FUNG BUSINESS INTELLIGENCE
November 2021

China Trade Quarterly

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Part One: Domestic Trade

A. Recent developments

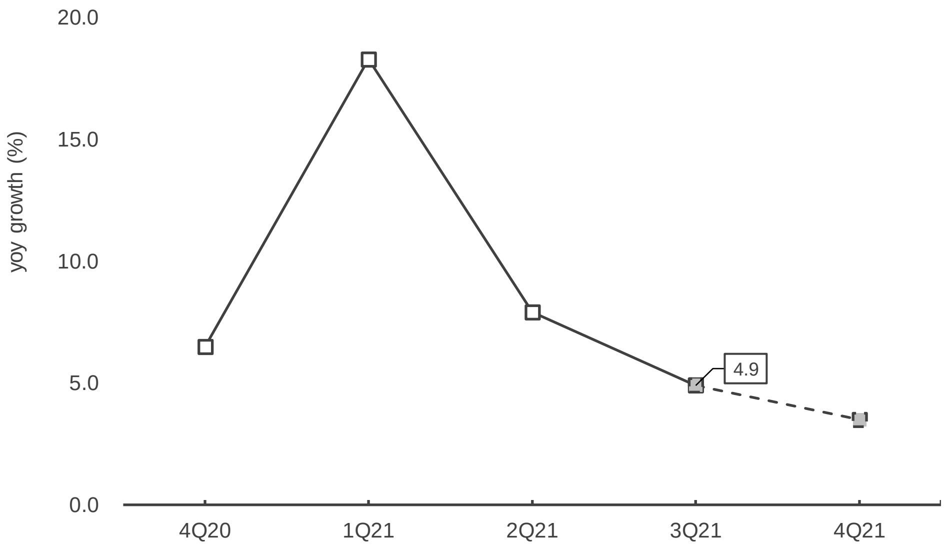
1. China's economic growth slows in 3Q21 as 'energy dual controls' and power shortages take a toll

China's real GDP growth eased to 4.9% yoy in 3Q21 amid disruptions in industrial production due to the 'energy dual controls' (on energy consumption and energy intensity) and nationwide power shortages *(see exhibit 1)*. Overall, in 1-3Q21, China's nominal GDP amounted to 82.3 trillion yuan, up by 9.8% in real terms.

We predict that China's real GDP growth will ease to 3.5% yoy in 4Q21 due to a weak manufacturing sector and a high comparison base in the same period last year.

Exhibit 1: China's real GDP growth and forecasts, 4Q20 to 4Q21

FY20	4Q20	1Q21	2Q21	3Q21	4Q21F
2.3%	6.5%	18.3%	7.9%	4.9%	3.5%



Source: National Bureau of Statistics, PRC

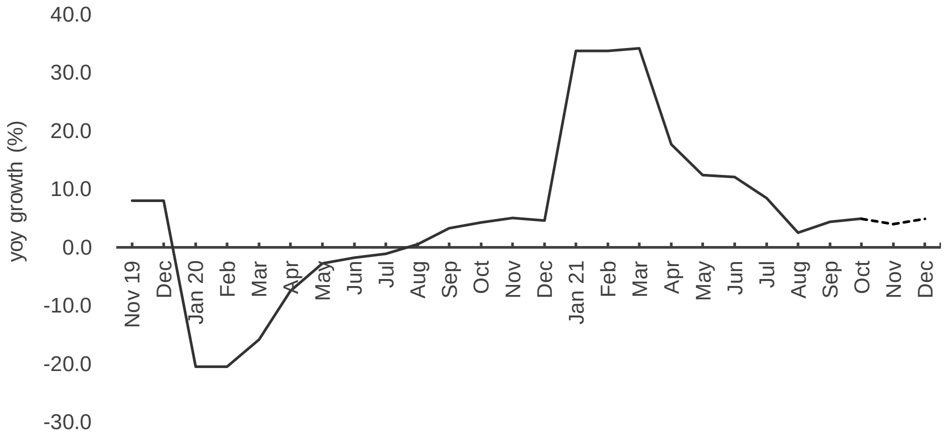
2. Growth in retail sales softens in 3Q21

China's total retail sales of consumer goods jumped by 16.4% yoy to 31.8 trillion yuan in 1-3Q21 *(see exhibits 2, 3 and 4)*. Growth in retail sales was weaker than expected in 3Q21, as small outbreaks of the COVID-19 and flooding in some regions hurt consumer spending. Growth in retail sales picked up to 4.9% yoy in October.

