# China Trade Quarterly

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# Part One: Domestic Trade

## A. Recent developments

### 1. China's economic recovery picks up speed in 4Q20

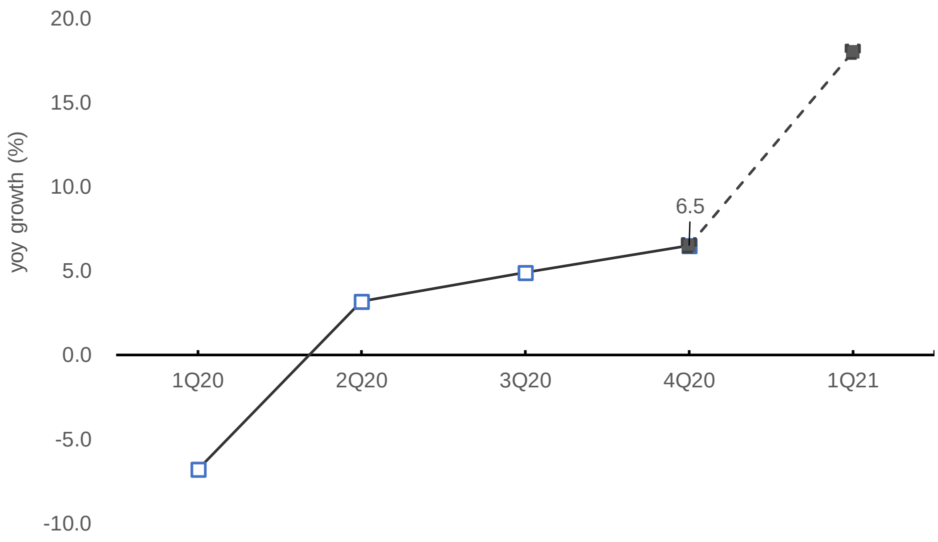
China's real GDP growth accelerated from 4.9% yoy in 3Q20 to 6.5% yoy in 4Q20, the fastest pace in more than two years *(see exhibit 1)*. Overall, China's nominal GDP amounted to 101.6 trillion yuan in 2020, up by 2.3% yoy in real terms. China was the only major economy to record economic growth in 2020.

**With China's private consumption further catching up with the strong rebound in production, and given a low comparison base in the same period last year, we predict China's real GDP growth to reach 18.0% in 1Q21.**

**We project strong growth of over 8.0% for the Chinese economy in 2021 as a whole, boosted by a full recovery in domestic demand and a better global environment.**

Exhibit 1: China's real GDP growth and forecasts, 1Q20 to 1Q21

| **FY20** | 1Q20 | 2Q20 | 3Q20 | 4Q20 | 1Q21F |
|---|---|---|---|---|---|
| **2.3%** | -6.8% | 3.2% | 4.9% | 6.5% | 18.0% |




*Source: National Bureau of Statistics, PRC*

### 2. Growth in retail sales further recovers in 4Q20

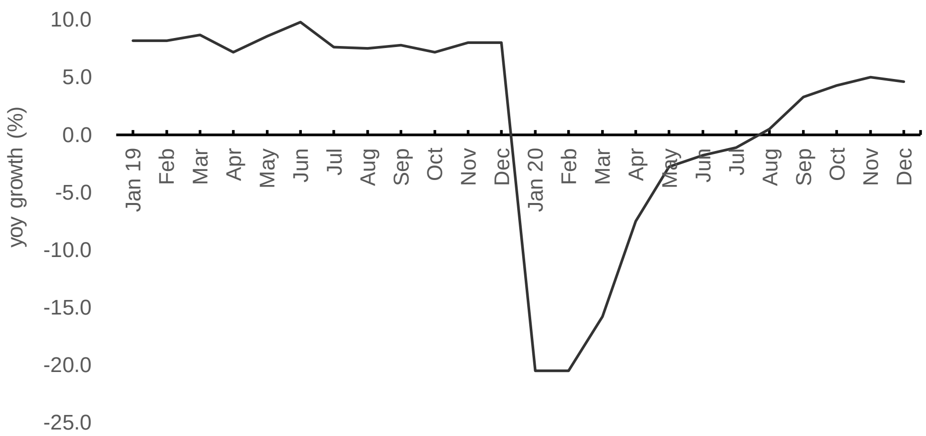
China's total retail sales of consumer goods were up by 4.6% yoy in 4Q20, compared with 0.9% yoy in 3Q20. In 2020, China's total retail sales of consumer goods reached 39.2 trillion yuan, down by 3.9% yoy *(see exhibits 2, 3 and 4)*.

**Amid a rebound in COVID-19 cases in early 2021, migrant workers have been discouraged from travelling back home for the Chinese New Year, which could hurt retail sales. Still, we predict that the growth in retail sales will top 25.0% yoy in 1Q21 due to a low comparison base in the same period last year.**

**We expect that the revival of consumer confidence and the rollout of consumption-boosting measures will push retail sales growth to 12.0% yoy in 2021.**

Exhibit 2: China's total retail sales, year-on-year nominal growth, January 2019 to December 2020

| **FY20** | Jan-Feb 20 | Mar | Apr | May | Jun | Jul | Aug | Sep | Oct | Nov | Dec |
|---|---|---|---|---|---|---|---|---|---|---|---|
| **-3.9%** | -20.5% | -15.8% | -7.5% | -2.8% | -1.8% | -1.1% | 0.5% | 3.3% | 4.3% | 5.0% | 4.6% |




*Source: National Bureau of Statistics, PRC*

Exhibit 3: China's total retail sales, month-on-month nominal growth, July to December 2020

*mom growth (%), seasonally adjusted*

| | Jul 20 | Aug | Sep | Oct | Nov | Dec |
|---|---|---|---|---|---|---|
| Total retail sales | 0.60 | 1.40 | 4.11 | 0.82 | 1.55 | 1.24 |

