China Trade Quarterly

Domestic Trade

China's economy continues rapid recovery in 2Q21

Retail sales further recover in 1H21

China to develop five international consumption centre cities

Foreign Trade

Sustained recovery in external demand boosts China's exports during Jan-Jul period

Surge in FDI indicates confidence in China's long-term prospects

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Part One: Domestic Trade

A. Recent developments

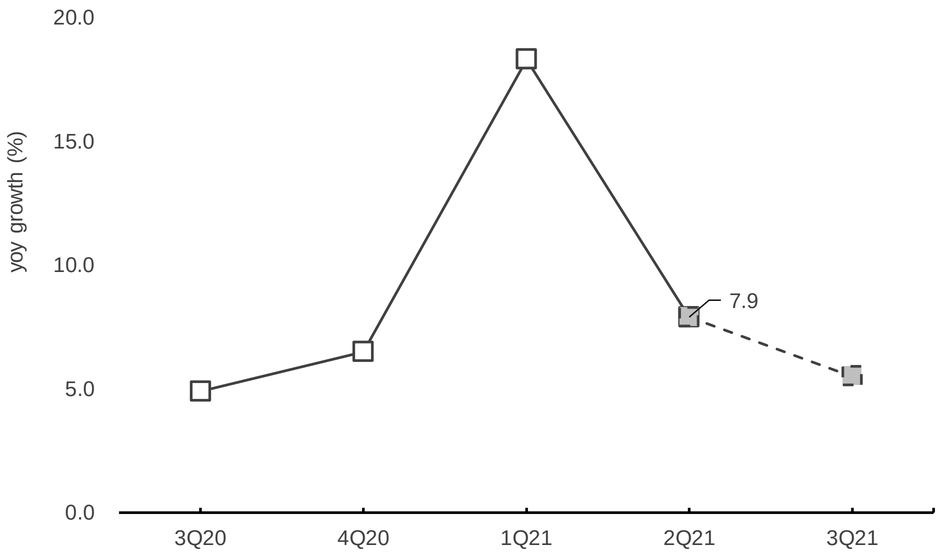
1. China's economy continues rapid recovery in 2Q21

China's real GDP growth registered 7.9% yoy in 2Q21 as the economic recovery continues to gain steam *(see exhibit 1)*. Overall, in 1H21, China's nominal GDP amounted to 53.2 trillion yuan, up by 12.7% in real terms.

The pent-up domestic demand is likely to underpin China's growth in the coming months. However, with the low-base effect fading and a recent resurgence of COVID-19 cases, we predict that China's real GDP growth will moderate to 5.5% yoy in 3Q21.

Exhibit 1: China's real GDP growth and forecasts, 3Q20 to 3Q21

FY20	3Q20	4Q20	1Q21	2Q21	3Q21F
2.3%	4.9%	6.5%	18.3%	7.9%	5.5%



Source: National Bureau of Statistics, PRC

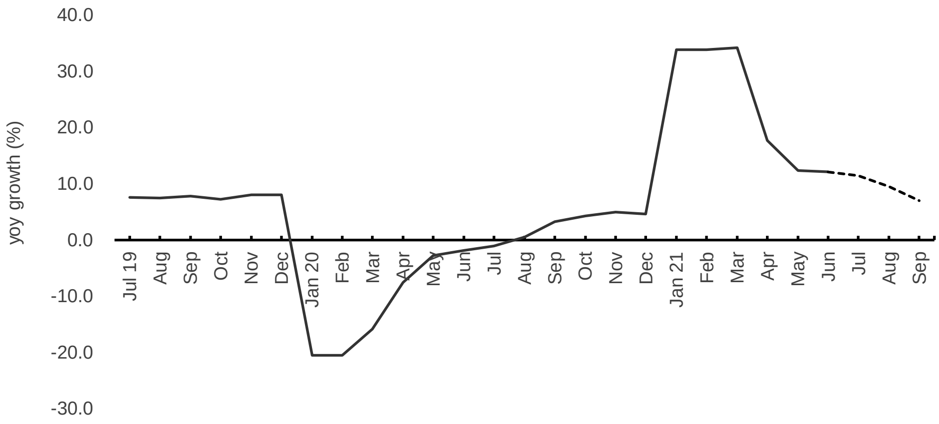
2. Retail sales further recover in 1H21

Against a low comparison base last year, China's total retail sales of consumer goods jumped by 23.0% yoy to 21.2 trillion yuan in 1H21 *(see exhibits 2, 3 and 4)*.