We predict that the growth in retail sales will stay low at 4.0%-5.0% yoy in 4Q21, amid recent COVID-19 outbreaks in some provinces and the overall economic slowdown.

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

FY20	Nov 20	Dec	Jan-Feb 21	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct
-3.9%	5.0%	4.6%	33.8%	34.2%	17.7%	12.4%	12.1%	8.5%	2.5%	4.4%	4.9%



Source: National Bureau of Statistics, PRC

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

mom growth (%), seasonally adjusted

	May 21	**Jun**	**Jul**	**Aug**	**Sep**	**Oct**
Total retail sales	0.68	0.43	-0.22	0.34	0.30	0.43

Source: National Bureau of Statistics, PRC

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

Catering sales in 1-3Q21 were still 1.2% below the level two years ago (1-3Q19), suggesting a sluggish recovery of catering spending.

Nominal growth, yoy (%)	**FY20**	**1Q21**	**1H21**	**1-3Q21**
Total retail sales	-3.9	33.9	23.0	16.4
- Goods	-2.3	30.4	20.6	15.0
Sales by enterprises above designated size	-1.0	40.2	24.8	17.0
Online sales	14.8	25.8	18.7	15.2
- Catering services	-16.6	75.8	48.6	29.8

Source: National Bureau of Statistics, PRC

Exhibit 5: China's retail sales by enterprises above designated size, by product, 2020 to 1-3Q21

Nominal growth, yoy (%)	**FY20**	**1Q21**	**1H21**	**1-3Q21**
Grain, oil and food	9.9	10.0	10.5	10.3
Beverages	14.0	35.7	29.2	23.4
Tobacco and liquor	5.4	44.9	32.0	25.8
Garments, footwear, hats, knitwear	-6.6	54.2	33.7	**20.6**
Cosmetics	9.5	41.4	26.6	17.9
Gold, silver and jewellery	-4.7	93.4	59.9	**41.6**
Commodities for daily use	7.5	33.2	22.9	16.0
Home appliances & audio/video equipment	-3.8	41.4	19.3	13.5
Traditional Chinese and Western medicines	7.8	14.9	11.2	10.5
Cultural and office appliances	5.8	31.8	22.9	21.7
Furniture	-7.0	52.3	30.0	20.7
Communication appliances	12.9	42.4	26.1	17.5
Petroleum and related products	-14.5	23.6	21.7	20.3
Automobiles	-1.8	65.6	30.4	15.5
Building and decoration materials	-2.8	48.9	32.9	24.9

Source: National Bureau of Statistics, PRC

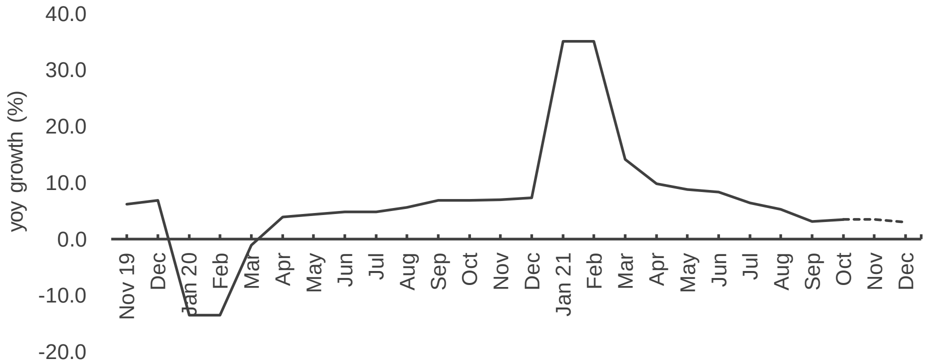
In 1-3Q21, consumer discretionary categories such as 'gold, silver and jewellery' and 'garments, footwear, hats, knitwear' recorded stronger sales growth, indicating a rapid recovery in discretionary spending.