*Source: National Bureau of Statistics, PRC*

Exhibit 4: China's total retail sales, 2019 to 2020

| *Nominal growth, yoy (%)* | FY19 | 1Q20 | 1H20 | 1-3Q20 | FY20 |
|---|---|---|---|---|---|
| Total retail sales | 8.0 | -19.0 | -11.4 | -7.2 | -3.9 |
| - Goods | 7.9 | -15.8 | -8.7 | -5.1 | -2.3 |
| Sales by enterprises above designated size | 3.9 | -18.9 | -9.0 | -4.4 | -1.0 |
| Online sales | 19.5 | 5.9 | 14.3 | 15.3 | **14.8** |
| - Catering services | 9.4 | -44.3 | -32.8 | -23.9 | **-16.6** |

*Source: National Bureau of Statistics, PRC*

**Impact of the COVID-19 outbreak on different types of consumption was not uniform. While catering services sales fell amid the threat of COVID-19, online retail sales of goods bucked the trend to post strong growth as people avoided going out and turned to online shopping.**

Exhibit 5: China's retail sales by enterprises above designated size, by product, 2019 to 2020

| *Nominal growth, yoy (%)* | FY19 | 1Q20 | 1H20 | 1-3Q20 | FY20 |
|---|---|---|---|---|---|
| Grain, oil and food | 10.2 | 12.6 | 12.9 | 10.6 | 9.9 |
| Beverages | 10.4 | 4.1 | 10.5 | 12.3 | 14.0 |
| Tobacco and liquor | 7.4 | -14.0 | -3.1 | 1.2 | 5.4 |
| Garments, footwear, hats, knitwear | 2.9 | -32.2 | -19.6 | -12.4 | -6.6 |
| Cosmetics | 12.6 | -13.2 | -0.2 | 4.5 | 9.5 |
| Gold, silver and jewellery | 0.4 | -37.7 | -23.6 | -12.5 | -4.7 |
| Commodities for daily use | 13.9 | -4.2 | 5.2 | 6.8 | 7.5 |
| Home appliances & audio/video equipment | 5.6 | -29.9 | -12.2 | -8.0 | -3.8 |
| Traditional Chinese and Western medicines | 9.0 | 2.9 | 5.8 | 6.2 | 7.8 |
| Cultural and office appliances | 3.3 | -3.4 | 1.6 | 3.7 | 5.8 |
| Furniture | 5.1 | -29.3 | -14.1 | -9.9 | -7.0 |
| Communication appliances | 8.5 | -3.6 | 5.8 | 7.2 | 12.9 |
| Petroleum and related products | 1.2 | -23.5 | -18.4 | -16.7 | -14.5 |
| Automobiles | -0.8 | -30.3 | -15.2 | -6.3 | -1.8 |
| Building and decoration materials | 2.8 | -23.9 | -11.0 | -7.5 | -2.8 |

*Source: National Bureau of Statistics, PRC*

**In 2020, basic consumer staples such as 'beverages' and 'grain, oil and food' still managed to post respectable sales growth. Meanwhile, retail sales of consumer discretionary items such as 'garments, footwear, hats, knitwear' and 'gold, silver and jewellery' dropped.**

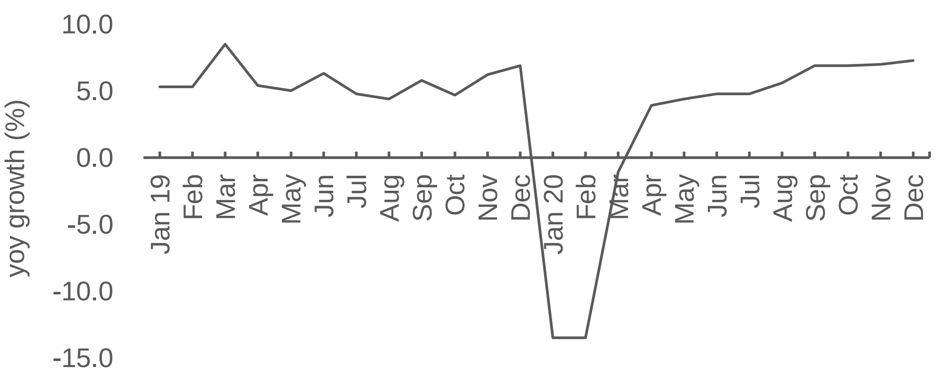
**It is noteworthy that 'communication appliances' and 'cosmetics' recorded the fastest retail sales growth in 4Q20.**

### 3. Industrial production grows at fast pace in 4Q20

China's industrial production, measured by the value-added of industrial output (VAIO) of industrial enterprises above designated size[1], rose by a better-than-expected 7.1% yoy in 4Q20 *(see exhibit 6)*. Overall, China's industrial production expanded by 2.8% yoy in 2020.

Exhibit 6: China's industrial production growth, January 2019 to December 2020

| Jan-Feb 20 | Mar | Apr | May | Jun | Jul | Aug | Sep | Oct | Nov | Dec |
|---|---|---|---|---|---|---|---|---|---|---|
| -13.5% | -1.1% | 3.9% | 4.4% | 4.8% | 4.8% | 5.6% | 6.9% | 6.9% | 7.0% | 7.3% |




*Source: National Bureau of Statistics, PRC*

**We expect that China's industrial production growth will top 25.0% yoy in 1Q21, given an improving demand, order shifts from alternative production countries, a large share of migrant workers choosing not to travel back home for the Chinese New Year, and a low comparison base last year.**

[1] 'Industrial enterprises above designated size' refer to industrial enterprises with annual revenue of 20 million yuan or more.

### 4. Fixed asset investment continues to grow in 4Q20

The nominal growth of China's fixed asset investment (FAI) (excluding rural households) accelerated from 0.8% yoy in 1-3Q20 to 2.9% in 2020. Overall, China's FAI (excluding rural households) amounted to 51.9 trillion yuan in 2020 *(see exhibit 7)*.

