CHINA BIWEEKLY

RMB Internationalization Business Promotion Office
Global Business Division

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■ BIWEEKLY DIGEST

[Economy]

- **Air pollution ranking by city for the first half of 2018**
- **July 2018: CPI rises 2.1%, PPI gains 4.6% YoY**

[Industry]

- **Trends in summer tourism for 2018: Per capita travel expenditure rises 15% year-on-year**

[Trade/Investment]

- **US-China trade friction: second round of additional tariffs to be imposed on August 23**
- **July trade statistics show 12.2% YoY increase in exports, 27.3% YoY increase in imports**

[Finance/Exchange]

- **State Administration of Foreign Exchange announces operational policies and examples of violations**
- **July: Foreign reserves increase slightly for the second consecutive month**

[Economy]

◆ Air pollution ranking by city for the first half of 2018

On July 22, the Ministry of Ecology and Environment (MEE) released rankings of 169 cities listing the 20 best and worst cities in terms of air quality for the first half of 2018. The number of cities covered by the ranking has been expanded from 74.

Cities ranked first through third were Haikou (Hainan), Huangshan (Anhui), and Lhasa (Tibet Autonomous Region), while the three cities ranked worst to third-worst were Linfen (Shanxi), Shijiazhuang (Hebei), and Xingtai (Hebei). The 20 best cities include five cities in Guangdong, four in Zhejiang, and two in Fujian. Meanwhile, the 20 worst cities include six cities in Shanxi, five each in Hebei and Henan, three in Shaanxi, and one in Shandong.

Among the 20 worst cities, four cities in Hebei (Shijiazhuang, Xingtai, Handan, and Baoding) and others were also listed in the ranking released at the same time of the 20 cities with the greatest year-on-year (YoY) air quality improvement. Although these cities are demonstrating a significant amount of improvement, they remain low-ranked in terms of pollution conditions.

Meanwhile, when expanding the scope to 338 cities nationwide at prefecture-level or above, 77.2% of the days in the same time period had “excellent” air quality, up 1.2 points YoY, with PM2.5 concentration 8.3 points lower YoY. Atmospheric concentrations of PM10, SO2, NO2, and CO decreased as well, while ozone concentration increased 2.6 points YoY.

Earlier this year in June, the State Council issued the “Three-year Action Plan for Winning the Blue Sky War” (Guo Fa [2018] No. 22). The plan designated three regions for intensive monitoring: the combined region of Beijing, Tianjin, and Hebei Province and the surrounding area, the Yangtze River Delta, and the Fen Wei Plain which covers the provinces of Shanxi, Henan, and Shaanxi. The plan is based on the environmental indicators in China’s 13th Five-Year Plan (2016–2020) and sets numerical targets including increasing the days with “excellent” air quality to 80% or more for cities at prefecture-level or above by 2020, an 18% decrease in PM2.5 concentration from the 2015 level, etc.

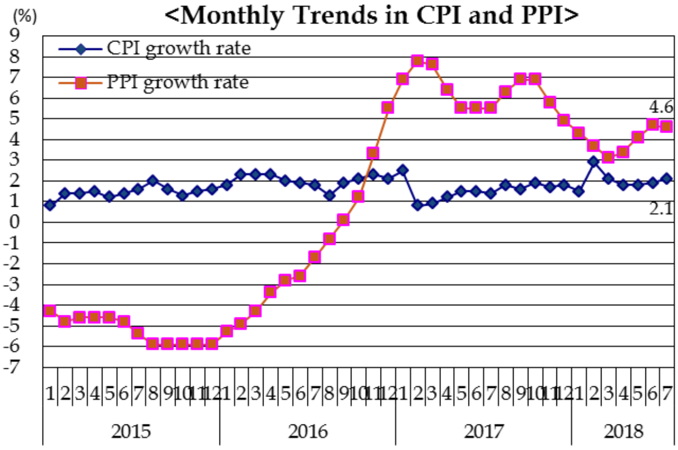
<Air Quality Rankings for 169 Cities in 1H 2018>

