

China Trade Quarterly

Domestic Trade

China's economy grows a record 18.3% yoy in 1Q21

Growth in retail sales further recovers in 1Q21

China announces macroeconomic targets and policies for 2021

Foreign Trade

Surge in China's exports in Jan-Apr signals recovery in external demand

Jump in FDI in 1Q21 indicates confidence in China's long-term prospects

Fung Business Intelligence

Helen Chin

Vice President

helenchin@fung1937.com

William Kong

Senior Research Manager

Williamkong@fung1937.com

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Helen Chin

Vice President

E: helenchin@fung1937.com**William Kong**

Senior Research Manager

E: williamkong@fung1937.com**Fung Business Intelligence**

1/F LiFung Tower

888 Cheung Sha Wan Road

Kowloon, Hong Kong

T: (852) 2300 2470

F: (852) 2635 1598

E: fbicgroup@fung1937.comW: <http://www.fbicgroup.com>

Part One: Domestic Trade

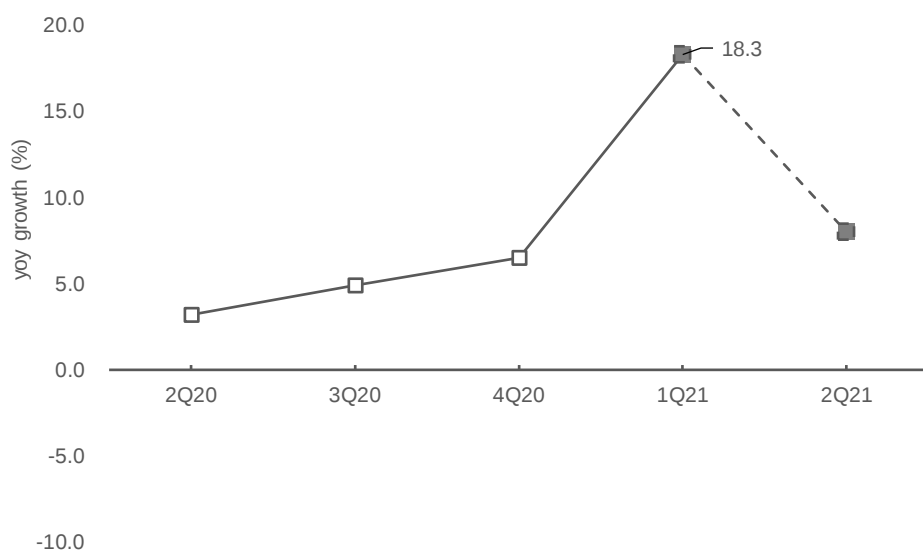
A. Recent developments

1. China's economy grows a record 18.3% yoy in 1Q21

Thanks to last year's low comparison base, China's real GDP growth jumped to 18.3% yoy in 1Q21, the fastest pace since quarterly records began in 1992 (see exhibit 1). China's nominal GDP amounted to 24.9 trillion yuan in the quarter.

Exhibit 1: China's real GDP growth and forecasts, 2Q20 to 2Q21

FY20	2Q20	3Q20	4Q20	1Q21	2Q21F
2.3%	3.2%	4.9%	6.5%	18.3%	8.0%



Source: National Bureau of Statistics, PRC

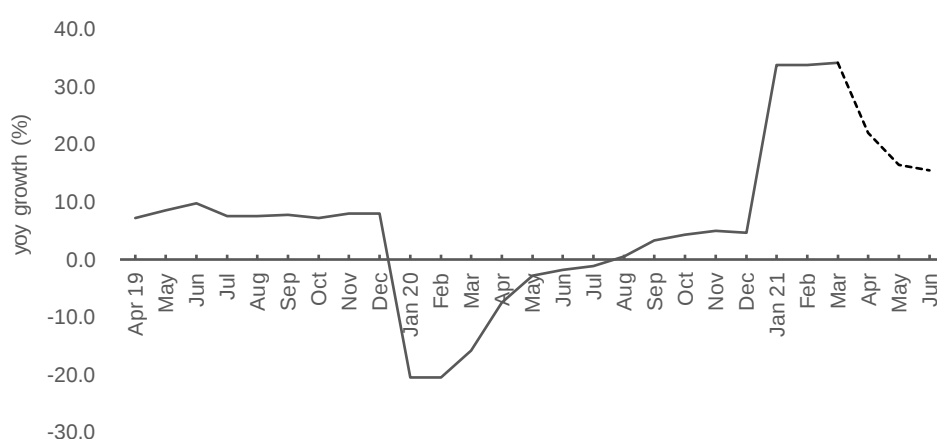
With China's private consumption finally catching up with the strong rebound in production, and given a low comparison base last year, we predict that China's real GDP growth will reach 8.0% in 2Q21.

