
# China Business Weekly

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## FOREIGN TRADE

### China losing patience with Donald Trump

**The U.S.-China trade war has turned into a blame game, with each side accusing the other of backtracking – pushing talks to the brink of collapse.** According to some observers, China's strategy for dealing with the U.S. has changed amid the new tariff threat from Washington, with Beijing losing hope in U.S. President Donald Trump and seeking to steer global opinion in its favor. **Any hope of a fast resolution to the trade row faded after Trump said he would impose a 10% tariff on USD300 billion worth of Chinese imports**, because China had failed to buy American farm products. But Cong Liang, Secretary General of the National Development and Reform Commission (NDRC), called such claims about agricultural products "unwarranted accusations".

Cong said that as of August 2, China had completed purchases of 130,000 tons of soybeans, 120,000 tons of sorghum, 75,000 tons of hay, 60,000 tons of wheat, 40,000 tons of pork, and other products. Companies from both nations had signed agreements for transactions on 14 million tons of soybeans, he said. Of that total, 300,000 tons were due for shipment in September.

**U.S. President Donald Trump said on August 9 that a trade deal with China was "not ready" to be struck** – reiterating his charge that Beijing has been manipulating its currency – and injected doubt into the timeline for trade talks, which are expected to resume in September. Saying that while the U.S. was doing very well with China and that the two sides continue to talk, "we're not ready to make a deal, but we'll see what happens," Trump told reporters.

Tensions escalated, when China ordered an immediate halt to new purchases of U.S. farm products, accusing Washington of violating agreements made between Trump and Chinese President Xi Jinping in June, and the U.S. designated China a currency manipulator. "I guess that President Xi is disillusioned, and even angry. So soon after the resumption of talks, after the Shanghai negotiations, Trump declared a major escalation. This is, I think, the straw that broke the camel's back," said Shi Yinhong, Professor of U.S. Affairs at Renmin University of China. Suspending purchases of U.S. agricultural goods indicated the level of anger over the move, he added. Shi said that in the near future, there was little hope the two sides could reach an agreement that would last more than a few months. “There is so much mutual anger on the Chinese side and on the U.S. side. Not only is this becoming a protracted trade war, but it’s an escalating, protracted trade war,” he said.

Yu Yongding, a senior Chinese government adviser, said that **there were risks of a global recession** even without the U.S.-China trade war, and that the recent escalation of the conflict clearly amplifies those risks.

A day after the administration of U.S. President Donald Trump branded China a currency manipulator, China accused the U.S. of “deliberately destroying the international order with unilateralism and protectionism”, further escalating the war of words between the two countries. The People’s Bank of China (PBOC) said it “deeply regretted” the move by the U.S. and said such behavior “seriously undermined international rules” and damaged the global economy. “The responsibility of big countries is to provide the world with stability and certainty while creating conditions and opportunities for the common development of all countries,” according to an editorial in the People’s Daily newspaper. U.S. Treasury Secretary Steven Mnuchin from his side accused China of manipulating its currency “to gain unfair competitive advantage in international trade”. His department said China’s actions violated its commitment to refrain from competitive devaluation as part of the Group of 20 industrialized countries.

The U.S. action came after China allowed the yuan to weaken past the key seven-per-dollar level for the first time in more than a decade. After determining a country is a manipulator, the U.S. Treasury is required to demand special talks aimed at correcting an undervalued currency, with penalties such as exclusion from U.S. government procurement contracts. Arthur Kroeber, Founder and head of research at Gavekal Dragonomics, suggested that the U.S. Treasury’s move shows that Trump is “no longer very interested in seeking a deal” to end the trade war. Tony Nash, the CEO of research firm Complete Intelligence, said that Trump is unlikely to change trajectory at this point and that the issue is “not about the Chinese yuan in isolation”.

Most analysts said that the latest feud over China’s alleged currency manipulation would cast a pall over the next round of trade talks planned for September. “The decision to designate China as a currency manipulator is toothless and meaningless. All it means in practice is that the U.S. would have to enter into talks, lasting up to one year, with China to resolve the matter,” said Gal Luft, Co-director of the Institute for the Analysis of Global Security in Washington. “But since the two countries are already engaged in intense talks without much progress there is very little the U.S. can do. Once the new round of tariffs is introduced, the U.S. will not have many arrows left in its quiver to fire at China.” Larry Summers, former U.S. Treasury Secretary, wrote in a tweet that **the world was at “the most dangerous financial moment since the 2009 Financial Crisis** with current developments between the U.S. and China”.