Rank	Best 20	Rank	Worst 20
1	Haikou, Hainan	169	Linfen, Shanxi
2	Huangshan, Anhui	168	Shijiazhuang, Hebei
3	Lhasa, Tibet	167	Xingtai, Hebei
4	Zhoushan, Zhejiang	166	Xianyang, Shaanxi
5	Shenzhen, Guangdong	165	Jincheng, Shanxi
6	Xiamen, Fujian	164	Tangshan, Hebei
7	Lishui, Zhejiang	163	Handan, Hebei
8	Zhuhai, Guangdong	162	Anyang, Henan
9	Huizhou, Guangdong	161	Taiyuan, Shanxi
10	Fuzhou, Fujian	160	Yuncheng, Shanxi
11	Zhongshan, Guangdong	159	Xi'an, Shaanxi
12	Guiyang, Guizhou	158	Baoding, Hebei
13	Taizhou, Zhejiang	157	Yangquan, Shanxi
14	Xianning, Hubei	156	Weinan, Shaanxi
15	Kunming, Yunnan	155	Jiaozuo, Henan
16	Quzhou, Zhejiang	154	Jinzhong, Shanxi
17	Dalian, Liaoning	153	Xinxiang, Henan
18	Yiyang, Hunan	152	Hebi, Henan
19	Nanning, Guangxi Zhuang	151	Zhengzhou, Henan
20	Jiangmen, Guangdong	150	Zibo, Shandong

Source: Created based on data released by the Ministry of Ecology and Environment

◆ July 2018: CPI rises 2.1%, PPI gains 4.6% YoY

<Monthly Trends in CPI and PPI>



Source: Created based on data released by NBS

The National Bureau of Statistics (NBS) of China announced on August 9 that the overall consumer price index (CPI) for July increased 2.1% YoY, up 0.2 percentage point from the previous month and exceeding 2.0% for the first time in four months. When looking at the numbers by category, food rose 0.5% YoY and non-food rose 2.4% YoY, both showing an increase of 0.2 percentage point from the previous month. Among food products, pork dropped 9.6% YoY (June: down 12.8% YoY), though this was a smaller decrease than the previous month. Mutton and eggs continued rising significantly, up 13.3% YoY (June: up 13.1% YoY) and 12.7% YoY (June: up 17.1% YoY) respectively. As for non-food, light oil and gasoline rose 25.1% YoY and 22.7% YoY respectively, boosting the overall CPI.

The producer price index (PPI) for July increased 4.6% YoY, down 0.1 percentage point from the previous month. By industry, extraction of oil/natural gas drilling jumped 42.1% YoY (June: up 32.7% YoY), processing of oil, coal and other fuels rose 24.6% YoY (June: up 19.9% YoY) and smelting and rolling of ferrous metal rose 12.3% YoY (June: up 15.1% YoY), all showing a high growth rate.

[Industry]

◆ Trends in summer tourism for 2018: Per capita travel expenditure rises 15% year-on-year

On June 29, the China Tourism Academy (CTA) and major travel agency Ctrip jointly released a big data report on summer tourism for 2018. The report analyzes the tourism market trends during the summer holiday season of July–August 2018 using the results from CTA's periodical survey and data from Ctrip's 300 million customers.

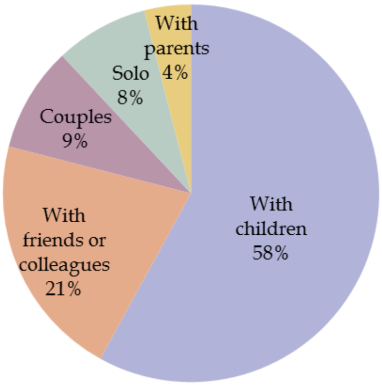
Per capita tourism expenditure is expected to reach RMB 4,000, up 15% year-on-year, with about RMB 2,800 for domestic travel and over RMB 6,000 for overseas travel. The cities whose residents spend the most on travel were Tianjin (RMB 5,315) and Kunming (RMB 5,310), exceeding the spending of people in Beijing (RMB 4,681) and Shanghai (RMB 4,407).