2. Growth in retail sales further recovers in 1Q21

Against a low comparison base last year, China's total retail sales of consumer goods were up by 33.9% yoy in 1Q21. China's total retail sales of consumer goods reached 10.5 trillion yuan in the quarter (see exhibits 2, 3 and 4).

Exhibit 2: China's total retail sales, year-on-year nominal growth and forecasts, April 2019 to June 2021

FY20	Apr 20	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan-Feb 21	Mar
-3.9%	-7.5%	-2.8%	-1.8%	-1.1%	0.5%	3.3%	4.3%	5.0%	4.6%	33.8%	34.2%



Source: National Bureau of Statistics, PRC

Exhibit 3: China's total retail sales, month-on-month nominal growth, October 2020 to March 2021

mom growth (%), seasonally adjusted

	Oct 20	Nov	Dec	Jan 21	Feb	Mar
Total retail sales	0.51	1.35	1.18	-0.92	1.45	1.75

Source: National Bureau of Statistics, PRC

Exhibit 4: China's total retail sales, 2020 to 1Q21

Nominal growth, yoy (%)	FY20	1Q21
Total retail sales	-3.9	33.9
- Goods	-2.3	30.4
Sales by enterprises above designated size	-1.0	40.2
Online sales	14.8	25.8
- Catering services	-16.6	75.8

Source: National Bureau of Statistics, PRC

The stronger-than-expected rise in consumer spending is one of the most encouraging signs in 1Q21. Combined with a low comparison base in the same period last year, we predict that the growth in retail sales will reach 18.0% yoy in 2Q21.

In 1Q21, catering sales registered a stunning 75.8% yoy growth, reversing a 44.3% yoy decline in 1Q20. However, catering sales in 1Q21 were still 2% below the level two years ago (1Q19), suggesting a sluggish recovery of catering spending.

Exhibit 5: China's retail sales by enterprises above designated size, by product, 2020 to 1Q21

Nominal growth, yoy (%)	FY20	1Q21
Grain, oil and food	9.9	10.0
Beverages	14.0	35.7
Tobacco and liquor	5.4	44.9
Garments, footwear, hats, knitwear	-6.6	54.2
Cosmetics	9.5	41.4
Gold, silver and jewellery	-4.7	93.4
Commodities for daily use	7.5	33.2
Home appliances & audio/video equipment	-3.8	41.4
Traditional Chinese and Western medicines	7.8	14.9
Cultural and office appliances	5.8	31.8
Furniture	-7.0	52.3
Communication appliances	12.9	42.4
Petroleum and related products	-14.5	23.6
Automobiles	-1.8	65.6
Building and decoration materials	-2.8	48.9

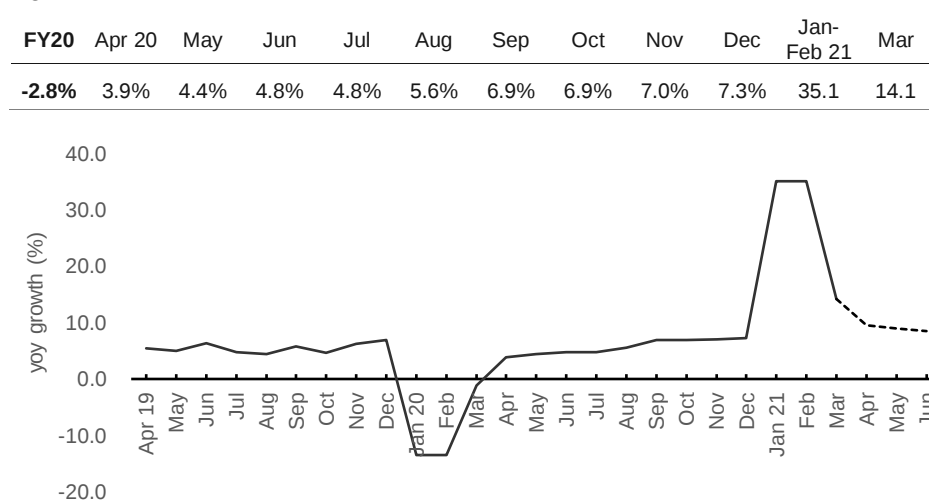
Source: National Bureau of Statistics, PRC

In 1Q21, consumer discretionary categories such as 'gold, silver and jewellery', 'automobiles', and 'garments, footwear, hats, knitwear' posted the strongest sales growth, indicating a fast recovery in discretionary spending.

3. Industrial production grows at rapid pace in 1Q21

Given a low comparison base last year, China's industrial production, measured by the value-added of industrial output (VAIO) of industrial enterprises above designated size¹, jumped by 24.5% yoy in 1Q21 (see exhibit 6).