**We expect that the strong export performance and higher industrial prices this year will buoy investment in the manufacturing sector, which will take the lead in boosting China's FAI in 2021.**

Exhibit 7: China's FAI (excluding rural households) growth, July to December 2020

| *Year-to-date, yoy growth %* | Jul 20 | Aug | Sep | Oct | Nov | Dec |
|---|---|---|---|---|---|---|
| FAI (excluding rural households) | -1.6 | -0.3 | 0.8 | 1.8 | 2.6 | 2.9 |
| - Manufacturing sector | -10.2 | -8.1 | -6.5 | -5.3 | -3.5 | -2.2 |
| - Infrastructure (excluding power, heat, gas and water infrastructure) | -1.0 | -0.3 | 0.2 | 0.7 | 1.0 | 0.9 |
| - Real estate development | 3.4 | 4.6 | 5.6 | 6.3 | 6.8 | 7.0 |

*Source: National Bureau of Statistics, PRC*

### 5. Growth in M2 and outstanding RMB loans slows

Both the broad money supply (M2) and the total outstanding RMB loans have grown at a slower pace recently, indicating a moderation in credit growth *(see exhibit 8 & 9)*.

Exhibit 8: Broad money supply (M2) and RMB loans, January to December 2020

| | Broad money supply (M2) | | Total outstanding RMB loans | |
|---|---|---|---|---|
| *As of* | Amount (trillion yuan) | yoy growth | Amount (trillion yuan) | yoy growth |
| End-Jan 20 | 202.3 | 8.4% | 156.5 | 12.1% |
| End-Feb | 203.1 | 8.8% | 157.4 | 12.1% |
| End-Mar | 208.1 | 10.1% | 160.2 | 12.7% |
| End-Apr | 209.4 | 11.1% | 161.9 | 13.1% |
| End-May | 210.0 | 11.1% | 163.4 | 13.2% |
| End-Jun | 213.5 | 11.1% | 165.2 | 13.2% |
| End-Jul | 212.6 | 10.7% | 166.2 | 13.0% |
| End-Aug | 213.7 | 10.4% | 167.5 | 13.0% |
| End-Sep | 216.4 | 10.9% | 169.4 | 13.0% |
| End-Oct | 215.0 | 10.5% | 170.1 | 12.9% |
| End-Nov | 217.2 | 10.7% | 171.5 | 12.8% |
| End-Dec | 218.7 | 10.1% | 172.8 | 12.8% |

*Source: People's Bank of China*

Exhibit 9: Increase in RMB loans, 2019 to 2020

| | Increase in RMB loans (trillion yuan) |
|---|---|
| **FY19** | **16.88** |
| **FY20** | **20.03** |
| Jan 20 | 3.34 |
| Feb | 0.91 |
| Mar | 2.85 |
| Apr | 1.70 |
| May | 1.48 |
| Jun | 1.81 |
| Jul | 0.99 |
| Aug | 1.28 |
| Sep | 1.63 |
| Oct | 0.69 |
| Nov | 1.43 |
| Dec | 1.26 |

*Source: People's Bank of China*

**With China's recovery picking up pace, its monetary policy is shifting from credit easing to normalization. However, we believe that the process will be gradual and the easing in credit growth will be moderate.**

Yi Gang, Governor of the People's Bank of China (PBoC), said in January that China's monetary policy would be stable, and that liquidity would be kept reasonably sufficient in 2021. Growth rates of M2 money supply and aggregate financing should match that of nominal GDP. He also added that the central bank will seek to balance supporting economic growth and containing risks

### 6. PMI indicates growth moderation in manufacturing sector

China's manufacturing PMI rose from 51.7 in October to 52.1 in November, and then retreated to 51.9 in December and 51.3 in January. The decline in headline PMI readings in the last couple of months indicates growth moderation in the manufacturing sector. (*See exhibit 10*)

**China's manufacturing PMI came in at 51.3 in January, indicating that the manufacturing sector has continued to recover, albeit at a slower pace. Growth in production activities slowed along with growth moderation in new orders. Prices of industrial products continued to rise, due partly to the jump in prices of materials.**

Production activities have expanded at a slower pace in recent months, as the output index fell from 54.7 in November to 53.5 in January. The slower expansion was mainly attributed to a moderation in growth in overall new orders: The new orders index dropped from 53.9 in November to 52.3 in January.

Prices of industrial products have continued to increase: The ex-factory prices index rose from 53.2 in October to 58.9 in December, and stayed high at 57.2 in January. The jump in product prices was partly attributed to the surge in the prices of materials: The input prices index went up from 58.8 in October to 68.0 in December, before retreating to 67.1 in January.

The business expectations index went down from 60.1 in October to 57.9 in January. Nevertheless, the latest index reading was still well above the critical 50-mark, indicating that purchasing managers in China were still optimistic about the near-term outlook for their respective industries.

Exhibit 10: China's manufacturing PMI at a glance, January 2021

| Index | Seasonally adjusted index | Index compared with the previous month | Direction |
|---|---|---|---|
| PMI | 51.3 | Lower ▼ | Expanding |
| Output | 53.5 | Lower ▼ | Expanding |
| New Orders | 52.3 | Lower ▼ | Expanding |
| New Export Orders | 50.2 | Lower ▼ | Expanding |
| Backlogs of Orders | 47.3 | Higher ▲ | Contracting |
| Stocks of Finished Goods | 49 | Higher ▲ | Contracting |
| Purchases of Inputs | 52 | Lower ▼ | Expanding |
| Imports | 49.8 | Lower ▼ | Contracting |
| Input Prices | 67.1 | Lower ▼ | Rising |
| Ex-factory Prices | 57.2 | Lower ▼ | Rising |
| Stocks of Major Inputs | 49.0 | Higher ▲ | Contracting |
| Employment | 48.4 | Lower ▼ | Contracting |
| Suppliers' Delivery Time | 48.8 | Lower ▼ | Slowing |
| Business Expectations | 57.9 | Lower ▼ | Optimistic |

*Source: China Federation of Logistics & Purchasing; National Bureau of Statistics, PRC*

**Looking ahead, we predict that the manufacturing PMI will fluctuate within 51.0 to 52.0 in the next few months, pointing to a stable recovery of the manufacturing sector and the economy.**

### 7. NMI indicates slower recovery in non-manufacturing sector

China's Non-manufacturing Business Activity Index, which is quoted as the Non-manufacturing Purchasing Managers' Index (NMI), went down from 56.4 in November to 52.4 in January (*see exhibit 11*). The index readings indicate that the recovery in the non-manufacturing sector has decelerated lately.

