CHINA BIWEEKLY

RMB Internationalization Business Promotion Office
Global Business Division

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■ BIWEEKLY DIGEST

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- **May Trade Statistics Show Exports and Imports up 12.6% and 26.0% Year on Year (YoY)**
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- **UNCTAD 2017 Global Inward Foreign Direct Investment Ranking: China Moves up to Second Place**

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- **May Cross-Border RMB Settlements**
- **New RMB Loans for May Increase RMB 40.5 billion YoY and Decrease RMB 30 billion Month-on-Month (MoM)**

[Economy]

◆IMF Forecasts China's 2018 Growth to Remain at 6.6%, Proposes Further Reforms and Opening-Up

On May 30, the International Monetary Fund (IMF) announced the results of its annual review of the Chinese economy.

The IMF stated that China's GDP growth rate for 2017 accelerated thank to last year's recovery in foreign trade, but will decline slightly in 2018. The IMF forecasted the growth rate to gradually decline from the 6.9% of 2017 to 6.6% in 2018 and to around 5.5% by 2023. The forecast for 2018 remained unchanged from the forecasts made in January and April.

According to the IMF, China's economy has been well managed, and reforms are progressing in important areas such as strengthening financial risk reduction measures, controlling the growth of loans being extended, reducing production surpluses, enhancing environmental measures and continuing policies for opening up the economy.

The IMF also pointed out that China needs to uphold its policy to shift the development focus from speed to quality, using its current reforms as a foundation. In particular, China will need to control credit growth by reducing public investments, boost consumption by increasing social spending in areas such as medicine and education, strengthen the roles of its markets by ensuring a level playing field, accelerate its opening-up policies and further promote monetary and financial reforms.

◆Main Economic Indicators for May: Slowdowns in Investment, Production, and Consumption

On the 14th, the National Bureau of Statistics (NBS) announced its major economic indicators for May.

January-May investment in fixed assets increased 6.1% year-on-year (YoY) (January-April: up 7.0% YoY), slowing down from the previous month for the third consecutive month. In particular, infrastructure investment saw a YoY increase of 9.4% (January-April: up 12.4% YoY), although this was a drop of 3.0 percentage points from the previous month.

China's value-added industrial production for May went up 6.8% YoY (April: up 7.0% YoY), falling 0.2 percentage point from the previous month.

<Main Economic Indicators for May>

Item		Amount		YoY(%)
Investment in fixed assets*		(RMB Bn)	21,604	6.1
State-owned sector		(RMB Bn)	(Unreleased)	4.1
Private Sector		(RMB Bn)	13,440	8.1
By industry	Primary industry	(RMB Bn)	684	15.2
	Secondary industry	(RMB Bn)	7,955	2.5
	Tertiary industry	(RMB Bn)	12,965	7.7
Value-added industrial production**		-	-	6.8
Total retail sales of consumables		(RMB Bn)	3,036	8.5
Consumer price index (CPI)		-	-	1.8
Industrial producer price index (PPI)		-	-	4.1
Industrial producer purchase price		-	-	4.3
Exports		(USD Bn)	212.9	12.6
Imports		(USD Bn)	188.0	26.0
Trade balance		(USD Bn)	24.9	-
Inward foreign direct investment (actual)		(USD Bn)	9.1	11.7

* Cumulative total for January-May. Excl. investments by rural companies

** 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 National Bureau of Statistics and others

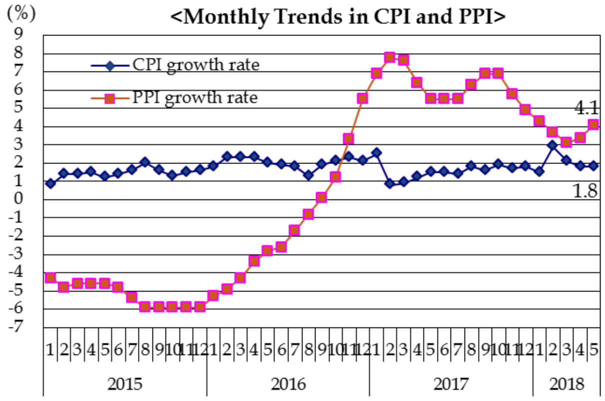
In addition, the total retail sales of consumer goods for May also slowed down for the second consecutive month, increasing 8.5% YoY (April: up 9.4% YoY).

The overall producer price index (PPI) for May increased 1.8% YoY, unchanged from the previous month.