Exhibit 6: China's industrial production growth and forecasts, April 2019 to June 2021



Source: National Bureau of Statistics, PRC

We expect China's industrial production growth to reach 9.0% yoy in 2Q21, given an improving demand, order shifts from alternative production countries, 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 grows fast in 1Q21

Against a low comparison base last year, the nominal growth of China's fixed asset investment (FAI) (excluding rural households) came in at 25.6% yoy in 1Q21. China's FAI (excluding rural households) amounted to 9.6 trillion yuan in 1Q21 (see exhibit 7).

Exhibit 7: China's FAI (excluding rural households) growth, September 2020 to March 2021

Year-to-date, yoy growth %	Sep 20	Oct	Nov	Dec	Feb 21	Mar
FAI (excluding rural households)	0.8	1.8	2.6	2.9	35.0	25.6
- Manufacturing sector	-6.5	-5.3	-3.5	-2.2	37.3	29.8
- Infrastructure (excluding power, heat, gas and water infrastructure)	0.2	0.7	1.0	0.9	36.6	29.7
- Real estate development	5.6	6.3	6.8	7.0	38.3	25.6

Source: National Bureau of Statistics, PRC

We expect that the strong export performance and rising industrial prices will continue to buoy investment in the manufacturing sector in the near future, which will take the lead in boosting China's FAI.

5. Growth in M2 and total 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, April 2020 to March 2021

As of	Broad money supply (M2)		Total outstanding RMB loans	
	Amount (trillion yuan)	yoy growth	Amount (trillion yuan)	yoy growth
End-Apr 20	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%
End-Jan 21	221.3	9.4%	176.3	12.7%
End-Feb	223.6	10.1%	177.7	12.9%
End-Mar	227.7	9.4%	180.4	12.6%

Source: People's Bank of China

Exhibit 9: Increase in RMB loans, 2020 to 1Q21

Increase in RMB loans (trillion yuan)	
FY20	20.03
1Q21	7.67
Apr 20	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
Jan 21	3.58
Feb	1.36
Mar	2.73

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 slowdown in credit growth will be moderate.

Yi Gang, Governor of the People's Bank of China (PBoC), said in late March that China will continue to conduct a 'normal' monetary policy and maintain its consistency, stability and sustainability. China still has room in terms of providing liquidity and moderating interest rates. He added that China's monetary policy should focus on providing targeted support for key areas and weak links in the economy, and should strike a good balance between supporting growth and preventing risks.

6. PMI indicates growth moderation in manufacturing sector

After dropping from 51.3 in January to 50.6 in February as the Chinese New Year holidays suppressed factory activity, China's manufacturing PMI rose to 51.9 in March, but then retreated to 51.1 in April. The latest PMI reading indicates growth moderation in the manufacturing sector. (See *exhibit 10*)

Production activities have expanded at a slower pace lately, as the output index fell from 53.9 in March to 52.2 in April. The slower expansion was mainly attributed to a moderation in growth in overall new orders: The new orders index dropped from 53.6 in March to 52.0 in April.

Prices of industrial products have continued to increase: After reaching a four-year high of 59.8 in March, the ex-factory prices index stayed high at 57.3 in April. The jump in product prices was partly attributed to the surge in the prices of materials: The input prices index went up to a four-year high of 69.4 in March, before retreating to 66.9 in April.

The business expectations index went down from 59.2 in February to 58.3 in April. Although the latest index reading was still well above the critical 50-mark, the recent decline indicates that purchasing managers in China have been less optimistic about the near-term outlook for their respective industries.

China's manufacturing PMI came in at 51.1 in April, indicating that the manufacturing sector continued to expand, although at a slower pace. Growth in production activities slowed due mainly to a moderation in growth in new orders. Prices of industrial products continued to rise, due partly to the jump in the prices of production inputs.

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

Index	Seasonally adjusted index	Index compared with the previous month	Direction
PMI	51.1	Lower ▼	Expanding
Output	52.2	Lower ▼	Expanding
New Orders	52.0	Lower ▼	Expanding
New Export Orders	50.4	Lower ▼	Expanding
Backlogs of Orders	46.4	Lower ▼	Contracting
Stocks of Finished Goods	46.8	Higher ▲	Contracting
Purchases of Inputs	51.7	Lower ▼	Expanding
Imports	50.6	Lower ▼	Expanding
Input Prices	66.9	Lower ▼	Rising
Ex-factory Prices	57.3	Lower ▼	Rising
Stocks of Major Inputs	48.3	Lower ▼	Contracting
Employment	49.6	Lower ▼	Contracting
Suppliers' Delivery Time	48.7	Lower ▼	Slowing
Business Expectations	58.3	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 expansion of the manufacturing sector and the economy.

