CHINA BIWEEKLY

RMB Internationalization Business Promotion Office
Global Business Division

April 27th 2018

■ BIWEEKLY DIGEST

[Economy]

- **Further reduction of corporate burden announced at State Council executive meeting**
- **CPI and PPI for March are up by 2.1% and 3.1%, respectively**

[Industry]

- **4.7% increase year-on-year in total automobiles sold in March; new energy vehicles up by 117.4%**

[Trade/ Investment]

- **2017 service trade deficit grows 14% year-on-year**
- **January-February inward foreign direct investment rises 1.7% year-on-year; outward up by 25.2%**
- **New policies announced at the Boao Forum for Asia to allow more foreign investment, extending to the financial and automotive sectors**
- **March trade statistics show a 2.7% decrease in exports year-on-year, while imports rise by 14.4%**

[Finance/Exchange]

- **Chinese foreign debt surges by USD 294.8 billion year-on-year in 2017**
- **Foreign reserve balance in March shows the first increase in two months**
- **People's Bank of China deposit reserve requirement ratio cuts to take effect April 25**

[Economy]

◆Further reduction of corporate burden announced at State Council executive meeting

At the State Council executive meeting held on April 4, Chinese Premier Li Keqiang made the decision to further slash fees levied on corporations. Following the March 28 State Council decision to lower value-added tax rates, this policy strives to decrease the burden on corporations in areas other than taxes by lowering social insurance rates and reviewing fees collected for government services.

Specifically, the period for reduced corporate payment rates for employees' basic pension insurance, unemployment insurance and employment injury insurance, which was implemented as a two-year interim policy beginning on May 1, 2016, (Note) will be extended by one year to April 30, 2019, policies reducing public housing accumulation fund rates, which also took effect on May 1, 2016 for a two-year period, will be extended to April 30, 2020, certain fees including patent registrations will no longer be levied as of August 1 this year, the period for reduced annual patent fees will be extended, and there will be a 10% reduction on average in general electricity costs for industrial and commercial use.

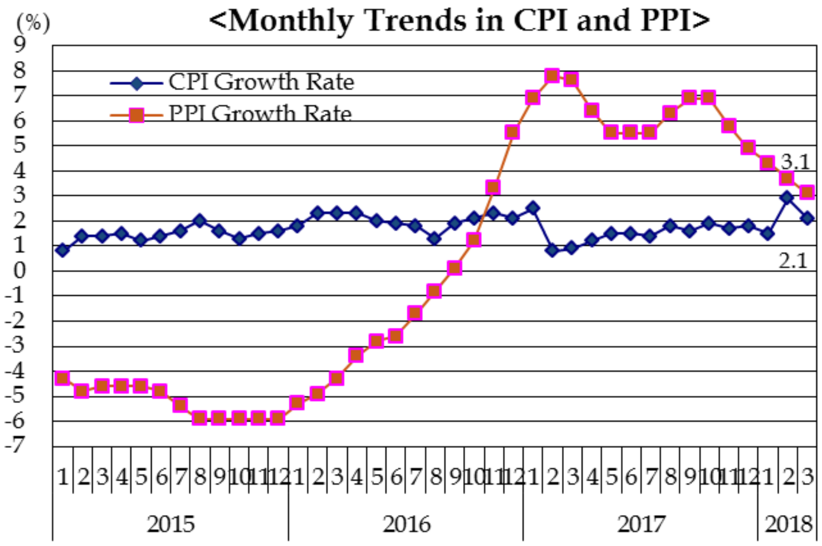
The National People's Congress government activities report for this year stressed massive reductions to the management cost burden on corporations and set a goal to cut corporate costs other than taxes by RMB 300 billion annually, making the current announcement one in a series of policies effected to achieve this goal.

(Note) In this measure, in regions where companies pay more than 20% of employees' basic pension insurance, the contribution is set at 20%, and in regions that meet the requirements for the same 20%, the contribution is lowered to 19%, while the rate for total company and employee payments into unemployment insurance is lowered by 1-1.5%, etc.

◆CPI and PPI for March are up by 2.1% and 3.1%, respectively

The National Bureau of Statistics (NBS) announced on April 11 that the consumer price index (CPI) for March had risen 2.1% YoY, which is a drop of 0.8 point from the prior month. The impact of Chinese New Year is making itself felt, with food down by 2.3 points from February while increasing by 2.1% YoY and non-food products down 0.4 point while rising by 2.1% YoY.

