



World Economic Trends I <The 2019 Spring/Summer Report>

- Continuing U.S.-China Trade Tension and
Growing Uncertainty -

(Summary)

July 2019

Cabinet Office

Government of Japan

Contents

- Chapter 1 Effects of continuing U.S.-China trade tension ...P2
 - Section 1: Continuing U.S.-China trade tension
 - Section 2: Effects of U.S.-China trade tension

- Chapter 2 Economic Trends in Major Regions ...P7
 - Section 1: World Economy
 - Section 2: U.S. Economy
 - Section 3: Chinese Economy
 - Section 4: European Economy

About “World Economic Trends”

This report, published semi-annually since 2002, surveys and analyses the trend of the world economy. This is the 35th issue.

Chapter 1 Effects of continuing U.S.-China trade tension (i)

1. Current state of U.S.-China trade tension

(1) Additional tariff measures by U.S. and China (U.S.)

(China)

(2) What happened in H1 2019

| Date for imposing additional tariffs | What to do | Examples of items subject to tariffs |
|--|---|---|
| List 1 July 6, 2018 | Additional 25% tariffs on \$34 billion worth of goods | Industrial machines Electronic parts |
| List 2 Aug 23, 2018 | Additional 25% tariffs on \$16 billion worth of goods | Plastic products Integrated circuits |
| List 3 Sep 24, 2018 May 10, 2019 | Additional 10% tariffs & additional 25% tariffs on \$200 billion worth of goods | Food products Furniture |
| List 4 Not implemented for the time being | Up to additional 25% tariffs on \$300 billion worth of goods | Mobile phones Laptop computers |

| Date for imposing additional tariffs | What to do | Examples of items subject to tariffs |
|---------------------------------------|--|---|
| List 1 Jul 6, 2018 | Additional 25% tariffs on \$34 billion worth of goods | Agricultural products like soybeans, cars, fishery products |
| List 2 Aug 23, 2018 | Additional 25% tariffs on \$16 billion worth of goods | Chemical products, medical facilities, energy products, cars |
| List 3 Sep 24, 2018 Jun 1, 2019 | Additional 5 - 10% tariffs & additional 5 - 25% tariffs on \$60 billion worth of goods | Liquefied natural gas, food products & beverages, electrical products, auto parts |

Jan 2019 – Ministerial and vice-ministerial level meetings were held

May U.S. increased the rate of additional duty for the products on List 3 and published a draft List 4 of items subject to tariffs

June China increased the rate of additional duty for the products on List 3

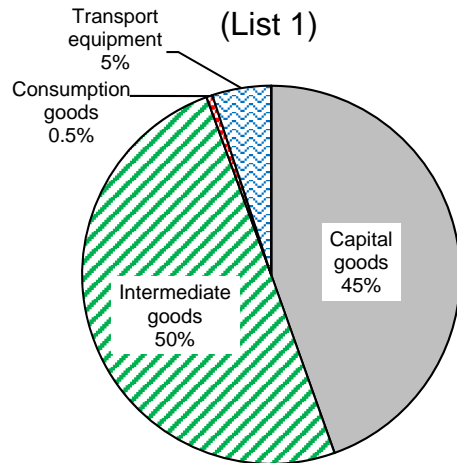
End of June U.S.-China Summit

- Confirmed the continuation of U.S.-China trade talks
- President Trump announced that he had no intention of implementing the List 4 of tariff measures for the time being

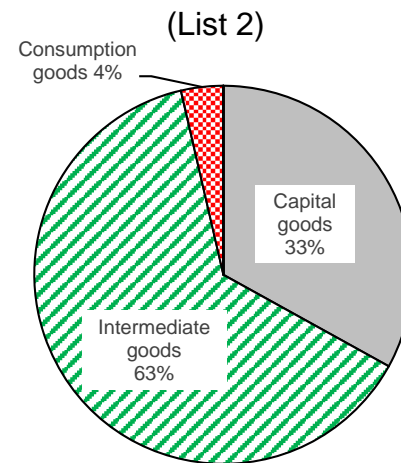
2. Breakdown of additional tariff measures by U.S.

[Component ratio of items subject to additional tariff measures]

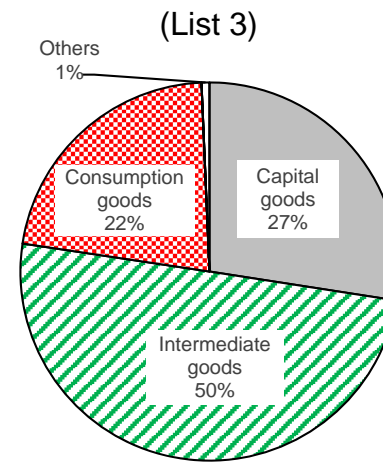
| | List 1-3 | List 1-4 |
|---|--------------|--------------|
| Capital goods | 30% | 39% |
| Intermediate goods | 51% | 32% |
| Consumption goods | 18% | 29% |
| Dependency on imports from China | 15.7% | 23.2% |



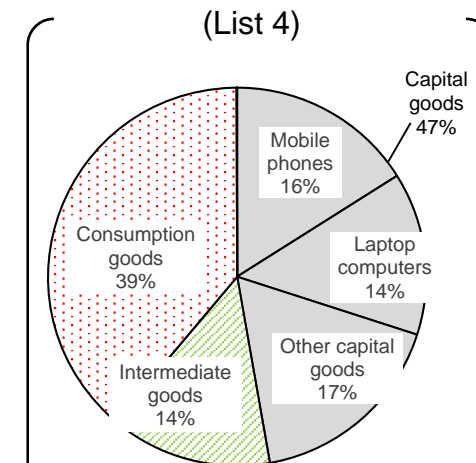
Dependency on imports from China: 6.2%



Dependency on imports from China: 12.5%



Dependency on imports from China: 20.5%



Dependency on imports from China: 42.0%

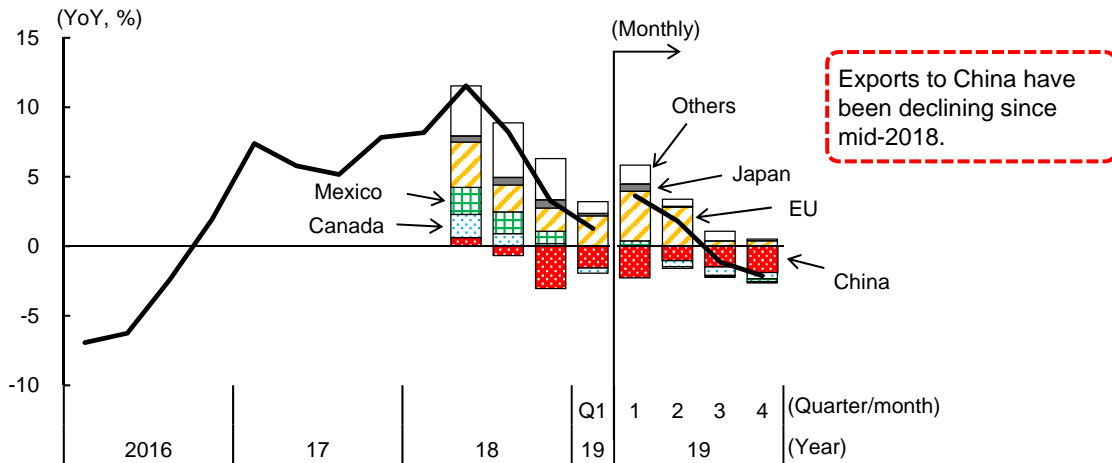
(* Dependency on imports from China = Ratio of imports from China to imports of items subject to U.S. additional tariff measures)

(Notes) 1. Adapted from U.S. Department of Commerce, USTR, Customs Tariff Commission of the State Council of China, and UN.
2. Breakdown of additional tariff measures is estimated in value terms by Cabinet Office.