3. Growth in industrial production slows sharply in 3Q21

China's industrial production, measured by the value-added of industrial output of industrial enterprises above designated size[1], expanded by 11.8% yoy in 1-3Q21 *(see exhibit 6)*. Growth in industrial production slowed sharply in September amid the blow to industrial activity from the 'energy dual controls' and nationwide power shortages. Growth in industrial production rebounded slightly to 3.5% yoy in October as the power shortages started to ease.

Exhibit 6: China's industrial production growth and forecasts, November 2019 to December 2021

FY20	Nov 20	Dec	Jan-Feb 21	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct
-2.8%	7.0%	7.3%	35.1	14.1	9.8	8.8	8.3	6.4	5.3	3.1	3.5



Source: National Bureau of Statistics, PRC

We expect China's industrial production growth to stay low at around 3.5% yoy in 4Q21, as a high comparison base will likely offset the positive impact of the easing power shortages.

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

4. Fixed asset investment grows 6.1% yoy in Jan-Oct period

The nominal growth of China's fixed asset investment (FAI) (excluding rural households) registered 6.1% yoy during January-October 2021 *(see exhibit 7)*. China's FAI (excluding rural households) amounted to 44.6 trillion yuan in the period.

The issuance of special bonds has started to accelerate since August, which will likely shore up infrastructure investment in 4Q21 and help offset the slowdown in real estate investment caused by the cooling property market.

Exhibit 7: China's FAI (excluding rural households) growth, May to October 2021

Year-to-date, yoy growth %	**May 21**	**Jun**	**Jul**	**Aug**	**Sep**	**Oct**
FAI (excluding rural households)	15.4	12.6	10.3	8.9	7.3	6.1
- Manufacturing sector	20.4	19.2	17.3	15.7	14.8	14.2
- Infrastructure (excluding power, heat, gas and water infrastructure)	11.8	7.8	4.6	2.9	1.5	1.0
- Real estate development	18.3	15.0	12.7	10.9	8.8	7.2

Source: National Bureau of Statistics, PRC

5. Growth in M2 accelerates

The broad money supply (M2) has grown at a faster pace since August. Meanwhile, the growth in the total outstanding RMB loans has started to stabilize lately *(see exhibit 8 & 9)*.

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

	Broad money supply (M2)		**Total outstanding RMB loans**	
As of	**Amount (trillion yuan)**	**yoy growth**	**Amount (trillion yuan)**	**yoy growth**
End-Nov 20	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%
End-Jul	230.2	8.3%	186.6	12.3%
End-Aug	231.2	8.2%	187.8	12.1%
End-Sep	234.3	8.3%	189.5	11.9%
End-Oct	233.6	8.7%	190.3	11.9%

Source: People's Bank of China

Exhibit 9: Increase in RMB loans, 2020 to October 2021

	Increase in RMB loans (trillion yuan)
FY20	**20.03**
1-3Q21	**16.72**
Nov 20	1.43
Dec	1.26
Jan 21	3.58
Feb	1.36
Mar	2.73
Apr	1.47
May	1.50
Jun	2.12
Jul	1.08
Aug	1.22
Sep	1.66
Oct	0.83

Source: People's Bank of China

At a video conference held by the People's Bank of China (PBoC) and five other government departments on 26 August, the PBoC said that it will use monetary tools including the required reserve ratios (RRRs) and relending and rediscounting facilities to further strengthen financial support for rural development.[2] That fuelled speculation of a possible RRR cut in 4Q21, but those expectations have eased lately amid surging producer prices.

Even if an RRR cut materializes in 4Q21, China will continue to avoid broad-based monetary easing due to worries over high debt and property risks, in our view.

