China Trade Quarterly

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Part One: Domestic Trade

A. Recent developments

1. China's economic growth slows further in 4Q21

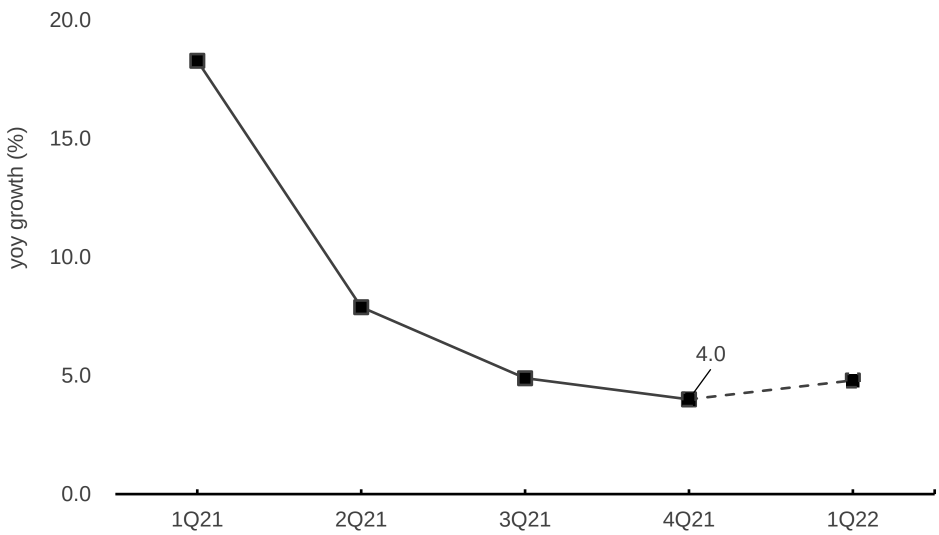
China's real GDP growth eased to 4.0% yoy in 4Q21 amid disruptions in industrial production due to power shortages early in the quarter and a slowdown in consumer spending amid regional outbreaks of COVID-19 in December *(see exhibit 1)*. Overall, China's nominal GDP amounted to 114.4 trillion yuan in 2021, up by 8.1% yoy in real terms.

We predict that China's real GDP growth will recover to 4.7% yoy in 1Q22 due partly to an accelerated recovery in infrastructure investment.

We project a 5.0% growth for the Chinese economy in 2022, as a further recovery in consumer spending and infrastructure investment, together with a relatively expansionary and loose macro policy, will help alleviate the downward pressure on the economy.

Exhibit 1: China's real GDP growth and forecasts, 1Q21 to 1Q22

FY21	1Q21	2Q21	3Q21	4Q21	1Q22F
8.1%	18.3%	7.9%	4.9%	4.0%	4.7%



Source: National Bureau of Statistics, PRC

2. Growth in retail sales softens in 4Q21

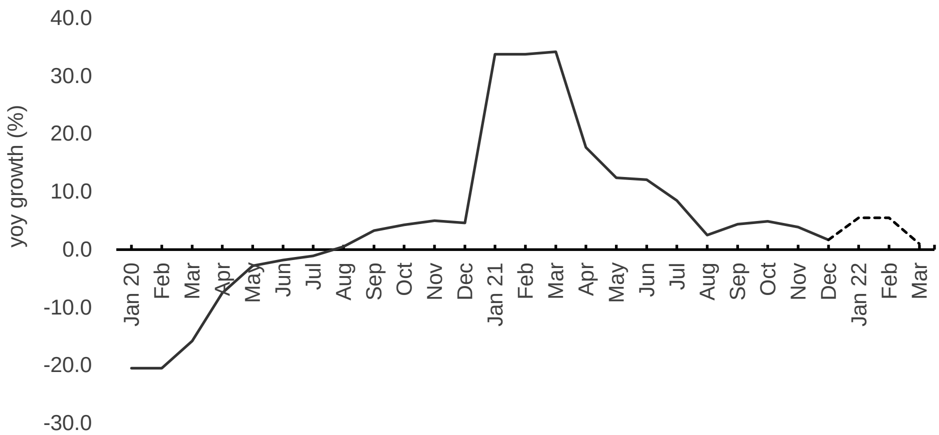
China's total retail sales of consumer goods were up by 3.5% yoy in 4Q21. The growth was weaker than expected as regional outbreaks of the COVID-19 hurt consumer spending in December. In 2021, China's total retail sales of consumer goods reached 44.1 trillion yuan, up by 12.5% yoy *(see exhibits 2, 3 and 4)*.

