What the **experts say**

Ten Highlights of China’s Commercial Sector 2023

January 2023

FUNG BUSINESS INTELLIGENCE

Secretariat, Expert Committee of
China General Chamber of Commerce

Contents

Preface

Fung Business Intelligence and the Expert Committee of the China General Chamber of Commerce are pleased to present the 20th edition of our annual *Ten Highlights of China's Commercial Sector* report.

2022 has proven to be a tough and challenging year for many Chinese enterprises. The volatile COVID-19 pandemic and the associated mobility restrictions have weighed on consumer sentiment and dragged down consumer spending. In response, the Chinese government has launched a raft of supporting policies and relief measures, including measures encouraging spending on new-energy vehicles as well as green and smart home appliances to boost domestic consumption, and financial support for businesses.

As these stimulus measures gradually take effect, together with the relaxation of COVID-19 restrictions, China is set for a robust economic recovery in the months to come. The Central Economic Work Conference held in mid-December 2022 also signals that China will step up policy support to boost consumption and economic growth in 2023.

2022 also marked the holding of the 20th National Congress of the Communist Party of China – the most important political event in China held every five years, during which Chinese President Xi Jinping has set forth a long-term strategic blueprint for high-quality development. More efforts will be directed towards modernization of the circulation network in support of the construction of a unified national market. Plans to advance rural revitalization will also help increase farmers' income, providing new impetus for consumption growth.

With input from more than 160 top-tier mainland experts, Ten Highlights once again identifies top trends of the past 12 months and anticipates what will shape China's commercial landscape in the year ahead.

In 2023, three important trends are reshaping China's consumer market, including the growing green living, rising rural consumption, and accelerated digitalization. Green consumption is becoming the norm, fuelled by the accelerating green transformation in the commercial sector as well as consumers' increased sustainability consciousness. The Chinese government is also committed to bolster rural e-commerce and improve rural logistics and infrastructure, which will help unleash the consumption potential of the rural areas. Besides, digital transformation is taking shape, with an increase in digital adoption in the commercial sector to optimize supply chains and create seamless omni-channel retail experience for customers. These developments will open up new opportunities for local and foreign businesses alike.

Ten Highlights is a valuable resource for global brands and retailers, and firms and individuals seeking to better understand the latest commercial trends, issues, and opportunities in China. We wish to thank all panel members on the Expert Committee for sharing their important insights, and our Fung Business Intelligence colleagues for their many contributions.

Helen Chin
Fung Business Intelligence

About the Organizations

The Expert Committee of the China General Chamber of Commerce

The Expert Committee of the China General Chamber of Commerce (ECCGCC), a sub-division of the CGCC, comprises over 160 prominent experts from various government departments, research institutes and universities, leading corporations, professional associations, consultancy firms and newspaper offices, which include the Ministry of Commerce, the Chinese Academy of Social Sciences, China Chain Store and Franchise Association and the Renmin University, etc. The ECCGCC serves as a platform for the experts to exchange ideas on the development of commercial enterprises and the distribution sector.

The China General Chamber of Commerce

Founded in 1994, the China General Chamber of Commerce (CGCC) is a quasigovernment association endorsed by the State Council. The CGCC has around 80,000 members, encompassing enterprises from retail, distribution, services and tourism sectors, local commercial chambers, national professional associations, intermediary organizations and individuals. Commissioned by the Chinese Government, the CGCC consists of 14 business committees. It also supervises 40 national associations and 33 newspapers and magazines published both inside and outside China.

Fung Business Intelligence

Fung Business Intelligence collects, analyses and interprets market data on global sourcing, supply chains, distribution, retail and technology.

Headquartered in Hong Kong, it leverages unique relationships and information networks to track and report on these issues with a particular focus on business trends and developments in China and other Asian countries. Fung Business Intelligence makes its data, impartial analysis and specialist knowledge available to businesses, scholars and governments around the world through regular research reports and business publications.

As the knowledge bank and think tank for the Fung Group, a Hong Kong-based multinational corporation, Fung Business Intelligence also provides expertise, advice and consultancy services to the Group and its business partners on issues related to doing business in China, ranging from market entry and company structure, to tax, licensing and other regulatory matters.

Fung Business Intelligence was established in the year 2000.

The Fung Group

Fung Holdings (1937) Limited, a privately-held business entity headquartered in Hong Kong, is the major shareholder of the Fung Group of companies, whose core businesses operate across the entire global supply chain for consumer goods including sourcing, logistics, distribution and retail. The Fung Group comprises over 26,000 people working in more than 40 economies worldwide. We have a rich history and heritage in export trading and global supply chain management that dates back to 1906 and traces the story of how Hong Kong and the Pearl River Delta emerged as one of the world's foremost manufacturing and trading regions. We are focused on both creating the Supply Chain of the Future to help brands and retailers navigate the digital economy as well as creating new opportunities, product categories and market expansion for brands on a global scale.

Listed entities of the Group include Retail Asia Limited (SEHK: 00831). Privately-held entities include Li & Fung Limited, LH Pegasus, Branded Lifestyle Holdings Limited, Fung Kids (Holdings) Limited, Toys "R" Us (Asia) and Suhyang Networks.

For more information, please visit www.funggroup.com.

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Implications for Businesses and Tips for Foreign Enterprises

Despite that the global COVID-19 pandemic is fading, new challenges such as increasing geopolitical conflicts and rising inflation have made 2022 another turbulent and difficult year for the global economy. While the Chinese government has taken steps to ease the economic impact of the volatile COVID-19 pandemic situation, slowing global growth has brought significant challenges to China's economy.

In the face of internal challenges and external threats, China has shifted the focus of economic development from speed to quality. The 20th National Congress of the Communist Party of China (CPC) has not only set the tone for China's future development, but also delivered a strategic blueprint for high-quality development of the economy. Working toward socialist modernization, more efforts will be directed towards advancing economic structural adjustment, improving the logistics system, developing the digital economy, and further opening up the economy.

Looking forward, the Chinese government's commitment to revive the COVID-19-battered economy by expanding domestic demand implies huge opportunities for businesses. To stay competitive in the post-pandemic era, enterprises should keep abreast of the latest market developments and policy changes, and prepare for the opportunities ahead.

Go green

The green transformation in the commercial sector has accelerated since China announced its 'dual carbon' goals in 2020. Retailers are more proactively engaging customers in green consumption, through both online and offline channels. For example, e-commerce giant Alibaba has launched a 'carbon ledger platform' to help consumers track their carbon footprint across its ecosystem, while brick-and-mortar retailers have continued to adopt eco-friendly practices and launched a series of green campaigns.

It is also clear that Chinese consumers have become more aware of the environmental impacts of their consumption habits. Young generations generally have a better understanding of 'green consumption' than previous generations do. They are more attached to green products, and some are even willing to pay a premium of up to 20%. (See Highlight 7)

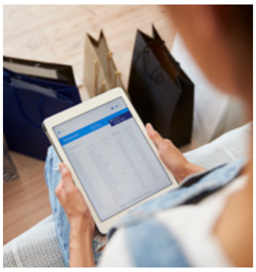
Our take: Chinese consumers have become more sustainability conscious, with youngsters as the main driver of green consumption. Enterprises should keep up with demand from consumers for eco-friendly products. Apart from introducing sustainable practices in operations, retail businesses should also adopt 'green marketing' and actively engage consumers in green consumption to successfully catch the green wave.

Create immersive omni-channel retail experience

Despite that consumers have switched heavily to online purchases due to the COVID-19 pandemic, some are returning to physical stores and looking for immersive omni-channel retail experiences. Retailers have rushed to incorporate immersive technologies in their in-store and online retail spaces, such as 3D modeling, virtual reality (VR) and augmented reality (AR), to interact with customers. (See Highlight 6)

It is expected that traditional retailers will catch up with online retailers by offering immersive, interactive and technology-enhanced shopping experiences to customers. Meanwhile, Chinese e-commerce platforms have also placed more emphasis on integration with the real economy. They have utilized cloud computing and other digital technologies to increase logistics efficiency and improve the overall customer experiences, so as to better serve retailers and consumers. (See Highlight 5)

Our take: Despite that online retail penetration is expected to continue to increase, growth in online retail sales is likely to slow, and therefore enterprises should create new competitive edges by reinventing their retail model. On one hand, retail businesses should continue to explore and optimize their omni-channel strategy, to provide customers with a fully integrated shopping experience. On the other hand, retailers should embrace new technologies to deliver a seamless and more relevant retail experiences to customers.



Embrace digital transformation

The digital economy has become a key driver for China's economic growth. The accelerated adoption of new-generation digital technologies such as 5G, big data and cloud computing has promoted online shopping and consumption upgrade. Since the outbreak of COVID-19 pandemic, many retailers have rushed to expand or establish their online presence to reach more prospective customers and digitalize their retail business models.

As the application of new technologies becomes more mature on the retail front, digital transformation will be advanced to improve the internal operations and increase the overall efficiency of the entire supply chain. Enterprises should not only focus on building the technical architecture of the front-end activities but also begin the digital transformation in the middleware and back-end applications. In particular, the government has attached great importance to the digital transformation of SMEs. Digital service providers and Internet platforms have been asked to create digital applications for instant communication, long-distance collaboration and project management in order to better meet the needs of SMEs during the transformation. (See Highlight 6)

Our take: Digitalization is happening everywhere and will remain an important development over the long term. While digital upgrades have accelerated on the retail front, enterprises should continue to adopt technologies throughout the entire supply chain, from production, circulation to sales. By reshaping their supply chains, enterprises will be able to reduce operating costs and improve the overall operational capability, taking their businesses to the next level.

Ride on new consumer trends

China has one of the most dynamic retail markets in the world, driven by a fast-growing middle class and innovative retail models. With the rise of nationalism and cultural confidence, the 'guochao' trend, first rising to popularity in 2018, continues to grow. Chinese consumers, especially the younger generations, are getting more confident in home-grown products and favouring domestic brands. According to Douyin's data, the number of products from domestic brands on its e-commerce platform surged 508% from April 2021 to March 2022; among Douyin's top-selling items, 93% were home-grown products.