The March producer price index (PPI) was up 3.1% YoY, falling off 0.6 point from February. The PPI is thought to be impacted by the slowdown in growth of the non-metallic minerals manufacturing industry, the steel and non-ferrous metals refining, rolling and processing industry, the petroleum, coal and other fuels processing industry, the petroleum and natural gas extraction industry, and the chemical manufacturing industry. On the other hand, the paper manufacturing industry and the coal mining industry showed greater growth than in February.



Source: Created based on data released by NBS

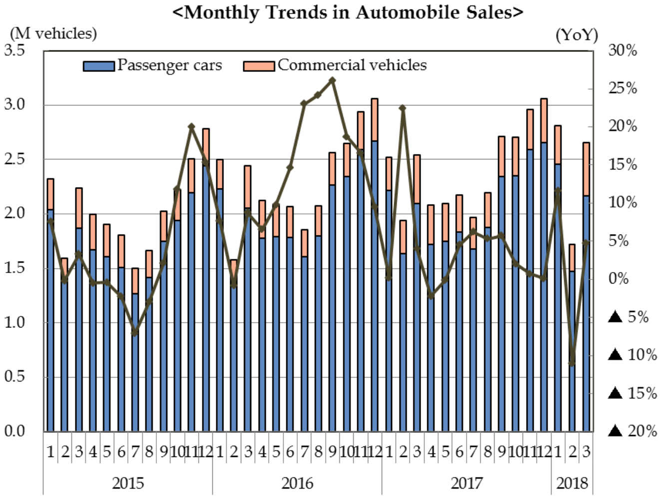
[Industry]

◆4.7% increase year-on-year in total automobiles sold in March; new energy vehicles up by 117.4%

The China Association of Automobile Manufacturers announced on April 11 that March automobile sales increased 4.7% YoY to 2.66 million vehicles, bouncing back from the drop in sales YoY in February. The cumulative total for the first three months of 2018 shows a 2.8% jump YoY to 7.20 million sold, with the growth rate increasing from 1.7% for January and February.

In terms of March sales by type of vehicle, sales of passenger cars increased 3.5% YoY to 2.17 million vehicles (down 9.6% to 1.48 million in February), while commercial vehicles demonstrated particularly strong growth with a 10.5% increase to 488,000 vehicles (down 19.2% to 242,000 in February).

<Monthly Trends in Automobile Sales>



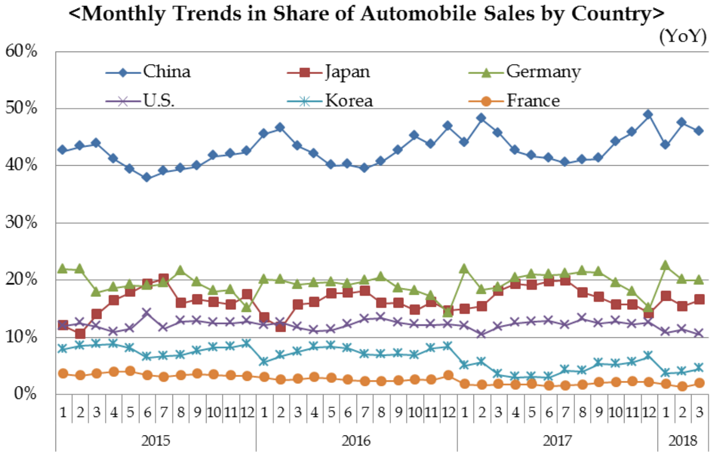
Source: Created based on data released by the China Association of Automobile Manufacturers

By passenger car type, sales of sedans rose 3.7% YoY to 1.03 million (down 12.0% to 677,000 in February), sport-utility vehicles (SUVs) rose 10.7% to 921,000 (down 3.1% to 651,000 in February), while multi-purpose vehicles (MPVs) dropped by 11.5% to 176,000 (down 17.9% to 122,000 in February).

When looking at the market share for passenger car sales by country, Chinese cars accounted for 45.9% (47.4% in February) with 996,000 vehicles, German cars 19.9% (20.0% in February) with 432,000, Japanese cars 16.5% (15.4% in February) with 359,000, American cars 10.5% (11.4% in February) with 227,000, Korean cars 4.5% (3.9% in February) with 98,000, and French cars for 1.9% (1.3% in February) with 42,000 vehicles, with Japanese, Korean, and French cars showing growth.