Chapter 1 Effects of continuing U.S.-China trade tension (ii)

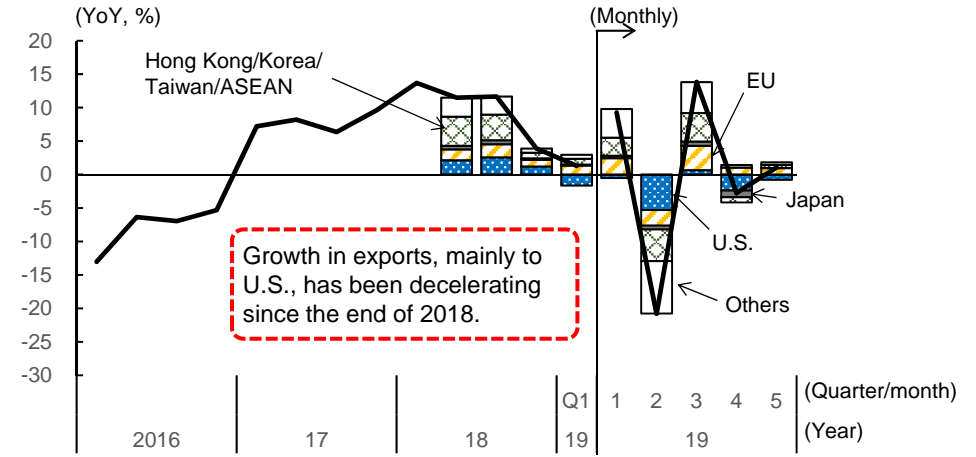
3. Effects of U.S.-China trade tension on exports by U.S. and China

(1) Trends in U.S. exports by country



(Note) Adapted from U.S. Department of Commerce.

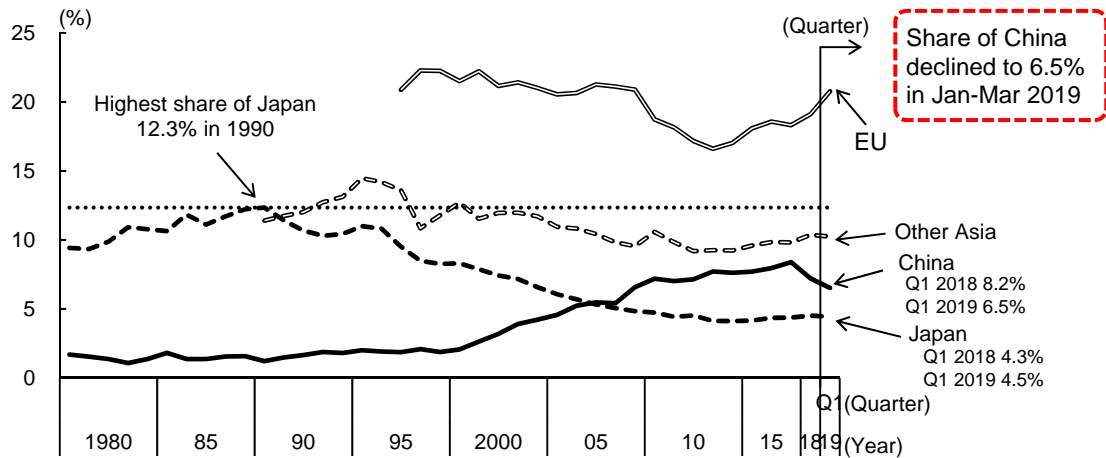
(2) Trends in China's exports by country



(Notes) 1. Adapted from General Administration of Customs of the People's Republic of China.
2. Spring festival (aka the Chinese New Year) falls on Feb 4 to 10, 2019 (Feb 15 to 19, 2018). Value-added tax rates started to be lowered in April 2019.

4. Shrinking trade between U.S. and China

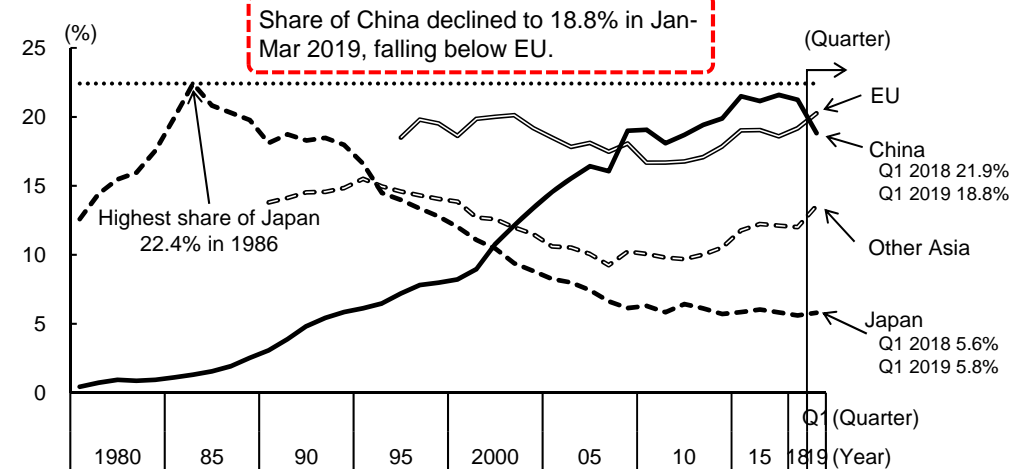
(3) Share of China in U.S. exports



(Notes) 1. Adapted from U.S. Department of Commerce.

2. Other Asia shows the total share of ASEAN, Taiwan and Korea. Other Asia is not seasonally adjusted for Q1 2019.

(4) Share of China in U.S. imports



(Notes) 1. Adapted from U.S. Department of Commerce.

2. Other Asia shows the total share of ASEAN, Taiwan and Korea. Other Asia is not seasonally adjusted for Q1 2019.

Chapter 1 Effects of continuing U.S.-China trade tension (iii)

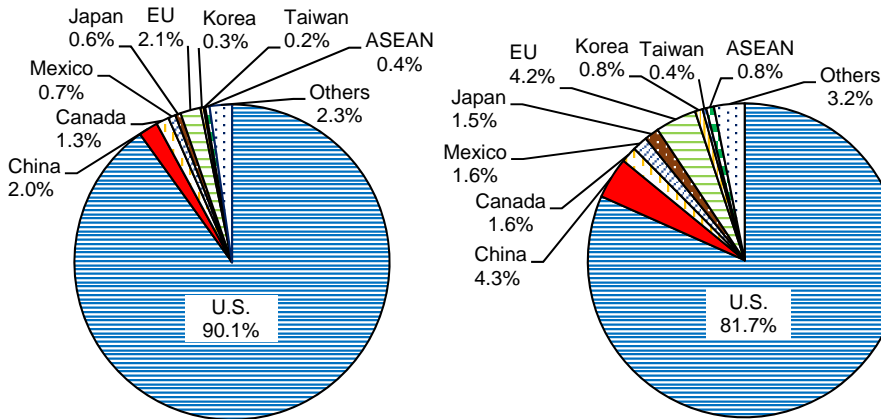
5. Interdependence in trade between U.S. and China (Exports to China from U.S.)

