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The sense of emergency caused by US-China trade friction provides tailwind for reform and opening up

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The real GDP growth rate decelerated further to 6.2% YoY in the April-June quarter from the previous quarter (6.4% YoY). The US has strengthened its trade policies against China, such as the additional tariffs on Chinese imports and restrictions on imports from and exports to certain corporations, the effects of which appear to have spread to China's domestic and external demand. However, the Chinese government appears to think its conflict with the US will be prolonged as it is curbing the scale of its economic policies compared with before.

Instead, what the government seems to be focusing on is bolstering its reform and opening-up policy. The meeting between Chinese and US leaders at the G20 summit and subsequent US-North Korea summit left a strong impression, but President Xi Jinping focused on promoting the drive to open up China, announcing a policy of five items: 1) opening up the Chinese market, including the publication of its 2019 version of the "negative list for foreign investment market access"; 2) the proactive expansion of imports, such as reducing tariff rates; 3) improving China's business environment, mainly the introduction of a punitive compensation mechanism and strengthening of intellectual property rights protection; 4) giving equal treatment to domestic and foreign businesses; and 5) advancing economic trade negotiations. As announced, the government released the 2019 edition of its Special Administrative Measures for Foreign Investment Access (Negative List) on 30th June and moved forward with easing regulations on resources, manufacturing and services. In addition, on 20th July, the People's Bank of China announced its Measures for Further Opening Up the Financial Sector which consists of eleven points, including increased access to the bond business and an accelerated easing of foreign ownership limits for securities companies and life insurers (Table 1). From this sequence of events, it is possible to see China's intentions to diffuse accusations against it, such as those of "market-distorting measures" by the US, by assuring the international community of its commitment to free trade and the openness of the Chinese market.

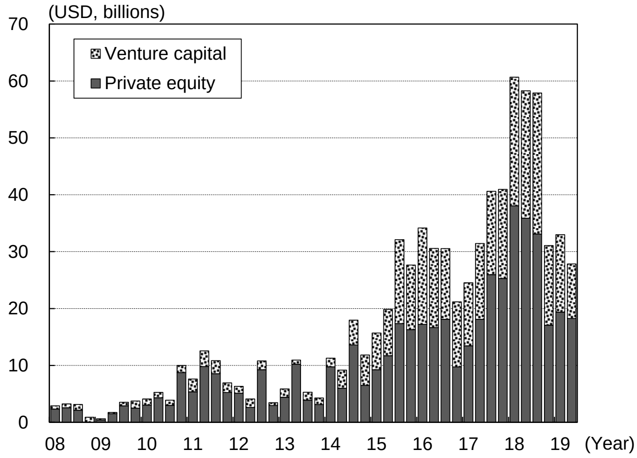
Meanwhile, the Science and Technology Innovation Board (STAR Market), aimed at high-tech start-up companies, started trading at the Shanghai stock exchange on 22nd July as part of China's domestic reforms. This news comes only eight months after President Xi announced the opening of the board at the International Import Expo in November last year, and it appears there was an urgent need to develop new funding sources. The intensified US-China friction on top of the deleveraging (reducing excess debt) has resulted in a sharp drop in the amount of investment by funds, which are a major source of financing for new, high-tech companies (Chart 1). That being said, the establishment of its predecessor, the "strategic emerging industries board", was proposed back in 2013 and it also mapped out a path to reform. In the past, China has used external pressure as leverage for reform and opening up, but considering there is no precedent for the kind of external pressure being felt this time, it will be important to keep an eye on where these reforms will go.

Table 1: New Monetary Policy Measures (Published 20 July)

①	Foreign-funded institutions permitted to conduct credit rating business on all types of bonds in China's inter-bank and exchange bond markets
②	Overseas financial institutions encouraged to participate in establishment of and equity investment in asset and wealth management subsidiaries of commercial banks
③	Overseas asset management institutions permitted to co-establish foreign-controlled asset management companies together with subsidiaries of Chinese banks or insurers
④	Overseas financial institutions permitted to invest in establishment of or make equity investment in pension management companies
⑤	Foreign capital supported in wholly-owned currency brokerage establishment and equity participation
⑥	Transitional period for raising foreign ownership cap on life insurers from 51% to 100% brought forward to 2020 from 2021
⑦	Requirement that total share of insurance asset management company held by domestic insurers shall be no less than 75% removed, foreign ownership permitted to exceed 25%
⑧	Entry conditions of foreign insurers eased by removing requirement of over-30-year operation
⑨	Removal of foreign ownership limits on securities, fund management and futures companies advanced by 1 year to 2020
⑩	Foreign institutions permitted to obtain Type-A lead underwriting licences in the inter-bank bond market
⑪	China will further facilitate investments of overseas institutions in inter-bank bond market

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

Chart 1: Amount of Fund Investment in China



Source: China Venture, MUFG Bank Economic Research Office

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