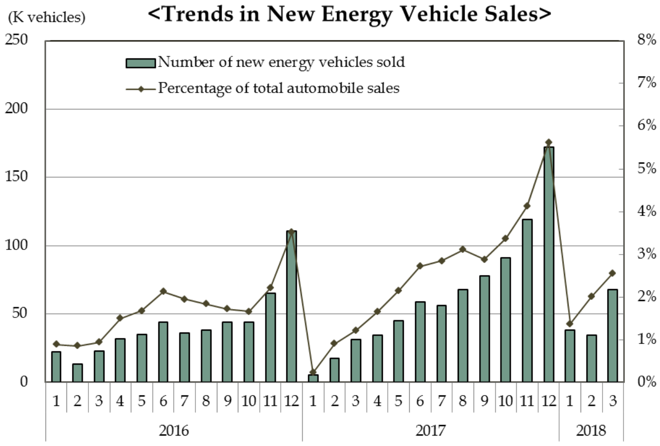
Moreover, March sales of new energy vehicles shot up 117.4% YoY to 68,000 vehicles (up 95.2% YoY to 34,000 in February). These numbers included 52,000 electric automobiles (EVs), an increase of 105.9% YoY (up 68.4% to 23,000 in February), and 16,000 plug-in hybrid vehicles (PHVs), which increased by 167.2% YoY (up 196.4% to 11,000 in February), both types more than doubling their sales compared to the previous year. Three-month cumulative figures from January through March show a 154.3% increase YoY in new energy vehicle sales for a total of 143,000 vehicles (up 200.0% to 75,000 in January-February), with EVs up by 131.0% YoY to 102,000 (up 164.3% to 50,000 in January-February), and PHVs up by 242.6% to 40,000 (up 315.4% to 24,000 in January-February).

<Monthly Trends in Share of Automobile Sales by Country>



Source: Created based on data released by the China Association of Automobile Manufacturers

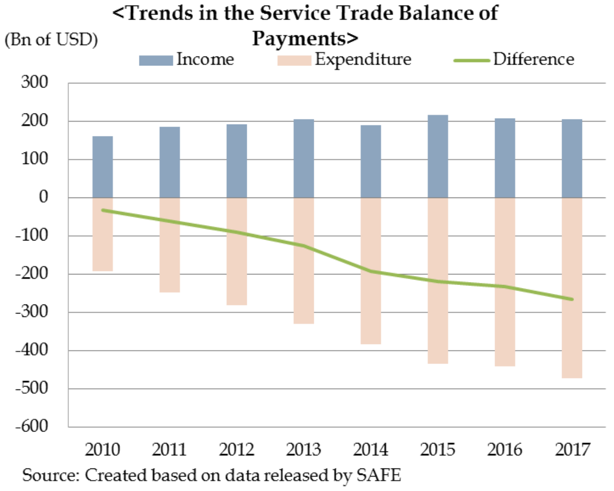
<Trends in New Energy Vehicle Sales>



Source: Created based on data released by the China Association of Automobile Manufacturers

[Trade/Investment]

◆2017 service trade deficit grows 14% year-on-year



According to the report on the international balance of payments for 2017 released by the State Administration of Foreign Exchange (SAFE) on March 29, China posted a USD 265.4 billion deficit in service trade for 2017, with the deficit growing by 14.0% since 2016. Service trade income fell by 1.0% to USD 206.5 billion while expenditures rose by 7.0% to USD 471.9 billion in the same period.

From the standpoint of different types of services, there was a USD 225.1 billion deficit in travel, which was 9.0% larger than the deficit last year. The deficit continues to swell as rising income levels afford increased overseas travel and study abroad, making for the largest service trade balance deficit area. Travel is followed by transportation, where a deficit of USD 56.1 billion was posted for an increase of 20.0% YoY.

These figures are the result of higher transportation cost expenditures due to an increase in import cargo in 2017. Meanwhile, income related to fees for usage of intellectual property rights shot up by 310.0% YoY to USD 4.8 billion, and although expenditures also increased significantly by 20.0% YoY to reach USD 28.7 billion, it was income that demonstrated particularly remarkable growth.

When looking at the trade balance by country and region, the top five countries or regions in volume of service trade were Hong Kong, the U.S., Japan, the U.K., and Australia. Meanwhile, the top five countries or regions in terms of the size of the service trade deficit were the U.S., Hong Kong, Australia, Canada, and Japan.