Meanwhile, China is taking measures to slow down the slide of the yuan. China’s central bank will sell CNY30 billion worth of short-term yuan-denominated securities in Hong Kong on August 14, signaling its plan to absorb offshore liquidity and cushion against further depreciation of its currency versus the U.S. dollar. “It is a clear message that the PBOC is preventing the yuan from sharp devaluation, and that China does not want to materialize the yuan as a weapon this early,” said Zhou Hao, Economist at Commerzbank in Singapore. The bill issuance was seen by the market as the most efficient way to absorb offshore liquidity and dampen down speculation that would otherwise drive the yuan to depreciate faster, the South China Morning Post reports.

The International Monetary Fund (IMF) provided little or no support for U.S. President Donald Trump’s assertion that China is manipulating its currency for an unfair trade advantage. In an annual review of China’s economic policies, the IMF said Beijing actually took steps last year to prop up the value of its currency after the renminbi declined against the dollar between mid-June and early August 2018. Overall, the currency “was broadly stable” over the past year, depreciating by just 2.5% against a basket of foreign currencies used as a benchmark, the IMF said.

Despite the trade war, **China’s exports grew by 3.3% year-on-year in July, while imports fell 5.6%**, which was slower than analysts expected. China’s overall trade surplus was USD45.06 billion in July, down from USD50.98 billion in June. The overall increase in exports runs counter to expectations of a slump. According to the purchasing managers’ index (PMI) for June, for which manufacturers were asked questions about their outlook, producers were negative about new export orders. The gauge stood at 46.9 in July, slightly up from 46.3 in June, but below the 50.0 mark that signifies positivity. Exports from China to the U.S. fell yet again in July, dropping 6.5%. China is also buying fewer American goods with imports from the U..S. falling 19.1% in July, marking 11 months out of the past 12 in which China’s purchases of U.S. products fell.

## China doubles size of Shanghai FTZ to include Lingang

**China announced it expanded the Shanghai Free-Trade Zone (FTZ) - doubling its size - by adding Lingang**, an area newly reclaimed from the sea. Lingang is roughly the size of Hong Kong and is home to carmaker Tesla's first factory outside the U.S. The expansion comes after a decade of growing competition between mainland Chinese ports and Hong Kong, with Shanghai mulling plans to transform Lingang into a mini-Hong Kong free marketplace over the next two decades. The 13-month trade war with the U.S. has pushed China to show more openness to the world on trade and Chinese Vice Commerce Minister Wang Shouwen underscored Beijing's commitment to continue the process. "The expansion of the Shanghai FTZ is also an important step to demonstrate China's clear stand for all-round opening up in the new era and its active role in guiding the healthy development of economic globalization," Wang said. He added that Beijing would not hesitate to open its markets further, irrespective of developments in trade ties with other countries.

As part of that commitment, duties would be deferred or even not collected on certain products shipped through the new Lingang section, Shanghai Vice Mayor Chen Yin said. "Goods from abroad entering the fenced customs areas of the new area will be under bonded or tax exemptions," Chen said. The new Lingang section will include a fenced-in area where special tax policies will apply for goods entering from abroad, as well as goods and service transactions between companies within the area. Shanghai would also cut corporate income tax rates in Lingang from 25% to 15% for companies in preferred industries, including integrated circuits, artificial intelligence (AI), biomedicine and civil aviation. A special development fund, with more than CNY100 billion has also been set up to attract top talent and infrastructure to Lingang over the next five years.

Lingang is on the southeast tip of Shanghai and connected to the city's Yangshan deep water port by the 32 km Donghai Bridge. The area is home to Tesla's USD2 billion Gigafactory 3, which is expected to open by the end of this year and initially make about 3,000 Model 3 cars a week. Lingang was widely expected to be added to the zone after Chinese President Xi Jinping announced in November that the FTZ would be expanded to deepen economic reforms and further open up the Chinese market.