The new orders index continuously declined from 53.0 in October to 48.7 in January. The latest index reading indicates a fall in new orders.

The sales prices index rose above the critical 50-mark in November and stayed above 51.0 since then, meaning that enterprises have raised their service charges recently. Meanwhile, the input prices index went up from 50.9 in October to 54.5 in January, indicating that input prices have increased at a faster pace lately.

The business expectation index continuously declined from 62.9 in October to 55.1 in January, suggesting that purchasing managers in the non-manufacturing sector have become relatively less optimistic about the near-term outlook for their respective industries.

**We expect that China's non-manufacturing sector will continue to recover and that the NMI will fluctuate within 52.0 to 54.0 in the next few months.**

Exhibit 11: China's Non-manufacturing Purchasing Managers' Index (NMI) at a glance, January 2021

| Index | Seasonally adjusted index | Index compared with the previous month | Direction |
|---|---|---|---|
| Business activity | 52.4 | Lower ▼ | Expanding |
| New orders | 48.7 | Lower ▼ | Contracting |
| Input prices | 54.5 | Higher ▲ | Rising |
| Sales prices | 51.4 | Higher ▲ | Rising |
| Business expectations | 55.1 | Lower ▼ | Optimistic |

*Source: China Federation of Logistics & Purchasing; National Bureau of Statistics, PRC*

# B. Policy updates and outlook

### 1. China outlines economic tasks for 2021

The Central Economic Work Conference, a meeting which sets the tone for the economic tasks this year, was held on 16-18 December last year. According to a statement released after the meeting[2], the Chinese government will continue to pursue a proactive fiscal policy and a prudent monetary policy. It also pledged to maintain 'necessary' policy support for the economy and avoid sudden policy shifts. The proactive fiscal policy must be implemented in a manner that is of higher quality, more effective and more sustainable, and the intensity of expenditure must be maintained to strengthen the financial support for major national strategic tasks. Meanwhile, the prudent monetary policy must be pursued in a more flexible, tailored and appropriate way, with steps to ensure a stable macro leverage ratio.

**In our view, the relatively loose macro policy adopted last year will start to return to normal in 2021, but the process should be gradual, as the Chinese government has pledged 'no sudden policy shifts'.**

In addition, the conference stressed the importance of 'expanding domestic demand' and 'demand-side management', reflecting an increasing focus on demand. Approaches will include creating jobs, improving social security, reforming income distribution, fostering the middle class, and increasing public spending.

### 2. China issues notice to expand rural consumption

On 5 January, the Ministry of Commerce, National Development and Reform Commission and 10 other government departments issued a notice on measures for boosting the consumption of bulk commodities and in key sectors to tap the potential of rural consumption.[3] The circular outlines five tasks:

- Stabilising and expanding automobile consumption by launching a new round of automobile sales promotion and trade-ins in rural areas.
- Promoting the consumption of electrical appliances, furniture and home decorations by encouraging the phasing-out of old appliances and furniture and the purchase of green smart appliances, and providing subsidies for environment-friendly furniture.
- Boosting catering consumption, and promoting the development of green catering and O2O catering.
- Strengthening areas of weakness in rural consumption by improving the rural circulation system, upgrading agricultural supply chains and promoting lifestyle services in rural areas.
- Reinforcing policy support and improving policies and measures to help enterprises.

**The notice underlines the need to promote consumption upgrade in rural areas to boost domestic consumption. It is noteworthy that the announced tasks focus not only on spending on goods, but also on services.**

[2] http://www.xinhuanet.com/politics/leaders/2020-12/18/c_1126879325.htm
[3] http://www.gov.cn/xinwen/2021-01/05/content_5577324.htm

# Part Two: Foreign Trade

## A. Recent developments

### 1. China ends 2020 with historically strong export performance

**Given a continued improvement in external demand, we are optimistic about the near-term prospects of China's exports. Combined with a low comparison base in the same period last year, we forecast that China's exports will surge by 30.0% yoy in 1Q21.**

In 2020, China's exports climbed 3.6% yoy to a record high of US$2,590.6 billion, while its imports fell by 1.1% yoy to US$2,055.6 billion (*see exhibits 12, 13 and 14*). Monthly exports in November and December were also record highs.

Exhibit 12: China's quarterly foreign trade data, 1Q20 to 4Q20

| | Exports | | Imports | | Trade Balance |
|---|---|---|---|---|---|
| | *Amount (USD billion)* | *yoy growth* | *Amount (USD billion)* | *yoy growth* | *Amount (USD billion)* |
| **FY20** | **2,590.6** | **3.6%** | **2,055.6** | **-1.1%** | **535.0** |
| 1Q20 | 476.6 | -13.6% | 464.2 | -3.1% | 12.4 |
| 2Q20 | 618.9 | -0.2% | 465.1 | -9.9% | 153.8 |
| 3Q20 | 710.0 | 8.4% | 552.9 | 2.9% | 157.1 |
| 4Q20 | 785.2 | 16.7% | 573.4 | 5.0% | 211.7 |