The overall producer price index (PPI) for May increased 4.1% YoY, up 0.7 percentage point from the previous month. The industries that enjoyed a significant leap include the petroleum and natural gas extraction industry and the petroleum, coal and other fuels processing industry.

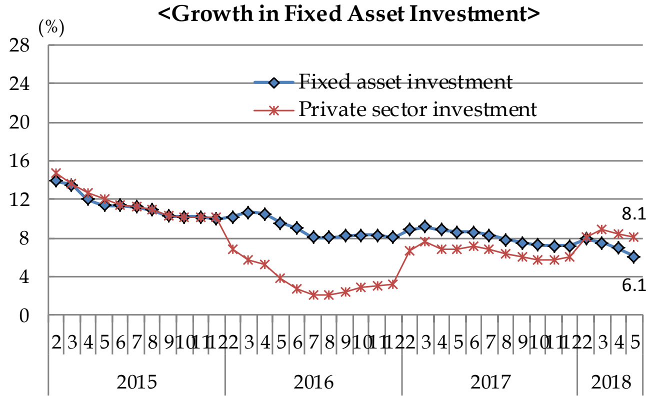
NBS related the slowdown of infrastructure investment to the demand for it decreasing slightly due to a push-back against recent rapid infrastructure development, and to the strengthened control over local governments' bond issuance and financing. NBS also indicated that the downturn in consumption growth was caused by the date of the Dragon Boat Festival, a holiday that increases consumption, being in June this year, unlike last year when it fell in May, and by consumers' reluctance to buy in expectation of impending cuts to tariffs on automobiles and daily commodities beginning in July.

<Monthly Trends in CPI and PPI>



Source: Created based on data released by the NBS

<Growth in Fixed Asset Investment>

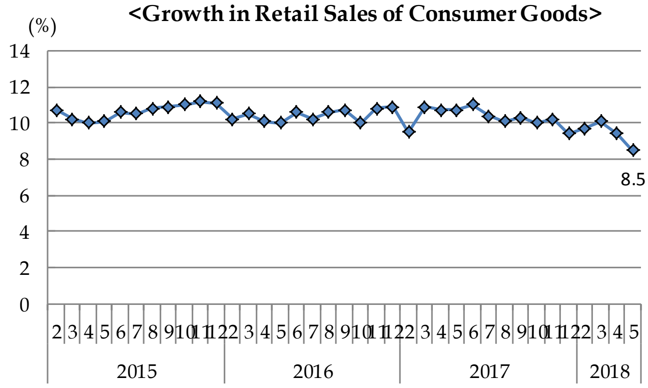


Note: Cumulative total from the start of the year
Source: Created based on data released by the National Bureau of Statistics

<Growth in Industrial Production>

Note: Cumulative total of January and February used for February data
Source: Created based on data released by the National Bureau of Statistics

<Growth in Retail Sales of Consumer Goods>



Note: Cumulative total of January and February used for February data
Source: Created based on data released by the National Bureau of Statistics

[Industry]

◆Ministry of Industry and Information Technology Releases Three-Year Plan for Developing Industrial Internet

On June 7, the Ministry of Industry and Information Technology (MIIT) released the "Action Plan for the Development of Industrial Internet (2018–2020)." In order to achieve the "Made in China 2025" strategy, an initiative to upgrade the manufacturing industry, the plan seeks to complete the framework of an "industrial internet" infrastructure to support advanced manufacturing by 2020, connecting manufacturers and users in a network and gathering and analyzing various kinds of data on products from production through consumption, with a goal of sophisticating and streamlining manufacturing.

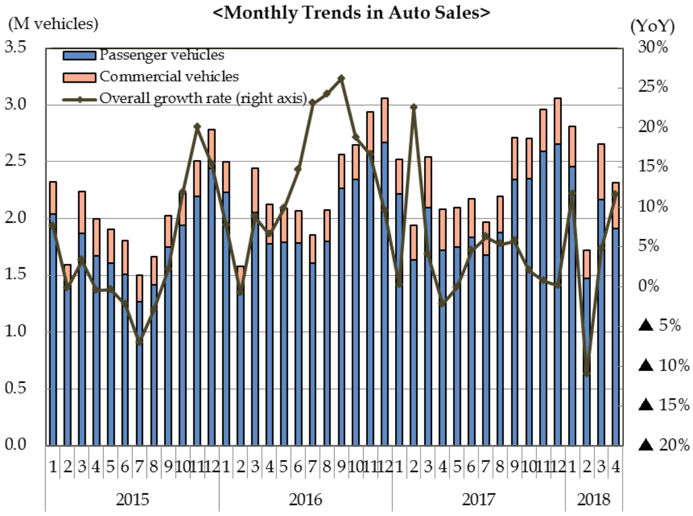
The plan specifically mentions the following measures: development of the internet infrastructure based on IPv6, a next-generation internet protocol (IP), development of a data analysis system with five main nodes managed on a state level, building platforms specific to each local government or industry, as well as cross-industrial and cross-regional platforms, introduction of cloud computing to more than 300,000 industrial enterprises, development of over 300,000 industrial applications, and establishment of a security system and security standard specifications.