A recent rebound in COVID-19 cases could hurt retail sales. Still, we predict that the growth in retail sales will reach 9.0% yoy in 3Q21 amid a low comparison base in the same period last year.

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

FY20	Jul 20	Aug	Sep	Oct	Nov	Dec	Jan-Feb 21	Mar	Apr	May	Jun
-3.9%	-1.1%	0.5%	3.3%	4.3%	5.0%	4.6%	33.8%	34.2%	17.7%	12.4%	12.1%



Source: National Bureau of Statistics, PRC

Exhibit 3: China's total retail sales, month-on-month nominal growth, January to June 2021

mom growth (%), seasonally adjusted

	Jan 21	Feb	Mar	Apr	May	Jun
Total retail sales	-0.18	0.99	0.91	0.26	0.81	0.70

Source: National Bureau of Statistics, PRC

Exhibit 4: China's total retail sales, 2020 to 1H21

Nominal growth, yoy (%)	FY20	1Q21	1H21
Total retail sales	-3.9	33.9	23.0
- Goods	-2.3	30.4	20.6
Sales by enterprises above designated size	-1.0	40.2	24.8
Online sales	14.8	25.8	18.7
- Catering services	-16.6	75.8	**48.6**

Source: National Bureau of Statistics, PRC

In 1H21, catering sales registered 48.6% yoy growth, reversing a 32.8% yoy decline in 1H20. However, catering sales in 1H21 were still a bit below the level two years ago (1H19), suggesting a sluggish recovery of catering spending.

Exhibit 5: China's retail sales by enterprises above designated size, by product, 2020 to 1H21

Nominal growth, yoy (%)	**FY20**	**1Q21**	**1H21**
Grain, oil and food	9.9	10.0	10.5
Beverages	14.0	35.7	29.2
Tobacco and liquor	5.4	44.9	32.0
Garments, footwear, hats, knitwear	-6.6	54.2	**33.7**
Cosmetics	9.5	41.4	26.6
Gold, silver and jewellery	-4.7	93.4	**59.9**
Commodities for daily use	7.5	33.2	22.9
Home appliances & audio/video equipment	-3.8	41.4	19.3
Traditional Chinese and Western medicines	7.8	14.9	11.2
Cultural and office appliances	5.8	31.8	22.9
Furniture	-7.0	52.3	30.0
Communication appliances	12.9	42.4	26.1
Petroleum and related products	-14.5	23.6	21.7
Automobiles	-1.8	65.6	30.4
Building and decoration materials	-2.8	48.9	32.9

Source: National Bureau of Statistics, PRC

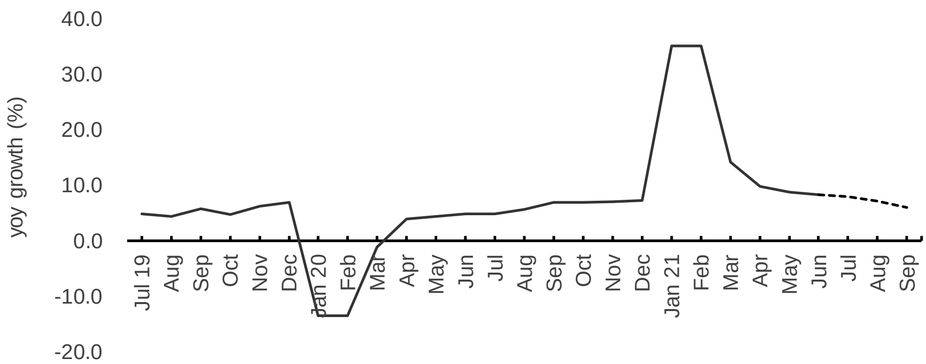
In 1H21, consumer discretionary categories such as 'gold, silver and jewellery' and 'garments, footwear, hats, knitwear' posted the strongest sales growth, indicating a fast recovery in discretionary spending.

3. Industrial production jumps in 1H21

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 size[1], expanded by 15.9% yoy in 1H21 *(see exhibit 6)*.