Chinese consumers are also attaching more importance to experiential consumption such as travel, food and beverage, and nightlife, to align with their lifestyle preferences. New consumer trends such as the camping economy and pet economy are also on the rise, adding new impetus to the consumer market. (See Highlights 6 & 8)

Our take: The new consumer trends are shaping the future of China's market and creating new opportunities for the commercial sector. As China's consumer market is gradually recovering from the COVID-19-induced downturn and gaining growth momentum, enterprises should move fast to keep up with the new consumer trends, so as to capitalize on the changing consumer behaviours in the next normal.

Tap the rural market potential

During the COVID-19 pandemic, logistics disruption due to lockdown has caused considerable problems for the sales of agricultural products. In 2022, the government launched a series of policies and measures to improve and modernize the circulation system of agricultural products. These include plans to digitalize the agricultural industry chain and measures to promote cold chain logistics for agricultural products. (See Highlight 9)

Despite that the agricultural wholesale markets remain the main channel for the distribution of agricultural products in China, rural e-commerce has been developing fast, thanks to the rise of livestreaming e-commerce and community group buying during the pandemic. Aiming to advance rural revitalization, the government has implemented measures to expand the coverage of rural e-commerce and promote the circulation and online sales of agricultural products, which will effectively lead to an increase in farmers' income and unleash the consumption potential of rural areas. (See Highlight 1)

Our take: Since the implementation of the rural revitalization strategy in 2017, the Chinese government has made solid progress in developing the rural areas. The improvement in the rural circulation system will facilitate not only the flows of agricultural products from villages to cities, but also the flows of consumer goods from urban to rural areas. Enterprises should further explore the opportunities and expand their footprint in rural areas.

Focus on supply chain efficiency

During the 20th Party Congress, Chinese President Xi Jinping stressed the importance of modernizing the industrial and supply chains. In line with the government's call to support the building of digital third-party logistics delivery platforms and cultivate a batch of digital platforms and supply chain enterprises with global influence, the logistics industry is embracing digital technologies to boost efficiency, which in turn accelerates the transformation and upgrade of the country's industrial and supply chains. (See Highlight 10)

With the accelerated online and offline integration and the improvement in logistics efficiency, on-demand retail in China has been growing rapidly over the past two years. On-demand retail is a retail model in which consumers place orders through online platforms, and brick-and-mortar stores will deliver the goods within 30 to 60 minutes. China Chain Store & Franchise Association estimated that its market size will surpass 1 trillion yuan by 2025. (See Highlight 6)

Our take: Enterprises are advised to focus on improving efficiency of their supply chain operations to meet the ever-changing and increasingly sophisticated consumer needs. It is not simply about optimizing the last-mile delivery but improving the overall efficiency of the whole supply chains.

Keep abreast of government policies

The Chinese government has attached great importance to consumption recovery for the country's post-pandemic economic recovery and long-term high-quality development. In 2022, the government has implemented measures to expand consumption in rural areas and promote green transformation of the country's consumption structure, so as to spur consumer spending. (See Highlights 2 & 4)

The government has also launched a series of policies and measures to support the long-term development of the commercial sector, including plans to improve the infrastructure for commercial circulation and guidelines to promote the healthy and sustainable development of platform economy. The government has also unveiled guidelines for accelerating the building of a unified national market, aiming to break down local protectionism and reduce market fragmentation. (See Highlights 1 & 3)

Our take: The implementation of these policies will reshape the business environment in the long run, generating new impetus for growth and bringing new development opportunities for the commercial sector. To grasp the opportunities, enterprises are advised to always keep abreast of government policies and relevant regulatory changes, and ensure a timely response to new developments.

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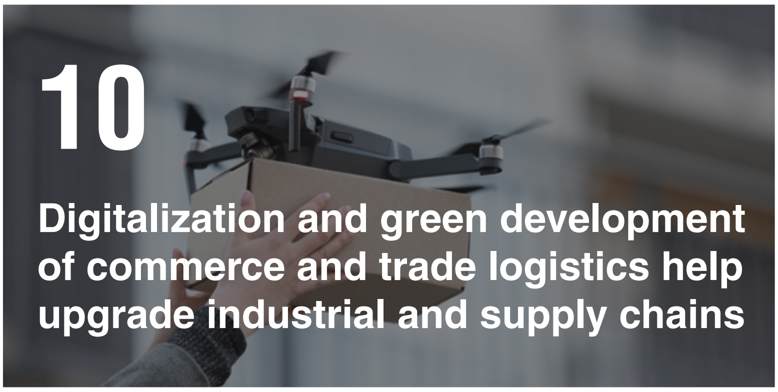
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Digitalization and green development of commerce and trade logistics help upgrade industrial and supply chains

01 Spirit of China's 20th Party Congress drives the reform in the circulation sector, promoting high-quality development of commercial sector

What the experts say

Improving the resilience and stability of industrial and supply chains

China's economic goal has changed from pursuing high-speed economic growth in the past to seeking high-quality economic development. The report delivered by Chinese President Xi Jinping at the 20th National Congress of the Communist Party of China (CPC) on 16 October 2022 points out that challenges including unbalanced development, insufficient technological innovation capabilities, regional development differences, and income gap between urban and rural areas have hindered the high-quality development of the country's economy and society.

With high-quality development as the underlining theme, China will combine the strategies of expanding domestic demand and deepening supply-side structural reforms, to strengthen the endogenous dynamics and reliability of the domestic circulation, and facilitate the international circulation. In addition, China will accelerate the building of a modern economic system to boost economic growth, focusing on increasing the total factor productivity, improving the resilience and stability of industrial and supply chains, and promoting integrated urban-rural development and coordinated regional development.

Building an efficient and smooth circulation system

Our experts point out that the building of a highly efficiently and smooth circulation system is essential under the requirement of high-quality development. First, the construction of a digital circulation system will be steadily advanced, which will accelerate the integration of industrial and supply chains and the intelligent upgrade of the distribution system, and improve the flexibility and resilience of the industrial and supply chains. Second, the comprehensive logistics service capabilities will be enhanced with a well-developed and smooth logistics system. The accessibility and effectiveness of the logistics system will be improved, ensuring the stability of industrial and supply chains. Third, the construction of rural circulation infrastructure will be further improved to ensure the safety and stability of the agricultural supply chains. Fourth, the construction of the emergency circulation system will be further developed to improve the rapid response capability of industrial and supply chains.

Developing rural e-commerce to boost rural revitalization

During the COVID-19 pandemic, new business models such as live-streaming e-commerce and community group buying have become more popular and widely used in rural areas. The rural e-commerce market has grown steadily, with the rural online retail sales reaching 2.05 trillion yuan in 2021, more than doubling from 894.54 billion yuan in 2016, representing one of the most promising areas in the digital economy.

The vigorous development of rural e-commerce has become a new engine for rural revitalization. In January 2022, China unveiled a policy statement outlining key tasks to comprehensively push forward rural revitalization in the year. The document proposes the implementation of a campaign to facilitate the development of agriculture and rural areas by promoting digital business and e-commerce in rural areas, which will focus on improving rural e-commerce infrastructure, logistics and distribution, and promoting the growth of agricultural product e-commerce, so as to better connect production and consumption.

The in-depth advancement of government initiatives such as the 'Internet Plus' strategy which facilitates the flows of agricultural products from rural to urban areas, the comprehensive demonstration project of e-commerce in rural areas, poverty alleviation through e-commerce and digital village construction will help to expand the coverage of rural e-commerce and promote the circulation of agricultural products. Rural revitalization will effectively lead to an increase in farmers' income, which will in turn stimulate rural consumption.

Q&As

Q: What are some of the key development trends in the logistics sector?

China's logistics demand has continued to grow over the past 10 years. The total value of social logistics has increased from 177.3 trillion yuan in 2012 to 335.2 trillion yuan in 2021, with an average annual growth rate of 7.2%. Significant progress has been made in reducing logistics costs and increasing efficiency. The ratio of total social logistics costs to GDP is declining year by year, from 18% in 2012 to 14.6% in 2021.

Against the backdrop of ongoing downside risks to global economic prospects and numerous domestic challenges in China, the key development trends in the logistics sector include:

- Emerging manufacturing industries such as new energy vehicles and semiconductors are booming, which have imposed new requirements for logistics supply chains, creating development opportunities for third-party logistics.
- Green logistics is gaining ground, with the accelerated construction of green logistics parks across the country and strengthening R&D and application of green logistics technology and equipment.
- The new generation of information technologies such as big data, cloud computing, and the Internet of Things will continue to integrate with traditional logistics, promoting the upgrading of the logistics industry.

Q: How does community e-commerce facilitate the circulation of agricultural products?

Due to the dispersion of farmland in China, the circulation of agricultural products needs to go through many links. With inadequate cold storage facilities, the overall circulation is inefficient, which causes high post-harvest losses.

Community e-commerce, with its advantages of being fast, convenient and low-cost, effectively connects agricultural production bases with markets, developing a farmers-to-consumers direct supply network. Also, through community e-commerce, individual orders are consolidated to make bulk purchases, facilitating market-oriented productions.

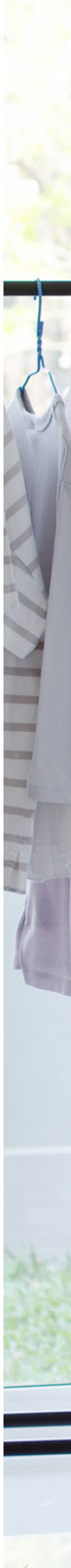
All in all, the emergence of community e-commerce greatly shortens the circulation links, reducing the losses during transportation and distribution processes, and ensuring better quality of agricultural products for consumers.

Q: What new business format has emerged in the commercial circulation sector?

With the continuous advancement in the commercial circulation system, improvement in last-mile delivery, and the in-depth integration of online and offline channels, a new format of on-demand retail has emerged.

Under the on-demand retail model, consumers place orders through online platforms, and brick-and-mortar stores will deliver the goods within 30 to 60 minutes. Compared to offline retail and traditional e-commerce, on-demand retail offers immediate delivery and increased convenience to consumers.

The on-demand retail business in China has been growing rapidly over the past two years. According to a report released by China Chain Store & Franchise Association in November 2022, China's on-demand retail market is likely to surpass 1 trillion yuan by 2025.

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02 Consumer market shows resilience and is set for rebound in 2023

What the experts say

Retail sales post mild recovery in first ten months of 2022 despite COVID-19 resurgence

In the first three quarters of 2022, final consumption expenditure contributed 41.3% of China's economic growth, making it the biggest driver of growth for the Chinese economy.