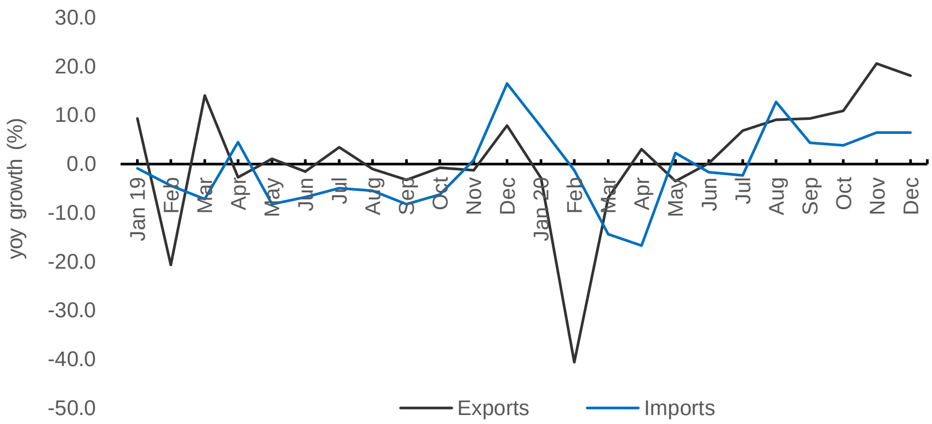
*Source: China Customs*

Exhibit 13: China's monthly foreign trade data, January to December 2020

| | Exports | | Imports | | Trade Balance |
|---|---|---|---|---|---|
| | *Amount (USD billion)* | *yoy growth* | *Amount (USD billion)* | *yoy growth* | *Amount (USD billion)* |
| January 2020 | 211.6 | -2.9% | 156.9 | -12.7% | 54.7 |
| February | 80.4 | -40.6% | 142.5 | 7.7% | -62.1 |
| March | 184.6 | -6.9% | 164.8 | -1.3% | 19.8 |
| April | 199.5 | 3.1% | 154.6 | -14.4% | 44.9 |
| May | 206.5 | -3.5% | 143.9 | -16.7% | 62.6 |
| June | 212.9 | 0.2% | 166.6 | 2.3% | 46.3 |
| July | 236.9 | 6.8% | 175.0 | -1.6% | 61.9 |
| August | 234.4 | 9.1% | 176.0 | -2.3% | 58.5 |
| September | 238.7 | 9.4% | 202.0 | 12.7% | 36.8 |
| October | 236.2 | 10.9% | 178.2 | 4.4% | 58.1 |
| November | 267.0 | 20.6% | 191.5 | 3.9% | 75.5 |
| December | 281.9 | 18.1% | 203.8 | 6.5% | 78.2 |

*Source: China Customs*

Exhibit 14: Growth rates of exports and imports, January 2019 to December 2020




*Source: China Customs*

Exhibit 15: Exports by category, 2019 to 2020

| *yoy growth (%) of export value, in USD* | 2019 | 1H20 | 1-3Q20 | 2020 |
|---|---|---|---|---|
| Textile yarn, fabrics and textile products | 0.9 | 27.8 | 33.7 | 29.2 |
| Garments and clothing accessories | -4.0 | -19.4 | -10.4 | -6.4 |
| Footwear | 1.7 | -30.2 | -25.3 | -21.2 |
| Toys | 24.2 | -12.1 | -1.9 | 7.5 |
| Furniture and parts | 0.8 | -11.6 | 2.3 | 11.8 |
| Lighting fittings and parts | 9.6 | -6.5 | 6.3 | 14.3 |
| Suitcases and handbags | 0.5 | -30.2 | -27.2 | -24.2 |
| Refined oil | 7.0 | -15.1 | -28.3 | -33.7 |
| Steel | -11.3 | -18.7 | -20.4 | -15.4 |
| Mechanical and electrical products | -0.1 | -5.5 | 0.5 | 5.7 |

*Source: China Customs*

**The strong increase in textile exports in 2020 was driven by a surge in overseas demand for face masks, which had an export value of US$50 billion from March to December 2020 alone.**

Exhibit 16: Imports by category, 2019 to 2020

| *yoy growth (%) of import value, in USD* | 2019 | 1H20 | 1-3Q20 | 2020 |
|---|---|---|---|---|
| Soybeans | -7.2 | 12.7 | 11.8 | 11.8 |
| Iron ores | 33.6 | 10.2 | 9.5 | 17.4 |
| Crude oil | 0.4 | -23.0 | -22.9 | -27.3 |
| Steel | -14.1 | -0.3 | 18.0 | 17.4 |
| Textile yarn, fabrics and textile products | -12.1 | -11.4 | -11.4 | -10.2 |
| Vehicles and vehicle chassis | -4.3 | -12.1 | -17.6 | -4.2 |
| Integrated circuits | -2.1 | 12.2 | 13.8 | 14.6 |
| Plastics | -5.5 | -9.9 | -5.1 | -1.6 |

*Source: China Customs*

**The drop in China's imports in 2020 was led by a decrease in the import value of crude oil. However, the decrease was driven by a fall in crude oil prices rather than import quantities: China's import of crude oil totalled 505.7 million metric tons in 2020, up 7.3% yoy.**

**China's exports to the EU and the US surged in 4Q20, thanks to the gradual reopening of their economies.**

### 2. ASEAN overtakes EU to become China's top trading partner in 2020

In 2020, the ASEAN overtook the EU to become China's largest trading partner and the US surpassed the EU to reclaim its status as China's largest export market (*see exhibits 17 and 18*).