Exhibit 6: China's industrial production growth and forecasts, July 2019 to September 2021

FY20	Jul 20	Aug	Sep	Oct	Nov	Dec	Jan-Feb 21	Mar	Apr	May	Jun
-2.8%	4.8%	5.6%	6.9%	6.9%	7.0%	7.3%	35.1	14.1	9.8	8.8	8.3



Source: National Bureau of Statistics, PRC

We expect China's industrial production growth to moderate to 7.0% yoy in 3Q21, as the low-base effect fades.

[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 1H21

Against a low comparison base last year, the nominal growth of China's fixed asset investment (FAI) (excluding rural households) came in at 12.6% yoy in 1H21 *(see exhibit 7)*. China's FAI (excluding rural households) amounted to 25.6 trillion yuan in 1H21.

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

Year-to-date, yoy growth %	Dec 20	Feb 21	Mar	Apr	May	Jun
FAI (excluding rural households)	2.9	35.0	25.6	19.9	15.4	12.6
- Manufacturing sector	-2.2	37.3	29.8	23.8	20.4	19.2
- Infrastructure (excluding power, heat, gas and water infrastructure)	0.9	36.6	29.7	18.4	11.8	7.8
- Real estate development	7.0	38.3	25.6	21.6	18.3	15.0

Source: National Bureau of Statistics, PRC

The strong economic recovery in 1H21 reduced the need to boost the Chinese economy with infrastructure projects, resulting in a slowing growth in infrastructure investment.

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

5. Growth in M2 and total outstanding RMB loans decelerates

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

Exhibit 8: Broad money supply (M2) and RMB loans, July 2020 to June 2021

	Broad money supply (M2)		Total outstanding RMB loans	
As of	Amount (trillion yuan)	yoy growth	Amount (trillion yuan)	yoy growth
End-Jul 20	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%
End-Apr	226.2	8.1%	181.9	12.3%
End-May	227.6	8.3%	183.4	12.2%
End-Jun	231.8	8.6%	185.5	12.3%

Source: People's Bank of China

Exhibit 9: Increase in RMB loans, 2020 to 1H21

	Increase in RMB loans (trillion yuan)
FY20	**20.03**
1H21	**12.76**
Jul 20	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
Apr	1.47
May	1.50
Jun	2.12

Source: People's Bank of China

The People's Bank of China (PBoC) has continued to take actions to maintain reasonably sufficient liquidity in the banking system. On 15 July, it cut the required reserve ratios (RRRs) for all banks by 50 basis points to free up 1 trillion yuan in long-term liquidity. The PBoC said in a statement that the RRRs cut does not mean a change to the prudent monetary policy. It will maintain the stability and effectiveness of monetary policy and will not flood the economy with excessive liquidity.[2]

In our view, even though the RRR cut might not necessarily signal broad-based monetary easing, the monetary tightening phase has come to an end.

[2] http://www.pbc.gov.cn/goutongjiaoliu/113456/113469/4287599/index.html

6. PMI indicates growth moderation in manufacturing sector

China's manufacturing PMI dropped from 51.1 in April to 50.9 in June and further to 50.4 in July. 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 51.9 in June to 51.0 in July. The slower expansion was mainly attributed to a moderation in growth in overall new orders: The new orders index dropped from 51.5 in June to 50.9 in July.

Prices of industrial products have continued to increase: After reaching 60.6 in May, the ex-factory prices index retreated to 51.4 in June but then rebounded to 53.8 in July. The rise in product prices was partly attributed to the jump in the prices of materials: The input prices index surged to a 10-year high of 72.8 in May, and then stayed high at 61.2 in June and 62.9 in July.

The business expectations index edged down from 57.9 in June to 57.8 in July. Despite the recent decline, the index was still well above the critical 50-mark, indicating that purchasing managers in China have remained optimistic about the near-term outlook for their respective industries.