Huang Yejing, Research Professor at the Institute of World Economy at the Shanghai Academy of Social Sciences, said authorities faced the daunting task of setting up a secure customs system to ensure the success of the zone. "Customs authorities are supposed to ensure all the goods inside the zone are duty free to boost commercial activities in the area," Huang said. "But they also need to make sure that those duty-free goods do not flow out of the zone and are sold on the domestic market. It is still an unanswered question facing regulators." Chinese customs still impose duties on all goods moving through the Shanghai FTZ, the South China Morning Post reports.

The Shanghai FTZ had an area of 28.78 square kilometers when it was established in September 2013 and expanded to 120.72 sq km in December 2014. Lingang has an area of 119.5 sq km. Nearly 60,000 companies are registered in Lingang, a fifth of them with foreign investment totaling USD25 billion.

# IT & TELECOM

## Huawei launches HarmonyOS


**Huawei Technologies debuted its much-anticipated operating system – HarmonyOS**, known as Hongmeng in Chinese – **as it launched a smart display under its Honor brand**. The new smart displays come with a pop-up camera for video chat and facial recognition and allow all devices equipped with the company's self-developed HarmonyOS to interact in a seamless way, Honor President

George Zhao said. Users can share information, text notes, and conduct video chats between the smart displays and smartphones seamlessly. With a starting price tag of CNY3,799, the Honor display is equipped with the HiSilicon "Honghu 818" intelligent chipset and a smart pop-up camera for large screens, allowing the users to operate the display through voice chat and enjoy personalized features driven by artificial intelligence (AI), according to Zhao.

"Many people have stopped using TVs in the family, and we are trying to subvert the idea," Richard Yu, Huawei's Director of Mobile Devices, said at the company's developer conference in Dongguan, China. Huawei's Harmony operating system supports a range of products and systems within its own ecosystem, including smartphones, computers, tablets, TVs, cars and smart wearables. The company is also expected to launch smart displays under the Huawei band in September. **The official launch of Huawei's self-developed OS marks a milestone for the Chinese company, which is currently** affected by a U.S. trade ban and **restricted in its ability to buy** a range of American-made technology, including **Google's Android for smartphones and Microsoft's Windows operating system for personal computers**, the South China Morning Post reports.

Migrating apps from Android to the new system is relatively easy but **the company would prefer to continue using Google's Android OS on its smartphones if allowed**, Yu said during the launch of the HarmonyOS. However, "Huawei's HarmonyOS is ready for smartphones anytime," he added. Huawei plans to invest CNY10 billion in a new R&D facility that can house 30,000 to 40,000 employees. The company has 36 joint innovation centers and 14 R&D institutes around the world. It also plans to attract 20 to 30 top talents in several fields – including mathematics, semiconductors and chemistry – and pay them five times as much as their peers working for other companies.

China's 5G advancements by its biggest technology firms, including Huawei, ZTE, Tencent and Baidu, will be major attractions at the China International Fair for Investment and Trade in Xiamen from September 8 to 11. Former U.S. Commerce Secretary Carlos Gutierrez is expected to attend the fair, as well as representatives from Coca Cola, Siemens, Schneider Electric and Louis Dreyfus. Sprint Corp said it would launch a 5G smartphone made by OnePlus, becoming the second U.S. wireless carrier after T-Mobile to offer a cell phone made by the Chinese company. Sprint is already offering 5G smartphones from Taiwan's HTC and South Korean mobile makers Samsung Electronics and LG Display.

The Trump administration announced **a ban on U.S. federal agencies buying equipment and services from Chinese companies, including Huawei**, rival **ZTE**, radio systems provider **Hytera**, camera maker **Hangzhou Hikvision Digital Technology** and video surveillance products maker **Dahua Technology**, citing national security concerns. The new rule, which takes effect on August 13, is a significant step in the U.S. government's ongoing effort to crack down on Chinese technology it regards as a potential national security threat. The announcement comes a year before Congress' mandated deadline of August 2020 for all federal contractors to stop doing business with these companies. By August of next year, the administration will be required to comply with a broader and separate ban that prohibits the government from procuring services and products from any company that uses equipment from Huawei. The company has filed a lawsuit against the U.S. government over the restrictions.