Exhibit 17: China's trading partners, 2020

| Country/Region | Trade value (USD billion) | Share of total trade (%) | Export value (USD billion) | Import value (USD billion) | yoy growth (%) Total trade | yoy growth (%) Exports | yoy growth (%) Imports |
|---|---|---|---|---|---|---|---|
| ASEAN | 684.6 | 14.7 | 383.7 | 300.9 | 6.7 | 6.7 | 6.6 |
| EU | 649.5 | 14.0 | 391.0 | 258.6 | 4.9 | 6.7 | 2.3 |
| US | 586.7 | 12.6 | 451.8 | 134.9 | 8.3 | 7.9 | 9.8 |
| Japan | 317.5 | 6.8 | 142.7 | 174.9 | 0.8 | -0.4 | 1.8 |
| Brazil | 119.0 | 2.6 | 35.0 | 84.1 | 3.1 | -1.6 | 5.2 |
| Russia | 107.8 | 2.3 | 50.6 | 57.2 | -2.9 | 1.7 | -6.6 |
| India | 87.6 | 1.9 | 66.7 | 20.9 | -5.6 | -10.8 | 16.0 |

*Source: China Customs*

Exhibit 18: China's trading partners, comparing growth rates for 2019 and 2020

*yoy growth (%)*

| Country/Region | Total trade | | Exports | | Imports | |
|---|---|---|---|---|---|---|
| | 2019 | 2020 | 2019 | 2020 | 2019 | 2020 |
| ASEAN | 9.2 | 6.7 | 12.7 | 6.7 | 5.0 | 6.6 |
| EU | 3.4 | 4.9 | 4.9 | 6.7 | 1.1 | 2.3 |
| US | -14.6 | 8.3 | -12.5 | 7.9 | -20.9 | 9.8 |
| Japan | -3.9 | 0.8 | -2.6 | -0.4 | -4.9 | 1.8 |
| Brazil | 3.7 | 3.1 | 5.5 | -1.6 | 2.9 | 5.2 |
| Russia | 3.4 | -2.9 | 3.6 | 1.7 | 3.2 | -6.6 |
| India | -2.8 | -5.6 | -2.4 | -10.8 | -4.5 | 16.0 |

*Source: China Customs*

### 3. Guangdong and Shandong record modest export growth in 2020

China's top six provinces and municipalities in terms of value of exports – Guangdong, Jiangsu, Zhejiang, Shandong, Shanghai and Fujian – jointly accounted for 75.8% of China's total exports in 2020, down from 76.5% in 2019 (*see exhibit 19*). Both Guangdong and Shandong registered export growth of 5.0% in 2020.

**Several provinces still managed to record strong export growth in 2020. For example, exports from Sichuan and Jiangxi jumped over 20.0% yoy in 2020. Exports from Hubei, once hit hard by the COVID-19 outbreak, also grew by 19.6% yoy during the year.**

Exhibit 19: Top six provinces and municipalities in terms of value of exports, 2020

| Provinces/ Municipalities | Value of exports (USD billion) | yoy growth (%) | Share of total exports (%) |
|---|---|---|---|
| Guangdong | 756.2 | 5.0 | 29.2 |
| Jiangsu | 397.6 | -1.3 | 15.3 |
| Zhejiang | 352.0 | 3.7 | 13.6 |
| Shandong | 179.5 | 5.0 | 6.9 |
| Shanghai | 167.3 | -1.7 | 6.5 |
| Fujian | 110.9 | 1.9 | 4.3 |

*Source: China Customs*

### 4. China overtakes the US as top country for FDI in 2020

China's foreign direct investment (FDI) increased by 6.2% yoy to 1000.0 billion yuan (US$144.4 billion, up by 4.5% yoy) in 2020 (*see exhibit 20*). China overtook the US as the world's top destination for FDI in the year.

**The rise in FDI into China indicates foreign investors' confidence in China's long-term prospects, despite the global economic downturn and all the talk of China—US decoupling.**

**China is witnessing a new trend in foreign investment activities, with FDI in China's high-tech service sector soaring by 28.5% yoy in 2020.**

Exhibit 20: China's FDI, 2019 to 2020

| | Amount (billion yuan) | yoy growth |
|---|---|---|
| **FY19** | **941.5** | **5.8%** |
| **FY20** | **1000.0** | **6.2%** |
| January 20 | 87.6 | 4.0% |
| February | 46.8 | -25.6% |
| March | 81.8 | -14.1% |
| April | 70.4 | 11.8% |
| May | 68.6 | 7.5% |
| June | 117.0 | 7.1% |
| July | 63.5 | 15.8% |
| August | 84.3 | 18.7% |
| September | 99.0 | 25.1% |
| October | 81.9 | 18.3% |
| November | 98.7 | 5.5% |
| December | 100.6 | 5.3% |

*Source: Ministry of Commerce, PRC*

**5. Chinese yuan appreciates against US dollar over past three months**

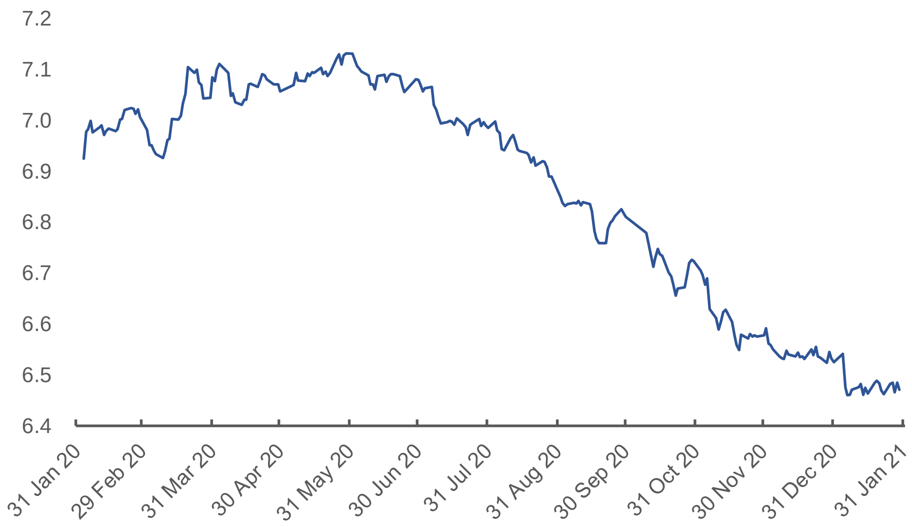
The daily fixing rate (also known as the central parity rate) of the Chinese yuan against the US dollar appreciated from 6.7232 on 30 October to 6.5249 on 31 December and further to 6.4709 on 29 January (*see exhibit 21*).[4] The Chinese yuan had appreciated by 6.9% against the US dollar in 2020 and by 0.8% so far this year (as of 29 January).

