for economic development.
China (Shaanxi) Pilot FTZ	Central, Xian International Port, Xi'an International Trade & Logistics Park, Yangling Demonstration Zone	119.95	Promoting economic and agricultural cooperation with the countries along the "One Belt One Road" region, and build an international center for tourism.

(Source) Created based on the announcement by the Government of China

◆March 2017: CPI rises 0.9% and PPI gains 7.6% YoY

The National Bureau of Statistics (NBS) of China announced on April 12 that the overall consumer price index (CPI) for March increased 0.9% YoY, up 0.1 percentage points from the previous month. By category, the CPI for foods decreased 4.4% YoY and the CPI for non-foods increased 2.3% YoY. Among the foods, the CPIs for vegetables, eggs, and pork all significantly fell by as much as 27.9%, 11.8%, and 3.2% YoY, respectively. By contrast, fruits rose 3.0% YoY.



Source: Created based on public NBS data

NBS said that non-foods contributed to the boost in CPI with year-on-year increases of 5.3% for healthcare, 2.4% for housing, 2.3% for education/culture/entertainment, and 2.0% for transportation/communication respectively.

The overall producer price index (PPI) for March increased 7.6% YoY, down 0.2 percentage points from the previous month. By industry, the respective PPIs showed a significant growth at the following rates in March: 68.5% YoY (down 16.8 percentage points from the previous month) for extraction of petroleum and natural gas, 39.6% YoY (remained unchanged from the previous month) for mining, sorting and washing of coal, 36.8% YoY (down 3.3 percentage points from the previous month) for smelting and pressing of ferrous metals, 29.9% YoY (down 0.6 percentage points from the previous month) for processing of petroleum, and 29.0% YoY (up 1.4 percentage points from the previous month) for mining and sorting of ferrous metals.

【Industry】

◆March auto sales increase 4% YoY

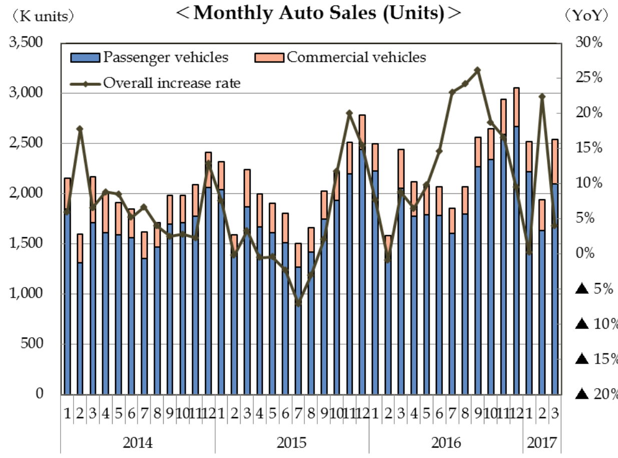
The China Association of Automobile Manufacturers (CAAM) announced on April 13 that the country's auto sales for March rose 4.0% YoY to 2.54 million units, slowing significantly from the 22.4% YoY growth to 1.94 million units in February. The total auto sales from January to March increased 7.0% YoY to 7.00 million units, decreasing from the 8.8% YoY increase to 4.46 million units in the January to February period.

By type of vehicles in March, sales of passenger cars increased 1.7% YoY to 2.10 million units (a 18.3% YoY increase to 1.63 million units in February), of which sales of small cars with a 1.6-liter or smaller engine decreased 0.1% YoY to 1.45 million units (a 17.5% YoY increase to 1.16 million units in February), below the number of units sold during the same month in the previous year. On the other hand, sales of commercial cars rose 16.2% YoY to 447,000 units (a 49.9% YoY increase to 307,000 units in February), showing a strong growth driven by truck sales. .

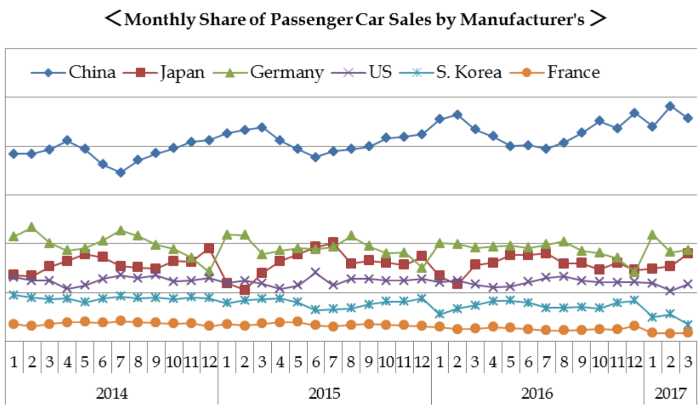
By type of passenger cars, sedan rose 4.9% YoY to 990,000 units (a 15.1% YoY increase to 769,000 units in February), sport utility vehicle (SUV) grew 19.6% YoY to 832,000 units (a 40.0% YoY increase to 673,000 units in February), and multi-purpose vehicle (MPV) declined 14.9% to 199,000 units (a 15.2% YoY decrease to 148,000 units in February), with SUVs continuing to drive overall sales.