The White House is holding off on a decision to grant licenses to allow U.S. to restart sales to Huawei after Beijing said it was halting purchases of U.S. farm products. U.S. Commerce Secretary Wilbur Ross said his department has received 50 requests and that a decision on them was pending. American businesses require a special license to supply goods to Huawei after the U.S. added the company to a trade blacklist in May over national security concerns.

Meanwhile, China has told India not to block Huawei from doing business in the country, warning there could be consequences for Indian firms operating in China. India is due to hold trials for installing a next-generation 5G network in the next few months, but has not decided yet to invite Huawei to take part, Telecoms Minister Ravi Shankar Prasad has said. India's Ambassador in Beijing, Vikram Misri, was called to the Chinese Foreign Ministry on July 10 to hear China's concerns about the U.S. campaign to keep Huawei out of 5G mobile infrastructure worldwide.

In related technology news, Chinese chip maker Loongson Technology plans to invest CNY15 billion in a smart industry park in Jinhua, Zhejiang province, aimed at attracting smart devices manufacturers and research and development enterprises. The park will cover an area of over 5.3 square kilometers. Four research institutes and 51 companies have already reached an initial agreement with the park, including Hong Kong-listed IT service provider Digital China and Beijing-based software company Tsinghua Tongfang. Loongson is one of the few companies in China that can independently design central processing units.

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# CHINA NEWS ROUND-UP

## Handbag brand Delvaux continues to make inroads in China

**China Daily highlighted Belgian bag maker Delvaux's continuing inroads on the Chinese market as the company opened its fifth boutique in Beijing** in late June in the newly-expanded China World Mall. The new boutique is decorated with a pale gold metal effect inside, while images of the iconic Grand Place in Brussels grace the walls of the VIP room. Exotic leather pieces are showcased in a decorative black glass display, flanked by the distinctive 1960's Angolo Armchairs by Italian designer Corrado Corradi Dell'acqua. Delvaux Chairman and CEO Jean-Marc Loubier, with the support of the Milanese architectural studio Vudafieri Saverino Partners, has developed an exceptional boutique facade.

The new boutique is the first Delvaux store to offer onsite personalization, a service which allows clients to add their initials to purchased items. Clients can choose from two exclusive Delvaux fonts, including one which has been specially developed with Delvaux's signature crown for each letter. Available in different sizes and colors, clients have a multitude of choices for customizing their leather designs with their own style and fantasy. Zhang Tian'ai, a Chinese actress who's been selected to be the brand's Ambassador in China, visited the brand's workshop in Brussels at the beginning of this year. After closely observing the production process of Delvaux handbags, she said she understood why they are so precious in an interview for Shop and Travel magazine. There are 44 Delvaux boutiques in the world – eight of them in China – a market the brand entered in 2014.

Delvaux filed its first patents for handbags in 1908, realizing that women would want to keep their precious belongings at hand during their travels on Belgium's expanding rail network. The company was founded in 1829 by Charles Delvaux, the China Daily reports. In 1883, it was granted the title of "Purveyor to the Court" by King Leopold II. In 1933 Franz Schwennicke took over the business and introduced seasonal collections, mirroring the practices of haute couture. The company created the collection named "Brillant" for the Brussels World's Fair in 1958. After being acquired by First Heritage Brands in 2011, Delvaux flourished internationally. Till now, the brand has created over 3,000 handbags, the China Daily reports.

## China's consumer spending expected to weaken further this year

**Chinese consumer spending is likely to slow for the rest of the year** as a result of the uncertainty created by trade tensions with the United States, analysts said. This could exert downward pressure on economic growth, given that the government is counting on consumers to play a big part in mitigating the effects of the trade war. The role of consumption in China's economic growth has changed in recent years – it accounted for 76% of gross domestic product (GDP) growth in 2018, up from less than 50% in 2011. This change was mainly the result of a slump in manufacturing investment, analysts said. That, in turn, could slow income growth and consumer confidence given that a significant share of workers' salaries in China still comes from the manufacturing and export sectors.