The characteristics of the tourism trends studied can be described as follows: ① there is a high need for summer camps for youth, with supply unable to meet the demand, ② the number of reservations for graduation trips has more than doubled as these trips become established as the event that marks the finish of student/college life, and ③ information posted by social media influencers has a huge impact on people's travel destination decisions.

The number of trips made in the summer of 2018 is estimated to exceed one billion. By type of traveler group, the largest group was "traveling with children" (58%), followed by "traveling with colleagues or friends" (21%), and "traveling as couples" (9%). By age group, people born in the 2000s and 2010s (ages 0-18) made up the largest portion (36%), followed by people born in the 1970s (ages 38-48, 22%) and in the '80s (ages 28-38, 16%).

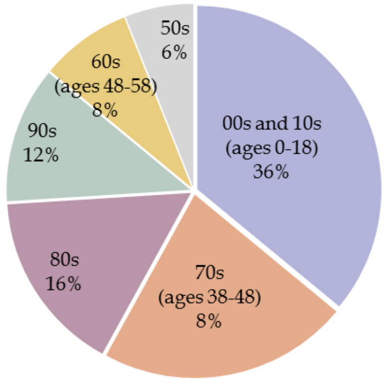
The three most popular cities for summer travel were Sanya, Beijing, and Guilin for domestic travel and Bangkok, Tokyo, and Singapore for overseas travel. The three most popular graduation trip destinations were Xiamen, Sanya, and Chengdu domestically and Tokyo, Osaka, and Bangkok internationally.

<Summer Travelers by Group>



Source: Created based on CTA and Ctrip 2018 big data report on summer tourism

<Summer Travelers by Age>



Source: Created based on CTA and Ctrip 2018 big data report on summer tourism
Note: "10s" and "00s" indicate people born after 2000;
"90s" indicates people born in the 1990s;
"80s" indicates people born in the 1980s;
"70s" indicates people born in the 1970s;
"60s" indicates people born in the 1960s;
"50s" indicates people born in the 1950s;

<Ranking of Popular Summer Vacation Destinations>

Rank	Domestic	Rank	Overseas
1	Sanya	1	Bangkok
2	Beijing	2	Tokyo
3	Guilin	3	Singapore
4	Kunming	4	Osaka
5	Xiamen	5	Phuket
6	Lijiang	6	Moscow
7	Zhangjiajie	7	Barcelona
8	Guiyang	8	Hong Kong
9	Lanzhou	9	London
10	Xi'an	10	Washington, D.C.

Source: Created based on CTA and Ctrip 2018 big data report on summer tourism

<Ranking of Popular Summer Graduation Trip Destinations>

Rank	Domestic	Rank	Overseas
1	Xiamen	1	Tokyo
2	Sanya	2	Osaka
3	Chengdu	3	Bangkok
4	Shanghai	4	Nagasaki
5	Chongqing	5	Hong Kong
6	Lijiang	6	Singapore
7	Guilin	7	Taipei
8	Beijing	8	Phuket
9	Xi'an	9	Washington, D.C.
10	Lanzhou	10	Nagoya

Source: Created based on CTA and Ctrip 2018 big data report on summer tourism

[Trade/Investment]

◆ US-China trade friction: second round of additional tariffs to be imposed on August 23

On August 7, the U.S. government announced the imposition of an additional 25% tariff on 279 types of products from China worth approximately USD 16 billion to begin on August 23, as the second tranche of sanctions against China's infringements of intellectual property rights under Section 301 of the Trade Act. In response, the Chinese government said on August 8 that it would retaliate by effecting countermeasures on the same scale, with additional duties of 25% on 333 American products worth USD 16 billion to take effect on August 23.

Regarding the items on the list of additional tariffs(*2), the U.S. kept major Chinese products on the list such as semiconductor-related products, electronics and telecommunication parts, plastic products and industrial machinery while removing 5 items including shipping containers and machine tools from the 284 items on the original list.