[2] http://www.gov.cn/xinwen/2021-08/27/content_5633648.htm

6. PMI indicates downward pressure in manufacturing sector

China's manufacturing PMI dropped from 50.4 in July to 49.6 in September and further to 49.2 in October. The latest PMI reading indicates downward pressure in the manufacturing sector amid the disruptions in manufacturing production due to the 'energy dual controls' and nationwide power shortages. (*See exhibit 10*)

Production activities have contracted at a faster pace lately, as the output index fell from 49.5 in September to 48.4 in October. The contraction was mainly attributed to a reduction in new orders: The new orders index fell from 49.3 in September to 48.8 in October.

Prices of industrial products have continued to increase at a fast pace lately: The ex-factory prices index rose from 56.4 in September to 61.1 in October. The jump in product prices was due largely to the surge in the prices of materials: The input prices index went up from 63.5 in September to 72.1 in October, well above the neutral level of 50.

The business expectations index dropped from 56.4 in September to 53.6 in October, indicating that purchasing managers in China have become less optimistic about the near-term outlook for their respective industries.

China's manufacturing PMI fell to 49.2 in October, indicating downward pressure in the manufacturing sector. Production activities have contracted amid a reduction in new orders. Prices of industrial products continued to rise rapidly, due largely to the jump in the prices of production inputs.

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

Index	Seasonally adjusted index	Index compared with the previous month	Direction
PMI	49.2	Lower ▼	Contracting
Output	48.4	Lower ▼	Contracting
New Orders	48.8	Lower ▼	Contracting
New Export Orders	46.6	Higher ▲	Contracting
Backlogs of Orders	45.0	Lower ▼	Contracting
Stocks of Finished Goods	46.3	Lower ▼	Contracting
Stocks of Major Inputs	47.0	Lower ▼	Contracting
Purchases of Inputs	48.9	Lower ▼	Contracting
Imports	47.5	Higher ▲	Contracting
Input Prices	72.1	Higher ▲	Rising
Ex-factory Prices	61.1	Higher ▲	Rising
Employment	48.8	Lower ▼	Contracting
Suppliers' Delivery Time	46.7	Lower ▼	Slowing
Business Expectations	53.6	Lower ▼	Optimistic

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

Looking ahead, we predict that the manufacturing PMI will fluctuate within 49.5 to 50.5 in the next few months, pointing to a weak manufacturing sector.

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 53.2 in September to 52.4 in October (*see exhibit 11*). The index readings indicate growth deceleration in the non-manufacturing sector.

The new orders index remained below the critical 50-mark over the past few months, indicating a persistent reduction in new orders lately.

The sales prices index rose from 50.5 in September to 52.7 in October, meaning that enterprises have continued to raise their service charges recently. Meanwhile, the input prices index went up from 53.5 in September to 57.8 in October, indicating that input prices have increased at a faster pace lately.

The business expectation index edged down from 59.1 in September to 58.8 in October. Despite the recent decline, the index was still well above the neutral level of 50, suggesting that purchasing managers in the non-manufacturing sector have remained optimistic about the near-term outlook for their respective industries.

We expect that China's non-manufacturing sector will continue to expand steadily and that the NMI will fluctuate within 51.0 to 53.0 in the next few months.

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

Index	Seasonally adjusted index	Index compared with the previous month	Direction
Business activity	52.4	Lower ▼	Expanding
New orders	49.0	Unchanged –	Contracting
Input prices	57.8	Higher ▲	Rising
Sales prices	52.7	Higher ▲	Rising
Business expectations	58.8	Lower ▼	Optimistic

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

B. Policy updates

1. Chinese government takes steps to ensure energy supplies

We see the power shortages as a short-term problem that can be speedily addressed through a combination of policy changes and practical measures to increase domestic coal output and power generation.