◆January-February inward foreign direct investment rises 1.7% year-on-year; outward up by 25.2%

The Ministry of Commerce released statistics on foreign direct investment on March 14 and 29.

<Inward Foreign Direct Investment>
Inward foreign direct investment in the month of February (excluding the financial sector) showed dramatic growth in the number of newly-established foreign companies, increasing 97.4% YoY to 3,651. The amount of inward foreign direct investment (on an executed basis) jumped up 3.2% (up by 0.6% in January) to USD 8.99 billion.

The cumulative total for January and February saw a 129.2% increase YoY in the number of newly-established foreign companies for a total of 8,848 companies and a 1.7% increase YoY in the amount of inward foreign direct investment (on an executed basis), amounting to USD 21.06 billion.

By country and region, inward foreign direct investment in January and February from Japan increased 9.4% YoY* (down 27.1%* YoY in January) to USD 580 million. While investment from the U.S. and ASEAN both rose significantly, jumping up 58.6% YoY* to USD 460 million and 80.0% YoY to USD 1.15 billion, respectively, investment from the EU fell 33.3% YoY to USD 1.18 billion. Investment from the Belt and Road Initiative (BRI) region also demonstrated major growth, rising by 78.8% YoY to USD 1.2 billion.

* These figures have been calculated in-house based on the Ministry of Commerce announcement on inward foreign direct investment.

By industry, while investment in the manufacturing sector rose 24.7% YoY (up by 27.0% YOY in January) to USD 6.26 billion, investment in the service sector was down by 6.1% (falling off 9.6% in January) to USD 14.57 billion.

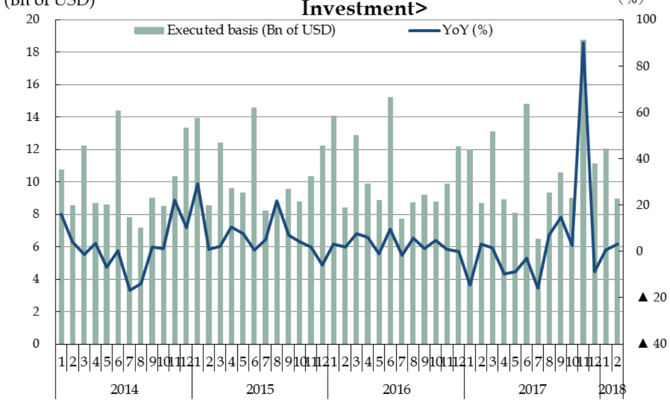
<Outward Foreign Direct Investment>

February outward foreign direct investment (excluding the financial sector) rose 5.1%* YoY to USD 6.02 billion,* marking the fourth consecutive month posting YoY increases. The cumulative total for January-February was up 25.2% YoY (up 39.7% YoY in January) to USD 16.82 billion.

* These figures have been calculated in-house based on the Ministry of Commerce announcement on outward foreign direct investment.

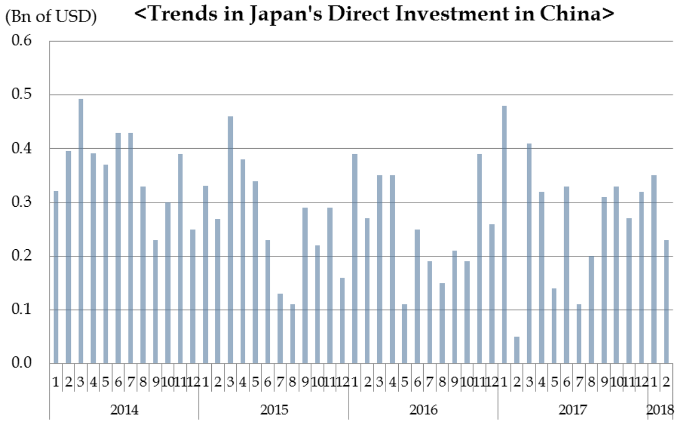
By country and region, outward foreign direct investment in January and February in the BRI region continued to increase, going up by 20.1% YoY to USD 2.15 billion, despite the rate of growth dropping off considerably from the month before (it had been up by 50.0% YoY in January). When comparing the ratio of investment by industry, 25.9% went towards mining, 17.8% to leasing and commercial services, 16.3% to the manufacturing industry, and 8.0% to telecommunications, software, and the IT service industry, representing the main industries for outward foreign direct investment.