In contrast, China increased the number of items significantly from 114 on the original list to 333 by adding items including used paper, scrap metal, and lamp holders, while removing crude oil and some chemical products. China also drastically increased the types of automobiles subject to levy, resulting in automobile-related products exceeding 50% of all products slated for additional tariffs.

The U.S. government is preparing a list of 6,031 Chinese products to impose a 25% tariff worth USD 200 billion on as the third round of retaliatory measures against China. In turn, China announced that it would take comprehensive countermeasures including additional tariffs on 5,207 American products worth USD 60 billion, showing signs of protracted future trade friction between the U.S. and China.

The amount of U.S. tariffs on products from China including those currently under discussion is worth USD 250 billion, half of the approximately USD 500 billion in U.S. imports from China in 2017.

<Summary of Additional Tariffs imposed by the U.S. and China>

	Punitive U.S. tariffs on Chinese products		Retaliatory Chinese tariffs on U.S. products	
First Round Implemented on July 6 (USD 34 billion)	Additional 25% tariff on 818 types of products from China		Additional 25% tariff on 545 types of products from U.S.	
	HS code (Subheading)	Main products	HS code (Subheading)	Main products
	8536	Relays for switching, protecting or making	1201	Soybeans
	8413	Pumps for liquids, liquid elevators	8703	Passenger motor vehicles
	8431	Parts suitable for use solely or principally with construction machinery and machine tools	1007	Grain sorghum
	8703	Passenger motor vehicles and other motor vehicles	0206	Edible meat offal
	8471	Automatic data processing and reading units (storage units)	2303	Residues of starch or sugar manufacture
	8541	Semiconductor devices, light-emitting diodes		
	8544	Insulated wires and cables, optical fiber cables		
	8421	Centrifuges, filtering or purifying machinery, cleaning machines		
	8501	Motors and generators		
	8481	Cocks, valves, or the like		
Second Round, Implemented on August 23 (USD 16 billion)	Additional 25% tariff on 279 types of products from China		Additional 25% tariff on 333 types of products from U.S.	
	HS code (Subheading)	Main products	HS code (Subheading)	Main products
	8542	Electronic integrated circuits	4707	Waste and scrap paper
	8543	Electrical devices with specific functions	2711	Petroleum gases
	8541	Semiconductor devices, light-emitting diodes	9018	Instruments and appliances used in medical or veterinary sciences
	7308	Iron or steel structures and parts	7404	Scrap copper
	8486	Machines and apparatus for the manufacture of semiconductor devices or electronic integrated circuits	7602	Scrap aluminium
	8501	Motors and generators	8536	Lamp holders, plugs, sockets
	8536	Relays for switching, protecting or making connections to or in electrical circuits	8703	Passenger motor vehicles
	8503	Parts suitable for use solely or principally with motors and generators		
	3920	Plastic sheets and film (not reinforced)		
	3921	Other plastic sheets and film		

Source: Created based on announcements by USTR / MOFCOM

<Developments in US-China Trade Friction over Section 301 of the Trade Act of 1974>