The State Council held a meeting on 8 October and decided to adopt six major measures to ensure energy supplies. These measures include: urging coal mines to raise output, encouraging coal-fired power plants to increase power generation through temporary tax deferral and other financial support, raising the cap on electricity prices, urging putting an end to a sweeping approach in production curbs and 'campaign-style' carbon reduction efforts, etc.[3]

It was reported that China's power crunch has eased gradually since early October, with the number of provinces with significant power shortages (i.e., a shortfall in power supply versus demand of more than 10%) dropped from 18 in early October to two in mid-October.

2. State Council allows deferral of tax payments for manufacturing SMEs

The Chinese government is focused on practical measures to alleviate financial burden on manufacturing enterprises, amid the rising input costs and the economic slowdown.

In order to support manufacturing enterprises, the State Council has decided to defer taxes for small- and medium-sized manufacturing enterprises in 4Q21 starting 1 November, backed by an allocation of around 200 billion yuan in funds.[4] The Chinese government is also reviewing a new mix of tax and fee reductions to address challenges confronting small and micro businesses, according to Chinese Premier Li Keqiang.

[3] http://www.gov.cn/premier/2021-10/08/content_5641406.htm
[4] http://www.gov.cn/zhengce/zhengceku/2021-11/01/content_5648154.htm

Part Two: Foreign Trade

A. Recent developments

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

During January-October, China's exports surged by 32.3% yoy to US$2,701.1 billion while its imports jumped by 31.4% yoy to US$2,190.5 billion. China's exports through October this year have already surpassed all of 2020, which was a record high. (*See exhibits 12, 13 and 14*)

Given a continued recovery in external demand, we remain optimistic about the near-term prospects of China's exports, and we forecast that China's exports will grow by over 10% yoy in 4Q21.

Exhibit 12: China's quarterly foreign trade data, 4Q20 to 3Q21

	Exports		Imports		Trade Balance
	Amount (USD billion)	*yoy growth*	*Amount (USD billion)*	*yoy growth*	*Amount (USD billion)*
FY20	**2,590.0**	**3.6%**	**2,066.0**	**-0.6%**	**524.0**
4Q20	784.8	16.6%	577.5	5.7%	207.4
1Q21	709.3	48.8%	599.9	28.0%	109.4
2Q21	808.8	30.7%	672.2	43.8%	136.7
3Q21	882.7	24.4%	701.2	25.9%	181.5

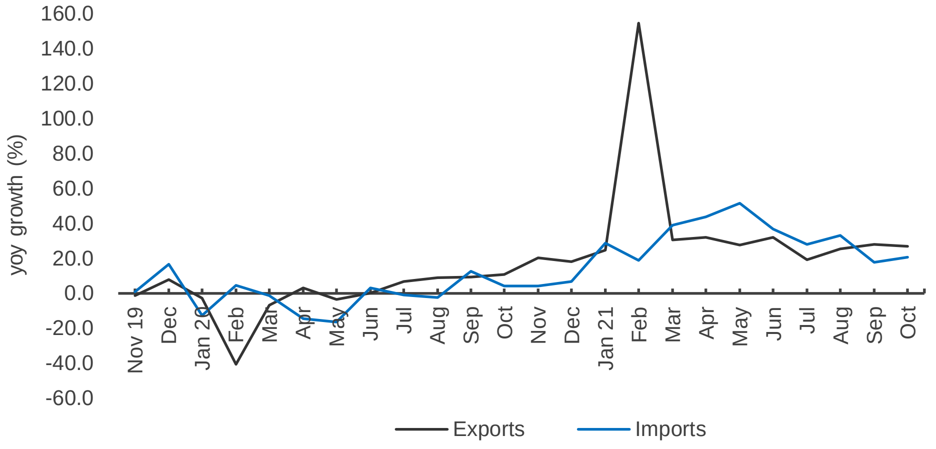
Source: China Customs, compiled by Fung Business Intelligence