<Trends in China's Inward Foreign Direct Investment>



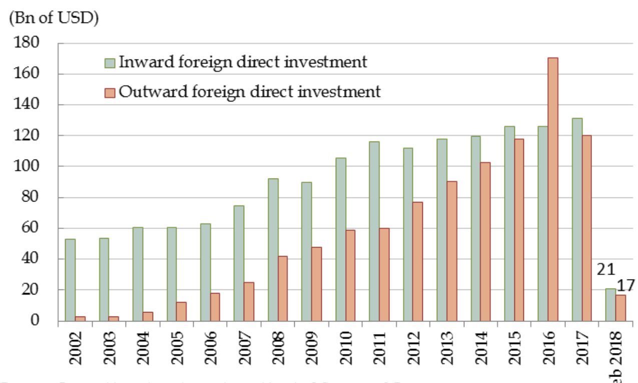
Source: Created based on data released by the Ministry of Commerce

<Trends in Japan's Direct Investment in China>



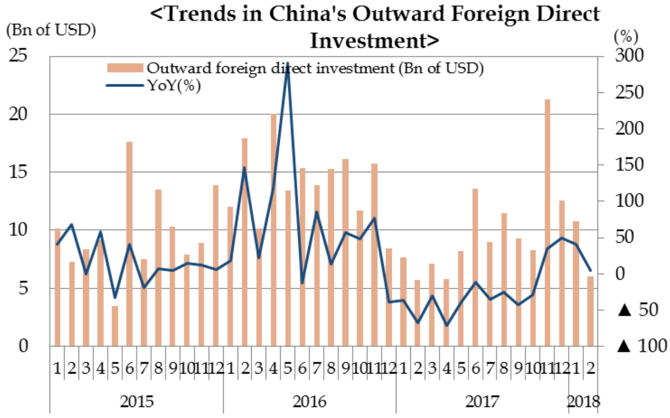
Source: Created based on data released by the Ministry of Commerce

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



Source: Created based on data released by the Ministry of Commerce
Note: the above data does not include the financial sector. According to the 2015 Statistical Bulletin of China's Outward Foreign Direct Investment (which includes the financial sector) jointly released by the Ministry of Commerce, National Bureau of Statistics, and SAFE, outward foreign direct investment surpassed inward foreign direct investment in 2015.

<Trends in China's Outward Foreign Direct Investment>



Source: Created based on data released by the Ministry of Commerce
Note: YoY comparison calculated in-house based on Ministry of Commerce data on outward foreign direct investment

◆New policies announced at the Boao Forum for Asia to allow more foreign investment, extending to the financial and automotive sectors

On April 10, Chinese president Xi Jinping delivered the keynote speech at the annual Boao Forum for Asia in Hainan province, announcing new policies to open up China's economy and indicating his intentions to carry out previously established related initiatives. He pledged to further loosen regulations on foreign investment in the manufacturing industry including the financial and automotive sectors and to revise the negative list for foreign investors, to enhance the intellectual property rights of foreign companies in China, to engage in measures to boost imports such as easing tariffs on imported cars, and to speed up the negotiation process to enter the WTO Agreement on Government Procurement (GPA).

Following President Xi's announcement of the new policies, on April 11, People's Bank of China Governor Yi Gang provided detailed information on the opening up of the financial sector at the forum. Then, the National Development and Reform Commission posted further information on the revision of the negative list for foreign investors and on easing of regulations on investment in the manufacturing industry on the committee's website on the 17th. Restrictions on foreign investment in securities, life insurance companies and so on will be gradually phased out over a three-year period, while restrictions on foreign investment in the automotive industry will be phased out over five years depending on the type of automobile.

＜Future policy for the opening of China's economy＞

[Four Important New Measures]

(Announced by President Xi Jinping at the Boao Forum for Asia on April 10)

1. Significant easing of restrictions on accessing Chinese markets

The policy on easing restrictions on foreign investment in the banking, securities, and insurance industries[1] will be steadily implemented. The insurance sector in China will be opened up more rapidly, restrictions on establishing foreign financial institutions will be done away with, and the scope of their business expanded. Restrictions on foreign investment in the automotive and other manufacturing industries will be relaxed as quickly as possible.

2. Creation of an attractive environment for investment

There will be greater transparency of government policies and adherence to international economic and trade rules will be enhanced. The negative list for foreign investors will be revised in the first half of this year, and the pre-establishment national treatment plus negative list system of foreign investment management will be implemented.