China's manufacturing PMI fell to 50.4 in July, indicating that the manufacturing sector continued to expand, but 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, July 2021

Index	Seasonally adjusted index	Index compared with the previous month	Direction
PMI	50.4	Lower ▼	Expanding
Output	51.0	Lower ▼	Expanding
New Orders	50.9	Lower ▼	Expanding
New Export Orders	47.7	Lower ▼	Contracting
Backlogs of Orders	46.1	Lower ▼	Contracting
Stocks of Finished Goods	47.6	Higher ▲	Contracting
Stocks of Major Inputs	47.7	Lower ▼	Contracting
Purchases of Inputs	50.8	Lower ▼	Expanding
Imports	49.4	Lower ▼	Contracting
Input Prices	62.9	Higher ▲	Rising
Ex-factory Prices	53.8	Higher ▲	Rising
Employment	49.6	Higher ▲	Contracting
Suppliers' Delivery Time	48.9	Higher ▲	Slowing
Business Expectations	57.8	Lower ▼	Optimistic

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

Looking ahead, we predict that the manufacturing PMI will fluctuate within 50.0 to 51.0 in the next few months, pointing to a steady but slower expansion of the manufacturing sector and the economy.

7. NMI indicates growth deceleration 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 55.2 in May to 53.5 in June and 53.3 in July (*see exhibit 11*). The index readings indicate growth deceleration in the non-manufacturing sector.

The new orders index declined from 52.2 in May to 49.7 in July, indicating a slight reduction in new orders lately.

The sales prices index remained above the critical 50-mark over the past few months, meaning that enterprises have continued to raise their service charges recently. Meanwhile, the input prices index went down from 57.7 in May to 53.5 in July, indicating that input prices have increased at a slower pace lately.

The business expectation index stayed above 60.0 during May to July, 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 expand 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, July 2021

Index	Seasonally adjusted index	Index compared with the previous month	Direction
Business activity	53.3	Lower ▼	Expanding
New orders	49.7	Higher ▲	Contracting
Input prices	53.5	Higher ▲	Rising
Sales prices	51.3	Lower ▼	Rising
Business expectations	60.7	Lower ▼	Optimistic

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

B. Policy updates

The Chinese government has been adopting both short- and long-term measures to prompt the growth of consumption as a way to boost domestic demand, which is key to the 'dual circulation' development strategy.

1. China launches nationwide campaign in May to boost consumption

The Ministry of Commerce (MOFCOM) launched the '2021 Consumption Promotion Month' in May to stimulate consumer spending. Thousands of events, including both offline shopping festivals and online shopping events, were held nationwide, promoting the consumption of high-quality goods and services, and new modes of consumption. Over 200,000 enterprises participated in the campaign, and the trade volume of goods and services nationwide reached 4.82 trillion yuan in May, up 22.8% yoy, according to the MOFCOM.[3]

2. China to develop five international consumption centre cities

The MOFCOM announced on 19 July that Shanghai, Beijing, Guangzhou, Tianjin and Chongqing will take the lead in developing into international consumption centre cities.[4]

Efforts will be made to pool quality international market entities, goods and services, as well as to accelerate the cultivation of local brands. The MOFCOM also pledged efforts to develop business communities and improve market regulation services in the five cities.

The MOFCOM will work with other government departments to unveil a general plan on building the international consumption centre cities and the five cities will formulate their implementation plans to advance the development tasks.

3. CPC meeting lays out policy orientation for 2H21

Compared with the April meeting, the July meeting highlighted an increasingly challenging external environment and emphasized the need for policy autonomy. It also dropped the previous pledge of 'no sharp turns in policy'. These changes in wordings could mean a relatively loose macro policy in 2H21.

A meeting of the Political Bureau of the Communist Party of China (CPC) Central Committee was held on 30 July to make arrangements for the economic work for the second half of the year.[5] The meeting stressed maintaining consistent, stable and sustainable macro policies, sound coordination to mesh this year's policies with those for 2022, and keeping the Chinese economy running within an appropriate range. The proactive fiscal policy should generate greater effect, while the prudent monetary policy should maintain reasonably ample liquidity and support the continued recovery of small and medium-sized enterprises and stressed industries, as pledged in the meeting.

[3] http://big5.www.gov.cn/gate/big5/www.gov.cn/xinwen/2021-06/14/content_5617568.htm
[4] http://www.gov.cn/xinwen/2021-07/19/content_5625957.htm
[5] http://www.gov.cn/xinwen/2021-07/30/content_5628481.htm

Part Two: Foreign Trade

A. Recent developments

1. Sustained recovery in external demand boosts China's exports in Jan-Jul period

In 1H21, China's exports surged by 38.6% yoy to US$1,518.4 billion while its imports jumped by 36.0% yoy to US$1,266.8 billion. Both quarterly exports and imports in 2Q21 were all-time high. In July, China's exports rose by 19.3% yoy and its imports increased by 28.1% yoy. (*See exhibits 12, 13 and 14*)

Given a continued 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 10.0% yoy in 3Q21.