China's total retail sales of consumer goods recorded strong year-on-year growth of 6.7% in the January-February period, but the growth rate slumped to minus 11.1% in April due to COVID-19 outbreaks in various parts of the country. In response, the central government and local authorities unveiled a slew of policies and measures to encourage consumption. The consumer market has recovered since then, albeit with some setbacks lately. The year-on-year growth in retail sales improved to 3.1% in June and 5.4% in August, before declining to 2.5% in September and minus 0.5% in October amid sporadic resurgences of COVID-19 cases.

In the first ten months of 2022, China's total retail sales of consumer goods reached 36.1 trillion yuan, up by 0.6% yoy. Our experts forecast that China's retail sales will grow by 6% yoy in 2023.

Bright spots are observed in China's consumer market

Some retail formats and product categories have emerged as the bright spots for the retail sector in 2022, according to our experts.

First, e-commerce has further demonstrated its role in driving retail sales growth. Online retail sales of goods rose 7.2% yoy to 9.5 trillion yuan in the January-October period. Consequently, the share of online retail sales in total retail sales of consumer goods went up to 26.2% in the 10-month period from 23.7% in the same period last year, indicating consumers' increasing reliance on e-commerce.

Second, while traditional auto sales dropped, new-energy vehicles (NEVs), which are seen as more eco-friendly, continued to post strong sales growth. According to data released by the China Passenger Car Association (CPCA), sales of NEVs – comprised of mainly electric and hybrid-powered vehicles, reached 4.4 million from January to October 2022, up 107.5% from the same period in 2021.

Moreover, basic consumer staples such as beverages and 'grain, oil and food', as well as 'traditional Chinese and Western medicines' and 'cultural and office appliances', still managed to post respectable sales growth during the ten-month period.

20th Party Congress report sheds light on future consumption trends

The 20th Party Congress report has provided a useful glimpse into how China's consumption trends will evolve in the coming years, our experts believe.

China continues to pursue high-quality development and expand domestic demand, which will be beneficial for consumption growth in the long term. Efforts to promote 'common prosperity' and rural revitalization will also help expand middle-income earners, thus providing new impetus for consumption growth and facilitating consumption upgrades to more sophisticated, higher-value products and services.

Furthermore, as China accelerates its green transition, consumers will increasingly embrace eco-friendly goods and low-carbon lifestyles, boosting green consumption.

Q&As

Q: What policies and measures has the Chinese government adopted to boost consumption?

The Chinese authorities have unveiled a series of measures to promote consumption in 2022. For example,

- The Chinese authorities halved the purchase tax for small-engine cars starting from 1 June onwards in a move to boost auto sales. Local governments of Guangdong, Zhejiang, Shandong, etc., have also announced subsidies and other measures to encourage spending on cars.
- On 7 July, 17 government departments jointly issued a notice aimed at promoting NEV sales. As part of the plan, the Chinese government has extended the tax exemption given for buying NEVs, and accelerated development of the charging infrastructure nationwide.
- On 28 July, 13 departments jointly issued a guideline to promote the consumption of green and smart home appliances. Measures have been taken to promote the sales of home appliances in rural areas. New infrastructure such as 5G services networks would also be built for promoting the use of smart home appliances.

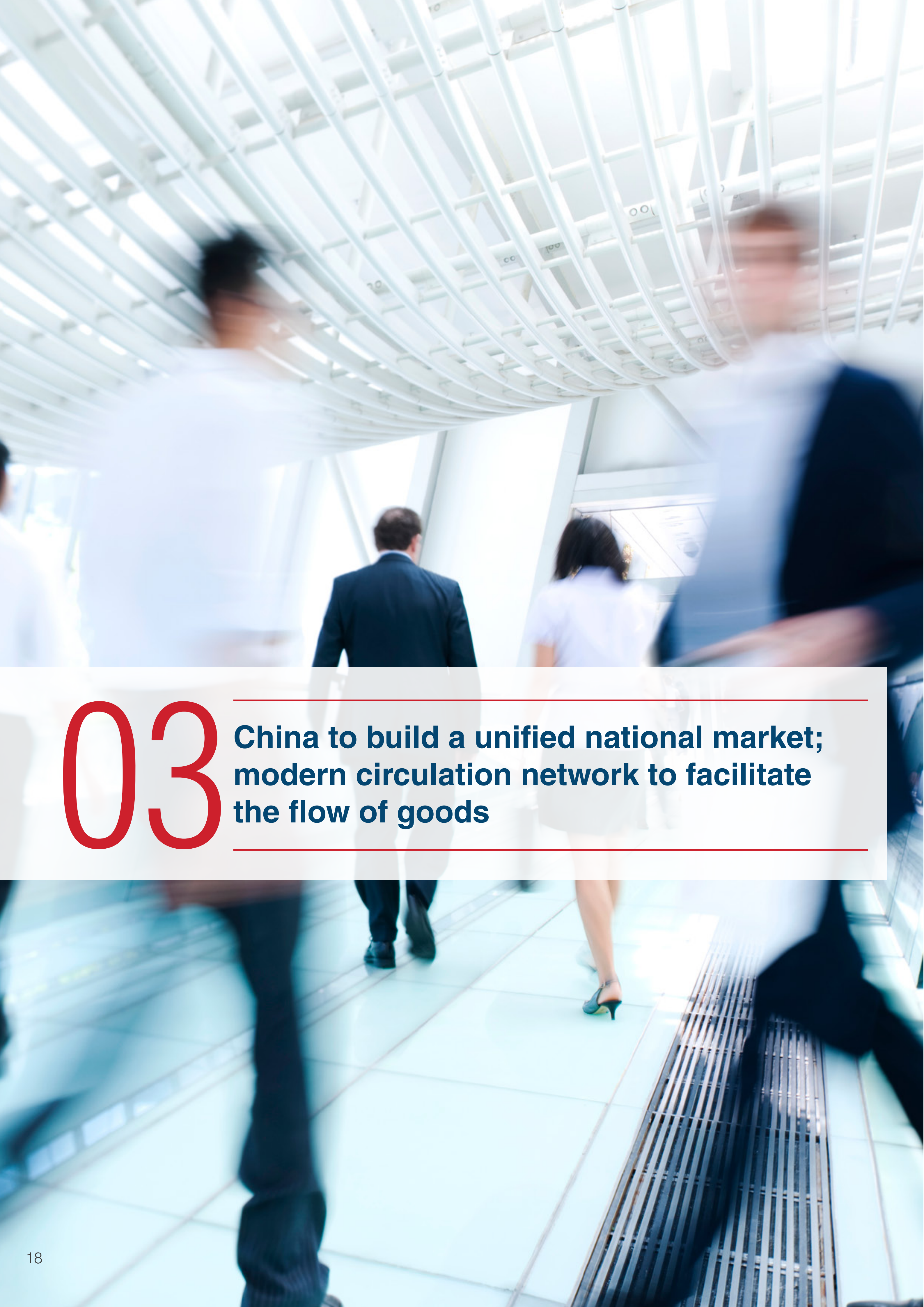
Q: Which retail format / sector and consumer product categories were hit worst by the COVID-19 resurgence in 2022?

Physical retail and the catering sector were hit hard by the COVID-19 resurgence as the associated mobility restrictions dragged down offline consumer spending. In the first ten months of 2022, China's offline retail sales of consumer goods reached 26.6 trillion yuan, down by 1.6% yoy; of which catering sales fell by 5.0% yoy to 3.5 trillion yuan. Among product categories, retail sales of discretionary goods such as cosmetics (down by 2.8% yoy) and 'garments, footwear, hats, knitwear' (down by 4.4% yoy) posted year-on-year drops in the ten-month period. But the weakest product categories were furniture (down by 8.2% yoy) and 'building and decoration materials' (down by 5.3% yoy), as the cooling property market suppressed housing-related spending.

Q: What are the main positive factors for the consumer market in the coming year?

The Chinese government has gradually eased its COVID-19-related restrictions since November, including scrapping testing requirements for domestic travellers, banning local government against prolonged lockdowns, etc. These will help restore consumers' confidence and prompt consumers to get out and spend.

Moreover, consumption-boosting policies rolled out over the past year, as well as new policies expected to be launched in the near future, will continue to spur consumption and revive the consumer market.



03 China to build a unified national market; modern circulation network to facilitate the flow of goods

What the experts say

Accelerating the building of a unified national market

As the Chinese government continues to deepen market-oriented structural reforms, China's domestic market has expanded in size to become one of the largest in the world. In order to realize the full potential of this ultra-large market, the Communist Party of China Central Committee and the State Council jointly unveiled the *Opinions on Accelerating the Construction of a Unified National Market* (hereafter, the 'Opinions') in April 2022.

According to the Opinions, China will accelerate the establishment of market standards and regulations that are applicable nationwide, to remove local protectionism, market fragmentation and impediments to economic circulation, and facilitate the building of a unified national market that is efficient, well-regulated, fair and open. The goals are to improve the efficiency of the domestic market, create a fair and transparent business environment, reduce market transaction costs, promote technological innovation and industrial upgrading, and cultivate new advantages in international competition and cooperation.

The Opinions emphasize five areas for uniformity, including standardizing market access, promoting connectivity of market facilities, unifying the factors of production and resource markets, unifying goods and service markets, and promoting fair and unified market supervision. The Opinions also propose to regulate unfair market competition and market intervention.

Constructing modern circulation network

The Opinions highlight the need to construct a modern circulation network, which will help reduce the circulation costs in the society. The document calls for improving the infrastructure for commercial circulation, accelerating digitalization, and integrating online and offline development, to create more new platforms and new business models for commercial circulation. The government will also promote the construction of a nationwide logistics hub network and the development of multimodal transport. Third-party logistics will be developed through supporting the construction of digital third-party logistics delivery platforms, promoting technology and business model innovation, and cultivating globally influential digital platforms and supply chain companies.

As the circulation system connects production and consumption, our experts believe that the construction of a modern circulation network will help to promote smooth flow of factors of production, goods and services across the country, which will ultimately boost domestic consumption and realize the true value of products. Since the circulation sector is responsible for the flow of many production factors and products, building a modern circulation system will be the first step to establishing a unified market, eliminating regional discrimination and standardizing market rules and regulations.