This plan is based on the policy announced in the guideline to deepen "Internet Plus Advanced Manufacturing" released by the State Council in November 2017, which outlines the promotion of industrial internet development in three phases in 2025, 2035, and 2050 in line with the "Made in China 2025" strategy. As of June 2018, the Alliance of Industrial Internet (AII), which was founded in February 2016 on the initiative of MIIT, has more than 700 members including companies from the industrial and information and communication sectors, universities and research institutes, industry groups, foreign companies, and investment funds. AII collaborates with the Industrial Internet Consortium (the U.S.) and the Industry 4.0 Platform (Germany).

◆May Auto Sales Rise 9.6% Year-on-Year (YoY), New Energy Vehicles Sales Soar 125.6%

According to an announcement made by the China Association of Automobile Manufacturers (CAAM) on June 11, May auto sales rose 9.6% YoY to 2.29 million units. Cumulative January-May sales were up 5.7% YoY to 11.79 million units, expanding the growth rate from 4.8% YoY in January-April.

<Monthly Trends in Auto Sales>



Source: Created based on data released by CAAM

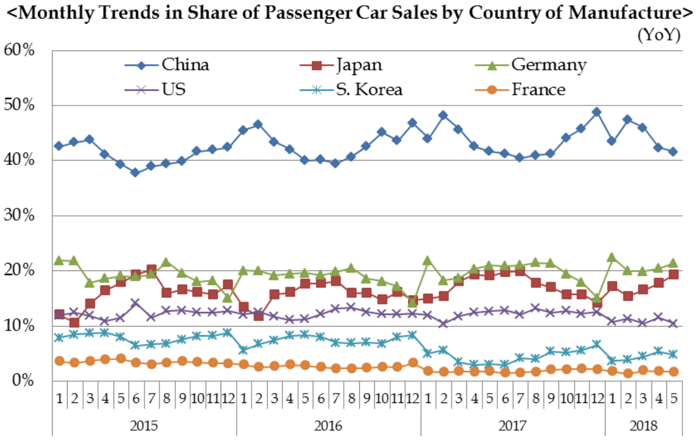
By vehicle type, sales of passenger vehicles in May rose 7.9% YoY to 1.89 million units (April: up 11.2% YoY to 1.91 million units), while commercial vehicles jumped 18.6% YoY to 398,000 units (April: up 13.0% to 404,000 units).

By type of passenger car, sales of sedans rose 12.1% YoY to 940,000 units (April: up 10.8% YoY to 928,000 units) and sport utility vehicles (SUVs) increased 6.5% YoY to 761,000 units (April: up 18.3% YoY to 810,000 units), while multi-purpose vehicles (MPVs) dropped 7.1% YoY to 139,000 units (April: down 4.6% YoY to 137,000 units).

Turning to the share of the Chinese passenger car market, Chinese automakers accounted for 41.6% (42.3% in April) with 786,000 units, German automakers 21.4% (20.4% in April) with 404,000 units, Japanese automakers 19.3% (17.7% in April) with 365,000 units, U.S. automakers 10.4% (11.5% in April) with 196,000 units, and South Korean automakers 4.8% (5.4% in April) with 90,000 units, while French automakers held 1.7% (1.8% in April) with 32,000 units. German and Japanese automakers increased their market shares.