We predict that the growth in retail sales will stay low at 4.0% yoy in 1Q22, amid recent COVID-19 outbreaks in some provinces.

We expect a 6.5% yoy growth in retail sales in 2022, boosted by a further recovery in the COVID-19-impacted retail sectors such as catering and travel retail.

Exhibit 2: China's total retail sales, year-on-year nominal growth and forecasts, January 2020 to March 2022

FY21	Jan-Feb 21	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
12.5%	33.8%	34.2%	17.7%	12.4%	12.1%	8.5%	2.5%	4.4%	4.9%	3.9%	1.7%



Source: National Bureau of Statistics, PRC

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

mom growth (%), seasonally adjusted

	Jul 21	**Aug**	**Sep**	**Oct**	**Nov**	**Dec**
Total retail sales	-0.42	0.46	0.25	0.39	0.14	-0.18

Source: National Bureau of Statistics, PRC

Exhibit 4: China's total retail sales, 2020 to 2021

Nominal growth, yoy (%)	**FY20**	**1Q21**	**1H21**	**1-3Q21**	**FY21**
Total retail sales	-3.9	33.9	23.0	16.4	12.5
- Goods	-2.3	30.4	20.6	15.0	11.8
Sales by enterprises above designated size	-1.0	40.2	24.8	17.0	12.8
Online sales	14.8	25.8	18.7	15.2	**12.0**
- Catering services	-16.6	75.8	48.6	29.8	18.6

Source: National Bureau of Statistics, PRC

Despite a jump in the growth in total retail sales, the growth in online retail sales of goods moderated to 12.0% yoy in 2021, which was also the lowest since records began in 2015. This was due to a high comparison base in 2020 and a maturing e-commerce market.

Exhibit 5: China's retail sales by enterprises above designated size, by product, 2020 to 2021

Nominal growth, yoy (%)	**FY20**	**1Q21**	**1H21**	**1-3Q21**	**FY21**
Grain, oil and food	9.9	10.0	10.5	**10.3**	**10.8**
Beverages	14.0	35.7	29.2	**23.4**	**20.4**
Tobacco and liquor	5.4	44.9	32.0	25.8	21.2
Garments, footwear, hats, knitwear	-6.6	54.2	33.7	**20.6**	**12.7**
Cosmetics	9.5	41.4	26.6	17.9	14.0
Gold, silver and jewellery	-4.7	93.4	59.9	**41.6**	**29.8**
Commodities for daily use	7.5	33.2	22.9	16.0	14.4
Home appliances & audio/video equipment	-3.8	41.4	19.3	13.5	10.0
Traditional Chinese and Western medicines	7.8	14.9	11.2	10.5	9.9
Cultural and office appliances	5.8	31.8	22.9	21.7	18.8
Furniture	-7.0	52.3	30.0	20.7	14.5
Communication appliances	12.9	42.4	26.1	17.5	14.6
Petroleum and related products	-14.5	23.6	21.7	20.3	21.2
Automobiles	-1.8	65.6	30.4	15.5	7.6
Building and decoration materials	-2.8	48.9	32.9	24.9	20.4