Exhibit 12: China's quarterly foreign trade data, 3Q20 to 2Q21

	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**
3Q20	709.8	8.4%	556.8	3.7%	153.1
4Q20	785.0	16.6%	577.0	5.6%	208.1
1Q21	709.5	48.9%	597.1	28.0%	112.4
2Q21	808.9	30.7%	669.7	43.3%	139.2

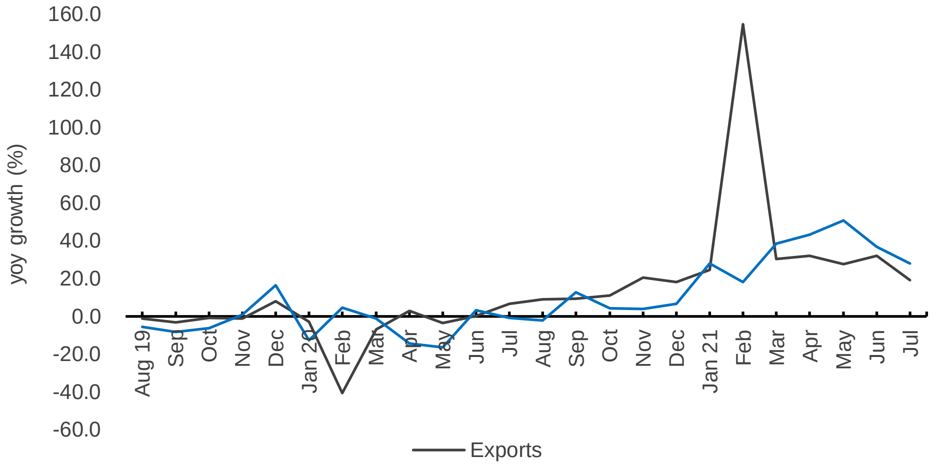
Source: China Customs

Exhibit 13: China's monthly foreign trade data, August 2020 to July 2021

	Exports		**Imports**		**Trade Balance**
	Amount (USD billion)	*yoy growth*	*Amount (USD billion)*	*yoy growth*	*Amount (USD billion)*
August 2020	234.4	9.1%	177.2	-2.3%	57.2
September	238.6	9.4%	203.1	12.7%	35.5
October	236.2	10.9%	178.8	4.4%	57.4
November	266.9	20.5%	192.4	4.1%	74.6
December	281.8	18.1%	205.8	6.8%	76.0
January 2021	263.8	24.7%	200.9	28.0%	62.9
February	204.8	154.7%	168.3	18.2%	36.5
March	240.9	30.5%	227.9	38.5%	13.0
April	263.6	32.2%	221.4	43.3%	42.2
May	263.8	27.8%	218.4	50.8%	45.4
June	281.4	32.2%	229.9	36.7%	51.5
July	282.7	19.3%	226.1	28.1%	56.6

Source: China Customs

Exhibit 14: Growth rates of exports and imports, August 2019 to July 2021



Source: China Customs

Exhibit 15: Exports by category, 2020 to 1H21

yoy growth (%) of export value, in USD	**2020**	**1Q21**	**1H21**
Textile yarn, fabrics and textile products	29.2	40.3	-7.4
Garments and clothing accessories	-6.4	47.7	40.3
Footwear	-21.2	29.7	39.2
Toys	7.5	72.3	63.8
Furniture and parts	11.8	73.0	56.4
Lighting fittings and parts	14.3	100.3	56.2
Suitcases and handbags	-24.2	22.2	33.0
Refined oil	-33.7	-20.6	13.4
Steel	-15.4	38.4	62.1
Mechanical and electrical products	5.7	53.5	**40.2**

Source: China Customs

The strong increase in the exports of mechanical and electrical products, which account for almost 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 1H21

yoy growth (%) of import value, in USD	**2020**	**1Q21**	**1H21**
Soybeans	11.8	41.7	44.4
Iron ores	17.4	77.7	85.6
Crude oil	-27.3	-3.9	26.1
Steel	17.4	29.5	28.0
Textile yarn, fabrics and textile products	-10.2	-9.5	9.7
Vehicles and vehicle chassis	-4.2	30.2	67.9
Integrated circuits	14.6	29.9	28.3
Plastics	-1.6	34.3	25.4

Source: China Customs

China's exports to the US and the EU surged in 2Q21, thanks to the reopening of their economies.

