



Economic and Trade Information on China

Latest Development

- China's GDP grew by 6.8% in the fourth quarter of 2017. China's GDP grew by 6.9% in 2017.
- The added-value industrial output grew by 6.2% in December 2017, up from 6.1% in November 2017.
- Fixed assets investment grew by 7.2% in Jan-Dec 2017, flat from 7.2% in Jan-Nov 2017.
- Retail sales increased by 9.4% in December 2017 (real growth rate 7.8%).
- Inflation stood at 1.8% in December 2017, with food prices dropped by 0.4% and non-food prices increased by 2.4%.
- In December 2017, exports (in terms of US\$) grew by 10.9%, while imports (in terms of US\$) increased by 4.5%, resulting in a trade surplus of US\$54.7 billion.
- The Manufacturing Purchasing Managers' Index down from 51.8 in November 2017 to 51.6 in December 2017.



Major Economic Indicators	2016		Jan-Dec 2017	
	Value	Growth (%)	Value	Growth (%)
Area (sq km, mn)	9.6	—	9.6	—
Population (mn)	1,382.7	—	1,390.1	—
Gross Domestic Product (RMB bn)	74,358.5	6.7 ¹	82,712.2	6.9 ¹
Urban Per Capita Disposable Income (RMB)	33,616	5.6 ¹	36,396	6.5 ¹
Rural Per Capita Disposable Income (RMB)	12,363	6.2 ¹	13,432	7.3 ¹
Fixed Assets Investment ² (RMB bn)	59,650.1	8.1	63,168.4	7.2
Added-Value of Industrial Output ³	—	6.0 ¹	—	6.6 ¹
Consumer Goods Retail Sales (RMB bn)	33,231.6	10.4	36,626.2	10.2
Consumer Price Index	—	2.0	—	1.6
Exports (US\$ bn)	2,097.4	-7.7	2,263.5	7.9
Imports (US\$ bn)	1,587.5	-5.5	1,841.0	15.9
Trade Surplus (US\$ bn)	509.9	—	422.5	—
Utilised Foreign Direct Investment (US\$ bn)	126.0	-0.2	101.1 ⁴	-2.7
Foreign Currency Reserves (US\$ bn)	3,010.5	-9.6	3,139.9	4.3

Note:

¹ Real growth

² Urban investments in fixed assets

³ All state-owned and other types of enterprises with annual sales over RMB20 million

⁴ Jan-Oct 2017

Sources: The National Bureau of Statistics, Ministry of Commerce, and General Administration of Customs.

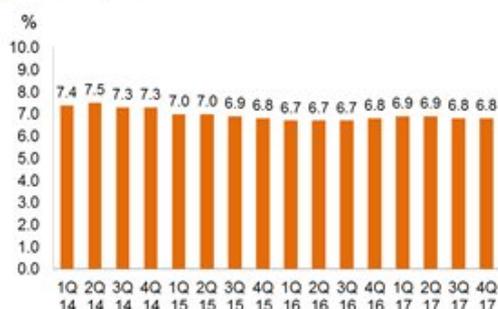
Current Economic Development

The Chinese economy grew by 9.3% in 2011 and slowed to 7.7% in both 2012 and 2013. In 2014, 2015 and 2016, GDP grew by 7.3%, 6.9% and 6.7% respectively. Per capita GDP reached RMB53,980 in 2016. In the four quarters of 2017, GDP grew by 6.9% in the first two quarters and 6.8% in the last two quarters, resulting in an average growth of 6.9% for 2017.

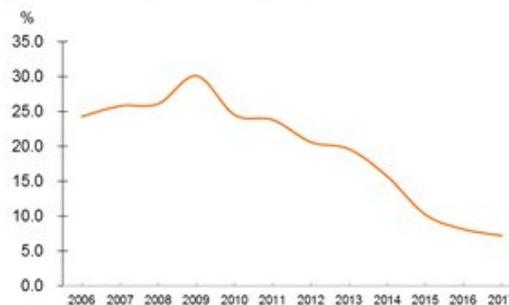


After reducing the reserve requirement ratio five times in 2015, the *People’s Bank of China (PBOC)* cut the reserve requirement by 0.5 percentage points again on 1 March 2016. The base lending rates were cut by 0.25 percentage points each on 1 March 2015, 11 May 2015, 28 June 2015, 26 August 2015 and 24 October 2015.