Source: National Bureau of Statistics, PRC

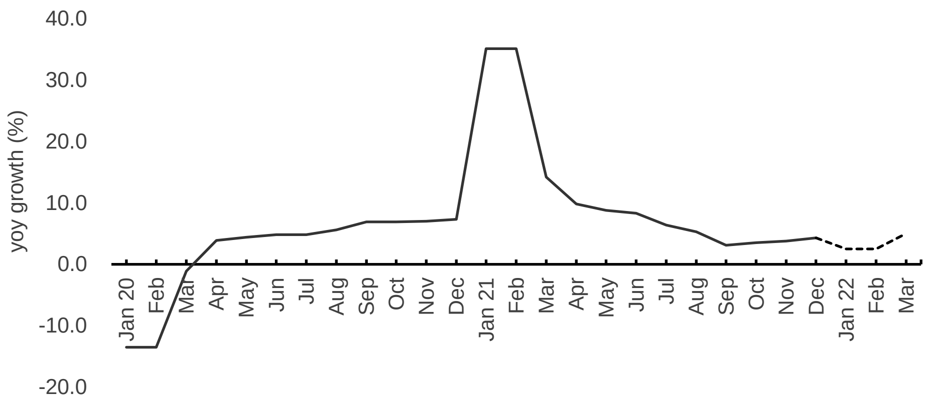
Retail sales growth in consumer discretionary categories such as 'gold, silver and jewellery' and 'garments, footwear, hats, knitwear' experienced a significant slowdown in 4Q21 compared with the previous quarter, while the growth in basic consumer staples such as 'beverages' and 'grain, oil and food' managed to hold steady.

3. Growth in industrial production gradually recovers since September

China's industrial production, measured by the value-added of industrial output of industrial enterprises above designated size[1], rose by a better-than-expected 3.9% yoy in 4Q21 as power shortages eased *(see exhibit 6)*. Overall, China's industrial production expanded by 9.6% yoy in 2021.

Exhibit 6: China's industrial production growth and forecasts, January 2020 to March 2022

FY21	Jan-Feb 21	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
9.6%	35.1	14.1	9.8	8.8	8.3	6.4	5.3	3.1	3.5	3.8	4.3



Source: National Bureau of Statistics, PRC

We expect China's industrial production growth to stay low at around 3.5% yoy in 1Q22, as a high comparison base last year will offset the positive impact of a jump in infrastructure investment.

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

4. Fixed asset investment grows 4.9% yoy in 2021

The nominal growth of China's fixed asset investment (FAI) (excluding rural households) registered 4.9% yoy in 2021 *(see exhibit 7)*. Overall, China's FAI (excluding rural households) amounted to 54.5 trillion yuan in 2021.

Infrastructure investment is expected to accelerate in 1Q22, which will offset the slowdown in real estate investment caused by the cooling property market.

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

Year-to-date, yoy growth %	Jul 21	Aug	Sep	Oct	Nov	Dec
FAI (excluding rural households)	10.3	8.9	7.3	6.1	5.2	4.9
- Manufacturing sector	17.3	15.7	14.8	14.2	13.7	13.5
- Infrastructure (excluding power, heat, gas and water infrastructure)	4.6	2.9	1.5	1.0	0.5	0.4
- Real estate development	12.7	10.9	8.8	7.2	6.0	4.4

Source: National Bureau of Statistics, PRC

5. Growth in M2 accelerates

The broad money supply (M2) has grown at a faster pace in 4Q21. Meanwhile, the growth in the total outstanding RMB loans has continued to slow lately *(see exhibit 8 & 9)*.

Exhibit 8: Broad money supply (M2) and RMB loans, January to December 2021

	Broad money supply (M2)		Total outstanding RMB loans	
As of	Amount (trillion yuan)	yoy growth	Amount (trillion yuan)	yoy growth
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%
End-Nov	235.6	8.5%	191.6	11.7%
End-Dec	238.3	9.0%	192.7	11.6%

Source: People's Bank of China

Exhibit 9: Increase in RMB loans, 2020 to 2021

	Increase in RMB loans (trillion yuan)
FY20	**19.64**
FY21	**19.95**
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
Nov	1.27
Dec	1.13

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 December last year, it cut the required reserve ratios (RRRs) for major commercial banks by 50 basis points (bps) to free up 1.2 trillion yuan in long-term liquidity.