"It's certainly not going to be a case where the consumer comes to the rescue, because in China's case, the consumer is also suffering from the trade war," said Julian Evans-Pritchard, Senior China Economist at Capital Economics. "Actually, the trade war is negative for consumption because it affects consumer confidence and it affects real income growth." **The per capita growth rate for China's consumer spending was about 8% in June**, compared with about 10% in June 2018, according to Andy Rothman, Investment Strategist with Matthews Asia. In comparison, per capita disposable income growth was 9% in June, the same as a year earlier.

Chinese consumers have been holding back on buying cars, property and other goods and services. A survey by the People's Bank of China (PBOC) showed that 79% of respondents wanted to save money rather than spend it. In a recent report, Bank of America Merrill Lynch predicted that the retail sales growth rate compared to a year earlier – before accounting for inflation – would slow to 8.6% in July from 9.8% in June. This was largely because car sales, which were boosted by big discounts before higher emission standards took effect on July 1, lost momentum. Online goods sales growth could also ease following annual promotions at e-commerce platforms such as JD.com and Tmall.com on June 18, Bank of America Merrill

Lynch said. So far Chinese authorities have made no major announcement of additional monetary or economic stimulus to offset the effect of higher tariffs, the South China Morning Post reports.

## IMF does not agree with the U.S. designation of China as a currency manipulator

The International Monetary Fund (IMF) has affirmed its view that **China's exchange rate is broadly in line with economic fundamentals**. Experts said IMF's new report provides further evidence that the U.S. designation of China as a "currency manipulator" is groundless and irresponsible. China's real effective exchange rate (REER) in 2018 is estimated to be at the same level as warranted by fundamentals and desirable policies, the IMF reiterated in a staff report after concluding the annual Article IV consultation to review the Chinese economy. It noted that the average REER in 2018 appreciated by about 1.4% relative to 2017, driven by the appreciation in the nominal effective exchange rate (1.5%).

"The IMF report makes clear that there has been absolutely no currency manipulation and that China's external balance has been appropriate," Jeffrey Sachs, Senior United Nations Advisor and Economics Professor at Columbia University, told Xinhua in an e-mail. "The U.S. Treasury action declaring China a currency manipulator was blatantly arbitrary, capricious and political, based on Trump's tweets rather than on objective analysis," Sachs said, while noting that U.S. trade and financial behavior towards China is "utterly irresponsible." The IMF report showed that China's current account surplus fell by around 1 percentage point to 0.4% of gross domestic product (GDP) in 2018 and it is projected to remain contained at 0.5% of GDP this year.

Noting that China's current account surplus is "small," Mark Sobel, non-resident Senior Adviser at the Center for Strategic and International Studies, and Chairman of the Official Monetary and Financial Institutions Forum, told Xinhua "that estimates suggest China has not been intervening in the foreign exchange market." "As such, the Article IV report clearly rebuffs the recent U.S. assertion that China is 'manipulating' its currency to gain an unfair competitive trade advantage," said Sobel. The IMF report came only a few days after the United States unilaterally labeled China a "currency manipulator," which prompted criticism from experts worldwide, the Shanghai Daily reports.

## The good times are over for expat bankers in Hong Kong

**As Hong Kong banks trim staff, prospects tighten for some expat bankers unless they learn Cantonese or Mandarin, find jobs in another sector or take a pay cut.** As Deutsche Bank and other big banks reduce staff, expatriate financial employees who are made redundant and want to stay in Hong Kong may find it more difficult, according to headhunters. The job prospects are particularly tight for trading and banking positions tied to equities, as firms have begun reducing headcount against the backdrop of more uncertain financial markets and an investor pullback amid rising geopolitical tensions, including the U.S.-China trade war.

Deutsche Bank said in July that it plans to slash 18,000 jobs worldwide and close its equity sales and trading business globally, while HSBC said that it would lay off less than 2% of its workforce. Nomura cut jobs as part of an overhaul in April and Citigroup and UBS are also reportedly considering their own global cutbacks.

"The equities market has been very challenging this year. There have been cutbacks in trading staff, which means it is a saturated market for candidates out there," said Ricky Mui, Managing Director of recruiting firm Robert Walters in Hong Kong. "Since there are fewer open vacancies, this means a more competitive market for jobseekers." The wave of job cuts globally comes after a decade of steady employment growth in the financial services industry in Hong Kong. There were 236,116 people working in the finance and insurance sector, or about 7.7% of the overall workforce in Hong Kong, as of the end of the first quarter, the most recent sector data available, according to the city's Census and Statistics Department. There were about 6,466 vacancies in the finance sector as of the end of March, up 6.2% from a year earlier.