3. Enhanced protection of intellectual property rights

The State Intellectual Property Office (SIPO) will be restructured, with a focus on stricter law enforcement and increasing the cost of breaking the law. Along with stepping up protection of foreign companies' legal intellectual property rights in China, it is hoped that foreign governments will also strengthen their protection of Chinese intellectual property rights.

4. Proactive expansion of imports

China is not seeking a trade surplus and wishes to increase its imports to promote current account balances. Tariffs on automobile imports will be reduced this year, while tariffs on certain other imported goods will be lowered at the same time and negotiations to enter the WTO GPA will speed up. It is hoped that developed nations will in turn ease export restrictions on high-tech products to China. The inaugural China International Import Expo (CIIE2018) will be held in Shanghai in November of this year.

Notes 1.The Chinese government announced the easing of restrictions on foreign investment in the financial sector such as banks, securities, and insurance companies at the U.S.-China summit meeting in November 2017.

[Financial sector details] (Announced by People's Bank of China Governor Yi Gang at the Boao Forum for Asia on April 11)	**[Negative list for foreign investments and details on investment in the manufacturing industry]** (Posted on the National Development and Reform Commission website on April 17)
<u>Scheduled for implementation in the next few months</u> 1. Restrictions on foreign investment in banks and asset management companies will be removed. Foreign banks will be permitted to operate local subsidiaries and branches. 2. The cap on foreign ownership of securities, fund management, commodities futures, and life insurance companies will be raised to 51%, and 100% ownership will be possible three years from now. 3. The requirement that at least one of the owners of a jointly managed securities company had to be a Chinese securities company has been abolished. 4. As of May, the daily cross-boundary trading ceiling for the Stock Connect program for transactions between mainland China and Hong Kong will be raised to four times its current amount. 5. Foreign investors who meet the prescribed conditions can engage in insurance agent or insurance appraiser business. 6. Foreign and Chinese insurance brokers will share a uniform scope of business. <u>Scheduled for implementation by the end of 2018</u> 1. Foreign entries into the trust, finance leasing, auto loan, financial intermediation, and consumer finance markets will be encouraged. 2. No cap will be set on foreign investment in companies managing financial and others assets, which are newly established by commercial banks 3. The scope of business for foreign banks will be greatly expanded. 4. Jointly-managed and Chinese securities companies will share a uniform scope of business. 5. The requirement that foreign insurance companies operate a representative office for two years before launching their business will be abolished. 6. A London-Shanghai Stock Connect will open.	<u>Negative list for foreign investment</u> 1. The revised list will be released as soon as possible, within the first half of this year. 2. There will be two editions, one for China as a whole and one for the pilot free trade zones, with the free trade zone edition more broadly open to foreign investment. 3. New measures for the financial, automotive, energy, infrastructure, transportation, commerce, trade, logistics, specialized service industries, etc., will be reflected. 4. Planned policies to open up China's economy will be officially announced for the next few years to improve the transparency of government policies and predictability. <u>Manufacturing industry: automobile production</u> 1. The sector will be gradually opened up depending on the type of vehicle. Within five years, all restrictions will have been lifted. 2. Restrictions on foreign investment in specialty vehicles and new energy vehicles will be abolished in 2018.[2] 3. Restrictions on foreign investment in commercial vehicles will be abolished in 2020. 4. Restrictions on foreign investment in passenger cars will be abolished in 2022. The limit of allowing no more than two joint venture companies will be abolished.[3] <u>Manufacturing industry: other</u> 1. Shipping: restrictions on foreign investment will be abolished in 2018. This includes designing, shipbuilding and maintenance. 2. Aircraft manufacturing: restrictions on foreign investment will be abolished in 2018. This includes trunk line and branch line airplanes, general purpose aircraft, helicopters, unmanned aircraft, and floating craft.

Notes 2.At the U.S.-China summit in November 2017, the Chinese government announced that for the pilot free trade zones only, the current 50% restriction on foreign ownership in new energy vehicles and specialty vehicles would be abolished by June 2018.

3.Under the current Automotive Industry Development Policy, a foreign company can set up no more than two joint venture automotive companies in China, but in June 2017, the Chinese government abolished the rule for joint venture electric vehicle companies only.