(1) Share of value added in U.S. exports to China by country and region (2015)

(All exports)

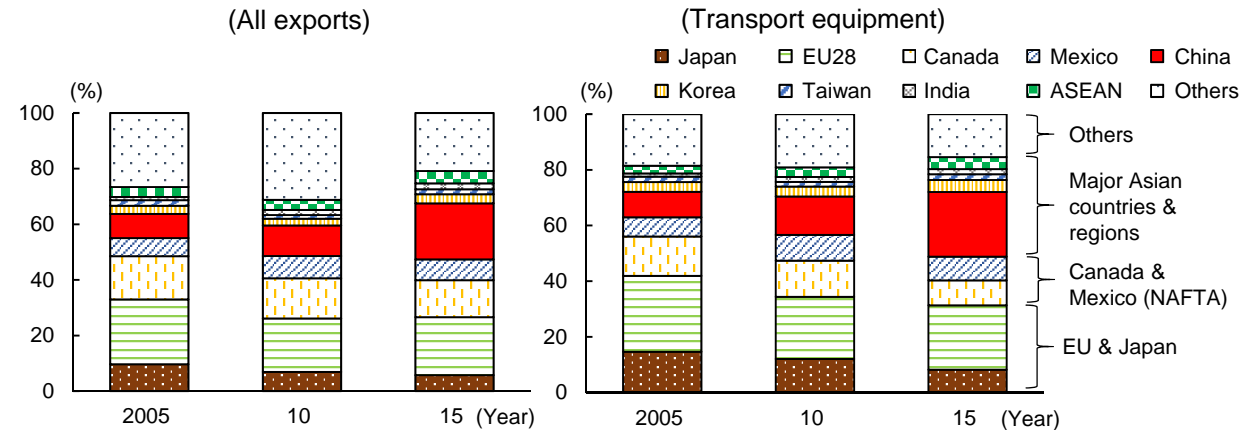
(Transport equipment)

About 10% of all exports and about 20% of transport equipment exports are foreign value added.



(2) Share of value added in U.S. exports to China by country and region (from 2005 to 2015)

China's share of value added from overseas expanded. U.S. additional tariff measures against China will also likely affect U.S. exports to China.



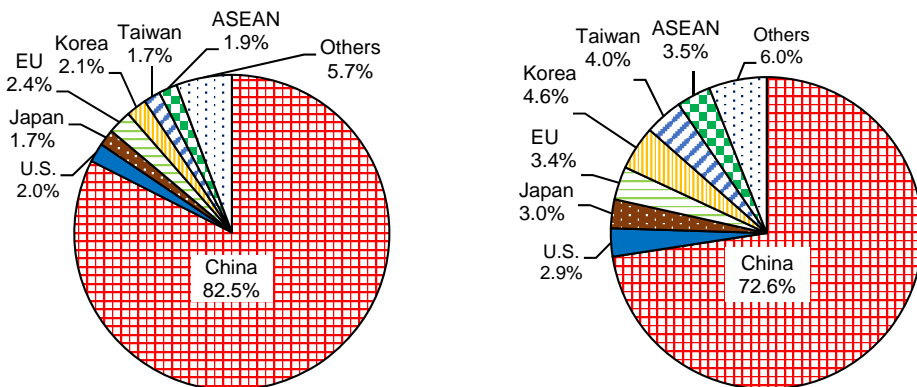
6. Interdependence in trade between U.S. and China (Exports to U.S. from China)

(3) Share of value added in China's exports to U.S. by country and region (2015)

(All exports)

(Computers and electrical & electronic equipment)

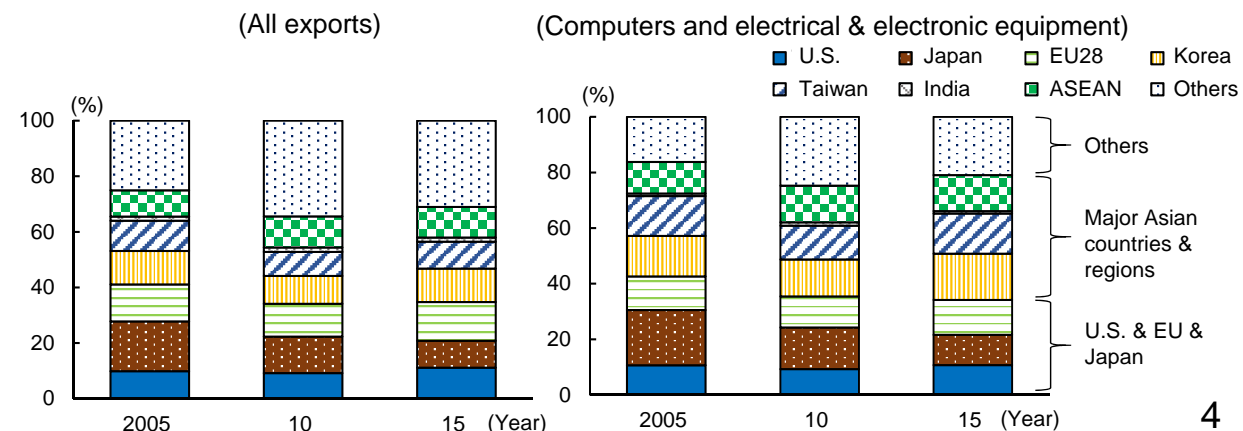
About 20% of all exports and about 30% of computers, etc. are foreign value added.



(Note) Adapted from OECD Stat.

(4) Share of value added in China's exports to U.S. by country and region (from 2005 to 2015)

Many foreign value-added items are from major Asian countries & regions. U.S. additional tariff measures against China will very likely affect exports to China from major Asian countries & regions.