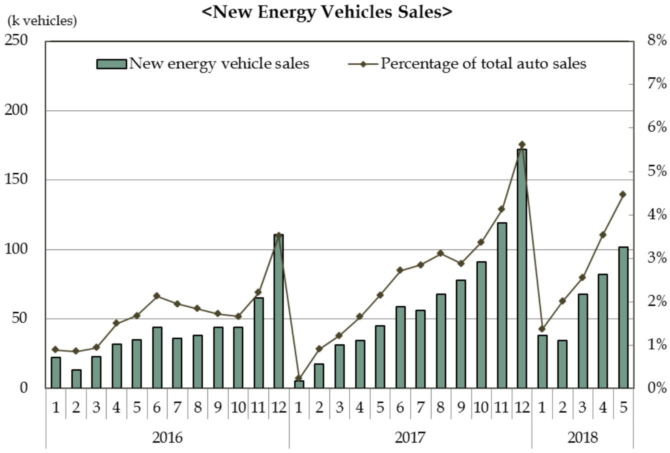
Meanwhile, sales of new energy vehicles for May soared 125.6% YoY to 102,000 units (April: up 138.4% to 82,000 units). Electric vehicle (EV) sales were up 112.8% to 82,000 units (April: up 126.8% to 65,000), while plug-in hybrid vehicle (PHV) sales shot up 196.8% to 20,000 units (April: up 194.6% to 17,000 units), continuing their significant increase. The cumulative total of new energy vehicles sales for January-May rose 141.6% YoY to 328,000 units (January-April: up 149.2% to 225,000 units), of which EVs were up 124.7% YoY to 250,000 units (January-April: up 130.5% YoY to 168,000 units) and PHVs were up 218.4% to 78,000 units (January-April: up 226.7% YoY to 57,000 units).

<Monthly Trends in Share of Passenger Car Sales by Country of Manufacture>



Source: Created based on data released by CAAM

<New Energy Vehicles Sales>



Source: Created based on data released by CAAM

[Trade/Investment]

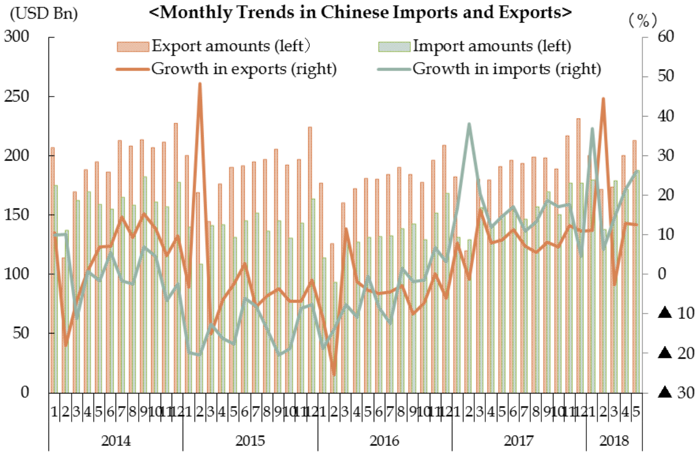
◆May Trade Statistics Show Exports and Imports Up 12.6% and 26.0% YoY

According to the preliminary trade statistics (in USD) announced by the General Administration of Customs (GACC) on June 8, exports in May rose 12.6% YoY (April: up 12.9% YoY) to USD 212.87 billion and imports jumped 26.0% YoY (April: up 21.5% YoY) to USD 187.95 billion, showing strong growth both in exports and imports, with the import growth rate rising for the third consecutive month. The trade balance ended in a surplus of USD 24.92 billion.

The cumulative amount of exports for January-May increased 13.3% YoY (January-April: up 13.7% YoY) to USD 957.06 billion, with imports up 21.0% YoY (January-April: up 19.6% YoY) to USD 857.39 billion. The trade balance marked a surplus of USD 99.67 billion, down 30.6%* YoY.

For trade with Japan in January-May, exports rose 8.2% YoY (January-April: up 7.7% YoY) to USD 58.53 billion and imports grew 15.7% YoY (January-April: up 13.9% YoY) to USD 72.32 billion, both showing an increase from the previous month. The trade balance with Japan posted a deficit of USD 13.79 billion,* up 66.7%* YoY.