7. NMI indicates continued recovery in non-manufacturing sector

China's Non-manufacturing Business Activity Index, which is quoted as the Non-manufacturing Purchasing Managers' Index (NMI), went up from 51.4 in February to 56.3 in March and then stayed high at 54.9 in April (see *exhibit 11*). The index readings indicate that the non-manufacturing sector has continued to recover lately.

The new orders index declined from 55.9 in March to 51.5 in April, indicating a slower growth in new orders lately.

The sales prices index remained above the critical 50-mark during January to April, meaning that enterprises have continued to raise their service charges recently. Meanwhile, the input prices index fluctuated between 54.5 and 56.2 during the four-month period, indicating that input prices have increased at a relatively fast pace lately.

The business expectation index stayed above 63.0 during February to April, suggesting that purchasing managers in the non-manufacturing sector have been 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 53.0 to 56.0 in the next few months.

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

Index	Seasonally adjusted index	Index compared with the previous month	Direction
Business activity	54.9	Lower ▼	Expanding
New orders	51.5	Lower ▼	Expanding
Input prices	54.9	Lower ▼	Rising
Sales prices	51.2	Lower ▼	Rising
Business expectations	63.0	Lower ▼	Optimistic

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

B. Policy updates and outlook

1. China announces macroeconomic targets and policies for 2021

Chinese Premier Li Keqiang delivered the *2021 Government Work Report* to the fourth session of the 13th National People's Congress on 5 March. According to the report, the Chinese government has set the following macroeconomic targets for 2021:

- GDP growth of over 6% (vs. 2.3% actual in 2020)
- Over 11 million new urban jobs (vs. 11.86 million actual in 2020).
- Surveyed urban unemployment rate of around 5.5% (vs. 5.2% actual at end-2020)
- CPI growth of around 3% (vs. 2.5% actual in 2020)

The Chinese government has pledged to avoid 'sharp turns in policy' and it will ensure the continuity, consistency, and sustainability of macro policies to keep major economic indicators within an appropriate range. The proactive fiscal policy will be implemented in a manner that is of higher quality, more effective and more sustainable. Tax cuts will be implemented. Meanwhile, the prudent monetary policy will be pursued in a more flexible, tailored and appropriate way, with steps to ensure 'reasonably sufficient' liquidity and a stable macro leverage ratio.

These policy orientations were later reiterated in a meeting of the Political Bureau of the Communist Party of China (CPC) Central Committee held on 30 April.²

2. Chinese government issues implementation plan to encourage new modes of consumption

On 25 March, the National Development and Reform Commission and 27 other government departments issued an implementation plan to encourage new modes of consumption.³

Efforts will be made to encourage new business formats and models in retail sales, which call for the development of contactless shopping, 'smart' stores, digitalized convenience-store chains and the live-streaming economy.

The plan urges the development of the 'Internet plus medical health' sector, digital cultural industries and tourism, and online education. The plan also calls for supply chains innovations, construction of new-generation information infrastructure, application of new technologies and new equipment, and fiscal support for new modes of consumption.

In our view, the relatively loose macro policy adopted last year will start to return to normal in the coming months, but the process should be gradual, as the Chinese government has pledged no 'sharp turns in policy'.

China aims to prompt the growth of new modes of consumption as a way to boost domestic demand, which is key to the 'dual circulation' development strategy.

² <http://cpc.people.com.cn/n1/2020/0730/c64094-31804413.html>

³ http://www.xinhuanet.com/politics/2021-04/30/c_1127398723.htm

Part Two: Foreign Trade

A. Recent developments

1. Surge in China's exports in January to April signals recovery in external demand

Amid a low comparison base, China's exports surged by 49.0% yoy to US\$710.0 billion while its imports jumped by 28.0% yoy to US\$593.6 billion in 1Q21. In April, China's export rose by 32.3% yoy and its imports surged by 43.1% yoy. (See exhibits 12, 13 and 14)

Given a recovery in external demand, we are optimistic about the near-term prospects of China's exports, and we forecast that China's exports will increase by over 20.0% yoy in 2Q21.