Meanwhile, the daily fixing rate of the Chinese yuan against the Euro depreciated from 7.8463 on 30 October to 8.0250 on 31 December, and then rebounded to 7.8404 on 29 January (*see exhibit 22*). The Chinese yuan had depreciated by 2.6% against the Euro in 2020 and appreciated by 2.4% so far this year (as of 29 January).

According to the Bank for International Settlements, the Chinese yuan appreciated in real terms against its trading partners by 3.3% in 2020 (*see exhibit 23*).

**Looking ahead, we predict that the exchange rate of the Chinese yuan against the US dollar will stay strong in the near term. While China-US tensions could add volatility to Chinese yuan's exchange rate, China's strong economic recovery, a weak US dollar, and the large interest-rate differential between China and developed economies will continue to support the Chinese yuan.**

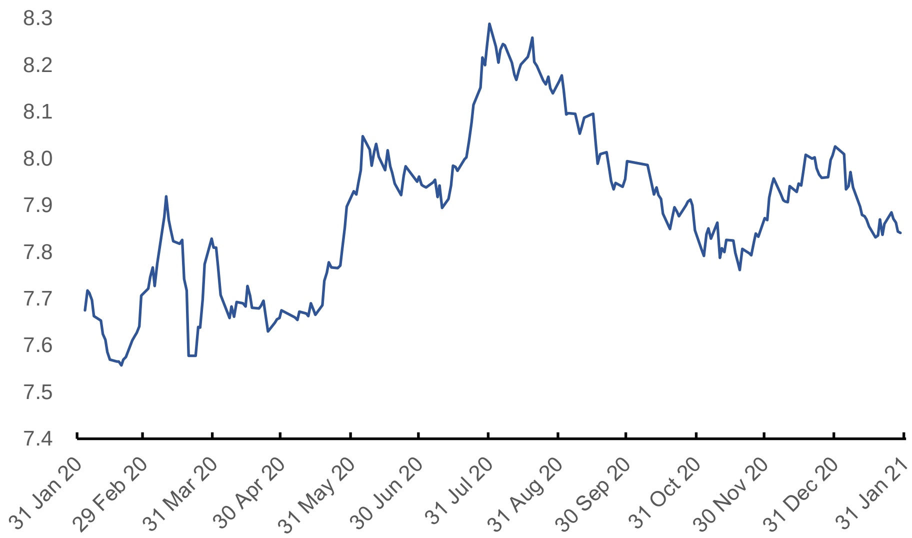
Exhibit 21: USD-CNY daily fixing rate, January 2020 to January 2021




*Source: State Administration of Foreign Exchange*

[4] According to the PBOC, the daily fixing rate of the Chinese yuan against the US dollar is directly formed by market makers based on the closing rate of the previous day, the movements of major international currencies, and 'counter cyclical factor', which has been gradually phased out since October last year.

Exhibit 22: EUR-CNY daily fixing rate, January 2020 to January 2021




*Source: State Administration of Foreign Exchange*

Exhibit 23: Real effective exchange rate of the Chinese yuan, January 2019 to December 2020


*Source: Bank for International Settlements*

# B. Highlights

**1. China and 14 other countries sign RCEP trade deal**

15 Asia-Pacific countries, including China, Japan, South Korea, Australia, New Zealand and the 10 Association of Southeast Asian Nations (ASEAN) member countries[5] signed the Regional Comprehensive Economic Partnership (RCEP) on 15 November. The RCEP will come into force 60 days after a minimum of six ASEAN members and three non-ASEAN partners have ratified the deal, which is expected sometime this year or early next year.

**The notion of de-Sinicization of global supply chains will become even more unrealistic and impossible with the formation of an integrated regional supply chain in the Asia-Pacific region after the RCEP comes into effect.**

The RCEP is the largest plurilateral trade agreement in the world, comprising about a third of the world's population and global GDP. By eliminating tariffs on at least 92% of goods traded and opening up at least 65% of services sectors, the RCEP will encourage more cross-border trade, investment and flows of people across the Asia-Pacific region, thus expediting economic and trade integration in the region.

For China and other Asian countries, the RCEP deal allows them to play a key role in setting rules and standards for regional trade. The RCEP will also promote intra-Asian integration around the ASEAN and China. With trade flows in intermediate goods between the ASEAN and China expected to increase, the supply chains of the two economies will be more interconnected than ever and the two economies are likely to form an expanded version of the 'world's factory' – a 'China + ASEAN' world's factory. As such, the notion of de-Sinicization of global supply chains will become even more unrealistic and impossible.[6]

**2. China lowers or cancels import tariffs on over 1,000 products**

Effective from 1 January, China has reduced or eliminated import tariff rates on 883 products, including medicines, medical equipment, ingredients for infant formula, hi-tech equipment and components, etc.

**These tariff cuts are in line with China's commitment of further lowering import tariffs and facilitating the import of high-quality goods and services, which will also support China's 'dual-circulation' development paradigm.**

Moreover, starting on 1 July, China will make the sixth reduction on the Most-Favored-Nation (MFN) tariff rates on 176 kinds of information technology products, according to the Office of the Customs Tariff Commission.[7]

[5] The ASEAN includes Brunei, Cambodia, Indonesia, Laos, Malaysia, Myanmar, the Philippines, Singapore, Thailand, and Vietnam.