China will continue to avoid broad-based monetary easing due to worries over high debt and property risks, in our view.

The PBoC also cut its benchmark lending rates twice in the last two months. The 1-year loan prime rate – on which most new and outstanding loans are based – was cut from 3.85% to 3.8% in December and further to 3.7% in January, while the 5-year loan prime rate – which is a reference for mortgages – was cut from 4.7% to 4.65% in January.

6. PMI indicates steady recovery in manufacturing sector

China's manufacturing PMI rebounded from 49.2 in October to 50.1 in November and 50.3 in December, before retreating to 50.1 in January (*see exhibit 10*). The headline PMI readings have remained in the expansionary zone lately, indicating a steady recovery in China's manufacturing sector from the earlier disruption caused by the 'energy dual controls' and power shortages.

Manufacturing production has resumed its expansion, as the output index has remained above the critical 50-mark since November. Meanwhile, the overall market demand has continued to contract as the new orders index has stayed below the critical 50-mark in the last few months.

Prices of industrial products have fluctuated lately: The ex-factory prices index went down from 61.1 in October to 45.5 in December, before returning to the expansionary zone in January. The fluctuations in product prices were due partly to the changes in the prices of materials: The input prices index plunged from 72.1 in October to 48.1 in December, but rebounded to 56.4 in January.

The business expectations index went up from 53.6 in October to 54.3 in December and further to 57.5 in January, indicating that purchasing managers in China have become more optimistic about the near-term outlook for their respective industries.

China's manufacturing PMI fell to 50.1 in January, indicating a steady yet slower growth in the manufacturing sector. Growth of production activities has moderated amid a reduction in new orders. Prices of industrial products rose, due largely to the jump in prices of production inputs.

Exhibit 10: China's manufacturing PMI at a glance, January 2022

Index	Seasonally adjusted index	Index compared with the previous month	Direction
PMI	50.1	Lower ▼	Expanding
Output	50.9	Lower ▼	Expanding
New Orders	49.3	Lower ▼	Contracting
New Export Orders	48.4	Higher ▲	Contracting
Backlogs of Orders	45.8	Higher ▲	Contracting
Stocks of Finished Goods	48.0	Lower ▼	Contracting
Stocks of Major Inputs	49.1	Lower ▼	Contracting
Purchases of Inputs	50.2	Lower ▼	Expanding
Imports	47.2	Lower ▼	Contracting
Input Prices	56.4	Higher ▲	Rising
Ex-factory Prices	50.9	Higher ▲	Rising
Employment	48.9	Lower ▼	Contracting
Suppliers' Delivery Time	47.6	Lower ▼	Slowing
Business Expectations	57.5	Higher ▲	Optimistic

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

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), fluctuated within a narrow range of 52.3 to 52.7 during October to December, and then went down to 51.1 in January (*see exhibit 11*). The latest index reading indicates growth deceleration in the non-manufacturing sector.

The new orders index has continued to drop and 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 48.1 in December to 51.0 in December, meaning that enterprises have raised their service charges recently. Meanwhile, the input prices index went up from 49.3 in December to 52.1 in January, indicating that input prices have increased lately.

The business expectation index has hovered around 58.0 over the past few months, 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 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, January 2022

Index	Seasonally adjusted index	Index compared with the previous month	Direction
Business activity	51.1	Lower ▼	Expanding
New orders	47.8	Lower ▼	Contracting
Input prices	52.1	Higher ▲	Rising
Sales prices	51.0	Higher ▲	Rising
Business expectations	57.9	Higher ▲	Optimistic

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

B. Policy updates

1. China to build a unified national market

Developing unified market rules across the country and improving regulations for market competition will help improve China's business environment and business confidence, in our view.