Quarterly GDP Growth

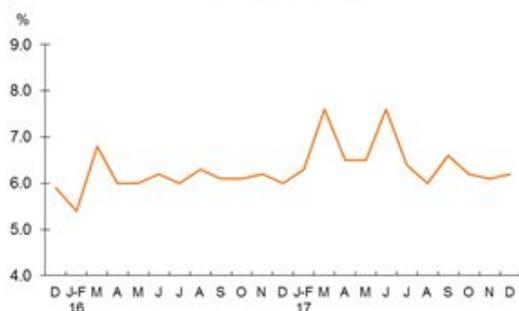


Fixed Assets Investment Growth

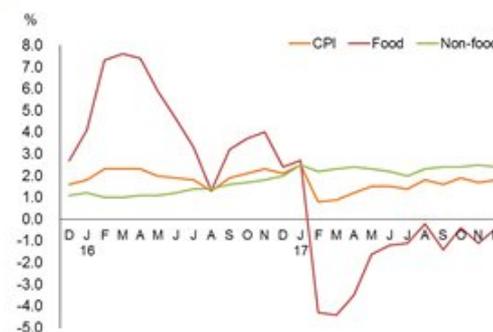


Fixed assets investment is one of the major driving forces of the economy. In 2015, fixed assets investment grew by 10.2%. In 2016, it grew by 8.1%. In Jan-Dec 2017, fixed assets investment grew by 7.2%, flat from 7.2% in Jan-Nov 2017.

Added-value of Industrial Output Growth



Change in CPI



Added-value of industrial output (by large enterprises with annual sales exceeding RMB20 million) grew by 6.1% and 6% respectively in 2015 and 2016. In Jan-Dec 2017, added-value of industrial output grew by 6.6% with foreign-invested enterprises grew by 6.9%.

In 2015, consumer price index (CPI) increased by 1.4% with food prices up by 2.3% and non-food prices up by 1%. In 2016, CPI went up by 2% with food prices up by 4.6% and non-food prices up by 1.4%. In Jan-Dec 2017, CPI went up by 1.6% with food prices dropped by 1.4% and non-food prices up by 2.3%.

In 2015, retail sales grew by 10.7% (real growth at 10.6%). In 2016, retail sales increased by 10.4% (real growth at 9.6%). In Jan-Dec 2017, retail sales increased by

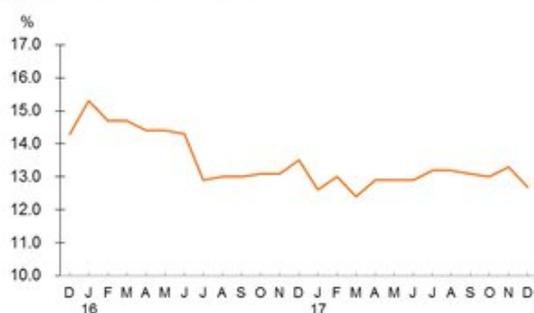


10.2% with sales of household electrical appliances growing at 9.3%, garments & footwear at 7.8%, furniture at 12.8%, jewellery at 5.6% while automobiles at 5.6%.

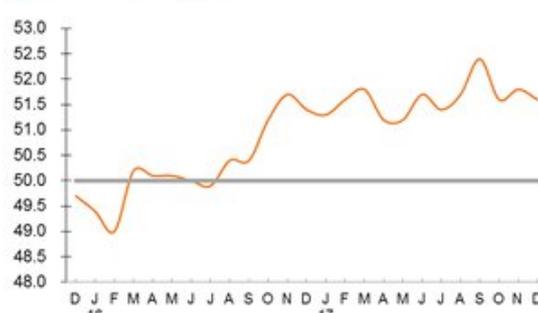
China's Manufacturing Purchasing Managers' Index (PMI) (compiled by China Federation of Logistics & Purchasing and China Logistics Information Centre) down from 51.8 in November 2017 to 51.6 in December 2017.

Money supply - total loan grew at 12.1% in December 2017, down from 12.6% in November 2017. The growth rate of RMB loans grew at 12.7% in December 2017, down from 13.3% in November 2017..

Growth of the RMB Loans



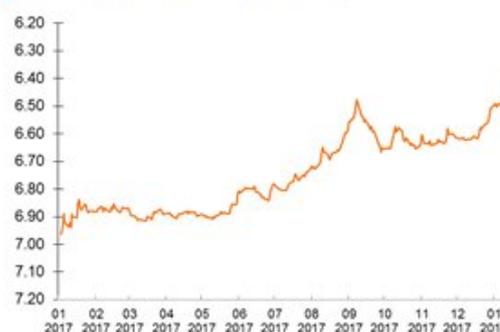
Manufacturing PMI



China's non-state sector expands rapidly and experiences healthy development in recent years. The status and economic contribution of private enterprises received official recognition in the 9th National People's Congress held in March 1999. By the end of 2016, there were 23.09 million private-owned enterprises (comparing to 845,520 at end-2010).