Meanwhile, the sales of new energy vehicles rose 35.6% YoY to 31,000 units (a 30.3% YoY increase to 18,000 units in February). Specifically, electric vehicle (EV) increased 43.3% YoY to 25,000 units (a 49.5% YoY increase to 14,000 units in February), and plug-in hybrid vehicle (PHV) grew 9.6% to 5,778 units (a 12.4% YoY decrease to 3,677 units in February).

Turning to the share of sales in the passenger car market, Chinese automakers accounted for 45.6% (48.2% in February), German automakers were 18.7% (18.3% in February), Japanese automakers were 18.1% (15.4% in February), U.S. automakers were 11.7% (10.4% in February), South Korean automakers were 3.4% (5.6% in February) and French automakers were 1.8% (1.6% in February). Chinese and South Korean automakers dropped their shares.



Source: Created based on public CAAM data

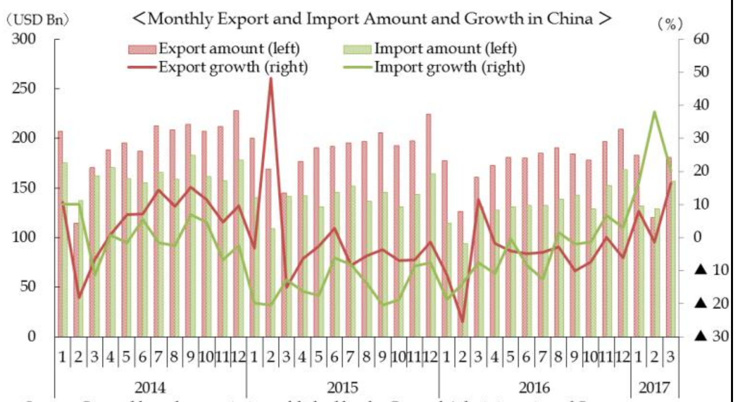


Source: Created based on public CAAM data

【Trade/ Investment】

◆March 2017: Exports rise 16.4% YoY and imports grow 20.3% YoY

According to the preliminary figures for trade statistics (in USD) published by the General Administration of Customs on April 13, total exports and imports rose 18.2% year-on-year (YoY) in March (a 15.8% YoY increase in February) to USD 337.29 Bn. Exports grew 16.4% YoY (a 1.3% YoY decrease in February) to USD 180.61 Bn and imports jumped 20.3% YoY (a 38.1% YoY increase in February) to USD 156.68 Bn, showing double-digit growth in both exports and imports.



Source: Created based on statistics published by the General Administration of Customs

The total exports and imports from January to March 2017 grew 15.0% YoY to USD 899.97 Bn. Exports rose 8.2% YoY to USD 482.79 Bn, and imports increased 24% YoY to USD 417.18 Bn. Imports showed a significantly larger growth than exports.

＜Export and Import Amount and Growth by Country and Region in 2017 (Top 10)＞ (USD Bn)

Country/ Region	Export and import (Jan-Mar)	Year-on-year	Exports (Jan-Mar)	Year-on-year	Imports (Jan-Mar)	Year-on-year
USA	126.4	14.4%	88.0	10.0%	38.4	25.9%
Japan	68.9	12.3%	32.3	4.8%	36.6	20.0%
South Korea	64.1	14.7%	23.7	17.4%	40.3	13.2%
Hong Kong	59.4	▲ 2.5%	57.7	0.9%	1.7	▲ 54.6%
Taiwan	41.8	14.8%	9.3	10.0%	32.4	16.3%
Germany	37.0	10.5%	15.7	7.7%	21.2	12.7%
Australia	32.8	49.4%	9.0	8.7%	23.8	74.2%
Vietnam	23.7	16.6%	14.7	14.7%	9.0	19.8%
Malaysia	21.3	21.4%	9.2	25.3%	12.1	18.6%
India	19.0	20.4%	14.8	14.2%	4.2	49.3%

Source: General Administration of Customs

In terms of import items from January to March, iron ores (volume: a 12.2% YoY increase, price: an 80.5% YoY increase), crude oil (volume: a 15% YoY increase, price: a 64.7% YoY increase), and soybeans (volume: a 20% YoY increase, price: a 20.6% YoY increase) dramatically rose in both import volume and price.

For the trading between China and Japan from January to March, exports increased 4.8% YoY (a 2.4% YoY increase in the January-February period), and imports rose 20% YoY (a 24.7% YoY increase in the January-February period). The growth in imports decreased from the previous month, but maintained double-digit growth.

The General Administration of Customs highly appreciated that China's foreign trade has been recovering since the latter half of 2016 and has maintained a relatively high growth in the first quarter of 2017 due to demand recovery in major advanced countries. It also added that an increase in resource-related prices influenced the amount of imports. On the other hand, the organization predicted that trade conditions are likely to be severe and unstable as uncertainty, such as emerging trade protectionism, remains, and the outflow of production and transactions to foreign countries is accelerating due to an increase in operating costs in China.