Exhibit 12: China's quarterly foreign trade data, 2Q20 to 1Q21

	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
2Q20	618.8	-0.2%	465.9	-9.7%	152.8
3Q20	709.9	8.4%	553.7	3.1%	156.2
4Q20	785.2	16.7%	573.3	4.9%	211.9
1Q21	710.0	49.0%	593.6	28.0%	116.4

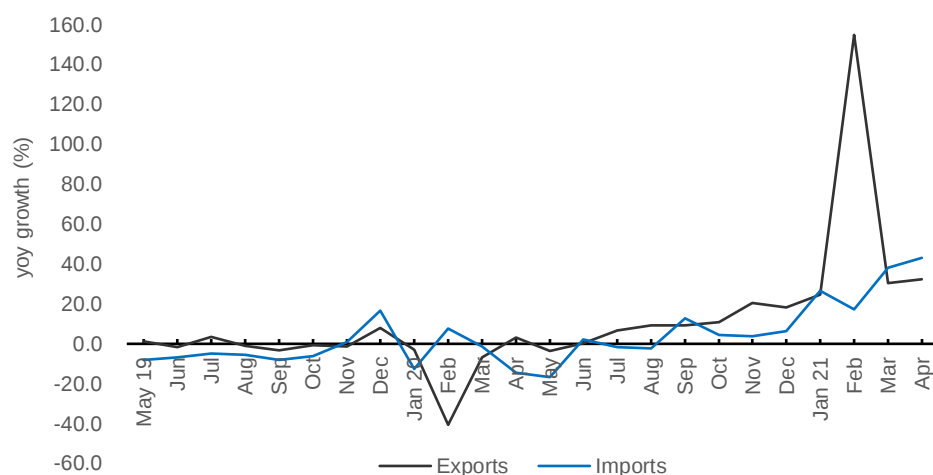
Source: China Customs

Exhibit 13: China's monthly foreign trade data, May 2020 to April 2021

	Exports		Imports		Trade Balance
	Amount (USD billion)	yoy growth	Amount (USD billion)	yoy growth	Amount (USD billion)
May 2020	206.4	-3.5%	144.5	-16.4%	61.9
June	212.8	0.2%	168.0	3.2%	44.8
July	236.8	6.8%	176.3	-0.8%	60.5
August	234.4	9.1%	177.0	-1.7%	57.3
September	238.6	9.4%	203.0	13.3%	35.6
October	236.3	10.9%	178.6	4.7%	57.6
November	266.9	20.5%	191.9	4.1%	75.1
December	281.9	18.1%	204.4	6.8%	77.5
January 2021	264.0	24.8%	199.1	26.6%	64.9
February	204.9	154.9%	167.2	17.3%	37.7
March	241.1	30.6%	227.3	38.1%	13.8
April	263.9	32.3%	221.1	43.1%	42.9

Source: China Customs

Exhibit 14: Growth rates of exports and imports, May 2019 to April 2021



Source: China Customs

Exhibit 15: Exports by category, 2020 to 1Q21

yoy growth (%) of export value, in USD	2020	1Q21
Textile yarn, fabrics and textile products	29.2	40.3
Garments and clothing accessories	-6.4	47.7
Footwear	-21.2	29.7
Toys	7.5	72.3
Furniture and parts	11.8	73.0
Lighting fittings and parts	14.3	100.3
Suitcases and handbags	-24.2	22.2
Refined oil	-33.7	-20.6
Steel	-15.4	38.4
Mechanical and electrical products	5.7	53.5

Source: China Customs

The strong increase in the exports of mechanical and electrical products, which accounts for 60% of China's exports, was driven by soaring overseas demand for work-from-home equipment and medical equipment amid the ongoing COVID-19 pandemic.

Exhibit 16: Imports by category, 2020 to 1Q21

yoy growth (%) of import value, in USD	2020	1Q21
Soybeans	11.8	41.7
Iron ores	17.4	77.7
Crude oil	-27.3	-3.9
Steel	17.4	29.5
Textile yarn, fabrics and textile products	-10.2	-9.5
Vehicles and vehicle chassis	-4.2	30.2
Integrated circuits	14.6	29.9
Plastics	-1.6	34.3

Source: China Customs

2. ASEAN remains China's top trading partner in 1Q21

In 1Q21, the ASEAN was still China's largest trading partner and the US also retained its status as China's largest export market (see exhibits 17 and 18).

China's exports to the US and the EU surged in 1Q21, thanks to the reopening of their economies.

Exhibit 17: China's trading partners, 1Q21

Country/Region	Trade value (USD billion)	Share of total trade (%)	Export value (USD billion)	Import value (USD billion)	yoy growth (%)		
					Total trade	Exports	Imports
ASEAN	191.4	14.7	105.1	86.3	35.3	37.1	33.2
EU	183.6	14.1	110.2	73.4	46.3	56.7	33.0
US	165.7	12.7	119.2	46.5	73.2	74.7	69.2
Japan	86.4	6.6	38.7	47.6	29.3	30.6	28.3
Brazil	31.0	2.4	11.1	19.9	25.3	53.4	13.8
Russia	29.3	2.2	13.1	16.2	15.4	42.7	-0.1
India	27.7	2.1	21.1	6.6	42.8	37.0	65.0