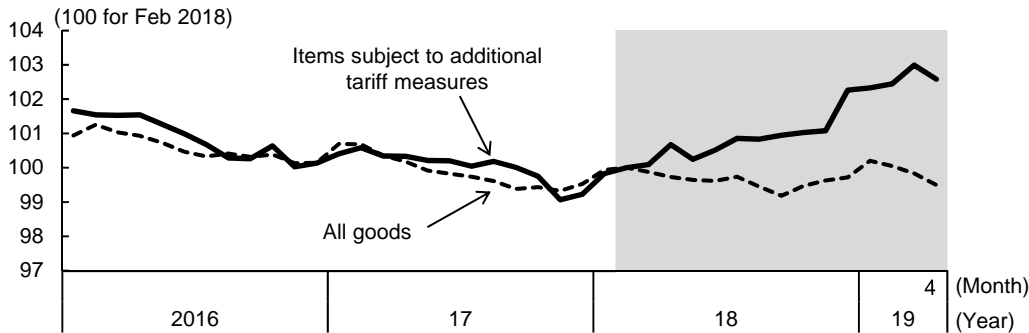


Chapter 1 Effects of continuing U.S.-China trade tension (iv)

7. Effect on prices in U.S.

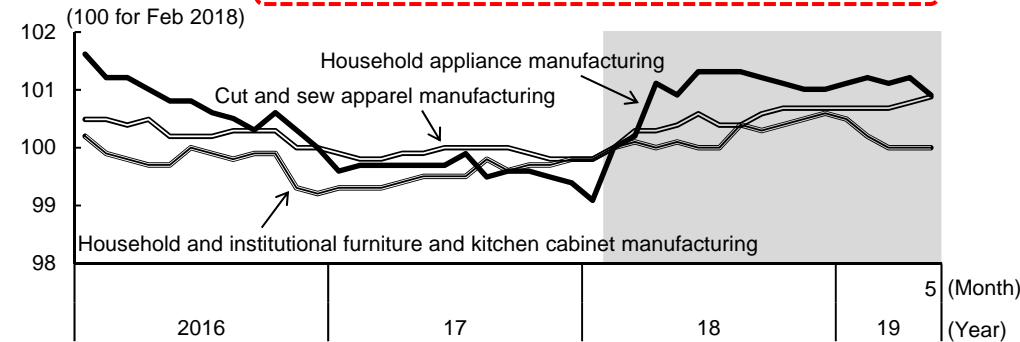
(1) Consumer prices

There has been no effect on overall consumer prices.



(2) Prices of goods imported from China (excluding custom duties)

Prices of items subject to additional tariff measures have not declined. China apparently has no intention of lowering prices.



(Notes) 1. Adapted from U.S. Department of Labor.

2. The shaded area shows changes in consumer prices after the safeguard was imposed on solar panels and large-size washing machines for household use in Feb 2018.

3. Items subject to additional tariff measures in the left graph, quoted by Goldman Sachs (2019), are based only on the goods whose consumer price index rose after the implementation of additional tariff measures. Household appliance manufacturing, cut and sew apparel manufacturing, and household and institutional furniture and kitchen cabinet manufacturing in the right graph are goods which are subject to additional tariff measures and whose consumer price index rose after the implementation of additional tariff measures.

8. U.S. tariff revenue and discussion over who pays tariffs

(3) Tariff revenue

Increased after the implementation of additional tariff measures.



(Note) Adapted from U.S. Department of Treasury.

(4) Discussion over who pays tariffs

Concerns are growing in U.S. over who pays tariffs after the U.S. government announced further additional tariff measures.

[Arguments by U.S. enterprises and industrial organizations]

- Due to few alternative suppliers, it is impossible to import from other countries.
- **High costs have to be passed on to consumers.**

[Response from U.S. consumers]

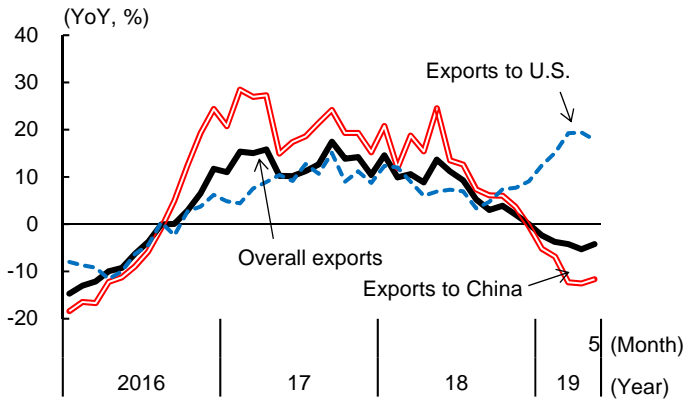
- An increase in the number of people talking about tariffs as a factor behind the worsening of business confidence shows that **they have begun to consider who pays tariffs.**

Chapter 1 Effects of continuing U.S.-China trade tension (v)

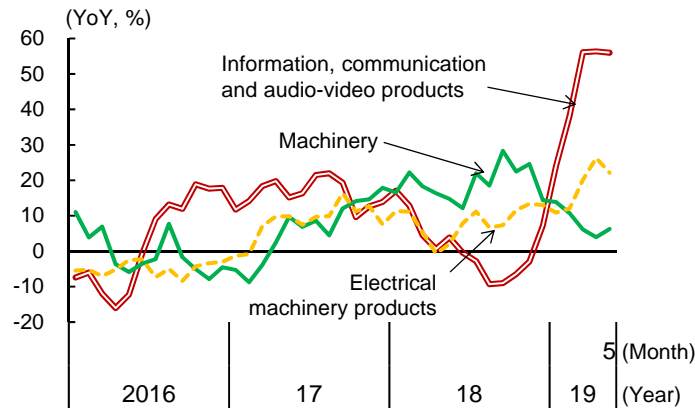
9. Changes in Taiwan's Exports and Imports

(1) Exports to U.S. and China

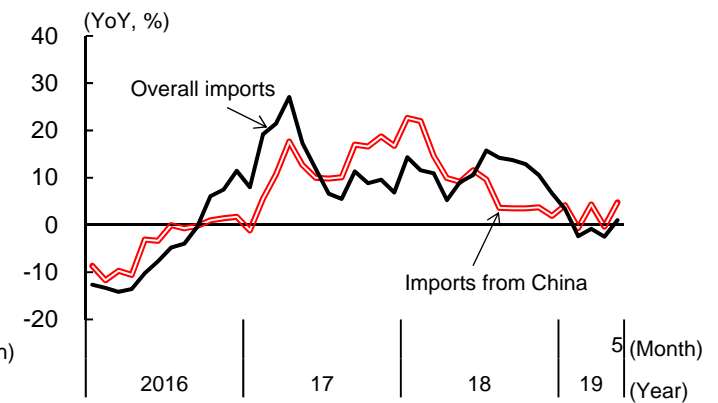
Growth in exports to China has declined, but exports to U.S. have increased rapidly, showing a possible shift in export destinations.



(2) Breakdown of exports to U.S.



(3) Imports from China

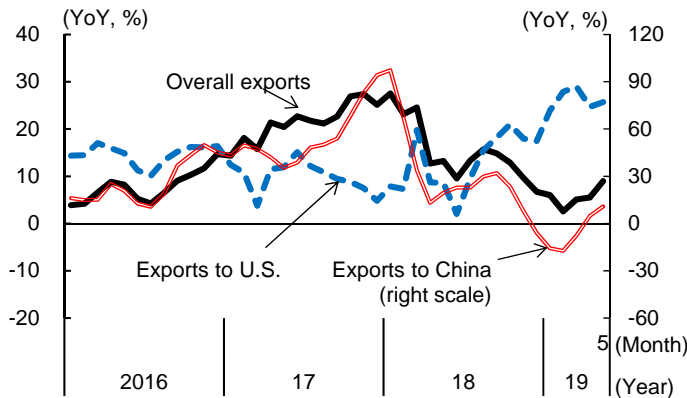


(Notes) 1. Adapted from Ministry of Finance, Taiwan
2. 3-month moving averages

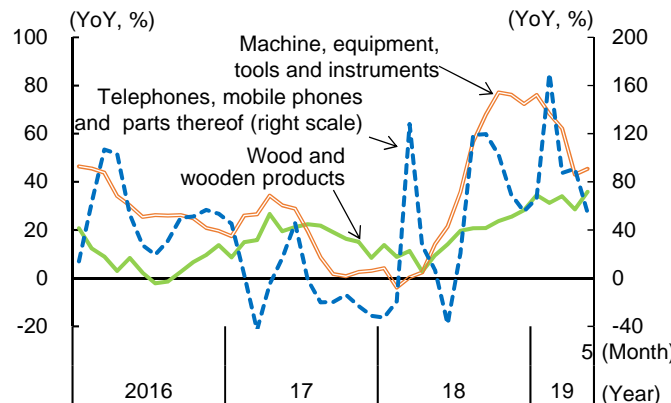
10. Changes in Vietnam's Exports and Imports