Beginning 21 July 2005, China reformed the Renminbi (RMB) exchange rate regime by moving into a managed floating exchange rate system with reference to a basket of currencies, and the exchange rate of RMB was re-valued to 8.11 per US dollar on 21 July 2005. On 21 May 2007, the floating band of RMB against the US dollar was enlarged from 0.3% to 0.5% around the central parity published by PBOC on each working day. On 16 April 2012, the floating band was expanded to 1% and since 17 March 2014, the floating band has been further expended to 2%. As PBOC modified the RMB exchange rate fixing mechanism, on 13 August 2015, the exchange rate of RMB depreciated to 6.3982 per US dollar from 6.2083 on 10 August 2015. On 16 January 2018, the exchange rate per US dollar stood at 6.4447.

RMB Against the US\$ (RMB/US\$)



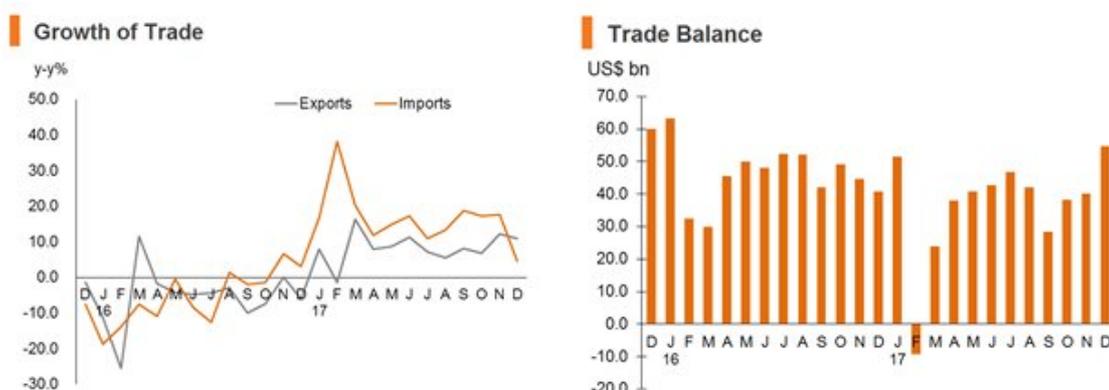
China's foreign exchange reserves stood at US\$3,139.9 billion by the end of December 2017, the largest in the world. Foreign debts amounted to US\$1,420.7 billion at the end



of 2016, of which 39% was medium- or long-term debts and 61% was short-term debts. The debt service ratio stood at 6% in 2016.

Foreign Trade and Investment

In 2016, China's total external trade reached US\$3,685 billion, China's exports and imports dropped by 7.7% and 5.5% (in terms of US\$) respectively, resulting in a trade surplus of US\$509.9 billion.



The share of export-processing trade is declining in recent years. Export-processing trade accounted for 51% of China's total exports in 2007, but dropped to 34% in 2017. In 2017, exports of processing trade increased by 6.2%.

In 2016, exports of electrical and electronic products dropped by 7.7% (In US\$ terms), exports of garment and footwear dropped by 9.6% and 12.1% respectively. In Jan-Dec 2017, exports of electrical and electronic products grew 9.3% (In US\$ terms), exports of footwear grew by 2.0% while exports of garment dropped by 0.4%.

In 2017, China's top ten export markets were US, Hong Kong, Japan, South Korea, Germany, Vietnam, India, Netherlands, UK and Singapore. China's total exports with these ten economies together accounted for about 58.7% of China's total exports in 2017.

In 2016, exports of foreign-invested enterprises (FIEs) declined by 8.7%, accounting for 43.7% of China's total exports, and imports dropped by 7%, representing 48.5% of China's total imports.

By the end of 2016, China approved a cumulative of 864,304 foreign investment projects, with actual utilised overseas FDI amounting to US\$1,765.5 billion. The leading sources of investment included Hong Kong, Taiwan, Japan, Singapore, the US, South Korea, UK and Germany.

In 2015, FDI made by Chinese enterprises in overseas markets stood at US\$145.7 billion



(+18.3%). In 2016, China's outward FDI grew by 34.7% to US\$196.2 billion, ranked as the second largest source after the US. As at end-2016, China's stock of outward FDI reached US\$1,357.4 billion, ranked the sixth in the world. Business services (mainly investment holdings), financial services, wholesale and retail, mining and manufacturing are the leading sectors of China's outward FDI..