Source: China Customs

Exhibit 18: China's trading partners, comparing growth rates for 2020 and 1Q21

Country/Region	yoy growth (%)					
	Total trade		Exports		Imports	
	2020	1Q21	2020	1Q21	2020	1Q21
ASEAN	6.7	35.3	6.7	37.1	6.6	33.2
EU	4.9	46.3	6.7	56.7	2.3	33.0
US	8.3	73.2	7.9	74.7	9.8	69.2
Japan	0.8	29.3	-0.4	30.6	1.8	28.3
Brazil	3.1	25.3	-1.6	53.4	5.2	13.8
Russia	-2.9	15.4	1.7	42.7	-6.6	-0.1
India	-5.6	42.8	-10.8	37.0	16.0	65.0

Source: China Customs

3. Leading export provinces register strong export growth in 1Q21

China's top six provinces and municipalities in terms of value of exports – Guangdong, Jiangsu, Zhejiang, Shandong, Shanghai and Fujian – jointly accounted for 75.0% of China's total exports in 1Q21, down from 75.8% in 2020 (see *exhibit 19*). Guangdong, Fujian and Shandong registered export growth of 50.0% yoy or above in 1Q21.

Exhibit 19: Top six provinces and municipalities in terms of value of exports, 1Q21

Provinces/ Municipalities	Value of exports (USD billion)	yoy growth (%)	Share of total exports (%)
Guangdong	201.3	61.5	28.4
Jiangsu	109.1	39.4	15.4
Zhejiang	92.8	45.9	13.1
Shandong	53.7	50.0	7.6
Shanghai	42.9	17.3	6.0
Fujian	32.6	51.0	4.6

Source: China Customs

4. Surge in FDI in 1Q21 indicates confidence in China's long-term prospects

Given a low comparison base, China's foreign direct investment (FDI) surged by 39.9% yoy to 302.5 billion yuan (US\$44.9 billion, up by 43.8% yoy) in 1Q21 (see *exhibit 20*).

Exhibit 20: China's FDI, 2020 to 1Q21

	Amount (billion yuan)	yoy growth
FY20	1000.0	6.2%
1Q21	302.5	39.9%
April 20	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%
January 21	91.6	4.6%
February	85.2	81.8%
March	125.7	53.7%

Source: Ministry of Commerce, PRC

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.

5. Chinese yuan appreciates against US dollar but depreciates against Euro in April

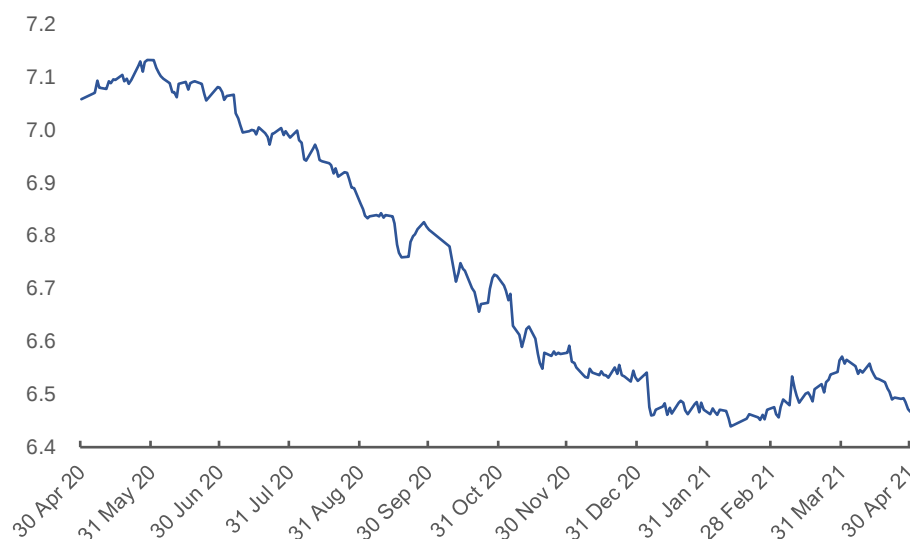
The daily fixing rate (also known as the central parity rate) of the Chinese yuan against the US dollar depreciated from a two-year high of 6.4391 on 10 February to 6.5713 on 31 March, before rebounding to 6.4672 on 30 April (see *exhibit 21*).⁴ So far this year, the Chinese yuan had appreciated by 0.9% against the US dollar (as of 30 April).

Meanwhile, the daily fixing rate of the Chinese yuan against the Euro appreciated from 7.8404 on 29 January to a 10-month high of 7.6905 on 1 April, and then retreated to 7.8397 on 30 April (see *exhibit 22*). So far this year, the Chinese yuan had appreciated by 2.4% against the Euro (as of 30 April).