A unified national market will be a vital boost to the 'dual circulation' development model

According to China's 14th Five-Year Plan adopted in March 2021, the 'dual circulation' strategy would be a key direction for China's development in the next five years and beyond. Under this new growth model, the domestic market will play a leading role, while the domestic and international markets are reinforcing each other. To this end, China will continue to nurture a strong domestic market and expand domestic demand. However, factors such as local protectionism, divided market regulations and administrative procedures, and different levels of economic development have hindered cross-regional flow of products and factors of production.

Against this backdrop, establishing unified, national market institutions and rules will promote a more seamless connection of different economic processes from production to circulation and distribution to consumption, increase the mobility of factors of production, and improve market efficiency. It can also strengthen the connectivity between domestic and international markets, and facilitate alignment with international market rules and standards. Therefore, the building of a unified national market is a key step to implementing the 'dual circulation' strategy.

Q&As

Q: What are some of the key factors leading to the fragmentation of the domestic market?

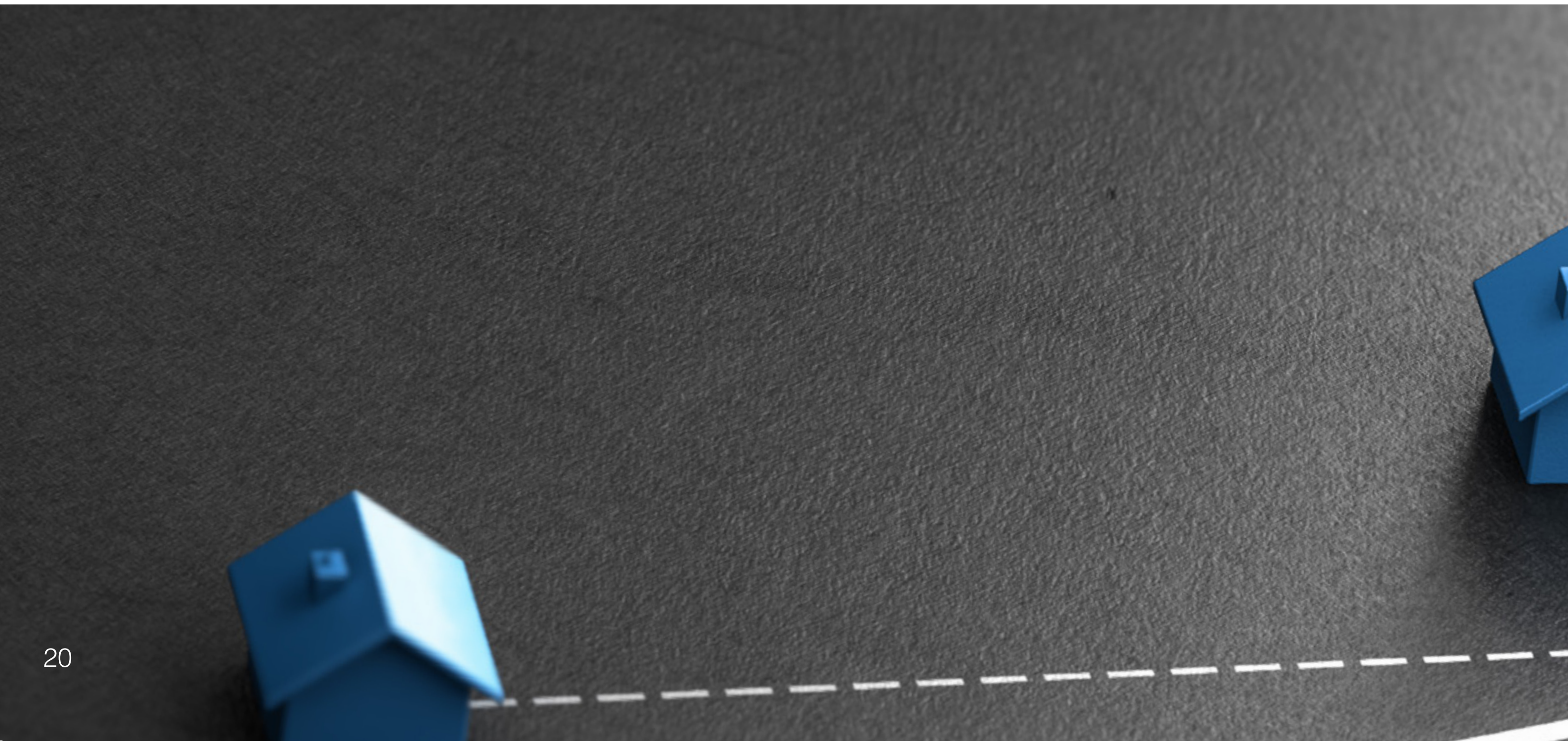
A number of natural and human factors have led to the fragmentation of the domestic market. Natural constraints such as climate and geographical conditions have hindered the flow of goods and resources, leading to increased logistics costs. This has been significantly improved with the construction of transport and communication infrastructure in the past decade.

Government intervention, especially by provincial governments, and local protectionism have also hindered the free circulation of goods, services and production factors across different regions, preventing the benefits of economies of scale and comparative advantage from being reaped. Other problems such as different market rules, regulatory requirements and standards across regions, and unpredictable business environment have also added to the transaction costs and made it particularly difficult for enterprises to carry out cross-regional business activities.

Against this backdrop, the Opinions emphasize regulating market intervention and implementing a fair competition review system, which will help create a stable, fair, transparent, and predictable business environment.

Q: What does the building of a unified national market mean for the consumer market?

Implementing unified, national market institutions and rules will break down the regional barriers and further reduce the transaction costs, facilitating flows of factors of production (such as labour and capital), goods and services, thereby improving the overall economic efficiency.



For the consumer market, the building of a unified national market will promote the smooth flow of consumer goods on a wider scale. Goods that are accessed only by a small group of people will be able to circulate freely across the country, offering consumers more choices. In addition, with a sound, unified quality system, the domestic quality standards of consumer goods can be better aligned with international standards, which will help promote the quality of goods in the domestic market.

Q: What are the key areas of focus for government policies to encourage domestic consumption?

In response to the impact of the COVID-19 pandemic on consumption, boosting consumption continues to be one of the government's priorities. In recent months, the central government and local authorities unveiled a series of policies and measures to boost consumption on basic necessities, upgrade traditional consumption, and speed up the development of new consumption hotspots. Green consumption, cultural and tourism consumption, and rural consumption are some of the key areas for future development.

In addition, with the increasing popularity of new generation of information technology such as 5G, artificial intelligence, and the Internet of Things, information consumption has become a key driver for expanding domestic consumption and promoting industrial upgrading. According to data from the Ministry of Industry and Information Technology (MIIT), China's information consumption exceeded 5 trillion yuan in the first three quarters of 2022, playing an increasingly important role in maintaining steady economic growth.

04 China is on track for post-pandemic recovery, supported by economic stimulus and relief measures for businesses

What the experts say

Services sector hit hard by COVID-19 pandemic

The services sector was severely hit by the COVID-19 pandemic, and retailers were under pressure in the repeated waves of the pandemic over the past year. While brick-and-mortar retail was affected by the stringent social distancing measures, growth in online retail sales also slowed as Chinese consumers were less willing to spend money on non-essential goods and services amid uncertainty. Our experts noted that, under the prolonged pandemic, shopping malls and supermarkets, which performed well before, had also seen a sharp decline in passenger flow and occupancy rate.

Government releases policies to spur post-pandemic economic recovery

To cushion the pandemic-hit economy and spur economic recovery, the Chinese authorities have unveiled a series of measures to shore up market confidence and ease some of the burdens on businesses. For example,

- On 18 February, the National Development and Reform Commission, along with 13 other government departments, issued *Several Measures in Promoting the Recovery of Hard-Hit Services Sector*, outlining 43 measures to provide fiscal and logistical support for the services sector that has been hard hit by the COVID-19 pandemic, including catering, retailing, and tourism.
- On 11 April, State Council's Joint Prevention and Control Mechanism Comprehensive Team issued a circular to call for smooth freight and logistics amid epidemic control, especially for medical prevention and control materials, daily necessities, raw materials, and other important supplies.

- On 31 May, the State Council published a circular detailing a package of 33 policy measures and arrangements to stabilize the economy. These measures include fiscal policies such as returning tax credits to enterprises, financial policies to enhance financing to market entities, policies to stabilize investment and promote consumption, food and energy security policy measures, and policies to stabilize the industrial and supply chains.

Recovery to continue in 2023

Although consumption was severely affected by the pandemic over the past year, as the stimulus policy measures gradually take effect, and with the government's continued efforts to boost domestic demand, China's economy and consumption is set to recover next year.

Our experts noted that most of the current support policies are limited to small and micro enterprises, excluding large enterprises and chain businesses. Heading into 2023, it is hoped that the government would continue to support the services sector, especially retail, catering, and tourism. Enterprises should also stay innovative and continue to improve their businesses to survive the pandemic.

Q&As

Q: What tax relief measures have been provided by the Chinese government for enterprises?

In May 2022, the State Taxation Administration released guidelines for a package of 33 combined tax and fee support policies to ease the burden on market entities, especially smaller enterprises, and stabilize the economy. The new policy combines tax cut and tax rebate, covering a wide range of tax categories such as corporate income tax (CIT), value-added tax (VAT), individual income tax (IIT), real estate tax, stamp tax, etc.

According to the government's data, as of 10 November 2022, the national tax system has already handled over 3.7 trillion yuan in new tax and fee cuts and deferrals.

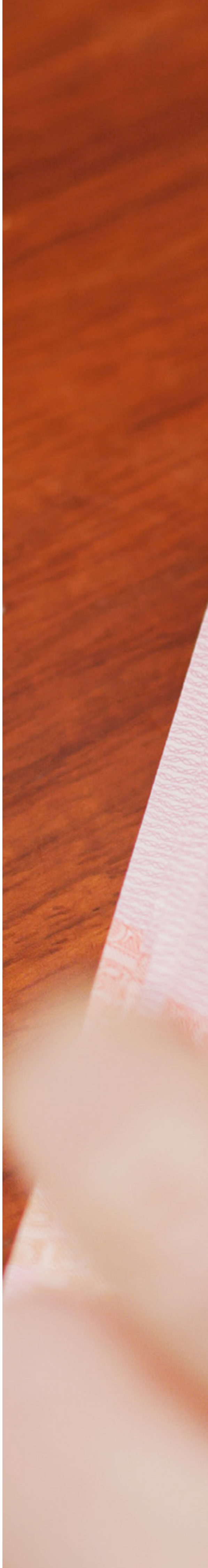
Q: What measures has the government implemented with regard to social insurance premium payments?