2. ASEAN remains China's top trading partner in 1H21

In 1H21, 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*).

Exhibit 17: China's trading partners, 1H21

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	410.8	14.7	225.8	184.9	38.2	38.3	38.1
EU	388.2	13.9	233.0	155.2	37.0	**35.9**	38.8
US	340.8	12.2	252.9	87.9	45.7	**42.6**	55.5
Japan	181.3	6.5	80.0	101.3	23.7	18.7	27.9
Brazil	74.3	2.7	23.3	51.0	42.8	63.6	35.0
Russia	63.1	2.3	28.9	34.1	28.2	38.4	20.6
India	57.5	2.1	42.8	14.7	62.7	60.4	69.6

Source: China Customs

Exhibit 18: China's trading partners, comparing growth rates for 2020 and 1H21

yoy growth (%)

Country/Region	Total trade		Exports		Imports	
	2020	1H21	2020	1H21	2020	1H21
ASEAN	6.7	38.2	6.7	38.3	6.6	38.1
EU	4.9	37.0	6.7	35.9	2.3	38.8
US	8.3	45.7	7.9	42.6	9.8	55.5
Japan	0.8	23.7	-0.4	18.7	1.8	27.9
Brazil	3.1	42.8	-1.6	63.6	5.2	35.0
Russia	-2.9	28.2	1.7	38.4	-6.6	20.6
India	-5.6	62.7	-10.8	60.4	16.0	69.6

Source: China Customs

3. Leading export provinces register strong export growth in 1H21

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 1H21, down from 75.8% in 2020 (*see exhibit 19*). Guangdong, Shandong and Fujian registered export growth of 40.0% yoy or more in the period.

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	416.0	41.9	27.4
Jiangsu	230.4	29.2	15.2
Zhejiang	208.6	38.8	13.7
Shandong	121.2	54.6	8.0
Shanghai	90.1	15.9	5.9
Fujian	72.3	53.8	4.8

Source: China Customs

4. Surge in FDI in 1H21 indicates confidence in China's long-term prospects

China's foreign direct investment (FDI) increased by 19.3% yoy in 2Q21. Overall, in 1H21, China's FDI rose by 28.7% yoy to 607.8 billion yuan (US$91.0 billion, up by 33.9% yoy in US dollar terms) (*see exhibit 20*).

The rise in FDI into China indicates foreign investors' confidence in China's long-term prospects, despite the ongoing COVID-19 global pandemic and all the talk of China—US decoupling.

Exhibit 20: China's FDI, 2020 to June 2021

	Amount (billion yuan)	yoy growth
FY20	**1000.0**	**6.2%**
1H21	**607.8**	**28.7%**
July 20	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%
April	94.6	34.4%
May	83.9	22.3%
June	126.8	8.4%

Source: Ministry of Commerce, PRC

China is witnessing a new trend in foreign investment activities, with FDI in China's high-tech service sector growing rapidly, which soared by 42.7% yoy in 1H21.

5. Chinese yuan remains strong against US dollar and Euro

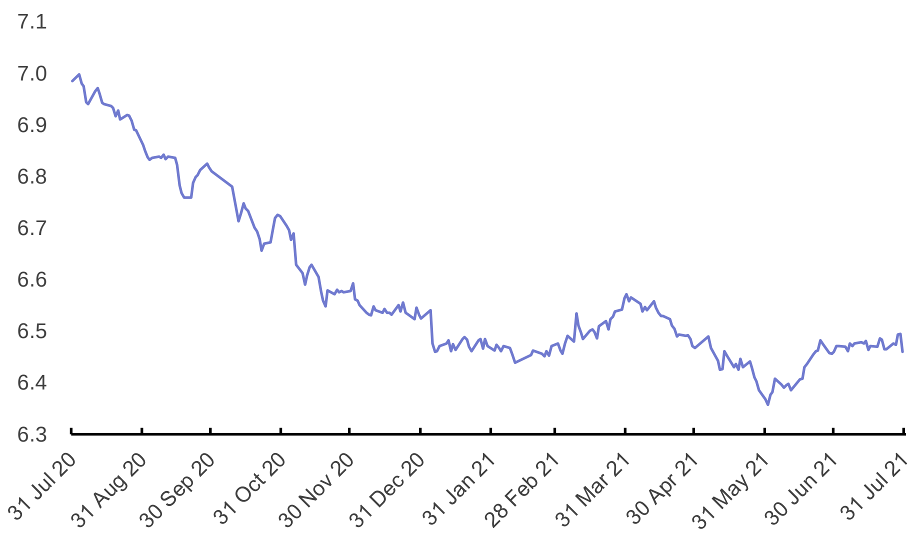
The daily fixing rate (also known as the central parity rate) of the Chinese yuan against the US dollar appreciated from 6.4895 to a three-year high of 6.3571 on 1 June, before retreating to 6.4602 on 30 July (*see exhibit 21*).[6] So far this year, the Chinese yuan had appreciated by 1.0% against the US dollar (as of 30 July).