According to the Bank for International Settlements, the Chinese yuan appreciated in real terms against its trading partners by 2.1% in 1Q21 (see *exhibit 23*).

While China–US tensions could add volatility to Chinese yuan’s exchange rate, China’s strong economic recovery, the large interest-rate differential between China and developed economies, and persistent capital inflows into China will continue to support the Chinese yuan.

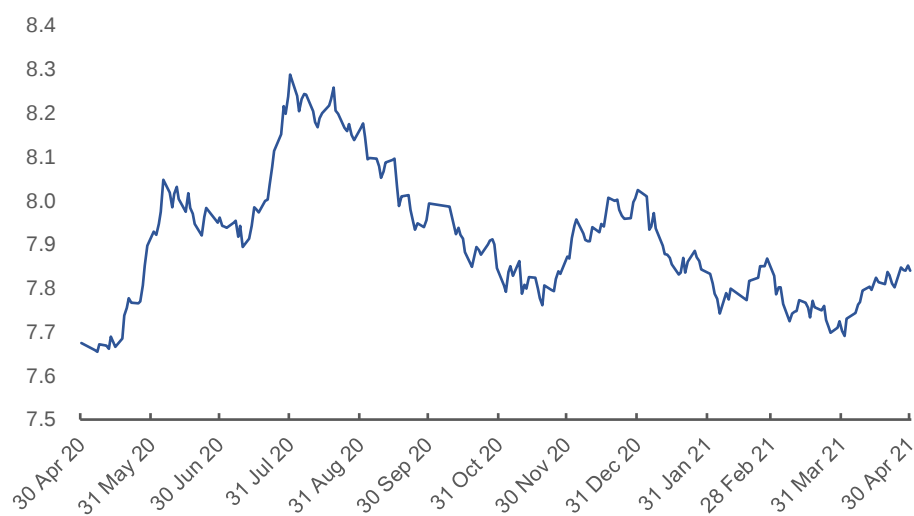
Exhibit 21: USD-CNY daily fixing rate, April 2020 to April 2021



Source: State Administration of Foreign Exchange

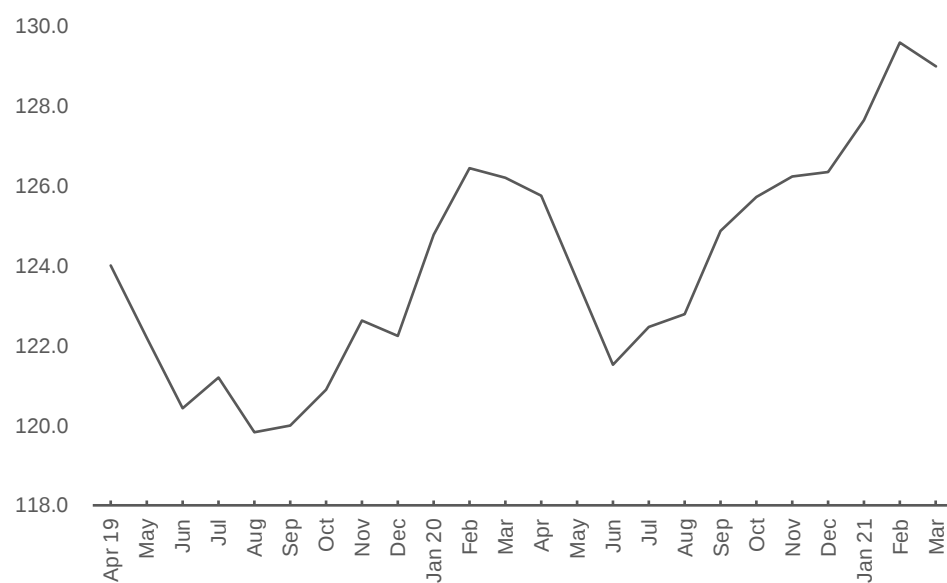
⁴ According to the PBOC, the daily fixing rate of the Chinese yuan against the US dollar is directly formed by market makers based on the closing rate of the previous day, the movements of major international currencies, and 'counter cyclical factor', which has been gradually phased out since October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

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



Source: State Administration of Foreign Exchange

Exhibit 23: Real effective exchange rate of the Chinese yuan, April 2019 to March 2021



Source: Bank for International Settlements

B. Highlights

1. China expands cross-border e-commerce retail import pilots

All cities and regions that host free trade zones, cross-border e-commerce comprehensive pilot zones, comprehensive bonded areas, demonstration zones for promoting import trade and trade innovation, and selected bonded logistics centres are now eligible to start pilot programmes of cross-border e-commerce retail imports, according to a notice published on 22 March by six government departments, including the Ministry of Commerce (MOFCOM) and the National Development and Reform Commission (NDRC).⁵

In these pilot areas, enterprises can get preferential taxation policies, such as exemption of value-added tax and consumption tax on e-commerce retail imports and corporate income tax cuts.