[6] For a more detailed analysis of the implications of RCEP, see: https://www.fbicgroup.com/sites/default/files/RCEP%20A%20game%20changer%20for%20trade%20in%20Asia.pdf

[7] http://gss.mof.gov.cn/gzdt/zhengcejiedu/202012/t20201223_3636578.htm

### 3. China-US tensions linger as tech war heats up

The US has stepped up efforts to crack down on Chinese tech companies over the past few months. On 12 November, Donald Trump issued an executive order banning US investments in 31 Chinese firms that the US determines to have ties to the Chinese military, including China Telecom and Hikvision. On 3 December, the US announced similar sanctions on another four Chinese companies including Semiconductor Manufacturing International Corp. On 14 January, the US added nine more Chinese firms, including Xiaomi, to the military blacklist.

On 5 January, citing 'national security threats', Trump issued an executive order banning transactions with eight Chinese apps, including Alipay and WeChat Pay.

**The imposition of new sanctions against Chinese tech companies suggests that China-US tech war is unlikely to abate any time soon. It remains to be seen whether the Biden administration will take a different approach to dealing with Chinese tech companies.**

### 4. China revises Catalogue of Industries for Encouraging Foreign Investment

China has adopted the *Catalogue of Industries for Encouraging Foreign Investment (2020 Version)* since 27 January.[8] The new catalogue contains a total of 1,235 items, up from 1,108 items in the 2019 version. The revision of the catalogue is aimed at attracting foreign investment in three areas:

- Advanced manufacturing industries, such as new materials and high-tech components and equipment;
- Producer service industries, such as research and development, business services, modern logistics and information services; and
- Investment in the central and western regions.

**The move represents another effort of the Chinese government to further improve the business environment and attract foreign investment.**

[8] http://www.gov.cn/zhengce/zhengceku/2020-12/28/content_5574265.htm

# C. Outlook

### 1. Economies of US and Eurozone record year-on-year contraction in 4Q20

The US real GDP contracted by 2.5% yoy in 4Q20, and by 3.5% for 2020 as a whole (*see exhibit 24*). Meanwhile, the Eurozone economy[9] contracted by 5.1% yoy in 4Q20, and by 6.8% for 2020 (*see exhibit 25*).

**Due to COVID-19-induced restrictions on economic activity and slow rollout of vaccines, we expect that the Eurozone economy will post year-on-year contraction in 1Q21. Meanwhile, the US economy is likely to record a weak growth, helped by the passage of a new stimulus package in late December.**

Exhibit 24: US real GDP growth, 2019 to 4Q20

| | 2019 | 2020 | 1Q20 | 2Q20 | 3Q20 | 4Q20 |
|---|---|---|---|---|---|---|
| Real GDP *(annual growth[10] %)* | | | -5.0 | -31.4 | 33.4 | 4.0 |
| Real GDP *(yoy growth %)* | 2.2 | -3.5 | 0.3 | -9.0 | -2.8 | -2.5 |

*Source: US Department of Commerce*

Exhibit 25: Eurozone's real GDP growth, 2019 to 4Q20

| | 2019 | 2020 | 1Q20 | 2Q20 | 3Q20 | 4Q20 |
|---|---|---|---|---|---|---|
| Real GDP *(qoq growth %)* | | | -3.7 | -11.7 | 12.4 | -0.7 |
| Real GDP *(yoy growth %)* | 1.3 | -6.8 | -3.2 | -14.7 | -4.3 | -5.1 |

*Source: Eurostat, IMF*

[9] The member countries of the Eurozone include Austria, Belgium, Cyprus, Estonia, Finland, France, Germany, Greece, Ireland, Italy, Latvia, Lithuania, Luxembourg, Malta, the Netherlands, Portugal, Slovakia, Slovenia and Spain.

[10] The 'annual growth rates' of the US GDP are the annualized rates of quarterly GDP growth.

**2. IMF projects faster recovery of world economy in 2021**

In the *World Economic Outlook Update* released in January, the IMF forecasts that the global economy will grow by 5.5% in 2021, up from a 5.2% rise predicted in October last year. The primary reasons behind the latest upward revision are the expectations of stronger economic activity due to rollouts of COVID-19 vaccines and additional policy stimulus in some economies (*see exhibit 26*).

**Amid an improved global economic outlook, persistent production disruptions in alternative production countries, and a low comparison base in the same period last year, we forecast that China's exports will post strong growth of 30.0% yoy in 1Q21.**

Exhibit 26: Latest GDP growth estimates and forecasts by the IMF (2019 to 2021)

*yoy growth (%)*

| | **2019 (Estimates)** | **2020 (Estimates)** | **2021 (Forecasts)** |
|---|---|---|---|
| World economy | 2.8 | -3.5 | 5.5 |
| Advanced economies | 1.7 | -4.9 | 4.3 |
| - US | 2.2 | -3.4 | 5.1 |
| - Eurozone | 1.3 | -7.2 | 4.2 |
| - Japan | 0.7 | -5.1 | 3.1 |
| Emerging market and developing economies | 3.7 | -2.4 | 6.3 |
| - China | 6.1 | 2.3 | 8.1 |
| - India* | 4.2 | -8.0 | 11.5 |
| - Brazil | 1.1 | -4.5 | 3.6 |
| - Russia | 1.3 | -3.6 | 3.0 |
| - ASEAN-5[11] | 4.9 | -3.7 | 5.2 |

** Data and forecasts are presented on a fiscal year basis.*
*Source: World Economic Outlook Update released in January 2021, IMF*

[11] ASEAN-5 refers to Indonesia, Malaysia, Philippines, Thailand and Vietnam.

# Fung Business Intelligence

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

Headquartered in Hong Kong, it leverages unique relationships and information networks to monitor, research and report on these global issues with a particular focus on business trends and developments in China. Fung Business Intelligence makes its data, impartial analysis and specialist knowledge available to businesses, scholars and governments 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 consulting 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.

# 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 trading, logistics, distribution and retail. The Fung Group comprises over 30,000 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 Global Brands Group Holding Limited (SEHK: 00787) and Convenience 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.

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