Meanwhile, the daily fixing rate of the Chinese yuan against the Euro appreciated from 7.8397 on 30 April to a 17-month high of 7.6122 on 23 July, before retreating to 7.6791 on 30 July (*see exhibit 22*). So far this year, the Chinese yuan had appreciated by 4.5% against the Euro (as of 30 April).

According to the Bank for International Settlements, the Chinese yuan depreciated in real terms against its trading partners by 1.6% in 2Q21 (*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.

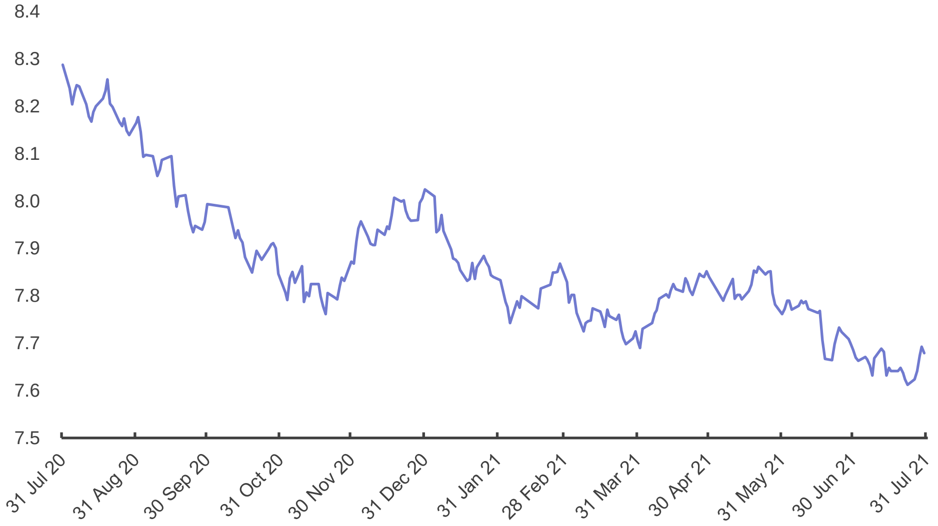
Exhibit 21: USD-CNY daily fixing rate, July 2020 to July 2021



Source: State Administration of Foreign Exchange

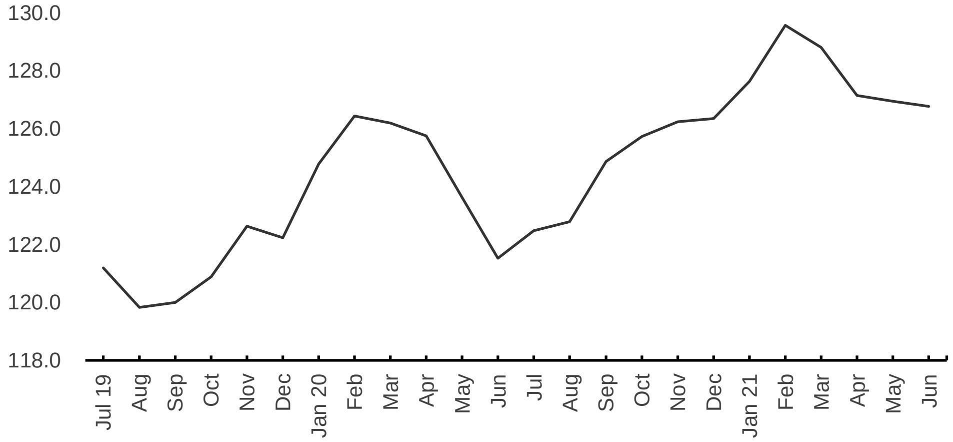
[6] According to the PBOC, the daily fixing rate of the Chinese yuan against the US dollar is directly formed by market makers based on the closing rate of the previous day, the movements of major international currencies, and 'counter cyclical factor', which has been gradually phased out since October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