During a meeting of the Central Committee for Deepening Overall Reform on 17 December, Chinese President Xi Jinping stressed stepping up the building of a unified national market in order to serve the new development paradigm. He urged the setting up of unified market rules and systems nationwide to help commodities and factors of production flow freely in broader areas.[2]

The meeting highlighted the need to focus on the improvement of market rules and systems to strengthen policy consistency and increase policy synergies in order to form a unified market to pool resources, bolster growth, encourage innovation and promote competition. The meeting also urged efforts to eliminate regulations and practices that hinder the development of a unified market and constitute barriers to fair competition.

2. NDRC details measures to boost consumption for CNY holiday and Olympic Winter Games

These measures are aimed to promote consumer spending as a way to boost economic growth as well as supporting the 'dual circulation' development strategy.

On 14 January, China's National Development and Reform Commission (NDRC) released a notice aimed at boosting consumption as the Chinese New Year (CNY) holiday and the Olympic Winter Games were approaching.[3]

Multiple measures should be taken to meet people's festive needs, including ensuring the supply of daily necessities, providing more contactless services and helping senior citizens enjoy convenient transportation to reunite with their families, said the notice. It also set out policies to upgrade online festival consumption and expand consumption in rural areas.

With the approach of the Olympic Winter Games, consumption related to the ice-and-snow industry should also be encouraged, the notice said.

[2] http://www.gov.cn/xinwen/2021-12/17/content_5661684.htm
[3] http://www.gov.cn/zhengce/zhengceku/2022-01/18/content_5669108.htm

Part Two: Foreign Trade

A. Recent developments

1. China ends 2021 with historically strong export performance

In 2021, China's exports surged 29.9% yoy to a record high of US$3,364.0 billion, while its imports jumped by 30.1% yoy to US$2,687.5 billion. Monthly exports in November and December were also record highs (*see exhibits 12, 13 and 14*).

With global growth moderating, we forecast that the growth in China's exports will ease to 5.0%-10.0% yoy in 1Q22.

Exhibit 12: China's quarterly foreign trade data, 1Q21 to 4Q21

	Exports		Imports		Trade Balance
	Amount (USD billion)	*yoy growth*	*Amount (USD billion)*	*yoy growth*	*Amount (USD billion)*
FY21	**3,364.0**	**29.9%**	**2,687.5**	**30.1%**	**676.4**
1Q21	709.0	48.8%	600.1	28.0%	108.9
2Q21	808.2	30.6%	673.1	44.0%	135.1
3Q21	881.6	24.2%	699.8	25.6%	181.9
4Q21	965.1	23.0%	714.5	23.7%	250.6

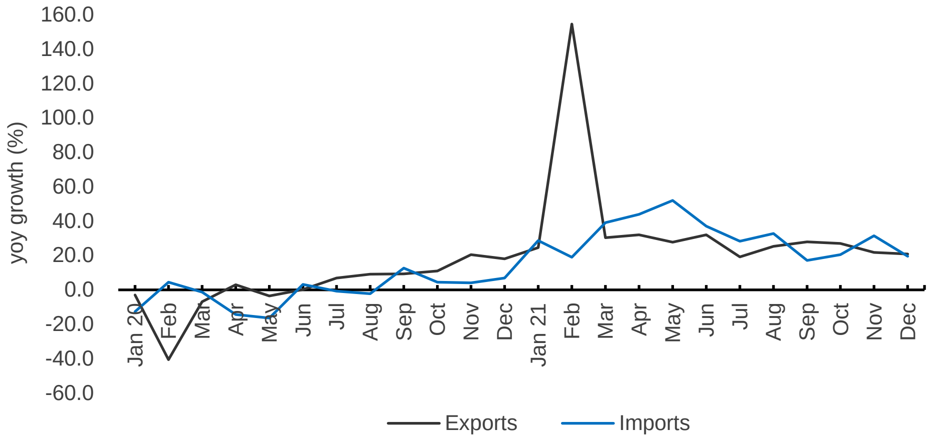
Source: China Customs, compiled by Fung Business Intelligence