In May 2022, the Ministry of Human Resources and Social Security and the State Taxation Administration announced that premium payments for old-age insurance, unemployment insurance and work-related injury insurance might be deferred for the sectors hit hard by the COVID-19 pandemic, including catering, retail, tourism, civil aviation and the highway, waterway and railway transportation industries. The coverage of the policy was further expanded to another 17 pandemic-hit industries in June 2022, including auto manufacturing and general machinery manufacturing.

Q: What specific support measures have been offered by the Chinese government to help the catering sector?

The contact-intensive catering sector has been severely hit by the COVID-19 pandemic. In February 2022, as part of the policies to promote recovery of the hard-hit services sectors, the Chinese authorities asked on-demand platforms to lower the merchant fees they charge restaurants, in order to help lower the operating costs of catering businesses.

In response to the government's call, the Internet platforms also stepped up support to the catering sector. For example, in March 2022, Chinese food delivery giant Meituan announced a range of measures to support the catering sector, including lowering commissions and capping fees for small and medium-sized merchants in pandemic-hit areas.



05 Platform economy moves towards fair, regulated and orderly development; online retail seeks new opportunities

What the experts say

The government addresses issues in the platform economy

Over the past few years, the platform economy has experienced a meteoric rise in China, quickly entering various industries such as retail, catering, travel, social networking, and so on, further advancing the digital economy. Large-scale Internet companies that operate platforms such as Alibaba, Tencent, and Meituan have become an important medium for cross-industry integration. They have changed people's living and spending habits, reshaped the commercial ecosystem, and advanced major technological innovations and business model changes.

However, this rapid growth has often been accompanied by unethical and anti-competitive business practices, such as signing exclusive distribution agreements, engaging in big-data swindling, and collecting excessive personal data. To ensure fair competition and promote healthy industry development, the central government has continued to improve the regulatory framework and platform governance.

Online retail landscape witnesses major changes

As part of the platform economy, the online retail landscape has also changed significantly in the past year, and online retail development goes hand in hand with business innovation. The COVID-19 pandemic has forced retail and catering enterprises to develop their online channels, accelerate the development of contactless services, and focus on driving online consumption. From January to October 2022, the national online retail sales reached 11 trillion yuan, representing an increase of 4.9% yoy; among them, the online retail sales of physical goods reached 9.5 trillion yuan,

an increase of 7.2% yoy. Consequently, the share of online retail sales of physical goods in the total retail sales of consumer goods went up to 26.2% during the first ten months of 2022, compared with 23.7% in the same period of 2021.

E-commerce platforms have also placed more emphasis on improving their service quality. They have utilized cloud computing and other digital technologies to increase logistics efficiency and improve the overall customer experiences, so as to better serve retailers and consumers.

Development trends of the platform economy in 2023

Our experts predict that the platform economy will become more regulated in 2023 as the industry shows signs of stable and healthy development, supported by better regulatory measures. The transformation of online retail will also continue, with a stronger emphasis on service rather than price competition. Online and offline integration will become increasingly common, and offline channels will become a new focal point for e-commerce platforms.

Q&As

Q: What government policies have been implemented to regulate and support the development of the platform economy?

In January 2022, nine central government bodies, led by the National Development and Reform Commission, published a 19-point notice on regulating and guiding the healthy and long-term development of the platform economy. It emphasized the need to strengthen regulations against improper business practices and increase the obligations of large-scale Internet and platform companies. Furthermore, in March 2022, the Financial Stability and Development Committee of the State Council urged relevant departments to improve the plans to govern the platform economy through standard, transparent, and predictable regulation.

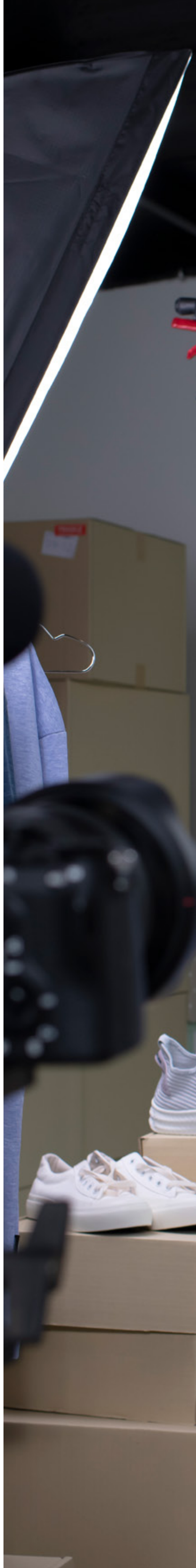
On 16 December 2022, the tone-setting Central Economic Work Conference stated that platform companies will be supported to ‘fully display their capabilities’ in bolstering economic growth, job creation and global competitiveness. Afterwards, several authorities have ramped up measures to support platform companies. For example, China Securities Regulatory Commission said that it will accelerate the process for approving overseas listings of platform enterprises, while the People’s Bank of China stated that it will work to support platform companies to leverage their advantages to play a greater role in promoting technological innovation and expanding domestic demand.

Q: How have platform enterprises responded to the stricter supervision?

Platform enterprises have generally improved their governance structure and practices. For example, in May 2022, Alibaba reported that it has improved its compliance systems and measures to create a fairer, healthier, more sustainable platform operating environment. The company’s level of platform governance has improved significantly over the past year. More than 90% of the interviewed merchants expressed satisfaction with Alibaba’s compliance governance, while customer service satisfaction increased by 6.6% year-on-year.

Q: How can the platform economy benefit the real economy?

The platform economy is beginning to prove its worth to the real economic sector. For example, during the ‘Double 11’ promotion period in 2022, JD.com’s support for rural industries led to over 100,000 yuan in turnover for nearly 10,000 agricultural products. Likewise, on the Tmall platform, the ‘Double 11’ period saw triple-digit growth in turnover for many industrial belts across the country. Overall, online platforms are demonstrating their value to the real economy, which is now supported by both offline and online consumption.



06 Digital transformation will further accelerate China's business innovation and upgrading in the next stage

What the experts say

With its unique advantages in facilitating business innovation, cost reduction, and efficiency enhancement, digitalization is crucial for transforming and upgrading commercial and retail activities. Digitalization can also empower the optimization and upgrading of the entire industry chain through smart applications, digitalized business operations, and electronic transaction processes.

The Chinese government aims to boost the development of the digital economy

The report of the 20th National Congress of the Communist Party of China proposed accelerating the development of the digital economy, promoting the deep integration of the digital economy and the physical economy, and creating a digital industrial cluster that is competitive internationally.

On 7 November 2022, the State Council Information Office released a white paper entitled *Jointly Build a Community with a Shared Future in Cyberspace*, which stated that China's digital economy had become one of the major driving forces of economic growth. In 2021, the scale of China's digital economy, which ranked second in the world, reached 45.5 trillion yuan, equivalent to 39.8% of the GDP. Today, more and more enterprises, especially in traditional industries, are seeking digital transformation to achieve high-quality development.

Digitalization reshapes the commercial and retail industry and helps enterprises improve quality and efficiency

Our experts believe digitalization is essential in retail innovation and upgrading through the deep integration of retail operations and digital technologies such as 5G, big data, the Internet of Things, cloud computing, and artificial intelligence (AI). Many retail enterprises have explored and gradually adopted specific digital solutions which suit their development regarding the company's scale, business positioning, and market characteristics. Besides, many retail companies have deployed their marketing campaigns through various digital channels, such as Internet platforms, apps, mini-programs, 'private domain' marketing, online communities, group buying, and live-streaming.

In addition, digital service providers offer holistic digital retail solutions for managing various consumption processes from shopping, try-on, payment, to repeat purchases. These solutions support the digital transformation of retail companies in terms of traffic generation, conversion, analysis, repeat purchases, cost reduction, and efficiency improvement. Major digital tools include AI, augmented reality (AR), virtual reality (VR), smart shopping guides, live shopping guides, smart fitting mirrors, smart parking, intelligent navigation, interactive shelves, cloud POS, unmanned stores, game interaction, etc.

Digital technology empowers business innovation

Consumer habits in China underwent fundamental changes amid the tight pandemic control in 2022. Coupled with changes in China's demographics and living lifestyle, the integration of online and offline channels is getting intense.

During the past few years, business innovations in China have become more consumer-centric, digitally empowered and iterative. Various business innovations are observed regarding consumption types, retail formats, product categories, and marketing channels.