Exhibit 13: China's monthly foreign trade data, November 2020 to October 2021

	Exports		Imports		Trade Balance
	Amount (USD billion)	*yoy growth*	*Amount (USD billion)*	*yoy growth*	*Amount (USD billion)*
November 20	266.9	20.5%	192.4	4.1%	74.6
December	281.8	18.1%	205.8	6.8%	76.0
January 21	263.7	24.6%	201.8	28.6%	62.9
February	204.7	154.7%	169.1	18.8%	35.6
March	240.9	30.5%	229.0	39.1%	11.9
April	263.6	32.1%	222.4	43.9%	41.2
May	263.8	27.8%	219.5	51.6%	44.3
June	281.4	32.2%	230.2	36.9%	51.2
July	282.7	19.3%	226.3	28.2%	56.3
August	294.3	25.6%	235.9	33.1%	58.4
September	305.7	28.1%	239.0	17.6%	66.8
October	300.2	27.1%	215.7	20.6%	84.5

Source: China Customs

Exhibit 14: Growth rates of exports and imports, November 2019 to October 2021



Source: China Customs

Exhibit 15: Exports by category, 2020 to 1-3Q21

yoy growth (%) of export value, in USD	**2020**	**1Q21**	**1H21**	**1-3Q21**
Textile yarn, fabrics and textile products	29.2	40.3	-7.4	-10.7
Garments and clothing accessories	-6.4	47.7	40.3	25.3
Footwear	-21.2	29.7	39.2	35.1
Toys	7.5	72.3	63.8	45.9
Furniture and parts	11.8	73.0	56.4	38.7
Lighting fittings and parts	14.3	100.3	56.2	42.0
Suitcases and handbags	-24.2	22.2	33.0	36.2
Refined oil	-33.7	-20.6	13.4	26.7
Steel	-15.4	38.4	62.1	78.1
Mechanical and electrical products	5.7	53.5	40.2	**33.3**

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 1-3Q21

yoy growth (%) of import value, in USD	**2020**	**1Q21**	**1H21**	**1-3Q21**
Soybeans	11.8	41.7	44.4	**39.3**
Iron ores	17.4	77.7	85.6	**76.0**
Crude oil	-27.3	-3.9	26.1	**33.8**
Steel	17.4	29.5	28.0	10.5
Textile yarn, fabrics and textile products	-10.2	-9.5	9.7	14.7
Vehicles and vehicle chassis	-4.2	30.2	67.9	39.1
Integrated circuits	14.6	29.9	28.3	24.4
Plastics	-1.6	34.3	25.4	20.4

Source: China Customs

The surge in China's imports was led by the increase in the import value of soybeans, iron ores and crude oil, due to escalations in global commodity prices. However, it should be noted that the import quantities of these commodities actually dropped in the period.

2. ASEAN remains China's top trading partner in 1-3Q21

In 1-3Q21, 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*).

The US's share in China's trade increased by 0.5 percentage points compared with the same period last year, the largest rise among China's major trading partners. This was due partly to China's expanded purchases of US goods under the phase one trade deal between the two countries.

Exhibit 17: China's trading partners, 1-3Q21

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	630.5	14.8	345.6	284.9	31.1	29.9	32.7
EU	599.3	14.0	367.0	232.3	30.4	32.0	27.9
US	543.1	**12.7**	411.5	131.6	35.4	32.9	**43.5**
Japan	275.1	6.4	121.7	153.4	20.2	17.7	22.2
South Korea	262.4	6.1	107.4	155.0	27.0	33.7	22.8
Brazil	125.6	2.9	38.2	51.0	43.9	63.8	36.7
Russia	102.5	2.4	47.4	34.1	29.8	32.4	27.6
India	90.4	2.1	68.5	14.7	49.3	51.7	42.5

Source: China Customs

Exhibit 18: China's trading partners, comparing growth rates for 2020 and 1-3Q21

yoy growth (%)

Country/Region	Total trade		Exports		Imports	
	2020	1-3Q21	2020	1-3Q21	2020	1-3Q21
ASEAN	6.7	31.1	6.7	29.9	6.6	32.7
EU	4.9	30.4	6.7	32.0	2.3	27.9
US	8.3	35.4	7.9	32.9	9.8	43.5
Japan	0.8	20.2	-0.4	17.7	1.8	22.2
South Korea	0.3	27.0	1.4	33.7	-0.5	22.8
Brazil	3.1	43.9	-1.6	63.8	5.2	36.7
Russia	-2.9	29.8	1.7	32.4	-6.6	27.6
India	-5.6	49.3	-10.8	51.7	16.0	42.5

Source: China Customs

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

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 1-3Q21, down from 75.8% in 2020 (*see exhibit 19*). Shandong, Fujian and Zhejiang registered export growth of 30.0% yoy or more in the period.