◆March trade statistics show a 2.7% decrease in exports year-on-year, while imports rise by 14.4%

On April 13, the General Administration of Customs released a trade statistics bulletin (in USD), which indicated that while exports in March fell 2.7% YoY (up 44.5% in February) to USD 174.12 billion, imports for the same period displayed significant growth with an increase of 14.4% (up 6.3% in February) to USD 179.10 billion. There was a USD 4.98 billion deficit in the trade balance, the first posted in the 13 months since February 2017. Cumulative totals for January through March showed a 14.1% YoY increase in exports (up 24.4% in January-February) for USD 545.27 billion, and an 18.9% increase in imports (up 21.7% in January-February) for USD 496.88 billion, posting a USD 48.39 billion trade surplus.

When looking at growth rates with China's main trading partner countries and regions from January to March, exports grew 18.0% YoY in ASEAN countries, 14.8% for the U.S., 13.2% for the EU, and 7.1% for Japan. Meanwhile, imports from ASEAN countries grew 24.3% YoY, 8.9% for the U.S., 17.5% for the EU, and 12.7% for Japan.

The customs administration indicated that the growth of imports surpassed exports in the period from January through March, reducing the trade balance surplus, and that the trade balance was headed in a positive direction. This is seen as resulting from a change in the structure of products being imported and exported, with exports showing growth in high added-value goods such as automobiles and medical equipment, while for imports there was strong growth in digital machine tools, marine products, and IC circuits. Also, China's trading partners were reported to be diversifying, with trading volume increasing with emerging markets in ASEAN, Latin America, and Africa.

Source: Created based on data released by the General Administration of Customs

<Jan-Mar 2018 Import and Export Amounts and Growth Rates by Country/Region (Top 10)> (Bn of USD)

Country/ Region	Total	YoY growth	Exports	YoY growth	Imports	YoY growth
U.S.	141.6	13.0%	99.9	14.8%	41.7	8.9%
Japan	75.7	10.1%	34.4	7.1%	41.3	12.7%
Korea	72.1	13.0%	24.8	5.1%	47.3	17.6%
Hong Kong	66.6	14.5%	65.0	14.9%	1.6	1.4%
Taiwan	50.9	21.8%	10.9	16.7%	40.0	23.3%
Germany	42.6	15.3%	17.4	11.4%	25.2	18.1%
Australia	35.5	7.5%	10.1	12.3%	25.5	5.7%
Vietnam	32.1	39.0%	17.8	26.4%	14.3	58.9%
Malaysia	24.3	15.6%	10.2	12.0%	14.2	18.4%
Russia	23.1	28.2%	10.3	23.7%	12.8	32.0%

Source: Created based on data released by the General Administration of Customs

【Finance/Foreign Exchange】

◆Chinese foreign debt surges by USD 294.8 billion year-on-year in 2017

The State Administration of Foreign Exchange (SAFE) announced on March 29 that China's outstanding foreign debt had grown by USD 294.8 billion from the year before, totaling USD 1.71 trillion as of the end of 2017.

When looking at the debt by maturity, USD 1.10 trillion was in short-term foreign debt, accounting for 64% of the total, while the other 36%, or USD 611.6 billion, was in medium- to long-term debt. Moreover, 38% of the short-term foreign debt was in trade credit based on actual demand.

By category, USD 168.7 billion (10% of the total amount) was owed by the Chinese government in the broad sense, USD 23.4 billion (1%) by the central bank, and USD 845.5 billion (49%) by deposit-taking institutions, while USD 217.5 billion went toward direct investments (13%), and USD 455.5 billion (27%) was allocated to other categories.

33% of the total amount was RMB-denominated debt, while the remaining 67% of the debt in foreign currencies (including SDR) was 82% USD, 2% JPY and 9% EUR.

Contributing factors to the increase in foreign debt in 2017 were described by SAFE as including foreign lending to domestic companies becoming easier due to improvements in the macro-prudential management of cross-border loans* as well as the scale of domestic bonds held by foreign investors having expanded with the opening of cross-border bond exchange between the Chinese mainland and Hong Kong (Bond Connect).

*This method establishes a foreign debt quota for each company based on the company's net assets and manages companies' foreign debt balances according to the degree of risk involved in the term, type, and currency of the foreign debt.