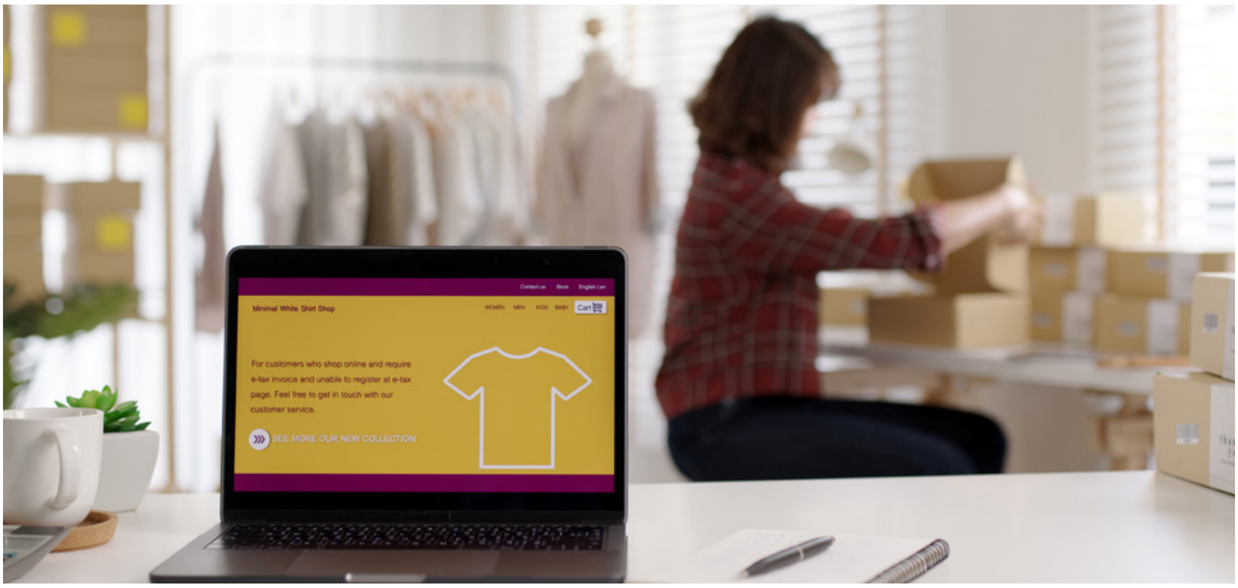
- New consumer preferences in China kept emerging in 2022, such as the camping economy, pet economy, self-pleasing consumption, domestic brands, art, cultural and creative consumptions, lifestyle brands, etc.
- Green and health consumption is gaining ground in China. For instance, the demand for edible oil and condiments for infants and kids, as well as outdoor sports equipment such as camping tents, is growing fast. New-energy vehicles and green smart home appliances such as intelligent curtains, smart wardrobes, and all-in-one washer dryers have also become the mainstream of consumption.
- Discount stores are emerging in China and offering value-for-money products amid the COVID-19 pandemic, such as HitGoo, HotMaxx, Outlléts, etc. Certain chained snack stores, such as 'Busy For You' and 'Xue Ji Fried Food', also expanded rapidly in 2022.
- Young consumers, especially generation Z and generation M, seek new immersive consumption experiences. Companies offering VR, gaming, e-sports, animation, IP products, and music and entertainment are getting popular, such as BOM Xifanli, Xijing Taohuayuan, and Five Cats Recreation Mall.
- The digital marketing sector and live streaming kept booming. As of June 2022, the number of live-streaming viewers in China reached 469 million. In 2021, the market size of the live-streaming sector reached 2.4 trillion yuan, 120 times the size in 2017. More and more businesses opt to sell through live-streaming channels. Some new live-streaming companies are able to gain attention within a short period, and one example is Dong Fang Zhen Xuan, the e-commerce business of New Oriental. More recently, leading live-streamers have started to switch their business strategies from driving traffic to strengthening their supply chains.
- The membership model emerged as a popular offline retail strategy in 2022. The membership scale of retail enterprises is getting bigger and bigger. The proportion of sales to members averaged over 60% for large retailers. Critical success factors for the membership model include strong capabilities in product sourcing, private labels and supply chain management. However, most hypermarkets in China that have transformed into membership stores since 2021 have not been equipped with the mentioned operational capabilities and have yet to perform well.

Q&As

Q: What role will digitalization play in the commercial sector in the future?

Be it online or offline business, digitalization is essential for the future development of all enterprises. However, building a digital end-to-end supply chain still has a long way to go.

In recent years, commercial enterprises have mainly devoted their digitalization efforts to the downstream of the supply chain, such as the establishment of online sales channels, self-operated platform construction, omnichannel marketing, and traffic generation. However, a lower level of digitalization has been observed in the upstream and midstream of the supply chain. Our experts believe that companies should deploy digital technology, data analytics, and digital applications in their whole supply chain from production, distribution to sales, aiming to offer an excellent customer experience.



In the long term, we should leverage digitalization to reshape the supply chain by optimizing the business models in terms of ‘consumers, products, and channels’, and transforming the entire process from production to logistics, warehousing and retail activities. Enterprises should no longer focus on building the technical architecture of the front-end activities but should begin the digital transformation in the middleware and back-end applications. Establishing a data middleware, a technology middleware, and a business middleware is essential in the digital transformation. And the next step of digital transformation is to establish a supply chain that is lean and efficient.

Q: What is the single most important growth driver for the retail sector in the coming years?

Amidst the rise of digital technology, the acceleration of O2O integration, and changes in consumer habits, on-demand retail, or instant retail, is developing fast and is expected to be the prime growth driver for the retail sector in 2023 and the years to come.

As an extension of home delivery services, on-demand retail is a new retail model bridging consumers and merchants through online platforms, where merchants aim to deliver products to their online consumers within 30 to 60 minutes.

According to a report released by the China Chain Store and Franchise Association on 9 November 2022, the market of on-demand retail has exploded with a compound annual growth rate of 81% over the past five years. It is expected that the market size of on-demand retail will exceed 1 trillion yuan by 2025. Key players, including JD.com, Alibaba, Meituan, Ele.me, Freshippo, Walmart, and Yonghui, have tapped into the on-demand retail market through either self-operated model or open platform model.

Our experts expected that the booming of on-demand retail would threaten the business of traditional convenience stores. In terms of demand, on-demand retail has a broader consumer base, a wider market coverage, and more diversified services. In terms of supply, it offers a wider range of products and services, more extensive brand coverage, and greater geographical outreach. In the long run, open on-demand retail platforms allow offline enterprises that have undertaken digital transformation to get both online and offline orders. The new model would facilitate the growth of offline enterprises and further transform the future of China’s retail industry.

07 Green transformation in the circulation sector has accelerated; green consumption on its way to becoming the norm

What the experts say

Working towards the goals to reach peak carbon emissions before 2030 and achieve carbon neutrality by 2060, the government rolls out a series of policies and measures to promote green consumption.

Since then, green transformation in the commercial sector has accelerated. Firms continue to explore sustainable business models. Many green products and green brands have emerged in the market.

In the meantime, environmental consciousness of the public has been awakened with improving living standards. Chinese consumers have become aware of the environmental impact of their lifestyle and consumption decisions. Green consumption is on its way to becoming the norm.

Retailers engaging people in green consumption

Retailers are proactively introducing and promoting green consumption to their customers, through online and offline channels. Specifically, e-commerce platforms have launched numerous green initiatives over the past few years. For example, after releasing its own *Carbon Neutrality Action Report* last year, e-commerce giant Alibaba has participated in the making of green and low-carbon standards, opened a special zone for green brands on its own e-commerce platform Tmall, and launched a 'carbon ledger platform', to help consumers adopt a more environmentally friendly lifestyle.

Retailers are also adopting green and sustainable marketing to boost sales. Many e-commerce platforms disburse green consumption vouchers to customers and offer rewards upon green consumption. During the 'Double 11' online shopping festival this year, JD Logistics issued 'de-carbon vouchers', equivalent to 200,000 tons of carbon, to customers to raise awareness of green logistics.

As for brick-and-mortar retailers, mega shopping malls have continued to adopt environmentally friendly practices. They have also stepped up efforts to introduce green consumption to shoppers' everyday life. For example, over the past few years, Intime Department Store has launched the empty bottle recycling campaign, adopted e-invoicing, and introduced digital membership cards. This year, the mall also promoted used clothes recycling, and introduced the eco-friendlier fully biodegradable courier bags for delivery packaging.

Young consumers hold the key to China's green consumption market

Consumers are increasingly concerned about the environment. Green consumerism has been growing in popularity in society. Indeed, organic and low-carbon lifestyle consumption has been rapidly expanding in China: Over the past five years, sales of related products on JD.com grew by 167%, and the number of consumers increased by 86%.

According to a study conducted by Southern Weekly and the New Retail think tank, over 60% of respondents were aware of 'green consumption'. Consumers actively participated in a variety of green consumption-related campaigns, with more than 40% of respondents saying they had recycled empty makeup containers through campaigns held in shopping malls.

The post-90s and post-00s groups clearly had a better understanding of green consumption than previous generations, with 79% and 70%, respectively, of respondents saying they were aware of 'green consumption'. Young consumers are generally more concerned about the goodness of society, and they are more willing to change their consumption habits in order to protect the environment. When making consumption decisions, they are more likely to consider the sustainability efforts of the brands and pay a premium for green products. Young consumers are more actively taking steps to drive the transition towards green consumption.

From policy-driven to demand-driven

In the past, Chinese consumers were passive receivers of environmental information. Today, riding the green wave, they are more actively seeking out products and brands that are environmentally friendly. Consumers are increasingly interested in buying green products, not only for new-energy vehicles (NEVs) and energy efficient appliances that are pushed by government incentives, but also for basic necessities and other products. Green and sustainability are playing an increasingly important role in consumption decision making.

With a growing environmental awareness, the green transformation of the consumption market has become both policy-driven and demand-driven. A premium for green products and green brands would be justified with increasing customer recognition, presenting new business opportunities to the retail sector. In response to consumption upgrading, the commercial sector will expedite the establishment of green supply chains and increase the supply of green and low-carbon products and services. We expect to see a full-scale green transformation and upgrading of the consumer market.

Q&As

Q: What are some of the key government policies and initiatives to boost green consumption?

The government has implemented comprehensive policies to bolster green transformation on both the supply and demand side. In January 2022, the National Development and Reform Commission unveiled the *Implementation Plan on Promoting Green Consumption*. The plan proposes 22 measures and policies to promote green consumption in key industries and sectors, including clothing, food, housing and transport. The goal is that, by 2025, the market share of green products will increase significantly and, by 2030, green and low-carbon products will become the mainstream.

This year, the government has also intensified its efforts to boost the consumption of NEVs and energy efficient appliances. For example, in 3Q2022, the government, for the third time, extended the tax exemption on NEVs to the end of 2023. As for green and smart home appliances, the government encouraged the replacement of obsolete home appliances and promoted the 'internet + recycling' model. The government also launched a nationwide campaign and disbursed consumption vouchers to promote upgrading of home appliances.

Q: What are some of the green consumption practices of Chinese consumers?

Consumers nowadays are more rational in making consumption choices. They would choose energy efficient home appliances and second-hand goods to reduce waste and save resources. As for dining, they would use less plastic and disposable tableware, and order smaller dishes.

Consumers are also health conscious. They aspire to buy products that are natural, with no added chemicals, and organic, especially for food and cosmetics. They are willing to pay a premium for green products. According to Tmall, young consumers are more attached to eco-friendly products, and they are willing to pay 10%-20% more for such products.

Q: What are the key challenges for the green consumption transformation?

Chinese consumers concern about the environment and have positive views of eco-friendly products. However, in practice, some consumers do not always engage in green consumption. This is reflected in a high level of green consumption intention, but a low level of actual purchasing. Some consumers may find it difficult to identify green products, while others doubt the quality of green products in the market. In addition, the higher prices also deter consumers from buying eco-friendly products.

Going forwards, with retailers stepping up promotions, consumers will have better knowledge and information on green products, which would gradually help closing the gap between green consumption intention and action.