	Country	Details
March 22	U.S.	Under Section 301 of the Trade Act of 1974, President Trump signed an executive order imposing an additional 25% tariff on Chinese products worth USD 50-60 billion in total as sanctions for intellectual property infringement. Restrictions on investment by Chinese companies in the U.S. were also decided.
April 3	U.S.	USTR released a draft of tariff sanctions for intellectual property infringement. An additional 25% tariff will be imposed on 1,300 types of Chinese products. The amount is nearly 10 percent of the 2017 total amount for imports from China of USD 510 billion.
April 4	China	As a retaliatory measure, MOFCOM announced an additional 25% tariff on 106 types of US products worth USD 50 billion.
May 3-4	Both	First round of U.S.-China trade talks in Beijing
May 17-18	Both	Second round of U.S.-China trade talks in Washington
June 2-3	Both	Third round of U.S.-China trade talks in Beijing
June 15	U.S.	As sanctions against China under Section 301, USTR announced an additional 25% tariff on 1,102 types of Chinese products worth USD 50 billion. The tariffs on USD 34 billion worth of the products are scheduled to take effect on July 6, while the timing of tariff imposition on the remaining products is under consideration.
June 16	China	MOFCOM retaliated against the US sanctions under Section 301 by announcing an additional 25% tariff on 659 types of products worth USD 50 billion. The tariffs on USD 34 billion worth of the products are scheduled to take effect on July 6. The timing of tariff imposition on the remaining products will be determined later.
June 18	U.S.	As a countermeasure to China's retaliation, President Trump ordered USTR to consider an additional 10% tariff on USD 200 billion worth of Chinese products.
July 6	U.S.	USTR implemented an additional 25% tariff on 818 types of Chinese products worth USD 34 billion. Exemption procedures for specific products began.
	China	The Chinese government implemented an additional 25% tariff on 545 types of US products worth USD 34 billion. The governemnt also filed a complaint against the US with the WTO.

	Country	Details
July 10	U.S.	Following China's retaliatory measure against US sanctions under Section 301, USTR released a draft of an additional tariff measure against China, which imposes an additional 10% tariff on 6031 types of products worth USD 200 billion. The authority will continue to collect opinions until the end of August.
July 16	China	MOFCOM filed a complaint to WTO challenging the U.S. government's plan for an additional 10% tariff on Chinese products worth USD 200 billion.
July 20	U.S.	President Trump suggested imposing punitive tariffs on Chinese products worth USD 500 billion.
August 1	U.S.	The U.S. government told USTR to increase the level of additional tariffs from the original plan of 10% to 25% on Chinese products worth USD 200 billion.
August 3	China	The Chinese government announced the countermeasure to impose tariffs of up to 25% on U.S. products worth USD 60 billion.
August 8	U.S.	USTR announced that it begin imposing additional tariffs of 25% on 279 types of products imported from China worth USD 16 billion on August 23, as the second round of sanctions against China's infringements of intellectual property rights under Section 301 of the Trade Act.
August 8	China	MOFCOM announced its plan to take countermeasures with 25% additional tariffs on 333 types of American products worth USD 16 billion starting on August 23.

Source: Created based on announcements by the U.S. and Chinese governments

(*1) For details, please refer to the Trade/Investment section of the July 30, 2018 issue of China Biweekly.
http://rmb.bk.mufg.jp/files/topics/804_ext_02_en_0.pdf

(*2) Please refer to the following websites for details of the product descriptions released by each government.

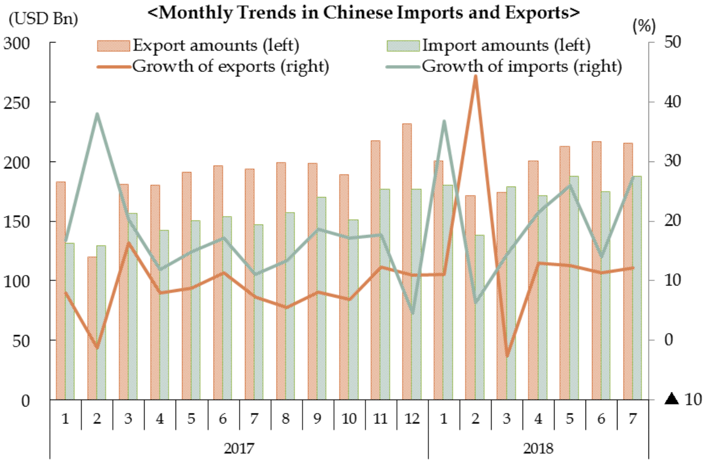
First round: U.S. https://ustr.gov/sites/default/files/enforcement/301Investigations/List%201.pdf
China http://images.mofcom.gov.cn/www/201806/20180616015345014.pdf
Second round: U.S. https://ustr.gov/sites/default/files/enforcement/301Investigations/Final%20Second%20Tranche.pdf
China http://images.mofcom.gov.cn/www/201808/20180808201049842.pdf

◆ July trade statistics show 12.2% YoY increase in exports, 27.3% YoY increase in imports

According to the preliminary trade statistics (in USD) announced by the General Administration of Customs on August 8, total exports and imports in July increased 12.2% YoY (up 11.3% YoY in June) to USD 215.57 billion, and 27.3% YoY (up 14.1% YoY in June) to USD 187.52 billion respectively, resulting in a USD 28.05 billion trade surplus.