<Trends in China's Foreign Debt>

Item		2015 year end Amount (Bn of USD)	2015 year end Ratio (%)	2016 year end Amount (Bn of USD)	2016 year end Ratio (%)	2017 year end Amount (Bn of USD)	2017 year end Ratio (%)
Foreign debt		1,383	100	1,416	100	1,711	100
By term	Short-term	921	65	871	61	1,099	64
	(Trade credit)	-	(48)	-	(48)	-	(38)
	Medium- to long-term	496	35	550	39	612	36
By category	Government	111	8	124	9	169	10
	Central bank	43	3	56	4	23	1
	Banks	612	43	604	42	846	49
	Direct investment (parent-subsidiary / affiliated company loans)	189	16	205	15	218	13
	Other	427	30	428	30	456	27
By currency	RMB	657	46	488	34	569	33
	Foreign currency (including SDR)	760	54	933	66	1,141	67
	(USD)	-	(80)	-	(82)	-	(82)
	(JPY)	-	(4)	-	(3)	-	(2)
	(EUR)	-	(7)	-	(7)	-	(9)

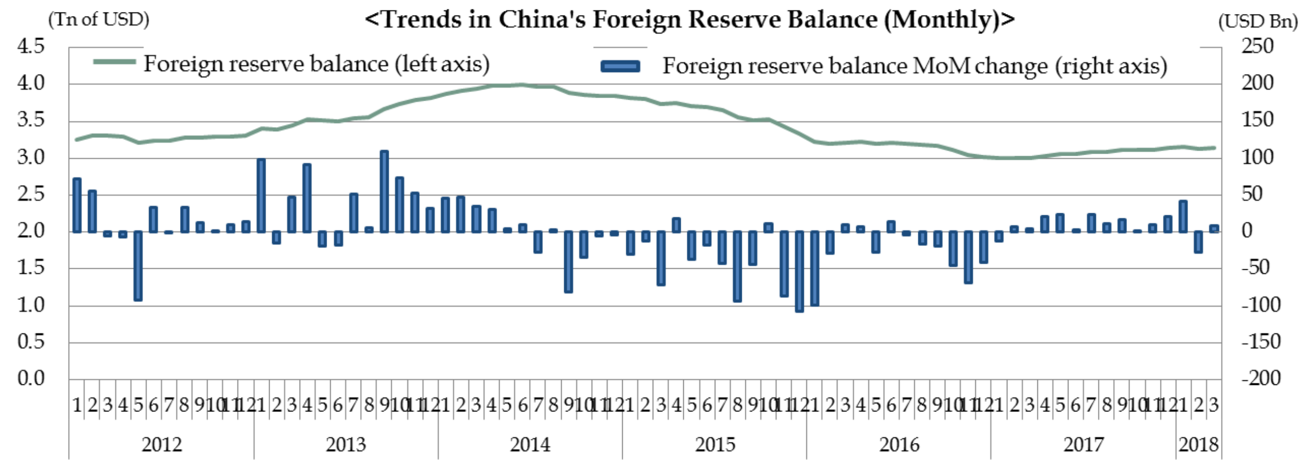
Source: Created based on data released by SAFE

◆Foreign reserve balance in March shows the first increase in two months

The People's Bank of China announced on April 8 that China's foreign exchange reserves jumped up by 8.3 billion in the month of March to RMB 3.14 trillion, the first increase in two months. The foreign reserve balance has been over USD 3 trillion for the past 14 months.

The State Administration of Foreign Exchange described the March increase in foreign reserve balance as stemming from multiple causes such as changes in asset prices caused by an increase in other currencies against the USD in heightened risk-averse sentiment in the financial market.

<Trends in China's Foreign Reserve Balance (Monthly)>



Source: Created based on data released by the PBOC

◆People's Bank of China deposit reserve requirement ratio cuts to take effect April 25

On April 17, the People's Bank of China (PBOC) announced that it would be reducing the RMB reserve requirement ratio (RRR) for financial institutions, to take effect as of April 25.

Large commercial banks, joint-stock commercial banks, city commercial banks, non-county-level rural commercial banks, and foreign banks are all included in the cut. The ratio is currently 17% or 15% depending on the size of the bank and both rates will be reduced by 1 percentage point.

According to the PBOC's preliminary calculations, this will free up RMB 1.3 trillion in liquidity, out of which banks are obligated to repay 900 billion in medium-term lending facility (MLF) loans to the central bank, while the remaining 400 billion must be used to provide loans to small- and medium-sized businesses.

The PBOC stressed that there would be no change to its prudent and neutral monetary policy.