Exhibit 19: Top six provinces and municipalities in terms of value of exports, 1-3Q21

Provinces/ Municipalities	Value of exports (USD billion)	yoy growth (%)	Share of total exports (%)
Guangdong	658.5	28.6	27.4
Jiangsu	358.1	26.1	14.9
Zhejiang	328.3	31.7	13.7
Shandong	197.8	55.9	8.2
Shanghai	142.9	18.2	6.0
Fujian	114.1	47.0	4.8

Source: China Customs

4. Surge in FDI in 1-3Q21 indicates confidence in China's long-term prospects

Overall, in 1-3Q21, China's foreign direct investment (FDI) rose by 19.6% yoy to 859.5 billion yuan (US$129.3 billion, up by 25.2% 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.

China is witnessing a new trend in foreign investment activities, with FDI in China's high-tech service sector growing rapidly, which soared by 33.4% yoy in 1-3Q21.

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

	Amount (billion yuan)	yoy growth
FY20	**1000.0**	**6.2%**
1-3Q21	**859.5**	**19.6%**
October 20	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%
July	64.4	1.4%
August	85.9	1.8%
September	101.5	2.5%

Source: Ministry of Commerce, PRC

5. Chinese yuan appreciates 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 6.4601 on 30 June to 6.3907 on 29 October (*see exhibit 21*).[5] So far this year, the Chinese yuan had appreciated by 2.1% against the US dollar (as of 29 October).

Meanwhile, the daily fixing rate of the Chinese yuan against the Euro appreciated from 7.6862 on 30 June to a four-year high of 7.4045 on 27 October, before retreating to 7.4643 on 29 October (*see exhibit 22*). So far this year, the Chinese yuan had appreciated by 7.5% against the Euro (as of 29 October).

According to the Bank for International Settlements, the Chinese yuan appreciated in real terms against its trading partners by 0.8% in 3Q21 (*see exhibit 23*).

Due to possible tightening in the US monetary policy and the economic slowdown in China, the Chinese yuan is likely to soften in the coming months, in our view.

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

Source: State Administration of Foreign Exchange

[5] 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, October 2020 to October 2021

Source: State Administration of Foreign Exchange

Exhibit 23: Real effective exchange rate of the Chinese yuan, October 2019 to September 2021

Source: Bank for International Settlements

B. Highlights

1. China applies to join CPTPP and DEPA

On 16 September, China formally applied to join the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP), a high-standard trade agreement among Australia, Brunei, Canada, Chile, Japan, Malaysia, Mexico, New Zealand, Peru, Singapore and Vietnam.[6]

Then on 1 November, China filed a formal application to join the Digital Economy Partnership Agreement (DEPA).[7] The DEPA was signed by Chile, New Zealand and Singapore in June 2020 to bolster digital trade.

On a related note, the Regional Comprehensive Economic Partnership (RCEP) will take effect from 1 January next year for the 10 countries that have completed their ratification, namely Brunei, Cambodia, Laos, Singapore, Thailand, Vietnam, China, Japan, New Zealand and Australia.

Entry to the CPTPP requires a consensus among active members. China's tensions with Canada and Australia, as well as CPTPP's high standards regarding labour rights and state-owned enterprises, will likely pose obstacles to China's accession.

2. China unveils measures to facilitate trade and investment in FTZs

On 3 September, the State Council issued a guideline on promoting reform and innovation measures to facilitate trade and investment in free trade zones (FTZs).[8]

According to the guideline, China will open up wider to the investments made by Hong Kong and Macao investors, innovate the development of import trade, unleash the potential of new trade models, and boost the construction of opening-up channels. China will also speed up the development of multimodal transportation, enrich the varieties of commodity futures, introduce overseas investors to trade in commodity futures, etc.