08 China’s catering market experiences bumpy recovery and leverages digitalization and innovation efforts to seize new opportunities

What the experts say

The catering industry is indispensable for providing employment opportunities, promoting consumption, and supporting people's livelihoods. As such, a steady growth of the catering industry remains crucial to China's long-term socio-economic development.

Catering industry faces setbacks in 2022 due to COVID-19 resurgence

The year 2022 brought significant new challenges to China's catering industry due to recurring domestic outbreaks of COVID-19 and the associated mobility restrictions. Catering sales showed signs of recovery in the first two months of the year with a growth rate of 8.9% yoy, but the resurgence in COVID-19 cases since then halted the momentum. China's catering market reached 3.5 trillion yuan during January to October 2022, a decrease of 5% yoy. The size of the catering market in 2022 is estimated to be about 4.4 trillion yuan, a year-on-year decrease of 6%-7%.

Going into 2023, China's catering industry is expected to resume its steady growth as the Chinese government has eased COVID-19-related restrictions since November 2022, which will prompt people to dine out.

Digitalization continues to redefine the catering industry

Digital transformation fuelled by technological advancement continues to drive change and growth in the catering industry.

The 20th National Congress of the Communist Party of China (CPC) has proposed various strategies for accelerating the growth of the digital economy. According to our experts, the catering industry should use this opportunity for a seamless O2O integration, optimize for new types of consumption, promote innovation on all fronts, and leverage digital transformation to drive the industry forward. Though catering businesses still face ongoing issues such as insufficient infrastructure, weak service capabilities and outdated regulatory standards in their digitalization process, they have already improved the overall efficiency and competitiveness of the industry, which will continue to grow and digitalize as directed by government policies.

Q&As

Q: How has the industry innovated in response to recent challenges?

During this challenging period of the COVID-19 pandemic, catering businesses continue to come up with new and innovative business models and product offerings, which have played an active role in boosting catering consumption.

First, the catering industry has continued its digital transformation efforts, incorporating smart technologies such as smart cooking machines and service robots, social commerce and third-party platforms to better serve consumers.

Furthermore, the pandemic has also increased consumers' expectations for food safety, nutrition, and hygiene standards. This has in turn improved food safety protocols such as supervision measures and spot checks, as well as better consumer protections.

Besides, as consumers have shown a rising appetite for ready-to-cook and ready-to-heat meals under the stay-at-home economy, the catering industry has accelerated their foray into the premade food market over the past year.

Q: What are the most important growth trends for the industry?

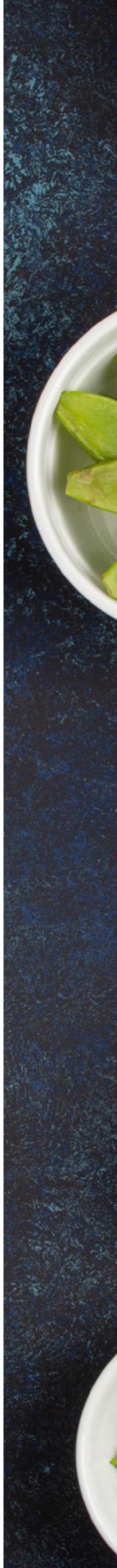
Night economy: The night economy continues to grow, but there are some key issues that must be addressed, such as lack of differentiation, lack of facilities and infrastructure, traffic congestion, and disruption to local residents. With appropriate regional policies and measures, the night economy will continue to flourish.

One-person households: One-person households mainly consist of young adults and empty nesters. Currently, they make up over one-fourth of the catering market, and this consumer group has significant growth potential – particularly in first- and second-tier cities. Targeted offerings such as upscale single-food restaurants, luxurious casual meals, and online takeaway and delivery services, will become increasingly popular as this market continues to expand.

Green development: In order to meet national carbon peaking and carbon neutrality goals, the catering industry needs a clear strategy for sustainable development. There are emerging green and low-carbon technologies across the industrial chain, as well as a growing trend towards 'small-portion servings'. These developments come hand-in-hand with sustainability policies and regulations as well as increasing awareness and popularity of green lifestyles.

Q: How should the industry leverage innovative technologies to improve the supply chain?

Supply chain improvements through innovative technologies have a promising future. The catering industry could accelerate the digitalization process by adopting technologies such as big data, artificial intelligence, and the Internet of Things across the supply chain. This will effectively reduce labour costs and improve risk management, which will in turn shift the focus from increasing scale and speed to improving quality and efficiency. This newly modernized catering industry will be able to better meet the increasing consumer demand for personalization, customization and experiential consumption.



09 Construction of agricultural product circulation system enters a new stage of high-quality development, speeding up rural revitalization

What the experts say

Agricultural wholesale markets: the transformation and upgrading from 'quantity' to 'quality'

With the improvement in agricultural production capacity and people's living standards, China's agricultural wholesale market has been growing rapidly in transaction scale and has assumed an increasingly important function of agricultural product circulation and transaction. Meanwhile, according to data from the National Bureau of Statistics, the number of agricultural wholesale markets with transaction value over 100 million yuan decreased gradually from the peak of 1,044 in 2012 to 771 in 2020. Our experts observed that the development focus of the agricultural wholesale markets had shifted from 'quantity' to 'quality'.

Large agricultural wholesale market operators invest in agricultural wholesale markets and logistics parks in various cities in China through new construction, cooperation, shareholding, acquisition, and trusteeship. Traditional agricultural wholesalers are upgrading to become comprehensive agricultural product circulation service providers and are developing into large corporations. For example, Shenzhen Agricultural Products Group operates 33 agricultural wholesale markets in 23 large and mid-sized cities including Beijing, Shanghai and Shenzhen. In 2021, the total transaction volume of its wholesale markets exceeded 33 million tons, and the total transaction value exceeded 220 billion yuan, accounting for 10% of market share of all wholesale markets above designated size in the country.

Improving and modernizing agricultural product circulation network to boost rural consumption

Currently, the circulation of agricultural products is inefficient, in the sense that the circulation channel is complicated and the technical level of cold chain logistics is low. In January 2022, the National Development and Reform Commission released the *Plan on Building a Modern Circulation System during the 14th Five-Year Plan Period (2021-2025)*, which points out that the circulation system of agricultural products is obviously lagging behind.

To improve and modernize the circulation system of agricultural products, the plan calls for the construction of backbone agricultural wholesale markets, accelerating the building of markets in agricultural production regions in China's central, western, and northeastern regions, and taking forward the upgrading of the farm produce markets, collection and distribution centres, and low-temperature processing centres. In addition, the government also supports the agricultural product circulation enterprises to equip cold chain logistics facilities, to improve the cold chain logistics capacity and standardization level. Our experts believe that improving the circulation efficiency of agricultural products is particularly important, in terms of meeting the living needs of farmers, unleashing rural consumption potential, and promoting rural revitalization.

Promoting digitalization upgrade of agricultural products supply chains

Driven by modern information technologies such as internet, big data, cloud computing, artificial intelligence and 5G, new models and new technologies of agricultural supply chains are constantly emerging. Enterprises are making efforts to accelerate the establishment of temperature-controlled storage bases across the country, and take forward deeper integration of cloud warehouse network, transportation network, co-distribution network and information network. Circulation platforms, including agricultural wholesale markets, are cooperating with farmers and cooperatives to establish a whole industrial chain integrating farming, breeding, processing and trade. In addition, the construction of cold chain logistics facilities has been accelerated to improve the industrial and supply chains. Our experts predict that the innovation and digitalization of the agricultural product circulation system will enter a new stage of development and will play a more important role in the overall rural revitalization.

Q&As

Q: How will the RCEP benefit the agricultural markets?

RCEP member countries have actively engaged in agri-trade. In 2021, the 15 member countries accounted for about 22% of the world's total trade in agricultural products. As the RCEP entered into force on 1 January 2022, the agricultural market would benefit from tariff concessions and the unified rules of origin. This would lower the transaction costs for trading and thus facilitate trade of agricultural products in the region.

According to the Agricultural Trade Promotion Center (ATPC) under the Ministry of Agriculture and Rural Affairs of China, agri-trade between China and RCEP member countries reached a record-high of US$79.3 billion in the first three quarters of 2022, representing a year-on-year growth of 15.6%. It is expected that the RCEP will continue to foster trade and investment in agriculture in the region.

Q: What measures has the government implemented to support the development of cold chain logistics for agricultural products?

With the improvement of people's standard of living, the size of the fresh food market continues to grow, driving the demand for cold chain logistics. In May 2022, the Ministry of Finance and the Ministry of Commerce jointly issued a circular to promote the development of cold chain logistics for agricultural products, aiming to improve the cold chain infrastructure for agricultural products, and boost the capability and efficiency of cross-regional cold chain circulation, over the next two years.

The ministries will support the upgrade of cold chain infrastructure in distribution centres and sales areas and the establishment of public cold storage and central kitchens. The ministries will also support related circulation enterprises to expand their cold chain collection and distribution centres and low-temperature delivery centres.

Q: How is the market potential of agricultural products with geographical indications?

Agricultural products with geographical indications (GIs), which represents products with high quality and a good reputation, have become more popular among Chinese consumers. According to a report released by JD.com, from 2018 to the first half of 2022, consumer spending on GI agricultural products and GI fresh produce grew by an average of 36% and 41% per year, respectively, significantly higher than the overall growth of agricultural products. The report also indicates that consumers are paying more attention to the origin information when purchasing agricultural products, and they would prefer well-known places of origin and varieties.

China's GI agricultural products have also gained popularity among overseas customers. Since the *China-EU Geographical Indications Agreement* came into effect in March 2021, 244 China-EU GIs have been mutually recognized and protected, which has boosted exports of Chinese GI agricultural products.

10 Digitalization and green development of commerce and trade logistics help upgrade industrial and supply chains

What the experts say

In recent years, China's logistics enterprises have started to embrace smart logistics, which is characterized by digitalization and green transformation. Technology-driven logistics solutions not only improve service quality and efficiency of the entire logistics industry, but also support the establishment of a modern circulation system in China. Developing smart logistics solutions through digitalization and digital intelligence also helps accelerate the transformation and upgrading of industrial and supply chains, since logistics is deeply integrated with manufacturing, commerce, and trade activities.