<Monthly Trends in Chinese Imports and Exports>



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

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

Country/ Region	Total	YoY	Exports	YoY	Imports	YoY
U.S.	245.5	13.1%	175.2	13.6%	70.3	11.9%
Japan	130.8	12.3%	58.5	8.2%	72.3	15.7%
South Korea	126.3	17.4%	44.7	9.8%	81.5	22.0%
Hong Kong	115.5	14.7%	112.5	14.9%	2.9	7.7%
Taiwan	89.1	24.0%	19.0	14.8%	70.0	26.8%
Germany	73.3	16.1%	29.9	10.7%	43.4	20.2%
Australia	61.1	10.6%	17.8	16.4%	43.3	8.4%
Vietnam	54.7	33.7%	32.0	27.1%	22.7	44.2%
Malaysia	42.7	14.7%	18.0	9.8%	24.7	18.6%
Brazil	41.8	26.0%	13.9	37.9%	27.9	20.8%

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

As for trade with the US from January to May, exports rose 13.6% YoY (January-April: up 13.9% YoY) to USD 175.17 billion, and imports rose 11.9% YoY (January-April: up 11.6% YoY) to USD 70.32 billion. The trade balance with the US recorded a surplus of USD 104.85 billion,* up 12.8% YoY.*

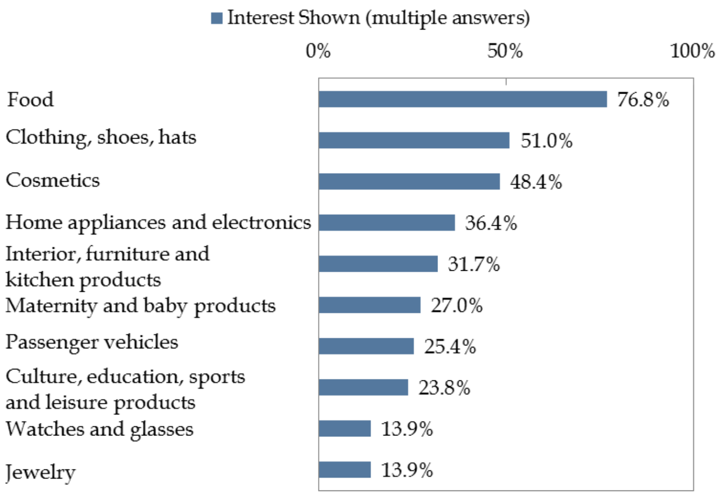
The breakdown of exports by product (in RMB terms) from January to May shows that electronics and machinery remain the major export products, rising 7.9% YoY (up 8.6% YoY for electronics and up 10.6% YoY for machinery) and together accounting for 58.8% of all exports.

*Calculated by MUFG Bank based on the amount of imports and exports announced by the General Administration of Customs.

◆Consumer Awareness Survey on Imported Products Shows Interest Strongest in Food

Looking ahead to the first China International Import Expo to be held in Shanghai in November 2018, the Ministry of Commerce (MOFCOM) conducted a consumer awareness survey on imported products and released the results on May 28. There were 1,397 valid responses, with more than 80% of the respondents in their 30s or older, and nearly 40% with a monthly household income of RMB 20,000 or more.

<Consumer Interest Ranking of Imported Products>



Source: Created based on "Analysis of Supply and Demand of Major Consumer Goods" by MOFCOM

When asked about their willingness to buy imported products, 86.6% of the respondents answered that they "bought or attempted to buy imported products in the past 12 months" and 31% said they "will buy more imported products in the next 6 months," displaying a robust demand for imported products.

By product, interest in food was the highest at 76.8%, followed by clothing, shoes and hats (51.0%) and then cosmetics (48.4%). By decision-making factor, "safety" for food, "design" for clothing, shoes and headwear and "quality" for cosmetics ranked highest at 92.5%, 68.3% and 70.2% respectively.

<Features considered when purchasing / Made-in-China products which do not meet consumers' demands>

Product	Features considered when purchasing products (multiple answers)	Made-in-China products which do not meet consumers' demands (multiple answers)
Food	Safety (92.5%) Price (70.4%) Raw materials (67.5%)	Milk (37.1%) Health foods (36.8%) Seafood (36.4%) Fruit (33.5%)
Clothing, shoes, hats	Design (68.3%) Price (68.3%) Comfort (57.4%)	Sports shoes (41.6%) Casual clothes (36.9%) Leather shoes (34.3%)
Cosmetics	Quality (70.2%) Safety (69.7%)	Skincare products (75.0%)
Home appliances and electronics	Function (66.4%) Safety (53.8%) Price (48.5%)	Photography equipment (32.8%) Water purifiers (30.3%) Air purifiers (29.7%) Electric toothbrushes (26.3%) Cleaning robots (23.0%)
Interior, furniture and kitchen products	Quality (70.2%) Safety (56.7%)	Pots and pans (35.7%) Bags (32.7%)
Maternity and baby products	Safety (91.0%) Materials (63.9%)	Powdered milk (78.8%) Baby food (49.9%) Disposable diapers (46.2%)
Passenger vehicles	Safety (47.9%) Function (40.0%)	SUVs (47.9%) New energy vehicles (40.0%)
Culture, education, sports and leisure	Quality (74.1%) Safety (56.3%)	Outdoor goods (56.9%) Fitness equipment (41.3%)
Watches and glasses	Design (75.8%) Price (59.3%) Material (58.8%) Brand (55.2%)	Wristwatches (78.9%) Sunglasses (45.9%) Glasses (39.2%)
Jewelry	Design (83.0%) Price (71.7%) Material (53.1%) Brand (35.1%)	Diamonds (63.9%) Pearls and jewels (47.4%) Gold (39.7%)