Economic Relations with Hong Kong

The Chinese mainland and Hong Kong signed the *Closer Economic Partnership Arrangement (CEPA)* on 29 June 2003 and supplemented with further liberalisation measures in subsequent years. At present, all products of Hong Kong origin can be imported into the mainland tariff free under *CEPA*. For products which have no agreed *CEPA* rules of origin at present, Hong Kong will initiate discussions with the mainland twice a year upon requests by local manufacturers. Hong Kong service suppliers enjoy preferential treatment in entering into the mainland market in various service areas. There are also agreements or arrangements on mutual recognition of professional qualification. On 18 December 2014, the *Agreement on Achieving Basic Liberalization of Trade in Services in Guangdong* was signed and to be implemented on 1 March 2015. The *Agreement* adopts a hybrid approach of positive and negative lists to set out the liberalisation measures in the Guangdong province applying to Hong Kong. The breadth and depth of liberalisation surpass the previous measures for early and pilot implementation in Guangdong. On the basis of the *Guangdong Agreement*, the *Agreement on Trade in Services* was signed on 27 November 2015 and to be implemented on 1 June 2016, extending the geographical coverage to the whole Mainland for basic liberalisation of trade in services. In June 2017, the *Investment Agreement* and the *Agreement on Economic and Technical Cooperation (Ecotech Agreement)* were signed under the framework of *CEPA*. The *Investment Agreement* expands the market access commitments to non-services sectors and introduces obligations on investment protection. The *Ecotech Agreement* consolidates and updates the economic and technical cooperation activities between Hong Kong and the Chinese mainland.

Hong Kong's Direct Investment in the Chinese Mainland

Projects, contracted and utilised direct investment	2016		1979-2016	
	No./ Value	Share of the national total (%)	No./ Value	Share of the national total (%)
Number of approved projects	12,753	45.7	386,464	44.7
Utilised direct investment (US\$ bn)	81.5	64.7	913.7	51.8

Sources: China Monthly Statistics

Hong Kong is the largest source of overseas direct investment in the Chinese Mainland. By the end of 2016, among all the overseas-funded projects approved in the Chinese



Mainland, 44.7% were tied to Hong Kong interests. Cumulative utilised capital inflow from Hong Kong amounted to US\$913.7 billion, accounting for 51.8% of the national total. Hong Kong is also the leading destination for China's FDI outflow. According to Chinese statistics, by 2016, the stock of FDI going to Hong Kong accumulated to US\$780.7billion, or 57.5% of the total outflow of FDI.

Chinese Mainland is one of the leading sources of inward investment in Hong Kong. According to Hong Kong statistics, the stock of Hong Kong's inward investment from the Chinese mainland amounted to US\$416 billion at market value or 25.7% of the total at the end of 2016. As of December 2017, 1,051 mainland companies were listed in Hong Kong, comprising H-share, red-chip and private companies with total market capitalisation of around US\$2.9 trillion, or 66% of the market total.

Hong Kong's Trade with the Chinese Mainland [1]

Hong Kong was the Mainland's third largest trading partner (after the US and Japan) in 2017. According to China's Customs Statistics, bilateral trade between the Mainland and Hong Kong amounted to US\$286.6billion (7.0% of the Mainland's total external trade) in 2017. Of which exports from the Chinese Mainland to Hong Kong stood at US\$279.3 billion, making Hong Kong the second largest export market.

The Mainland has been Hong Kong's largest trading partner since 1985. Share of the Mainland in Hong Kong's global trade jumped from 9.3% in 1978 to 50.8% in 2016. The Chinese Mainland was Hong Kong's largest import source accounting for 47.8% of Hong Kong's total imports, and the largest export market accounting for 54.2% of Hong Kong's total exports in 2016.

Hong Kong's trade with the Chinese Mainland is to a large extent related to outward processing activities. In 2016, 27.6% of Hong Kong's total exports to the Chinese Mainland were related to outward processing activities. Meanwhile, 39.4% of Hong Kong's imports from the Mainland and 70.7% of Hong Kong's re-exports of the Mainland origin to all countries were related to outward processing.

Hong Kong's Trade with the Chinese Mainland



Unit (US\$ million)	2016			Jan–Nov 2017		
	Value	Growth (+/-,%)	Ranking	Value	Growth (+/-,%)	Ranking
Total exports	249,163	0.4	1	244,995	9.1	1
Domestic exports	2,380	-9.2	1	2,035	-6.0	1
Re-exports	246,783	0.5	1	242,960	9.2	1
Imports	245,748	-3.4	1	235,237	6.1	1
Total Trade	494,910	-1.5	1	480,232	7.6	1
Trade Balance	3,415	—	—	9,758	—	—

Sources: Census & Statistics Department of Hong Kong

[1] Since offshore trade has not been captured by ordinary trade figures, these numbers do not necessary reflect the total business managed by Hong Kong companies.

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