(1) Exports to U.S. and China

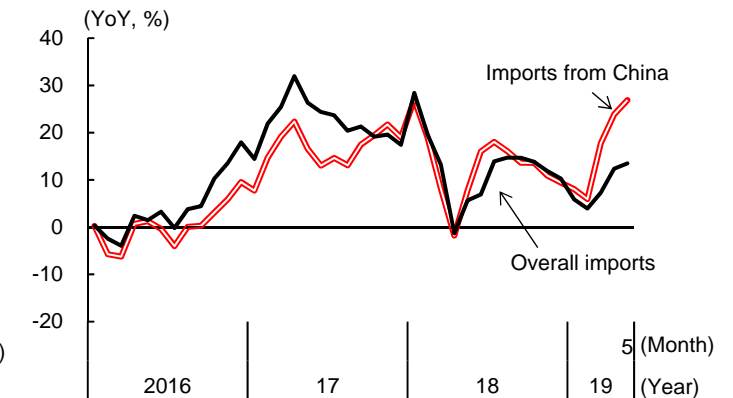
Growth in exports to China has slowed down, but exports to U.S. have increased rapidly, showing a possible shift in export destinations. On the other hand, imports from China have also increased.



(2) Breakdown of exports to U.S.



(3) Imports from China



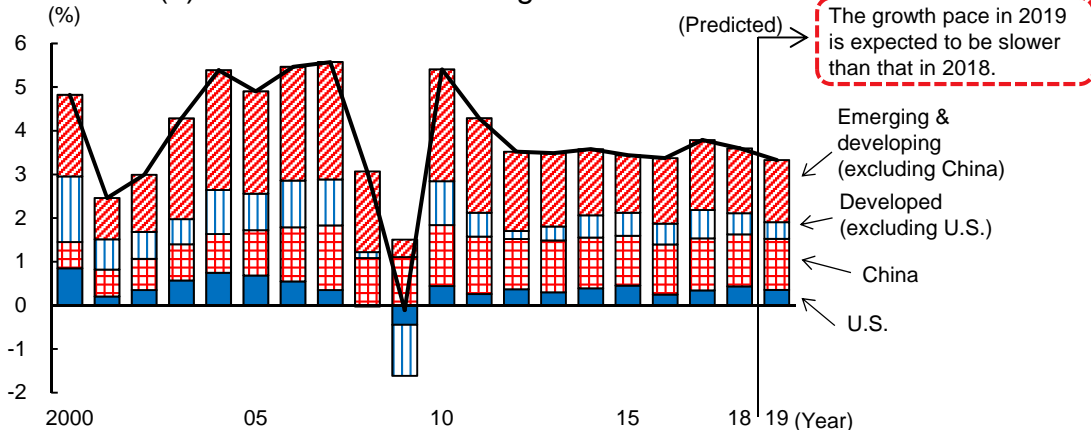
(Notes) 1. Adapted from General Department of Vietnam Customs.
2. 3-month moving averages

Chapter 2 Economic Trends in Major Regions (World economy)

The world economy has been recovering moderately on the whole. The growth pace in 2019 has been slower than that in 2018, but the growth pace is expected to recover in 2020. Crude oil prices have fallen since May 2019 but are rising against a backdrop of increasing tensions in the Middle East.

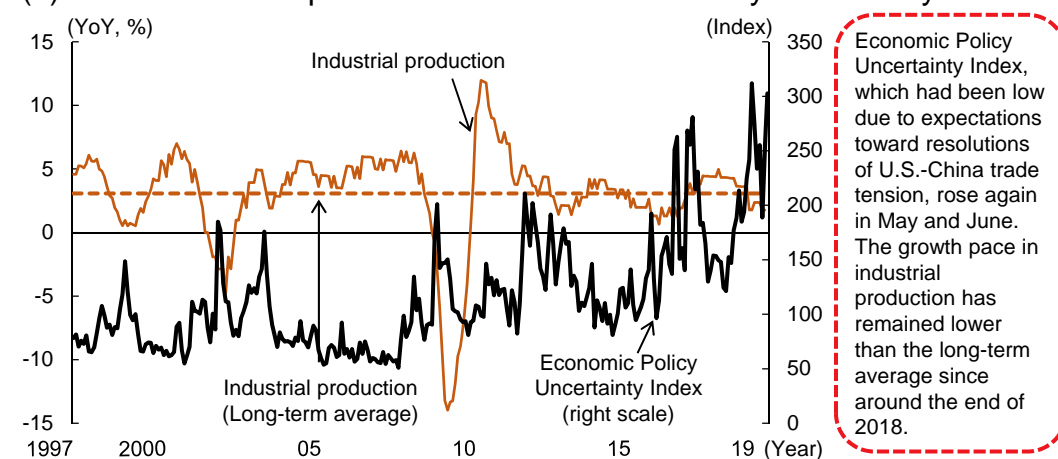
1. Characteristics in current economic conditions

(1) Global real economic growth rate



- (Notes)
- Adapted from "World Economic Outlook Database, April 2019" by IMF. Figures for 2019 are predicted.
 - 39 developed countries and 155 emerging & developing countries are classified according to IMF classification.
 - Contribution of each country and region is estimated based on its weight in the previous year's nominal GDP.

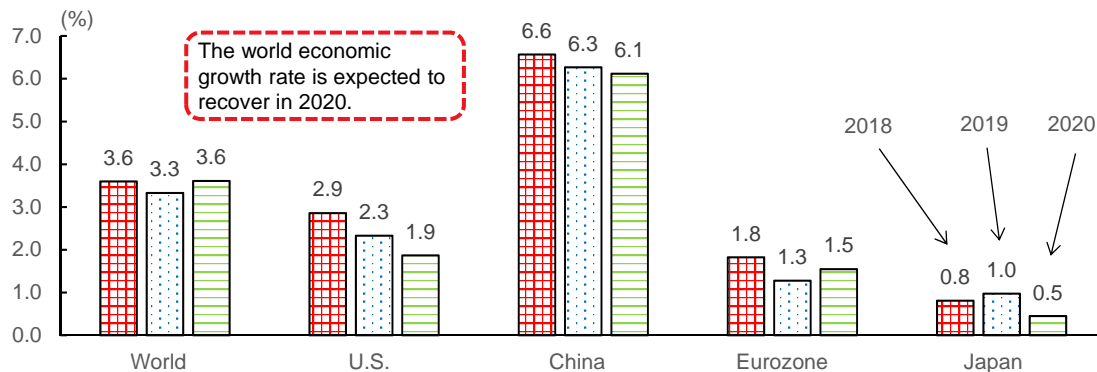
(2) Global industrial production and Economic Policy Uncertainty Index



- (Notes)
- Adapted from Economic Policy Uncertainty created by World Bank.
 - Long-term averages of industrial production are average values between Jan 1997 and May 2019.