Source: Created based on "Analysis of Supply and Demand of Major Consumers Goods" by MOFCOM

◆UNCTAD 2017 Global Inward Foreign Direct Investment Ranking: China Moves up to Second Place

According to the "World Investment Report 2018" issued by the United Nations Conference on Trade and Development (UNCTAD) on June 6th, Chinese foreign direct investment (FDI) in 2017 (including the financial sector) increased 2.0% YoY to USD 136.3 billion for inward FDI, moving China up one spot on UNCTAD's annual ranking, from third to second place. Meanwhile, the amount of Chinese outward FDI decreased 36.5% YoY to USD 124.6 billion, and China dropped down to third place from second in 2016.

<2017 Global Ranking of Foreign Investment Amounts: Top 20 Countries and Regions>

(USD Bn)

Inward foreign direct investment			Outward foreign direct investment		
Rank	Country/Region	Amount	Rank	Country/Region	Amount
1 (1)	U.S.	275.4	1 (1)	U.S.	342.3
2 (3)	China	136.3	2 (4)	Japan	160.4
3 (4)	Hong Kong	104.3	3 (2)	China	124.6
4 (7)	Brazil	62.7	4 (158)	U.K.	99.6
5 (6)	Singapore	62.0	5 (8)	Hong Kong	82.8
6 (5)	Netherlands	58.0	6 (9)	Germany	82.3
7 (14)	France	49.8	7 (5)	Canada	77.0
8 (9)	Australia	46.4	8 (7)	France	58.1
9 (8)	Switzerland	41.0	9 (10)	Luxembourg	41.2
10 (11)	India	39.9	10 (11)	Spain	40.8
11 (19)	Germany	34.7	11 (15)	Russia	36.0
12 (16)	Mexico	29.7	12 (12)	South Korea	31.7
13 (20)	Ireland	29.0	13 (14)	Singapore	24.7
14 (13)	Russia	25.3	14 (29)	Sweden	24.3
15 (12)	Canada	24.2	15 (3)	Netherlands	23.3
16 (47)	Indonesia	23.1	16 (17)	Belgium	20.9
17 (18)	Spain	19.1	17 (22)	Thailand	19.3
18 (27)	Israel	19.0	18 (13)	Ireland	18.6
19 (17)	Italy	17.1	19 (21)	UAE	14.0
20 (26)	South Korea	17.1	20 (18)	Taiwan	11.4

Note: Values in parentheses ( ) indicate the previous year's ranking

Source: Created based on data from the "World Investment Report 2018" (UNCTAD)

The report pointed out that what contributed to the increase in Chinese inward FDI in 2017 was investment in high-tech industries including manufacturers of electronic and medical equipment and communication devices, digital economy, etc., which jumped as much as 62.0% YoY to about USD 40 billion, as well as the number of investments, which saw a drastic rise of 28.0% YoY, and an increased rate of investment in the Pilot Free Trade Zones and Central China exceeding the national average. It also noted that inward FDI was expected to continue to expand in 2018 thanks to new policies to open up the automobile and financial markets.

On the other hand, China's outward FDI in 2017 first decreased since 2003. The report related the decrease to the government's regulatory measures against the serious outflow of capital abroad during 2015–16, which notably strengthened control over outward foreign investments in real estate, hotels, the entertainment industry, sports clubs, etc.

Meanwhile, total direct investments in 2017 went down 23.0% YoY to USD 1.43 trillion globally, running counter to the strong growth of the global economy and international trade. New investment fell 14.0% YoY, in addition to the sharp contraction of cross-border M&As, which were down 22.0% YoY and played a major part in this situation. For 2018, despite expectations for the accelerated recovery of the global economy and trade, increasing demand, and the steady revenue of multinational companies, the report anticipates a total direct investment of USD 1.5 trillion, up 5.0% YoY in consideration of negative factors such as geopolitical risk, concerns over trade friction, and U.S. tax reforms.