Digitalization helps optimize cost and efficiency of the logistics sector

With the integration with new-generation information technology, the logistics industry is becoming more digital, smart and Internet-connected. Innovative logistics solutions, which link upstream and downstream stakeholders along the industrial chain, help improve digital logistics infrastructure, and lead to cost reduction, efficiency improvement, and high-quality development of the modern logistics industry.

To win the heart of clients, logistics companies have to control costs and improve efficiency. Hence, an increasing number of logistics enterprises are developing and applying digital operation systems with big data and cloud computing to achieve cost savings and improve operational efficiency. They integrate technological innovation into their daily operations and achieve a full-chain digital operation and intelligent decision-making mechanism.

With the application of digital technology in the logistics industry, the overall efficiency of transportation and distribution has improved. During the 'Double 11' period in 2022, more than 900 sets of automatic processing equipment were newly installed across the express industry. Technologies like on-site logistics management, smart security checks, and geofencing have become more mature and helped improve overall operational efficiency. Consumers can now expect a shortened delivery lead time from hours to minutes.

Green logistics is gaining traction

Sustainability is key to the long-term development of the logistics sector. Through the collaboration of all stakeholders, the awareness of green development has gradually increased.

To encourage the green transformation in the logistics sector, the National Development and Reform Commission, the Ministry of Commerce, and the State Post Bureau jointly issued a notice to launch a pilot run of a large-scale application of recyclable express packaging from January 2022 to December 2023, aiming at exploring various replicable, scalable, and sustainable models of recyclable express packaging.

At the same time, more logistics enterprises have paid attention to low carbon, energy conservation, and emission reduction. For instance, more and more express companies and brands have deployed green packaging solutions. During the 'Double 11' period in 2022, 6 million carton boxes were recycled, up by 50% yoy, according to Cainiao data. Yili, Unilever, and other brands also launched a campaign to reduce carbon emission by 50 grams per parcel during the 'Double 11' period.

Moreover, the China Chamber of Commerce, the Zhejiang Provincial Government, the Trade Development Bureau of the Ministry of Commerce, and other units will jointly hold the 'Global Digital Logistics and Green Supply Chain Expo' in Wenzhou in 2023 to explore digital empowerment, green development, and industrial collaboration in the logistic industry.

Q&As

Q: What will be the major trends in logistics in 2023?

Smart logistics is one of the crucial elements of smart supply chains. The competition in the logistics sector will evolve to a competition of smart supply chains, according to our experts.

Besides, as more logistics enterprises and stakeholders embrace green operations, China's logistics industry will continue its green transition in 2023.

Specifically, three trends will emerge:

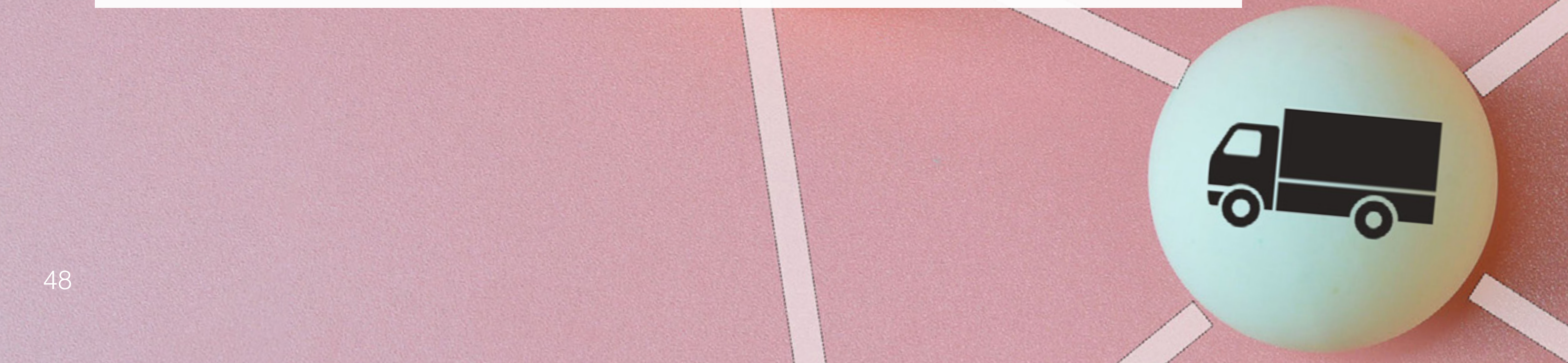
- Traditional offline logistics will be fully connected with the Internet. Some of the physical operations will become accessible online. The launch of data-driven businesses and visualization of logistics operations are expected.
- The boundaries of logistics enterprises will become blurred. Upstream and downstream stakeholders along a supply chain will empower each other through sharing resources on a connected platform.
- The new-generation information technology and logistics infrastructure will be fully integrated. The development of 'new infrastructure' such as 5G networks and the Internet of Things (IoT) will drive a leapfrog development in smart logistics and lead to the emergence of IoT-based logistics.

Q: What are the challenges in developing green logistics?

Green transformation is a long journey for the logistics sector. Logistics enterprises are facing enormous challenges and difficulties in the process, such as high initial investments and long payback periods. Thus, some of them lack the motivation to go green.

Nonetheless, under the guidance of the government, the logistics industry has begun to explore new solutions for green logistics, including green packaging for express delivery, degradable packaging bags and recyclable packaging boxes, paperless shipping, the reduction of secondary packaging, and the use of new-energy vehicles in land transportation and sustainable aviation fuel in air transportation.

Our experts believe that China's logistics sector should further explore innovation in technology and business models to reduce waste and carbon emissions. In addition, the industry should increase the publicity of green express delivery and drive the stakeholders along the supply chain to jointly promote sustainable and low-carbon development.

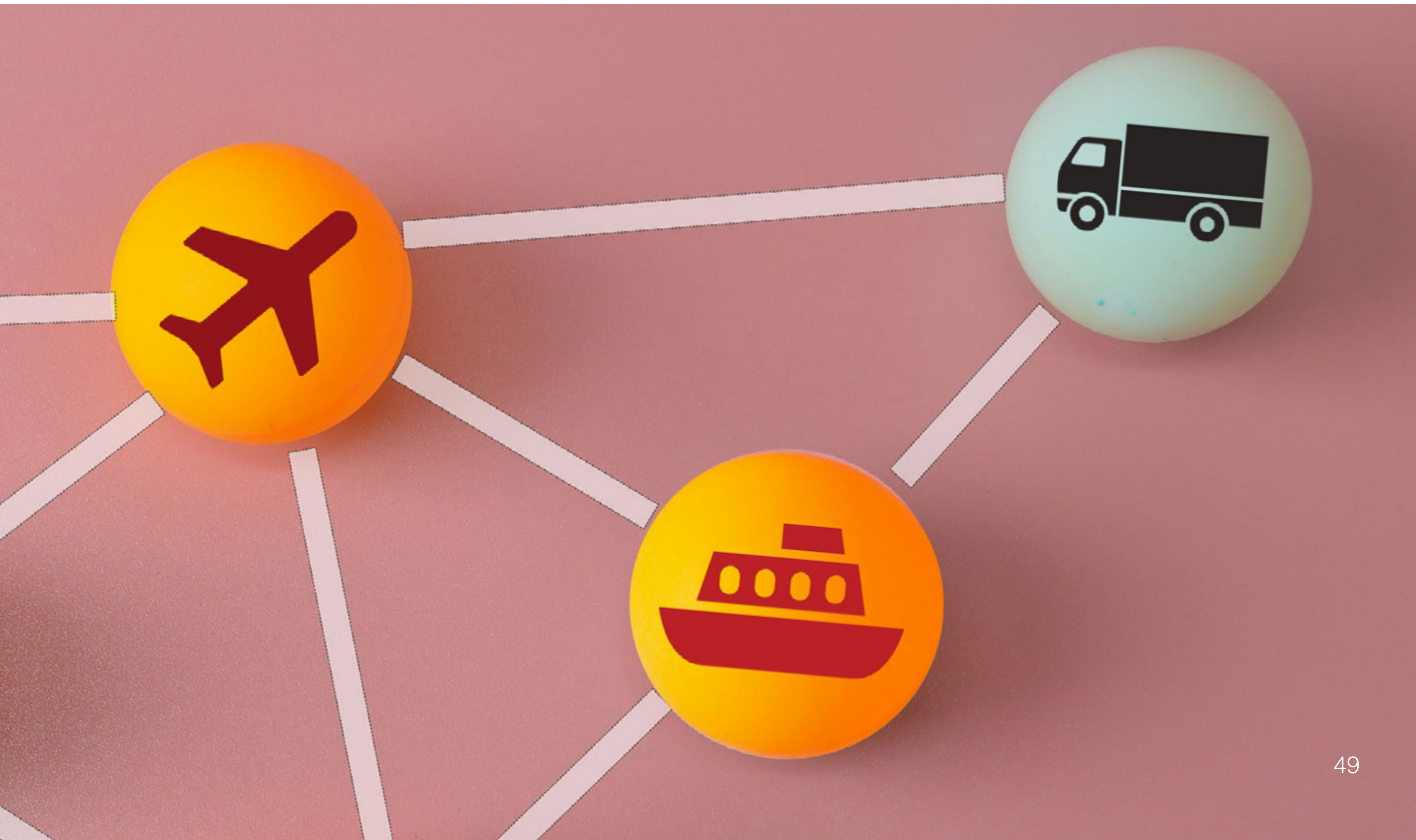


Q: How did the logistics sector ensure critical supplies during the COVID-19 pandemic?

A smooth logistics flow is essential for a steady development of the economy, and an emergency logistics system plays an even more vital role, especially amid the COVID-19 pandemic.

A systematic, quick-response, well-coordinated, and robust emergency logistics system is crucial to socio-economic development in the time of pandemic. In April 2022, the *Opinions of the CPC Central Committee and the State Council on Accelerating the Construction of a Unified National Market* clearly stated that the construction of the emergency logistics system should be strengthened.

In 2022, many logistics enterprises and relevant government departments have jointly established emergency logistics systems to increase the transportation capacity of rescue equipment and disaster relief supplies. With the normalization of the pandemic, emergency logistics and regular logistics need to be organically integrated to both support economic development and prevent and control the disruption caused by the pandemic. Regular logistics must be capable of quickly transforming itself to offer an emergency logistics operation when encountering an emergency. At the same time, it is also necessary for regular logistics to continuously optimize their operations to break through the choke points and pain points to better serve the needs of the people.



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