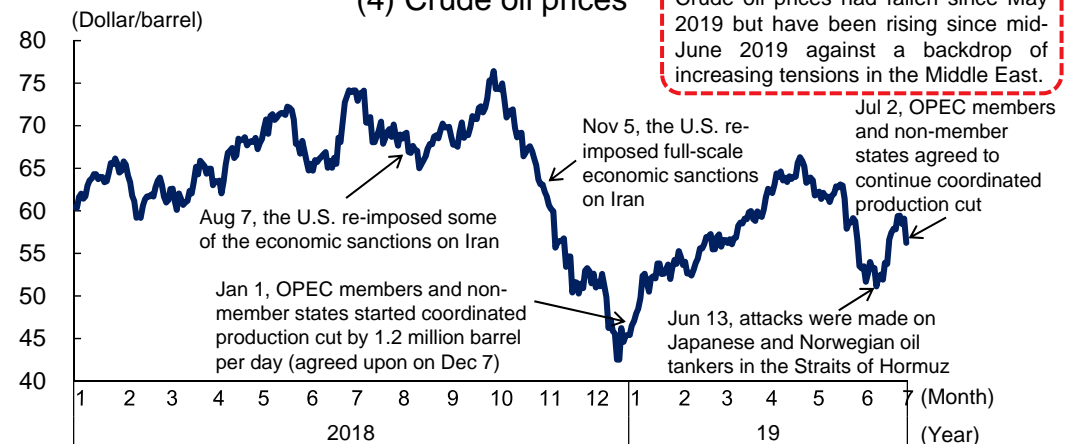
2. Outlook for world economic growth and crude oil prices

(3) Outlook for world economic growth



- (Note) Adapted from "World Economic Outlook, April 2019" by IMF. Figures for 2018 are actual and those for 2019 and 2020 are predicted.

(4) Crude oil prices



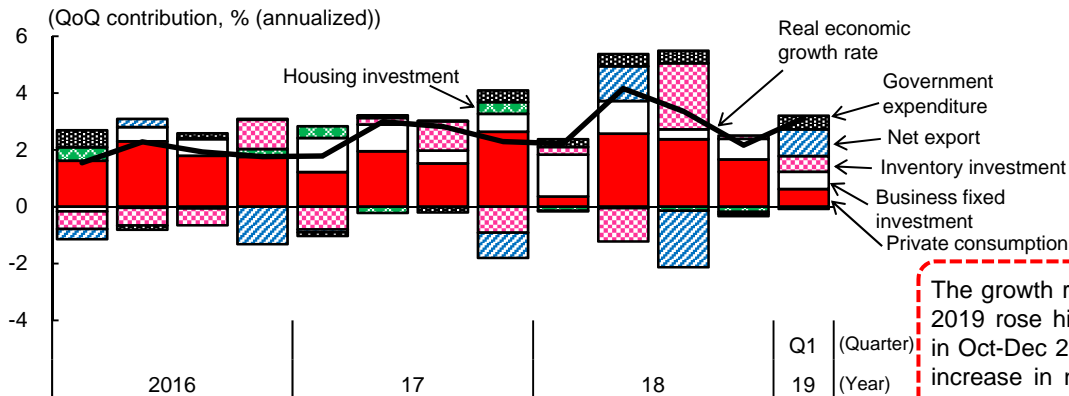
- (Notes)
- Adapted from Bloomberg.
 - Crude oil prices are WTI futures prices.

Chapter 2 Economic Trends in Major Regions (U.S. economy)

The U.S. economy has been continuing its long-term economic recovery for about ten years since the global financial crisis, on the back of robust employment and income conditions. FRB has left interest rates unchanged since January 2019 after raising interest rates several times in 2018. It is necessary to pay close attention to rising debt in the corporate sector.

1. Current state of U.S. economy

(1) Real economic growth rate



(Note) Adapted from U.S. Department of Commerce.

The growth rate in Jan-Mar 2019 rose higher than that in Oct-Dec 2018, due to an increase in net export and inventory investment.

(2) Length of recovery

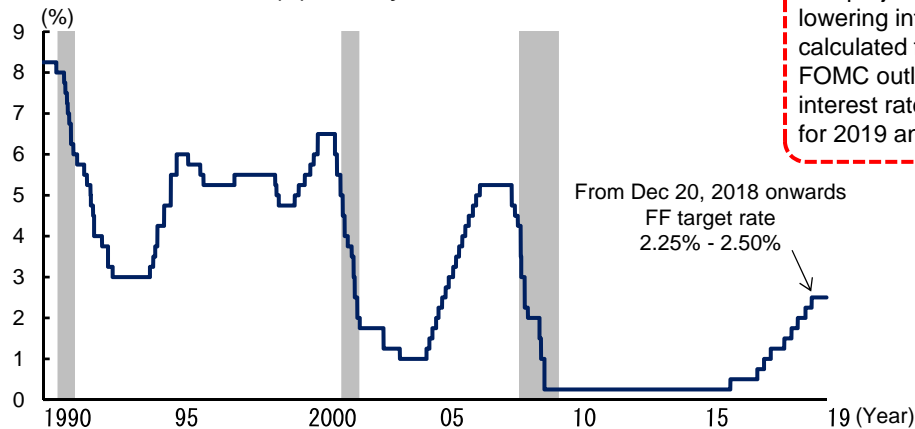
| Ranking | Months | (Trough) | (Peak) |
|---------|--------|----------|----------|
| 1st | 120 | Mar 1991 | Mar 2001 |
| 2nd | 106 | Feb 1961 | Dec 1969 |
| 3rd | 92 | Nov 1982 | Jul 1990 |

| | | | |
|----------------------|--------------------------------|-----------------|--|
| Current phase | 121 (as of Jul 2019) | Jun 2009 | — Expected to be the longest recovery |
|----------------------|--------------------------------|-----------------|--|

(Note) Adapted from National Bureau of Economic Research (NBER).

2. Movements in policy interest rates and corporate debt

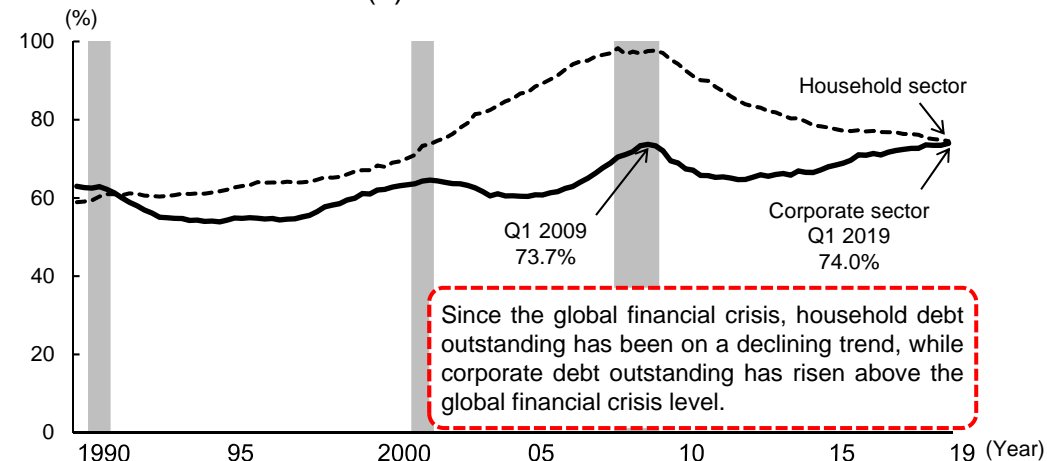
(3) Policy interest rates



(Notes) 1. Adapted from FRB.
2. Policy interest rate is FF (Federal Funds) target rate. FF rate has been incremented or decremented by 0.25% points since Dec 2008. The graph shows the upper limit.
3. Shaded are phases of recession & depression.