Abimanu Jeyakumar, Director of financial services recruiter Selby Jennings in Hong Kong, said many financial firms in the city were increasingly looking for the "golden goose" – recruits who speak Cantonese and Mandarin, and were educated in the U.S. or Europe. That makes it more difficult for expats who only speak one language. "An overarching theme for expats here in Hong Kong is the localization and the regional focuses of a lot of businesses," Jeyakumar said. There has also been an increase in hiring in mainland China as the financial markets open up there, versus positions that would have traditionally stayed in Hong Kong,the South China Morning Post reports.

The average package for a mid-level expat in Hong Kong last year was USD276,417, including salary and benefits, according to consulting firm ECA International. Private banks and wealth managers are now some of the highest in-demand jobs in Hong Kong, as banks and asset managers look to bolster their services for high-net-worth and ultra-high-net-worth clients in Hong Kong, mainland China and other parts of Asia.

## China could use its rare earth reserves in trade war

**China has the biggest reserves of strategic rare earth elements in the world** – 40 million metric tons, more than a third of the estimated global total – **and could use them as a weapon in the trade war with the U.S.** Rare earths are a category of 17 metallic elements in the periodic table that have desirable properties, such as electrical conductivity and magnetism. The metals are used in a wide variety of applications, including cellphone batteries, computers, wind turbines, televisions, fiber optics and missiles. One of the 17 is even used as an expensive bright blue oil paint pigment. Whereas China has been mainly a miner and shipper of rare earths in the past, it now seeks to become a top refiner and manufacturer.

"Rare earths are a key strategic non-renewable resource," said Pang Zaisheng, Vice General Manager of Ganzhou Fortune Electronic Co, which is focusing on high-end magnetic materials and applications in Ganzhou, Jiangxi province. "With its abundant rare earth resources, China has advantages for separation and purification. But compared with countries like Japan, there's still a gap in terms of high-quality applications." Jiangxi possesses vast rare earth resources, with the most valuable heavy rare earth elements accounting for 80% of the nation's total. Rare earth metals are distributed throughout the earth's crust, so they are not so much rare as they are difficult to find in concentrated amounts. The process of extracting and refining them is labor- and resource-intensive — and costly — so little is produced.

Permanent magnet materials and products are the most widely used forms of rare earth, representing around 70% of all applications, Ganzhou Fortune Electronic's Pang said. Heavier rare earth elements, which are relatively abundant in Ganzhou, account for about 5% in mixtures with lighter ones. These heavier metals are necessary for more sophisticated products. The Ganzhou-based company, founded in 2011, now has an annual production capacity of 2,000 tons of high performance, sintered magnetic metals — metals that are merged in a heating process. The company reported a surge in revenues of nearly 30% year-on-year, hitting CNY130 million in 2018. China Northern Rare Earth (Group) High-tech Co in Baotou, Inner Mongolia, the country's largest rare earth miner and producer of refined metals, is also gearing up to expand its high-end rare earth offerings. It predicts its revenues will surge to CNY24 billion in 2020 from CNY13.96 billion last year. For the first five months of this year, China exported 19,267 tons of rare earths, down 7.2% year-on-year, but prices increased. China currently produces around 80% of the world's supply of raw rare earths, but the domestic industry is plagued by illegal mining and production, lack of innovation and environmental violations, the China Daily reports.

Some rare earth minerals are essential in military equipment, including jet engines, missile guidance systems, anti-missile defense systems, satellites and lasers. Companies such as Raytheon, Lockheed Martin and BAE Systems in the U.S. all make sophisticated missiles that use rare earth metals in their guidance systems and sensors. As a weapon in the trade war, China could start limiting exports of the rare earth elements. So far, the U.S. government has exempted rare earths from tariffs on Chinese goods, but Chinese producers said they will pass any tariffs on their exports to customers. The industry "resolutely supports the nation's counter measures against U.S. import tariffs on Chinese products," the Association of China Rare Earth Industry said in a statement citing the consensus from an August 5 meeting. "U.S. consumers must shoulder the costs from U.S.-imposed tariffs." The statement is the clearest sign so far that China is ready to turn its rare earth deposits into a trade weapon.