2. China issues new notice on stabilizing foreign investment

The MOFCOM issued a circular on stabilizing foreign investment on 25 February.⁶ It proposes 22 specific measures in five areas:

- Expanding high-level opening to attract foreign investment, such as implementing the 2020 'Negative Lists' and *Catalogue of Industries for Encouraging Foreign Investment*;
- Promoting the development of opening-up platforms such as free trade zones and Hainan Free Trade Port;
- Attracting foreign investment in industrial chains and promoting the integration of international and domestic industrial chains;
- Improving the service system for foreign investment; and
- Promoting the reform of 'delegating power, improving regulations, and upgrading services'.

3. China-US tensions linger under the new US administration

The US administration has stepped up efforts to crack down on Chinese tech companies. On 12 March, US Federal Communications Commission (FCC) added five Chinese companies to a new blacklist, banning them from supplying equipment and services to the US government. Five days later, the FCC announced the launch of proceedings to determine whether to bar two Chinese telecommunications operators from the US. And on 24 March, the US Securities and Exchange Commission (SEC) adopted new rules that would remove foreign companies from the US stock exchanges if they do not comply with US auditing standards or are controlled by foreign governments. The new rules are believed to be targeted at Chinese tech companies.

In addition, the US, the EU, the UK and Canada banded together to impose sanctions on Chinese officials over the alleged 'human rights abuses' in Xinjiang on 22 March. This is the first such coordinated move against China under the Biden administration.

China is expanding cross-border e-commerce retail import pilot schemes as part of the efforts to provide new impetus for import trade and domestic consumption of quality goods.

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

It is only three months into the Biden administration, but all signs point to a continuation of a hawkish policy towards China.

⁵ <http://www.mofcom.gov.cn/article/zwgk/zcfb/202103/202103046247.shtml>

⁶ <http://www.mofcom.gov.cn/article/ae/ai/202103/202103041579.shtml>

C. Outlook

1. Divergence between US and Eurozone economies in 1Q21

Helped by improved consumer spending, the US real GDP expanded by 0.4% yoy in 1Q21, the first year-on-year growth since 1Q20 (see *exhibit 24*). Meanwhile, the Eurozone economy⁷ contracted by 1.8% yoy in 1Q21 amid COVID-19-induced restrictions on economic activity (see *exhibit 25*).

We expect that both the US and Eurozone economies will see double-digit year-on-year growth in 2Q21 due to a low comparison base in the same period last year.

Exhibit 24: US real GDP growth, 2019 to 1Q21

	2019	2020	2Q20	3Q20	4Q20	1Q21
Real GDP (<i>annual growth</i> ⁸ %)			-31.4	33.4	4.3	6.4
Real GDP (<i>yoy growth</i> %)	2.2	-3.5	-9.0	-2.8	-2.4	0.4

Source: US Department of Commerce

Exhibit 25: Eurozone's real GDP growth, 2019 to 1Q21

	2019	2020	2Q20	3Q20	4Q20	1Q21
Real GDP (<i>qoq growth</i> %)			-11.6	12.5	-0.7	-0.6
Real GDP (<i>yoy growth</i> %)	1.3	-6.6	-14.6	-4.1	-4.9	-1.8

Source: Eurostat, IMF

⁷ 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.

⁸ 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* released in April, the IMF forecasts that the global economy will grow by 6.0% in 2021, up from a 5.5% rise predicted in January. The primary reasons behind the latest upward revision are additional policy stimulus in some major economies and expectations of vaccine-powered recovery in the second half of 2021 (see exhibit 26).

The improved global economic outlook bodes well for China's exports and economy in the coming months.

Exhibit 26: Latest GDP growth estimates and forecasts by the IMF (2020 to 2022)

	yoy growth (%)		
	2020 (Estimates)	2021 (Forecasts)	2022 (Forecasts)
World economy	-3.3	6.0	4.4
Advanced economies	-4.7	5.1	3.6
- US	-3.5	6.4	3.5
- Eurozone	-6.6	4.4	3.8
- Japan	-4.8	3.3	2.5
- UK	-9.9	5.3	5.1
Emerging market and developing economies	-2.2	6.7	5.0
- China	2.3	8.4	5.6
- India*	-8.0	12.5	6.9
- Brazil	-4.1	3.7	2.6
- Russia	-3.1	3.8	3.8
- ASEAN-5 ⁹	-3.4	4.9	6.1

* Data and forecasts are presented on a fiscal year basis.

Source: *World Economic Outlook* released in April 2021, IMF

⁹ 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.

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