The projected frequency for lowering interest rates calculated from the June FOMC outlook for policy interest rates (median) is zero for 2019 and once for 2020.

(4) Debt-to-GDP ratio



(Notes) 1. Adapted from FRB and U.S. Department of Commerce.
2. Shaded are phases of recession & depression.

Since the global financial crisis, household debt outstanding has been on a declining trend, while corporate debt outstanding has risen above the global financial crisis level.

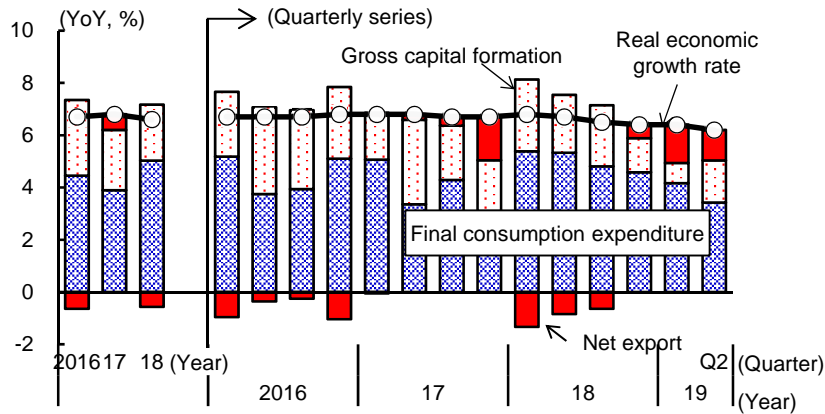
Chapter 2 Economic Trends in Major Regions (Chinese economy)

The Chinese economy has slowed down moderately. With domestic and overseas demand slowing, manufacturing investment has fallen sharply, and industrial production has been on a declining trend in 2019. On the other hand, loans, mainly bank loans, have increased against a backdrop of monetary easing.

1. Trends in Chinese economy (i)

(1) Real economic growth rate

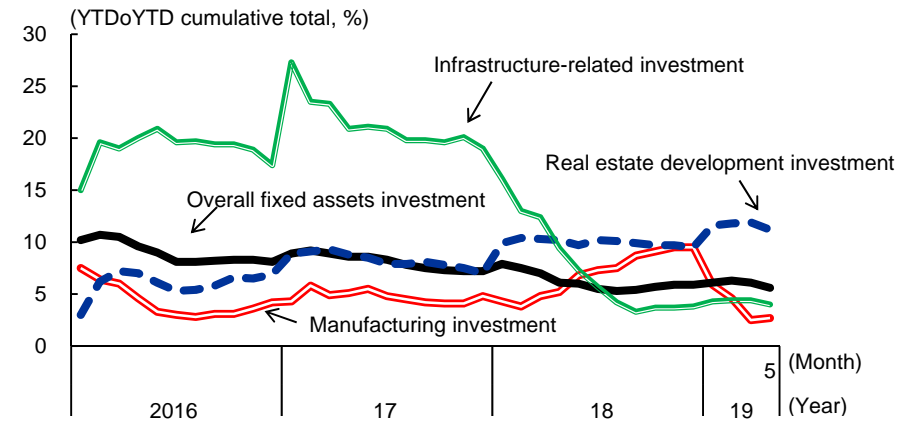
Growth rate in 2018 fell gradually. Targeted economic growth rate for 2019 has been lowered to 6–6.5% from around 6.5%.



(Note) Adapted from National Bureau of Statistics of China.

(2) Fixed assets investment

In early 2019, manufacturing investment fell sharply.

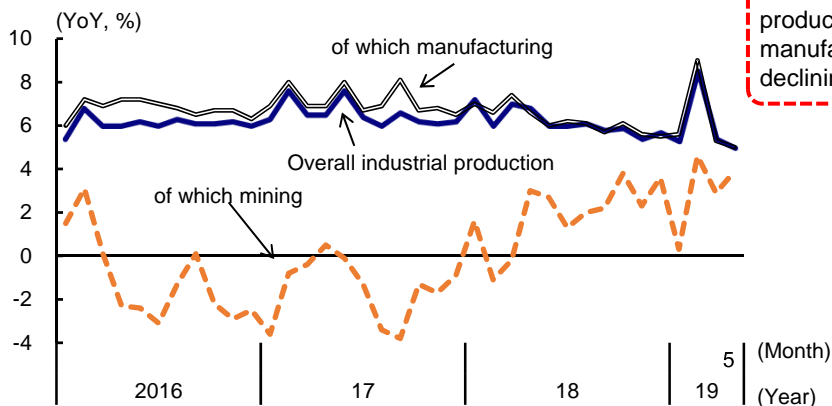


(Note) Adapted from National Bureau of Statistics of China.

2. Trends in Chinese economy (ii)

(3) Industrial production

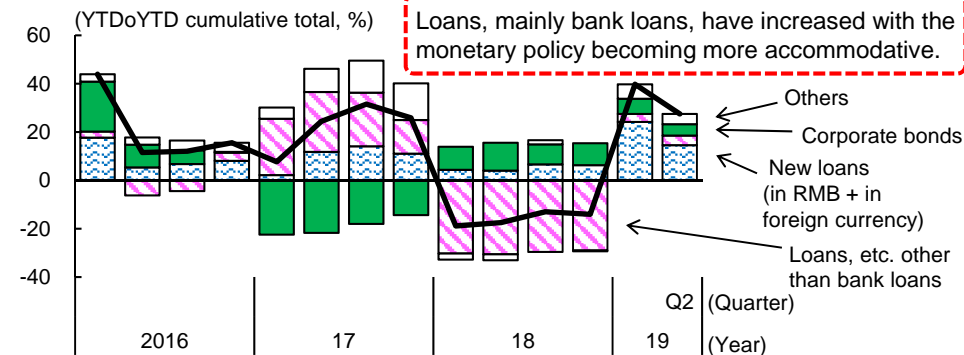
Growth in industrial production, mainly in manufacturing, is on a declining trend.



(Notes) 1. Adapted from National Bureau of Statistics of China.
2. Value-added tax rates started to be lowered in April 2019.

(4) Financing breakdown of the non-financial sector (Flow)

Loans, mainly bank loans, have increased with the monetary policy becoming more accommodative.



