

China takes policy action in preparation for an escalated, prolonged trade conflict with the US

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9 OCTOBER 2018
(ORIGINAL JAPANESE VERSION RELEASED ON 21 SEPTEMBER 2018)

The intensity of the trade dispute between China and the US is growing. The US government imposed tariffs against China in July and August and the Chinese government retaliated with its own tariffs (the scale of both sets of tariffs is approximately USD 50 billion). On 17th September, the US government announced additional tariffs on USD 200 billions' worth of imports from China which will be imposed from 24th September (at first the tax rate will be 10%, which will be raised to 25% next year). As a result, it appears that restarting trade negotiations between the US and China will be challenging and, due to previous demands from the US side regarding China's "Made in China 2025" growth strategy, it is still widely believed that there will be no resolution to the trade conflict for now. Overall growth of exports fell below double digits in August for the first time in five months (Table 1). While there was a large slowdown of exports to Asia, growth of exports to the US accelerated to 13.2% YoY from the previous month (11.2% YoY). However, with the increase in items subject to additional tariffs, it appears that a further deterioration of exports, including those to the US, will be unavoidable in future.

The Chinese government announced it would counter with another round of new tariffs against the US, but the items subject to the tariffs are worth only USD 60 billion of imports and the tax rate was lowered from 5%, 10%, 15% or 20% in the initial statement to 5% or 10%. Instead, bearing in mind the lengthy trade dispute with the US, it appears the direction taken by China is to strengthen economic ties with other countries – such as pushing forward with strategies to open up business as well as offering economic cooperation and support – and retaliate against the US with international cooperation rather than direct countermeasures. In accordance with the plans revealed by President Xi Jinping at the Boao Forum for Asia in April, China relaxed foreign investment regulations, particularly in the finance and automotive sectors, and lowered tariffs against automobiles and electronic appliances. In addition, he announced USD 60 billions' worth of financing for Africa at the Forum on China-Africa Cooperation in September.

The government announced various economic measures to offset the decline in US exports. It will promote infrastructure investment, implement additional tax cuts (amounting to RMB 45 billion, including raising the VAT refund rate on exports such as integrated circuits) and ease regulations for private-sector corporate investment. On the finance front, the government has altered its plans to prioritise deleveraging and is strengthening monetary easing on a broad basis (lower the reserve requirement ratio, support lending to small- and medium-sized corporations and infrastructure, Chart 1). There are many who see the trade friction between

the US and China as more damaging for the Chinese economy, but perhaps China's endurance should not be taken lightly considering its actions above.

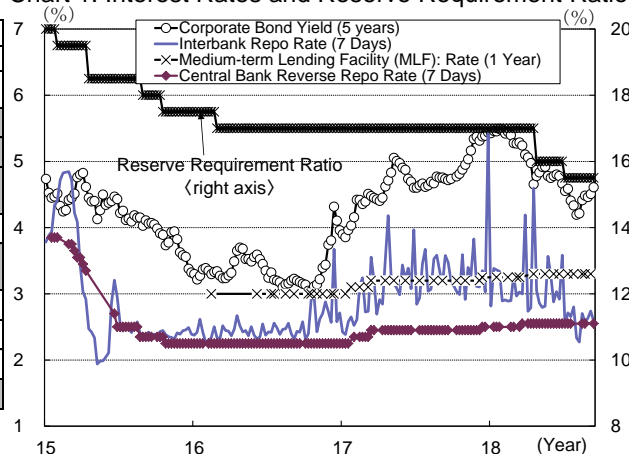
Table 1: Main Economic Indicators (China)

	2018				
	Apr	May	Jun	Jul	Aug
Real GDP (YoY, %)	6.7				n.a.
Exports (YoY, %)	12.1	12.1	11.2	12.2	9.8
Imports (YoY, %)	21.8	26.0	14.1	27.3	20.0
Fixed Assets Investment (YTD, YoY, %)	7.0	6.1	6.0	5.5	5.3
Retail Sales (YoY, %)	9.4	8.5	9.0	8.8	9.0
Industrial Production (YoY, %)	7.0	6.8	6.0	6.0	6.1
Manufacturing PMI	51.4	51.9	51.5	51.2	51.3
Non-manufacturing PMI	54.8	54.9	55.0	54.0	54.2
CPI (YoY, %)	1.8	1.8	1.9	2.1	2.3
PPI (YoY, %)	3.4	4.1	4.7	4.6	4.1

Note: 1) Manufacturing PMI and Non-manufacturing PMI are from
 2) Shadowed portion indicates lower growth rates or decline

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

Chart 1: Interest Rates and Reserve Requirement Ratio



Source: People's Bank of China, MUFG Bank Economic Research Office

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