Exhibit 13: China's monthly foreign trade data, January to December 2021

	Exports		Imports		Trade Balance
	Amount (USD billion)	*yoy growth*	*Amount (USD billion)*	*yoy growth*	*Amount (USD billion)*
January 21	263.6	24.6%	202.0	28.7%	61.7
February	204.6	154.6%	169.3	18.9%	35.4
March	240.7	30.4%	228.9	39.1%	11.8
April	263.5	32.1%	222.5	44.0%	41.0
May	263.6	27.7%	220.1	52.0%	43.6
June	281.1	32.1%	230.5	37.1%	50.5
July	282.3	19.2%	226.4	28.2%	55.9
August	294.0	25.4%	235.7	32.7%	58.7
September	305.3	28.0%	238.1	17.2%	67.2
October	299.7	26.9%	215.3	20.4%	84.4
November	324.9	21.7%	253.2	31.4%	71.7
December	340.5	20.9%	246.0	19.5%	94.5

Source: China Customs

Exhibit 14: Growth rates of exports and imports, January 2020 to December 2021



Source: China Customs

Exhibit 15: Exports by category, 2020 to 2021

yoy growth (%) of export value, in USD	**2020**	**1H21**	**1-3Q21**	**2021**
Textile yarn, fabrics and textile products	29.2	-7.4	-10.7	-5.6
Garments and clothing accessories	-6.4	40.3	25.3	24.0
Footwear	-21.2	39.2	35.1	35.3
Toys	7.5	63.8	45.9	37.7
Furniture and parts	11.8	56.4	38.7	26.4
Lighting fittings and parts	14.3	56.2	42.0	31.2
Suitcases and handbags	-24.2	33.0	36.2	35.1
Refined oil	-33.7	13.4	26.7	26.6
Steel	-15.4	62.1	78.1	80.2
Mechanical and electrical products	5.7	40.2	33.3	28.9

Source: China Customs

Exhibit 16: Imports by category, 2020 to 2021

yoy growth (%) of import value, in USD	**2020**	**1H21**	**1-3Q21**	**2021**
Soybeans	11.8	44.4	39.3	**35.4**
Iron ores	17.4	85.6	76.0	**49.3**
Crude oil	-27.3	26.1	33.8	**44.3**
Steel	17.4	28.0	10.5	11.3
Textile yarn, fabrics and textile products	-10.2	9.7	14.7	14.4
Vehicles and vehicle chassis	-4.2	67.9	39.1	15.4
Integrated circuits	14.6	28.3	24.4	23.6
Plastics	-1.6	25.4	20.4	16.5

Source: China Customs

The surge in China's imports in 2021 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 year.

2. ASEAN remains China's top trading partner in 2021

In 2021, 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, 2021

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	878.2	14.5	483.7	394.5	28.1	26.1	30.8
EU	828.1	13.7	518.2	309.9	27.5	32.6	19.9
US	755.6	12.5	576.1	179.5	28.7	27.5	32.7
Japan	371.4	6.1	165.8	205.6	17.1	16.3	17.7
South Korea	362.4	6.0	148.9	213.5	26.9	32.4	23.3
Brazil	164.1	2.7	53.6	110.4	36.2	53.4	29.2
Russia	146.9	2.4	67.6	79.3	35.8	33.8	37.5
India	125.7	2.1	97.5	28.1	43.3	46.2	34.2

Source: China Customs

Exhibit 18: China's trading partners, comparing growth rates for 2020 and 2021

Country/Region	Total trade		Exports		Imports	
	2020	**2021**	**2***yoy growth (%)*		**2020**	**2021**
ASEAN	6.7	28.1	6.7	26.1	6.6	30.8
EU	4.9	27.5	6.7	32.6	2.3	19.9
US	8.3	28.7	7.9	27.5	9.8	32.7
Japan	0.8	17.1	-0.4	16.3	1.8	17.7
South Korea	0.3	26.9	1.4	32.4	-0.5	23.3
Brazil	3.1	36.2	-1.6	53.4	5.2	29.2
Russia	-2.9	35.8	1.7	33.8	-6.6	37.5
India	-5.6	43.3	-10.8	46.2	16.0	34.2

Source: China Customs

3. Leading export provinces register strong export growth in 2021

China's top six provinces and municipalities in terms of value of exports – Guangdong, Jiangsu, Zhejiang, Shandong, Shanghai and Fujian – jointly accounted for 74.7% of China's total exports in 2021, down from 75.8% in 2020 (*see exhibit 19*). Shandong, Fujian and Zhejiang registered export growth of 30.0% yoy or more in the year.