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



Source: State Administration of Foreign Exchange

Exhibit 23: Real effective exchange rate of the Chinese yuan, July 2019 to June 2021



Source: Bank for International Settlements

B. Highlights

1. China to boost new business formats and models of foreign trade

Development of new business formats and models of foreign trade, such as cross-border e-commerce, is vital to the upgrading of China's foreign trade sector and boosting its 'international circulation'.

China will boost new business formats and models of foreign trade to advance high-quality development of the trade sector, according to a circular issued by the General Office of the State Council on 9 July.[7]

The Chinese government will promote the utilization of digital technology and tools throughout the process of foreign trade; designate more areas as integrated pilot zones for cross-border e-commerce; encourage traditional foreign trade companies, cross-border e-commerce platforms and logistics firms to develop overseas warehouses and make them more digitized and intelligent; support traditional foreign trade enterprises to adopt sophisticated technologies; promote the development of market procurement trade and offshore trade, etc.

2. China–US trade tensions linger

The imposition of new sanctions against Chinese companies suggests that China–US tensions are unlikely to abate any time soon.

The US has stepped up financial and trade sanctions on Chinese companies over its alleged 'human rights issues' in Xinjiang and other issues of concern. On 3 June, US President Joe Biden signed a new executive order that would add 28 Chinese companies to a Trump-era investment ban on 31 Chinese companies. Then on 9 July, the US Department of Commerce added 23 Chinese companies to its *Entity List*, which prohibits these companies from buying certain US technologies and services.

[7] http://www.gov.cn/zhengce/content/2021-07/09/content_5623826.htm

C. Outlook

We expect that both the US and Eurozone economies will register slower growth in 3Q21 amid a weaker low-base effect and a recent resurgence of COVID-19 cases.

1. US and Eurozone economies post strong recovery in 2Q21

Against a low comparison base, the US real GDP expanded by 12.2% yoy in 2Q21, the fastest pace in more than 70 years (*see exhibit 24*). Meanwhile, the Eurozone economy[8] expanded by 13.7% yoy in the quarter (*see exhibit 25*).

Exhibit 24: US real GDP growth, 2019 to 2Q21

	2019	2020	3Q20	4Q20	1Q21	2Q21
Real GDP *(annual growth[9] %)*			33.8	4.5	6.3	6.5
Real GDP *(yoy growth %)*	2.3	-3.4	-2.9	-2.3	0.5	12.2

Source: US Department of Commerce

Exhibit 25: Eurozone's real GDP growth, 2019 to 2Q21

	2019	2020	3Q20	4Q20	1Q21	2Q21
Real GDP *(qoq growth %)*			12.4	-0.6	-0.3	2.0
Real GDP *(yoy growth %)*	1.3	-6.5	-4.0	-4.6	-1.3	13.7

Source: Eurostat, IMF

[8] 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.

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

2. IMF projects faster recovery of advanced economies in 2021

In the *World Economic Outlook Update* released in July, the IMF revised upwards its growth forecast for advanced economies from 5.1% to 5.6% but cut the growth forecast for emerging market and developing economies from 6.7% to 6.3%. The primary reasons behind the latest revisions are expectations of additional policy stimulus in advanced economies in 2H21 and recent COVID-19 developments in Asia (*see exhibit 26*).

The improved outlook for advanced economies bodes well for China's exports and overall 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	-3.2	6.0	4.9
Advanced economies	-4.6	5.6	4.4
- US	-3.5	7.0	4.9
- Eurozone	-6.5	4.6	4.3
- Japan	-4.7	2.8	3.0
- UK	-9.8	7.0	4.8
Emerging market and developing economies	-2.1	6.3	5.2
- China	2.3	8.1	5.7
- India*	-7.3	9.5	8.5
- Brazil	-4.1	5.3	1.9
- Russia	-3.0	4.4	3.1
- ASEAN-5[10]	-3.4	4.3	6.3

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

[10] 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 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 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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