China develops a multi-faceted policy as a rise in tensions with the US appears on the horizon

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The real GDP growth rate was 6.8% YoY for the third consecutive quarter in the period from January to March: a good start for achieving the government's 2018 target of 6.5% YoY (Table 1). It appears a rise in real estate investment drove the growth of overall investment and made up for the negative contribution from net exports. However, looking at the economic indicators for March, industrial production (6.0% YoY) and fixed assets investment (7.5% YoY) slowed after the January-to-February period, and growth of exports turned negative (-2.7% YoY) probably due to the effects of CNY appreciation. In addition, considering the fact that trade friction with the US may intensify, it is difficult to be optimistic about the future of the Chinese economy.

In response to this situation, the Chinese authorities have developed a multifaceted policy which blends both carrot and stick methods. First, China announced tariffs on 128 products (which totalled USD3 billion-worth of imports from the US in 2017) on 23rd March, including pork, and later, on 4th April, it announced tariffs on a further 106 products (USD50 billion-worth of imports during the same period), including agricultural products, such as soybeans; aeroplanes; automobiles and chemical products. This was in response to the US government's tariffs on steel and aluminium and infringements of intellectual property rights. China matched the scale of US restrictions and displayed a position of steadfast resistance.

Meanwhile, China is focusing on raising the profile of its strategy to open up its economy. At the Boao Forum for Asia on 10th April, President Xi Jinping praised the accomplishments of China's economic reforms to open up the country over the past forty years. He also emphasised a swift start to significantly broadening market access, creating an appealing investment environment, strengthening protection for intellectual property rights and increasing imports. On the following day, the People's Bank of China (PBOC) published measures to open up the financial sector on a large scale, including loosening regulations regarding foreign ownership. On 17th, the National Development and Reform Commission announced it will remove foreign ownership restrictions in the automobile sector (Table 2). While there are questions being raised overseas about the effectiveness of this strategy, it appears that China is taking the US' position into consideration.

The Chinese authorities have been keeping a close eye on the macro economy. The PBOC's plan to curb debt involves continuing to induce an increase in market interest rates by raising open market operation rates since the start of last year. However, on 17th April, it cut the reserve requirement ratio (a 1% point reduction effective as of 25th April) for the first time in around two years, and indicated that the funds freed up by this measure must first be used to repay loans from the PBOC, and the remainder allocated to financing small and medium-sized enterprises. The PBOC stressed that its monetary policy stance had not changed, but it is possible that it is discreetly shifting to a policy centred on underpinning domestic demand as the macro economy faces a rising headwind both domestically and from overseas.

Table 1: Main Economic Indicators (China)

	2017		2018		
	Nov	Dec	Jan	Feb	Mar
Real GDP (YoY, %)	6.8		6.8		
Exports (YoY, %)	11.5	10.9	24.0		-2.7
Imports (YoY, %)	17.6	4.5	21.6		14.4
Fixed Assets Investment (YTD, YoY, %)	7.2	7.2	7.9		7.5
Retail Sales (YoY, %)	10.2	9.4	9.7		10.1
Industrial Production (YoY, %)	6.1	6.2	7.2		6.0
Manufacturing PMI	51.8	51.6	51.3	50.3	51.5
Non-manufacturing PMI	54.8	55.0	55.3	54.4	54.6
CPI (YoY, %)	1.7	1.8	1.5	2.9	2.1
PPI (YoY, %)	5.8	4.9	4.3	3.7	3.1

Note: 1) Manufacturing PMI and Non-manufacturing PMI are from China National Bureau of Statistics.
2) Shadowed portion indicates lower growth rates or decline in indicators from previous months.

Source: National Bureau of Statistics of China, MUFG Bank Economic Research Office

Table 2: Summary of Recent Policies to Open Up China's Economy

	Financial Sector (announced 11th April)
	Effective by June
1	Lift restrictions on foreign ownership of banks and financial asset management companies.
2	Increase the limit on foreign ownership of securities and life insurance companies to 51%.
3	Remove the requirement that at least one of the Chinese shareholders of joint venture securities companies be a securities company.
4	Quadruple the daily quota for the Shanhai-Hong Kong Stock Connect initiative from 1st May.
5	Permit foreign investers to engage in insurance agency and insurance assessing businesses.
6	Increase the business scope for foreign insurance brokerage companies.
	Effective by December
1	Encourage foreign investment in trust, financial leasing, auto financing and consumer finance.
2	Set no limit on foreign ownership of newly-established financial asset investment companies and wealth management companies.
3	Substantially increase the business scope for foreign banks.
4	Remove the restrictions on the business scope of joint venture securities companies and treat them the same as Chinese companies.
5	Remove the requirement that foreign insurance companies must have a representative office in China for 2 years before establishing a subsidiary.
	Automobile Sector (announced 17th April)
1	Remove foreign ownership limits on new energy vehicle companies in 2018.
2	Remove foreign ownership limits on commercial vehcile companies in 2020.
3	Remove foreign ownserhip limits on passenger vehicle companies and the limit of two joint venture partners for foreign companies in 2022.

Source: People's Bank of China, National Development and Reform Commission, MUFG Bank

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