The cumulative total for January-July showed a 12.6% YoY increase in exports (up 12.8% YoY in January-June) for USD 1.39 trillion and a 21.0% YoY increase in imports (up 19.9% YoY in January-June) for USD 1.22 trillion. A trade surplus of USD 166.1 billion was posted, which was a decrease of 28.3%* YoY.

<Monthly Trends in Chinese Imports and Exports>



Source: Created based on data released by GACC

As for the breakdown of products from January to July, exports rose sharply for integrated circuits (up 28.8% YoY) and automobiles (up 26.6% YoY), while imports jumped in crude oil (up 39.5% YoY) and natural gas (up 63.1% YoY). While increased imports of crude oil and natural gas were affected by higher prices, the volume of natural gas imports also rose significantly, increasing 34.3%.

As for trade with the US from January to July, exports rose 13.3% YoY (January-June: up 13.6% YoY) to USD 259.10 billion, while imports rose 11.8% YoY (January-June: up 11.8% YoY) to USD 97.47 billion. Trade balance with the US recorded a surplus of USD 161.63 billion*, growing 13.2%* YoY.

Turning to trade with Japan from January to July, exports were up 8.6% YoY (up 8.0% YoY in January-June) to USD 82.96 billion, while imports rose 14.5% YoY (up 12.9% YoY in January-June) to USD 103.89 billion, both showing growth compared to the previous month. The trade balance resulted in a deficit of USD 20.93 billion* with the deficit increasing by 49.4%* YoY.

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

According to the assessment made by the Ministry of Commerce (MOFCOM), aggressive measures such as lowered import tariffs and improved trade procedures accelerated growth in imports, and trade from January to July was balanced overall and steadily expanded. Meanwhile, MOFCOM pointed out that given the uncertainties in the world economy, greater efforts are necessary to continue steady economic growth going forward.

<Jan-Jul 2018 Import and Export Amounts and Growth Rates by Country/Region>

(USD Bn)

Country/Region	Exports	YoY	Imports	YoY	Total	YoY
U.S.	259.1	13.3%	97.5	11.8%	356.6	12.9%
Japan	83.0	8.6%	103.9	14.5%	186.9	11.8%
South Korea	62.6	8.8%	116.6	23.2%	179.2	17.8%
Hong Kong	165.0	14.2%	4.2	9.9%	169.2	14.1%
Taiwan	27.2	14.4%	100.5	24.3%	127.7	22.1%
Germany	43.3	9.7%	61.3	16.3%	104.6	13.4%
Australia	25.7	17.7%	62.2	12.2%	87.9	13.8%
Vietnam	46.0	22.4%	32.0	37.4%	78.0	28.1%
Malaysia	25.4	11.5%	36.0	20.8%	61.4	16.8%
Brazil	20.1	29.7%	41.2	20.0%	61.3	23.0%

Note: Top 10 countries/regions in total export/import amounts

Source: Created based on data released by GACC

[Finance/Exchange]

◆ State Administration of Foreign Exchange announces operational policies and examples of violations

On August 2, the State Administration of Foreign Exchange (SAFE) held a meeting on foreign exchange (FX) administration and set their operational policies for the second half of this year.

Topics related to the reform and opening up of FX administration discussed at the meeting were promoting the liberalization of investment, protecting the legal rights and interests of foreign enterprises, increasing the number of domestic and foreign participants in trade, developing the infrastructure of the Belt and Road Initiative regions, and promoting the reform of FX administration in the pilot free trade zones and the free trade ports.