3. USTR outlines new approach to China–US trade relations

US Trade Representative (USTR) Katherine Tai outlined the Biden administration's new approach to the China–US bilateral trade relationship on 4 October.[9] Tai said that the US will seek a 'recoupling' with China, rather than a decoupling from China. She confirmed that the US would restart the tariff exclusion process to allow US companies to seek exemption from certain tariffs on Chinese products. Tai later held a virtual meeting with China's vice premier Liu He on 8 October. They reviewed the implementation of the phase one trade deal and agreed to further consultations on outstanding issues.

On 26 October, Liu He held a virtual meeting with US Treasury Secretary Janet Yellen. They discussed the macroeconomic and financial developments in China and the US, and bilateral and multilateral cooperation. They also had 'candid' exchanges on issues of concern and agreed to strengthen communication.

Given the size of the rift between China and the US, no real progress in the bilateral trade relations is expected any time soon, but it is encouraging that both countries are making greater efforts to conduct serious talks.

[6] http://www.gov.cn/zhengce/content/2021-07/09/content_5623826.htm
[7] http://www.mofcom.gov.cn/article/syxwfb/202111/20211103213288.shtml
[8] http://www.gov.cn/zhengce/zhengceku/2021-09/03/content_5635110.htm
[9] https://ustr.gov/about-us/policy-offices/press-office/press-releases/2021/october/remarks-prepared-delivery-ambassador-katherine-tai-outlining-biden-harris-administrations-new

C. Outlook

We expect both the US and Eurozone economies to post GDP growth in the range of 4%-5% yoy in 4Q21 amid a low comparison base in the same period last year.

1. Both US and Eurozone economies record slower growth in 3Q21

The US real GDP expanded by 4.9% yoy in 3Q21, down from 12.2% yoy in 2Q21 (*see exhibit 24*). Meanwhile, the Eurozone economy[10] expanded by 3.7% yoy in the quarter, down from 14.2% yoy in 2Q21 (*see exhibit 25*).

Exhibit 24: US real GDP growth, 2019 to 3Q21

	2019	2020	4Q20	1Q21	2Q21	3Q21
Real GDP *(annualised qoq growth %)*			4.5	6.3	6.7	2.0
Real GDP *(yoy growth %)*	2.3	-3.4	-2.3	0.5	12.2	4.9

Source: US Department of Commerce

Exhibit 25: Eurozone's real GDP growth, 2019 to 3Q21

	2019	2020	4Q20	1Q21	2Q21	3Q21
Real GDP *(qoq growth %)*			-0.4	-0.3	2.1	2.2
Real GDP *(yoy growth %)*	1.3	-6.5	-4.4	-1.2	14.2	3.7

Source: Eurostat, IMF

[10] 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.

2. IMF projects slightly slower growth for world economy in 2021

In the *World Economic Outlook* released in October, the IMF revised downwards its growth forecast for the global economy in 2021 from 6.0% to 5.9%. The primary reasons behind the latest revisions are supply disruptions in advanced economies and the worsening COVID-19 pandemic in low-income developing countries (*see exhibit 26*).

We still expect robust economic growth across developed countries in 4Q21, which bodes well for China's exports 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	-3.1	5.9	4.9
Advanced economies	-4.5	5.2	4.5
- US	-3.4	6.0	5.2
- Eurozone	-6.3	5.0	4.3
- Japan	-4.6	2.4	3.2
- UK	-9.8	6.8	5.0
Emerging market and developing economies	-2.1	6.4	5.1
- China	2.3	8.0	5.6
- India*	-7.3	9.5	8.5
- Brazil	-4.1	5.2	1.5
- Russia	-3.0	4.7	2.9
- ASEAN-5[11]	-3.4	2.9	5.8

** Data and forecasts are presented on a fiscal year basis.*
Source: World Economic Outlook released in October 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 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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