(Notes) 1. Adapted from "Statistics on aggregate financing to the real economy" by the People's Bank of China.
2. Loans, etc. other than bank loans, are calculated by adding together entrusted loans, trust loans and undiscounted bankers' acceptances.
3. Q2 2019 shows the cumulative total from January to May.

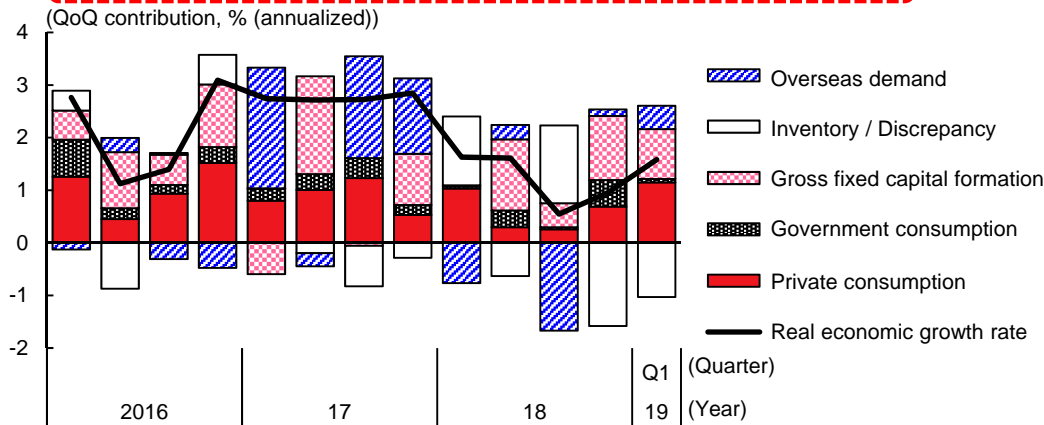
Chapter 2 Economic Trends in Major Regions (European economy)

The Eurozone economy has recovered moderately, mainly in domestic demand, against a backdrop of favorable employment conditions. Exports to U.S. and China have slowed down since around the end of 2018. Due to the extension of the original Brexit date, U.K. economy has been less affected by last-minute demand and front-loaded production.

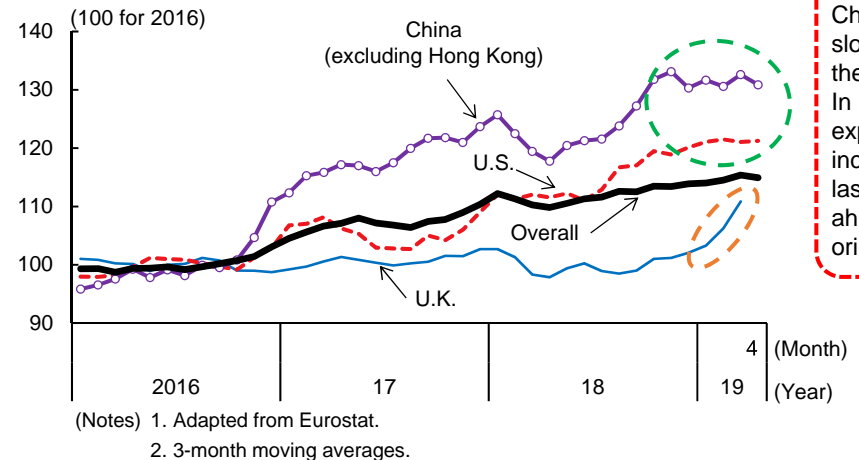
1. Trends in Eurozone economy

(1) Eurozone real economic growth rate

Domestic demand, mainly in consumption and investment, has remained firm. By contrast, overseas demand has slowed down.



(2) Eurozone export

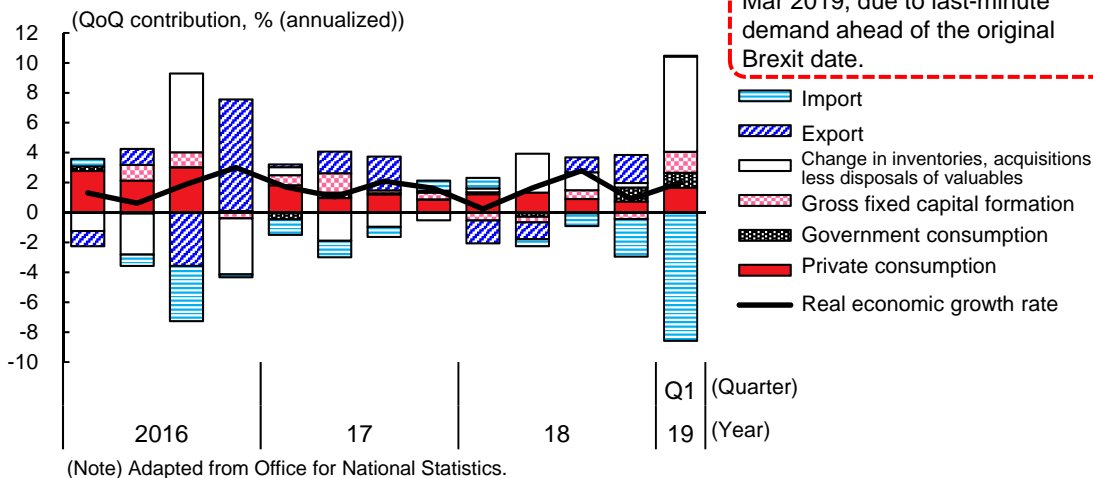


Exports to U.S. and China started to slow down around the end of 2018. In early 2019, exports to U.K. increased due to last-minute demand ahead of the original Brexit date.

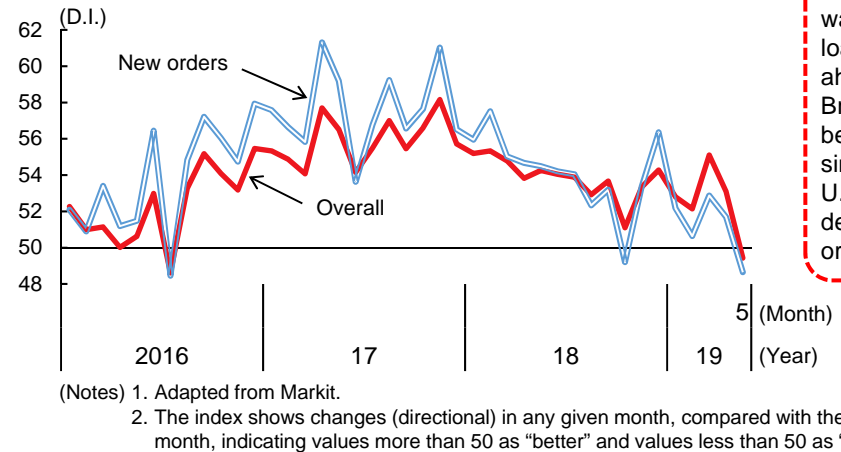
2. Trends in U.K. economy

(3) U.K. real economic growth rate

Imports and inventory accumulation increased in Jan-Mar 2019, due to last-minute demand ahead of the original Brexit date.



(4) U.K. manufacturing business confidence



In March, the business confidence was affected by front-loaded production ahead of the original Brexit date, but it has been deteriorating since April, when the U.K. government decided to extend the original Brexit date.