◆China falls to second in trade in goods in 2016 for the first time in four years

According to the ranking of global trade in goods in 2016 announced by World Trade Organization (WTO) on April 12, China ranked first in exports and second in imports, with a total of USD 3,685 Bn. The United States overtook China for the first time in four years and China dropped to second place. In the ranking for trade in services, China's exports and imports reached USD 656 Bn in total, and China remained second in the world for the third consecutive year.

The global trade volume increased 1.3% YoY in 2016, down from a 2.8% YoY increase in 2015 due to decreased investment by the U.S. and China's re-balancing of its economic structure from investment to consumption, in addition to the economic slowdown in emerging countries.

For the outlook of trade volume in 2017, WTO forecasted that the trade volume will increase 2.4% from the previous year based on the signs of increase in export contracts and container volume shown following the recovery of the global economy, while pointing out that the economic environment and political uncertainty will turn into risk factors. WTO predicted a growth range of 1.8% to 3.6% YoY in 2017 and from 2.1% to 4.0% YoY in 2018.

＜Ranking of trade amount in shipment by country/region in 2016＞ (USD Bn)

Export				Import				Export/Import (Total)		
Ranking (2015)	Country	Amount	YoY	Ranking (2015)	Country	Amount	YoY	Ranking (2015)	Country	Amount
1 (1)	China	2,098	▲8.0%	1 (1)	USA	2,251	▲3.0%	1 (2)	USA	3,706
2 (2)	USA	1,455	▲3.0%	2 (2)	China	1,587	▲5.0%	2 (1)	China	3,685
3 (3)	Germany	1,340	1.0%	3 (3)	Germany	1,055	0.0%	3 (3)	Germany	2,395
4 (4)	Japan	645	3.0%	4 (5)	UK	636	1.0%	4 (4)	Japan	1,252
5 (5)	Netherlands	570	0.0%	5 (4)	Japan	607	▲6.0%	5 (6)	France	1,074

＜Ranking of trade amount in service by country/region in 2016＞ (USD Bn)

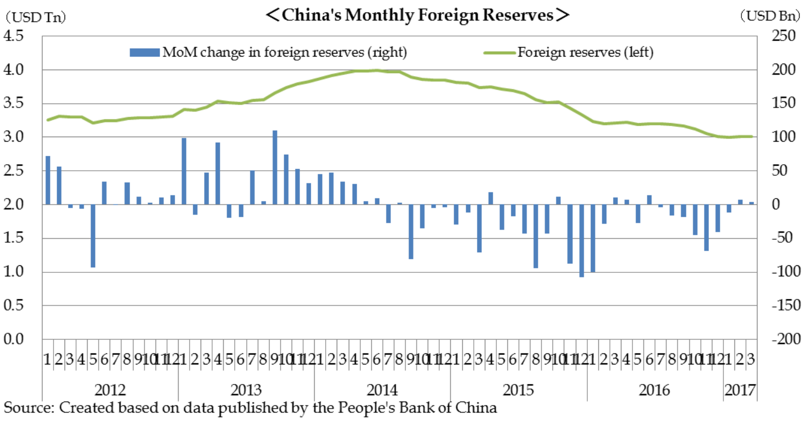
Export				Import				Export/Import (Total)		
Ranking (2015)	Country	Amount	YoY	Ranking (2015)	Country	Amount	YoY	Ranking (2015)	Country	Amount
1 (1)	USA	733	0.3%	1 (1)	USA	482	3.2%	1 (1)	USA	1,215
2 (2)	UK	329	▲5.2%	2 (2)	China	449	3.7%	2 (2)	China	656
3 (3)	Germany	267	2.8%	3 (3)	Germany	304	2.2%	3 (4)	Germany	571
4 (4)	France	235	▲2.5%	4 (4)	France	235	1.5%	4 (3)	UK	520
5 (5)	China	207	▲4.3%	5 (8)	Ireland	192	14.6%	5 (5)	France	470

(Source) Prepared based on data published by WTO

【Finance/ Exchange】

◆March: Foreign reserves increase for the second consecutive month

The People's Bank of China (PBoC) announced on April 7 that the country's foreign reserves in March increased by USD 4.0 Bn from the previous month to USD 3.01 Tn, increasing for the second consecutive month.



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

For the foreign reserves in March, the State Administration of Foreign Exchange (SAFE) analyzed that the scale of foreign reserves basically remains stable as the overall pressure on funds outflow is easing and the cross-border transfer of funds remains stable and well-balanced in both directions. Regarding the outlook of the Chinese economy, the PBoC expressed the view that foreign reserves are likely to remain more stable as the Chinese economy remains stable, a current account surplus is maintained, and the transfer of cross-border funds stays balanced.