[Finance/ Exchange]

◆Foreign Reserves in May Decline by USD 14.2 billion from April

The People's Bank of China (PBoC) announced on June 7 that the country's foreign reserves in May decreased USD 14.2 billion MoM to USD 3.11 trillion, exceeding the previous month for the second consecutive month.

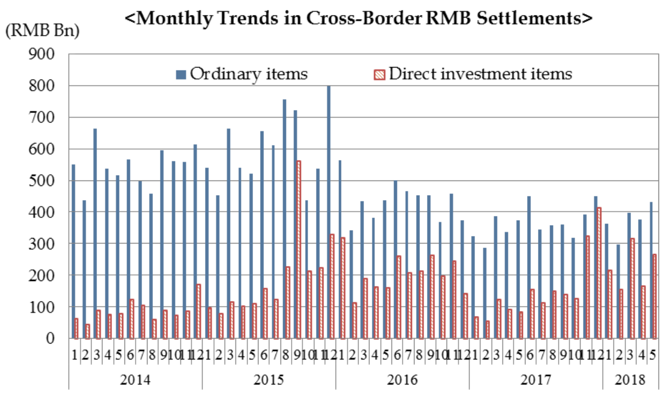
The State Administration of Foreign Exchange (SAFE) pointed out that although other currencies fell against the USD due to an increase in the US dollar index, overall asset prices rose, and as a result the decrease in foreign reserves in May was limited in nature.

Source: Created based on data released by the PBoC

◆May Cross-Border RMB Settlements

The People's Bank of China (PBoC) announced on June 12 that the amount of cross-border RMB settlements in May stood at RMB 431.56 billion for ordinary items, of which RMB 301.04 billion came from trade of goods and RMB 130.52 billion from trade in services.

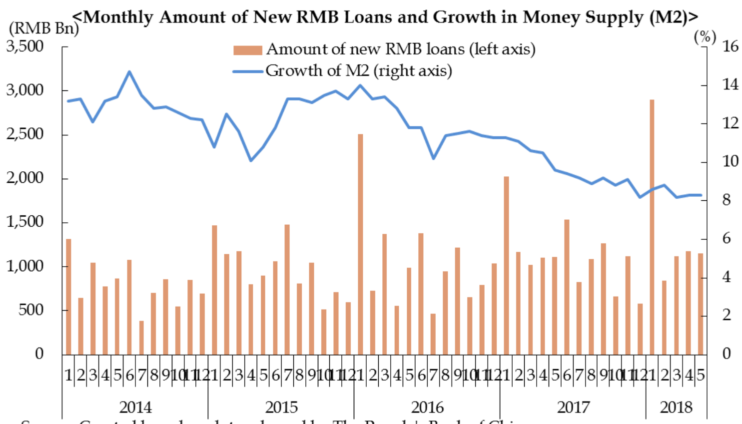
The amount was RMB 264.17 billion for direct investment items, of which RMB 158.73 billion came from inward foreign direct investment, and RMB 105.44 billion from outward foreign direct investment



Source: Created based on data released by The People's Bank of China

◆New RMB Loans for May Increase RMB 40.5 billion YoY and Decrease RMB 30 billion MoM

The People's Bank of China (PBoC) announced on June 12 that new RMB loans for May increased RMB 40.5 billion YoY to RMB 1.15 trillion, down RMB 30 billion from the previous month.



Source: Created based on data released by The People's Bank of China

Total social financing,* which shows the amount of liquidity supplied to the real economy, fell RMB 302.3 billion YoY to RMB 760.8 billion, down RMB 799.2 billion from the previous month. PBoC commented that the figures were affected by the decrease in off-balance-sheet financing such as entrusted loans, trust loans, and bank acceptances, as well as a decrease in bond issuing, both resulting from strengthened supervision with the aim of deleveraging.

Money supply (M2) as of the end of May rose 8.3% YoY to RMB 174.31 trillion. The growth rate was unchanged from the end of April.

*Total social financing = RMB loans + foreign currency loans + entrusted loans+ trust loans + bank acceptances + corporate bonds + stocks issued by non-financial firms + insurance company payouts + investment properties + other