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

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  Section 2: U.S. Economy
  Section 3: Chinese Economy
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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.
1. Current state of U.S.-China trade tension

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

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

<table>
<thead>
<tr>
<th>Date for imposing additional tariffs</th>
<th>What to do</th>
<th>Examples of items subject to tariffs</th>
</tr>
</thead>
<tbody>
<tr>
<td>List 1</td>
<td>July 6, 2018</td>
<td>Additional 25% tariffs on $34 billion worth of goods</td>
</tr>
<tr>
<td>List 2</td>
<td>Aug 23, 2018</td>
<td>Additional 25% tariffs on $16 billion worth of goods</td>
</tr>
<tr>
<td>List 3</td>
<td>Sep 24, 2018</td>
<td>Additional 10% tariffs &amp; additional 25% tariffs on $200 billion worth of goods</td>
</tr>
<tr>
<td>List 4</td>
<td>Not implemented for the time being</td>
<td>Up to additional 25% tariffs on $300 billion worth of goods</td>
</tr>
</tbody>
</table>

**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.

**Component ratio of items subject to additional tariff measures**

<table>
<thead>
<tr>
<th></th>
<th>List 1-3</th>
<th>List 1-4</th>
</tr>
</thead>
<tbody>
<tr>
<td>Capital goods</td>
<td>30%</td>
<td>39%</td>
</tr>
<tr>
<td>Intermediate goods</td>
<td>51%</td>
<td>32%</td>
</tr>
<tr>
<td>Consumption goods</td>
<td>18%</td>
<td>29%</td>
</tr>
</tbody>
</table>

**Dependency on imports from China**

- List 1: 6.2%
- List 2: 12.5%
- List 3: 20.5%
- List 4: 42.0%

**Transport equipment**

- List 1: 5%
- List 2: 6%
- List 3: 6%
- List 4: 11%

**Consumption goods**

- List 1: 4%
- List 2: 25%
- List 3: 25%
- List 4: 25%

**Intermediate goods**

- List 1: 50%
- List 2: 33%
- List 3: 50%
- List 4: 14%

**Other goods**

- List 1: 15%
- List 2: 15%
- List 3: 15%
- List 4: 15%

**Mobile phones**

- List 1: 16%
- List 2: 6%
- List 3: 6%
- List 4: 16%

**Laptop computers**

- List 1: 16%
- List 2: 6%
- List 3: 6%
- List 4: 16%

**Other capital goods**

- List 1: 14%
- List 2: 6%
- List 3: 6%
- List 4: 14%

**Other goods**

- List 1: 15%
- List 2: 15%
- List 3: 15%
- List 4: 15%
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

Exports to China have been declining since mid-2018.

(2) Trends in China’s exports by country

Growth in exports, mainly to U.S., has been decelerating since the end of 2018.

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

Share of China declined to 6.5% in Jan-Mar 2019

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

Share of China declined to 18.8% in Jan-Mar 2019, falling below EU.
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*

- U.S.: 90.1%
- China: 81.7%
- Japan: 4.3%
- EU: 4.2%
- Other Asian countries & regions: 6.0%

*Transport equipment*

- U.S.: 81.7%
- China: 72.6%
- Japan: 3.0%
- EU: 2.4%
- Other Asian countries & regions: 3.5%

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*

- U.S.: 92.5%
- Japan: 1.7%
- EU: 1.7%
- Other Asian countries & regions: 1.9%

*Computers and electrical & electronic equipment*

- U.S.: 72.6%
- Japan: 4.6%
- EU: 3.4%
- Other Asian countries & regions: 3.5%

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

(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.

(Note) Adapted from OECD Stat.
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.

(3) Tariff revenue
Increased after the implementation of additional tariff measures.

(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
(2) Breakdown of exports to U.S.
(3) Imports from China

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

10. Changes in Vietnam’s Exports and Imports

(1) Exports to U.S. and China
(2) Breakdown of exports to U.S.
(3) Imports from 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.
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

The growth pace in 2019 is expected to be slower than that in 2018.

(2) Global industrial production and Economic Policy Uncertainty Index

Economic Policy Uncertainty Index, which had been low due to expectations toward resolutions of U.S.-China trade tension, rose again in May and June. The growth pace in industrial production has remained lower than the long-term average since around the end of 2018.

2. Outlook for world economic growth and crude oil prices

(3) Outlook for world economic growth

The world economic growth rate is expected to recover in 2020.

(4) Crude oil prices

Crude oil prices had fallen since May 2019 but have been rising since mid-June 2019 against a backdrop of increasing tensions in the Middle East.

(Notes)
1. Adapted from “World Economic Outlook Database, April 2019” by IMF. Figures for 2019 are predicted.
2. 39 developed countries and 155 emerging & developing countries are classified according to IMF classification.
3. Contribution of each country and region is estimated based on its weight in the previous year’s nominal GDP.

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(Notes) 1. Adapted from Bloomberg.
2. 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

   (2) Length of recovery

<table>
<thead>
<tr>
<th>Ranking</th>
<th>Months</th>
<th>(Trough)</th>
<th>(Peak)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1st</td>
<td>120</td>
<td>Mar 1991</td>
<td>Mar 2001</td>
</tr>
<tr>
<td>2nd</td>
<td>106</td>
<td>Feb 1961</td>
<td>Dec 1969</td>
</tr>
<tr>
<td>3rd</td>
<td>92</td>
<td>Nov 1982</td>
<td>Jul 1990</td>
</tr>
</tbody>
</table>

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

   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.

   Expected to be the longest recovery

2. Movements in policy interest rates and corporate debt

   (3) Policy interest rates

   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.

   From Dec 20, 2018 onwards FF target rate 2.25% - 2.50%

   (Note) Adapted from FRB.

   1. Current state of U.S. economy

   1st 120 1st 120
   2nd 106 2nd 106
   3rd 92 3rd 92

   Expected to be the longest recovery

   (4) Debt-to-GDP ratio

   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.

   (Notes) 1. Adapted from FRB. 2. Shaded are phases of recession & depression.
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%.

(2) Fixed assets investment

In early 2019, manufacturing investment fell sharply.

2. Trends in Chinese economy (ii)

(3) Industrial production

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

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

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