

China's friction with the US became a focal point of its National People's Congress

YOKO HAGIWARA
ECONOMIC RESEARCH OFFICE

MUFG Bank, Ltd.
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At the start of 2019, domestic demand indicators, such as investment and consumption, showed signs of bottoming out due to the effects of economic policies, as well as a decrease in uncertainty about an economic slowdown caused by expectations for policies in the future (Table 1). On the other hand, the damage from exports to the US due to the additional tariffs imposed on Chinese products has finally started to appear since the end of last year (Chart 1, period from January-February is -14.6% YoY). It is thought this will put strong downward pressure on total exports during this time.

The National People's Congress (NPC) was held from 5th to 15th March. In the Government Work Report, the top of the list of economic policies was changed to "maintain stable growth" from "supply-side structural reform" last year. The report included the following measures: reducing the tax and fee burden (a decrease of RMB 2 trillion from last year's RMB1.3 trillion), easing the funding shortages faced by private enterprises and small and micro businesses, and increasing the number of special local government bonds issued (an increase of RMB 800 billion YoY). While the government is expanding its economic policies, it lowered the real GDP growth target from 6.5% YoY last year to between 6.0~6.5% YoY this year, accepting a small deceleration in growth. This is probably a natural consequence considering Premier Li Keqiang frequently denied excessive economic stimulus policies, saying the government will refrain from using a deluge of stimulus policies, and that this statement was repeated in the Government Work Report. Along with real GDP, the government adopted "a stable balance of debt to GDP" for the first time as one of its targets for economic and social development. This means the government aims to prevent debt from rising further, even if takes a short break from reducing debt.

Success or failure of the Chinese government's strategy will be affected by the result of its negotiations with the US. For the time being, there is a positive mood as negotiations continue, but there is still a great distance between the two sides. The Foreign Investment Law was approved with unprecedented speed at the NPC and it prohibits forced technology transfers, a focal point of negotiations; however, there are fears the law has been watered down due to the inclusion of the sentence, the State will "encourage technology cooperation on the basis of free will and business rules". In addition, it is said the negotiations will be concluded at a U.S.-China summit, yet due to the shock worldwide that followed the US-North Korea summit in February which ended with no result, it seems the bar has been set even higher this time. Therefore, the

passage in the Government Work Report – it is necessary to assume the worst situation when it comes to guarding against risks – appears to be a reasonable one.

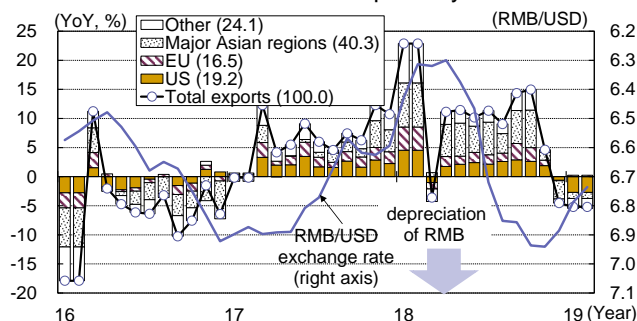
Table 1: Main Economic Indicators (China)

	2018			2019	
	Oct	Nov	Dec	Jan	Feb
Real GDP (YoY, %)	6.4			n.a	
Exports (YoY, %)	14.3	3.9	-4.6	-4.6	
Imports (YoY, %)	20.3	2.9	-7.6	-3.1	
Fixed Assets Investment (YTD, YoY, %)	5.7	5.9	5.9	6.1	
Retail Sales (YoY, %)	8.6	8.1	8.2	8.2	
Industrial Production (YoY, %)	5.9	5.4	5.7	5.3	
Manufacturing PMI	50.2	50.0	49.4	49.5	49.2
Non-manufacturing PMI	53.9	53.4	53.8	54.7	54.3
CPI (YoY, %)	2.5	2.2	1.9	1.7	1.5
PPI (YoY, %)	3.3	2.7	0.9	0.1	0.1

Note: 1) Manufacturing PMI and Non-manufacturing PMI are from China National Bureau of
 2) Shadow ed portion indicates low er grow th rates or decline in indicators from previous months.

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

Chart 1: Value of Chinese Exports by Destination



Note: 1. Brackets next to the country/region denote the share of total exports (as of 2018) on a preliminary basis.
 2. "Major Asian regions" consists of Japan, Hong Kong, Taiwan, Korea, ASEAN and India.
 3. To even out the fluctuation caused by the Lunar New Year, a total of Jan and Feb is used for both months.

Source: General Administration of Customs, MUFG Bank Economic Research Office

For further details, please contact the Economic Research Office, MUFG Bank

Managing Director, Rei Tsuruta Tel: +81-(0)3-3240-3204

Written by Yoko Hagiwara <yoko_hagiwara@mufg.jp>

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