Despite a pause in the escalating US-China tension, macroeconomic improvements are still in doubt

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China's real GDP growth rate slowed further to 6.0% YoY in the July-September quarter from 6.2% the previous quarter. This result reflects the Chinese government's restraint in carrying out its economic policies, despite the negative effects from the escalation of its trade friction with the US spreading to the Chinese economy (Table 1).

The latest development in the negotiations which are influencing Chinese-US friction is a partial agreement at a meeting between senior negotiators on both sides on 10th and 11th October, resulting in an increased feeling of relief amongst global markets. However, both sides seem to set the bar low for the terms of the agreement. The US has only postponed their planned increase in tariffs on USD 250 billions' worth of Chinese imports (25% → 30%) that was scheduled for 15th October. Meanwhile, China agreed to import USD 40~50 billions' worth of agricultural products from the US, to strengthen its protection for intellectual property and to give greater access to its financial markets. The Chinese government is carrying out changes in accordance with the reform and opening-up policies it already announced and, on 8th October ahead of discussions, it adopted regulations to improve the business environment, which includes strengthening intellectual property protection. On 11th October, the Chinese government announced a concrete timetable for lifting the upper limit for foreign ownership of fund management firms amongst others. In addition, after discussions with the US, the Chinese government revised its Administrative Regulations on Foreign-invested Banks and Administrative Regulations on Foreign Invested Insurance Companies and significantly relaxed entry regulations in the banking and insurance fields on 15th. On 16th, the government announced measures to make accessing China's interbank bond market more convenient for foreign investors. There is a growing sense that the break in imposing tariffs by both countries is only temporarily due to their minimal concessions and it is still difficult to foresee an improvement in the macro economic climate brought about by a softening of tensions in the future.

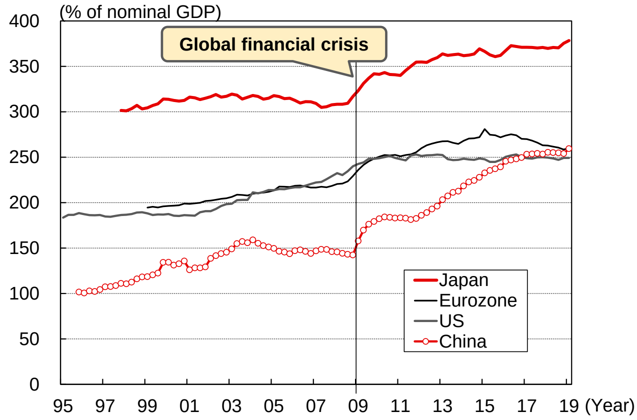
The Chinese government appears to have taken this into account; Premier Li Keqiang gave a warning about the increase of downward pressure on the economy to some heads of regional governments gathered at a symposium in an inland province, Shaanxi, on 14th October. He urged the implementation of policies, such as the reduced tax rates that have already been adopted; progress in easing regulations and in innovation; and contributions to people's livelihoods, mainly labour policies. However, he did not mention any large-scale economic stimulus policies. The People's Bank of China's announcement on 21st October that it will maintain its Loan Prime Rate could be interpreted as a move to avoid a sudden rise in debt (Chart 1), which would likely lead to increased perception of "China risk" overseas. This means China is keeping a careful watch over its gradual economic slowdown, the reduction of debt, changes to the structure of its industries, attracting foreign capital and the stability of its society while also standing its ground against the US in their drawn-out conflict. It is likely China's chosen path will become even more challenging in the future.

Table 1: Main Economic Indicators (China)

	2019				
	May	Jun	Jul	Aug	Sep
Exports (YoY, %)	1.0	-1.3	3.3	-1.0	-3.2
Imports (YoY, %)	-8.5	-7.2	-5.3	-5.6	-8.5
Fixed Assets Investment (YTD, YoY, %)	5.6	5.8	5.7	5.5	5.4
Retail Sales (YoY, %)	8.6	9.8	7.6	7.5	7.8
Industrial Production (YoY, %)	5.0	6.3	4.8	4.4	5.8
Manufacturing PMI	49.4	49.4	49.7	49.5	49.8
Non-manufacturing PMI	54.3	54.2	53.7	53.8	53.7
CPI (YoY, %)	2.7	2.7	2.8	2.8	3.0
PPI (YoY, %)	0.6	0.0	-0.3	-0.8	-1.2

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

Chart 1: Debt of Non-Financial Institutions (Government + Firms + Households)



Source: BIS, MUFG Bank Economic Research Office

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