Measures to safeguard against financial risk that were brought up included establishing a management framework for cross-border capital flows through both macro-prudential management of the financial system as a whole and micro-regulation for each market participant, and cracking down on false and fraudulent transactions, shadow banking, illegal FX trading platforms, etc.

On July 24, SAFE's website disclosed some examples of violations revealed in operational inspections during the first half of this year (see the table below). Violating financial institutions, enterprises, and individuals were ordered to suspend relevant operations and were fined.

<Main Examples of Violations>

Financial Institutions	- Handling third-country foreign currency purchases or overseas money transfers based on forged, expired, or duplicated B/Ls - Trade finance based on a Bao Guan Dan (customs clearance certificate) in another company's name or a duplicated name - Foreign currency purchase or transferring money overseas in the same name divided into multiple transactions. Failure to verify identity or confirm the nature of the funds
Enterprises	- Foreign remittances based on forged trading background, contracts, or invoices - Obtaining trade finance by submitting invalid or duplicated evidence - Using forged contracts to receive funds in a foreign currency or to to convert foreign funds into RMB
Individuals	- Foreign currency purchases or overseas money transfers via shadow banking aiming at transferring personal assets to foreign countries, dividing remittances into multiple accounts under different names to evade regulations - Foreign currency purchases in the name of a corporate body under his/her practical control

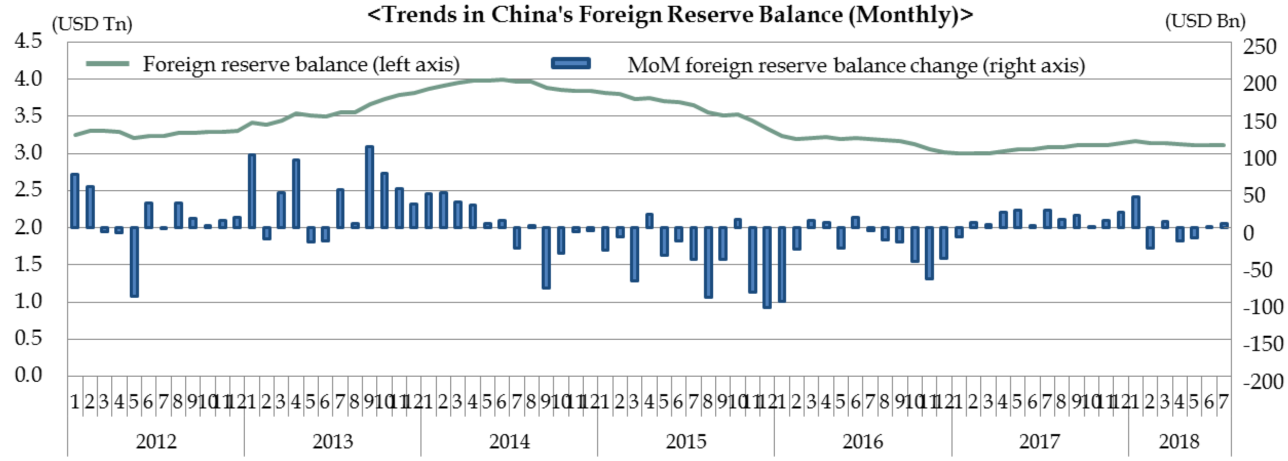
Source: Created based on information released by the State Administration of Foreign Exchange

◆ July: Foreign reserves increase slightly for the second consecutive month

The People's Bank of China (PBoC) announced on August 7 that the country's foreign reserves in July increased USD 5.8 billion month-on-month (MoM) to USD 3.1179 trillion, slightly exceeding the previous month for the second consecutive month.

The State Administration of Foreign Exchange (SAFE) analyzed that the small increase in foreign reserves in July was caused by factors such as other currencies rising against the USD and the fluctuation of asset prices.

SAFE also stated that while intensified trade friction, U.S. interest rate hikes and a stronger USD has damaged emerging economies and increased uncertainties in global financial markets, cross-border transfers of funds continue to be basically stable thanks to good economic fundamentals.



Source: Created based on data released by the PBoC