## SWIFT accelerating its localization in China

The Society for Worldwide Interbank Financial Telecommunication (SWIFT), the global financial messaging service platform, is accelerating its localization as the Chinese financial market increasingly liberalizes. **"We have incorporated a new wholly-owned foreign entity in Beijing, which means we will be able to localize our products and services to the China market soon,"** Michael Moon, SWIFT's Managing Director of Payments, Trade and Communications for APAC, told China Daily in an exclusive interview. With this new entity, SWIFT will provide products and services, as well as the contracts behind SWIFT services, in the Chinese language. It will also invoice in renminbi as an option on top of the euro or U.S. dollar.

"We see growth in use of the RMB (yuan) on the SWIFT network, and businesses are growing. More and more financial institutions are transacting in RMB, and China is among the top five economies globally in terms of contribution to the SWIFT business," Moon said. "By the end of April 2019, around 2,543 financial institutions made worldwide payments in RMB. Among them, over 872 banks use the Chinese currency for payments without involving the Chinese mainland or Hong Kong." The SWIFT RMB Tracker showed that in June 2019, the RMB retained its position as the fifth most active currency for international payments by value, with a share of 1.99%. Overall, RMB payments value declined 1.83% compared to May 2019. In general, all payments currencies decreased by 3.55%. In terms of international payments, excluding payments within the euro-zone, the RMB ranks 8th with a share of 1.28% in June 2019.

"We have over 500 customers in China, including banks, financial institutions, market infrastructures and corporates, and we have a representative from the Bank of China serving as a SWIFT board member," Moon said. "There are a number of initiatives occurring to further facilitate RMB global usage, such as the Cross-border Interbank Payments System (CIPS) with whom we are working to promote wider usage of RMB in global cross-border businesses," he said. CIPS was launched in 2015 by the People's Bank of China (PBOC) to facilitate RMB clearing and settlement for financial institutions in China and companies conducting cross-border and offshore business. There were over 872 banks connected to CIPS globally by the end of April. SWIFT and CIPS signed a letter of intent in January 2019 to enhance cooperation in supporting the RMB's cross-border payment services, the China Daily reports.

## Global chip sales continue to decline as U.S.-China trade war escalates

**Global sales of semiconductors declined for the second consecutive quarter** as trade tensions between the United States and China created industry uncertainty. Worldwide chip sales reached USD98.2 billion in the three months to June 30, **down 16.8%** from USD117.9 billion a year earlier, according to the Semiconductor Industry Association (SIA), the trade body that represents U.S. interests in chip manufacturing, design and research.

"At the midpoint of 2019, the global semiconductor market remains in a period of decreased sales, with revenues through June lagging the midyear totals from last year by nearly 15%," said John Neuffer, SIA President and Chief Executive. "Year-to-year sales were down across all major regional markets and semiconductor product categories." Chip sales in the first quarter dropped 13% to USD96.8 billion from USD111.1 billion a year ago, according to the SIA. A new round of tariffs on USD300 billion in trade with China will have potentially crippling consequences for the U.S. economy, according to the SIA when it testified before the International Trade Commission (ITC) in June on the Trump administration's proposed fourth tranche of tariffs.

**If implemented on September 1, the U.S. government's proposed new round of tariffs will encompass virtually all information technology (IT) products**, including laptops, smartphones, solid state drives, video game consoles, printers, televisions and displays. "IT firms make up a significant sector of the U.S. economy, and any slowdown in this sector will have a ripple effect through a broad range of other industries, greatly impacting U.S. economic growth," the SIA said in June. "There is no scenario in which tariffs on IT products is positive for the U.S. economy."

China makes more than 90% of the world's smartphones, 65% of personal computers and 67% of smart televisions, according to estimates from Bernstein Research. But the country has had to buy much of the chips that go into these devices from abroad, especially the U.S. The value of China's annual chip imports has surpassed oil in recent years, surging to USD312 billion in 2018, the South China Morning Post reports.

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## Share your story

To send your input for publication in a future newsletter mail to: info@flanders-china.be

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