Exhibit 19: Top six provinces and municipalities in terms of value of exports, 2021

Provinces/ Municipalities	Value of exports (USD billion)	yoy growth (%)	Share of total exports (%)
Guangdong	902.3	19.3	26.8
Jiangsu	505.4	27.2	15.0
Zhejiang	458.7	30.4	13.6
Shandong	285.3	59.0	8.5
Shanghai	202.5	21.0	6.0
Fujian	157.5	42.0	4.7

Source: China Customs

4. Jump in FDI in 2021 indicates confidence in China's long-term prospects

China's foreign direct investment (FDI) increased by 14.9% yoy to 1149.4 billion yuan (US$173.5 billion, up by 20.2% yoy in US dollar terms) in 2021 *(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 jumped by 19.2% yoy in 2021.

Exhibit 20: China's FDI, 2020 to 2021

	Amount (billion yuan)	yoy growth
FY20	**1000.0**	**6.2%**
FY21	**1149.4**	**14.9%**
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%
October	83.6	2.1%
November	99.1	0.4%
December	107.2	6.5%

Source: Ministry of Commerce, PRC

5. Chinese yuan appreciates against US dollar and Euro

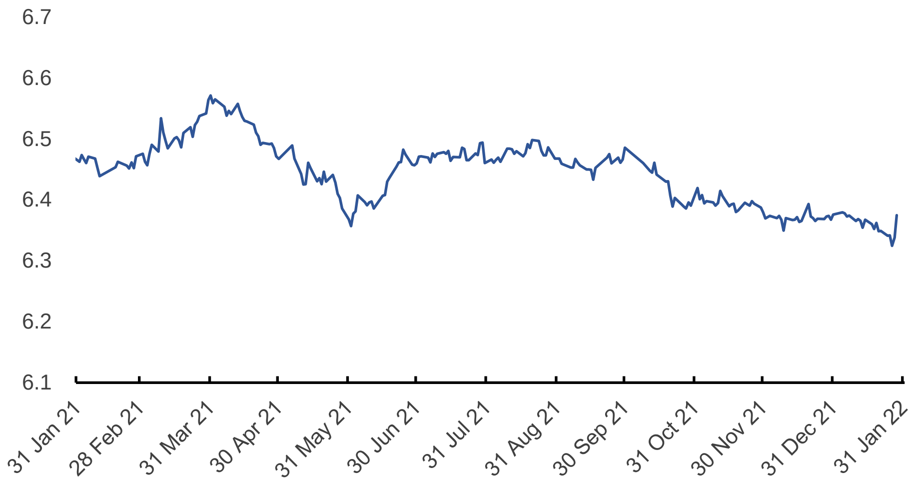
The daily fixing rate (also known as the central parity rate) of the Chinese yuan against the US dollar appreciated from 6.3907 on 29 October to 6.3757 on 31 December and closed at 6.3746 on 28 January (*see exhibit 21*).[4] The Chinese yuan appreciated by 2.3% against the US dollar in 2021 and by 0.02% so far this year (as of 28 January).

Meanwhile, the daily fixing rate of the Chinese yuan against the Euro appreciated from 7.4643 on 29 October to 7.2197 on 31 December and further to a six-year high of 7.1030 on 28 January (*see exhibit 22*). The Chinese yuan appreciated by 11.2% against the Euro in 2021 and by 1.6% so far this year (as of 28 January).

According to the Bank for International Settlements, the Chinese yuan appreciated in real terms against its trading partners by 4.5% in 2021 (*see exhibit 23*).

With the US expected to tighten monetary policy just when China is starting to ease, the Chinese yuan is likely to soften in the coming months, in our view.

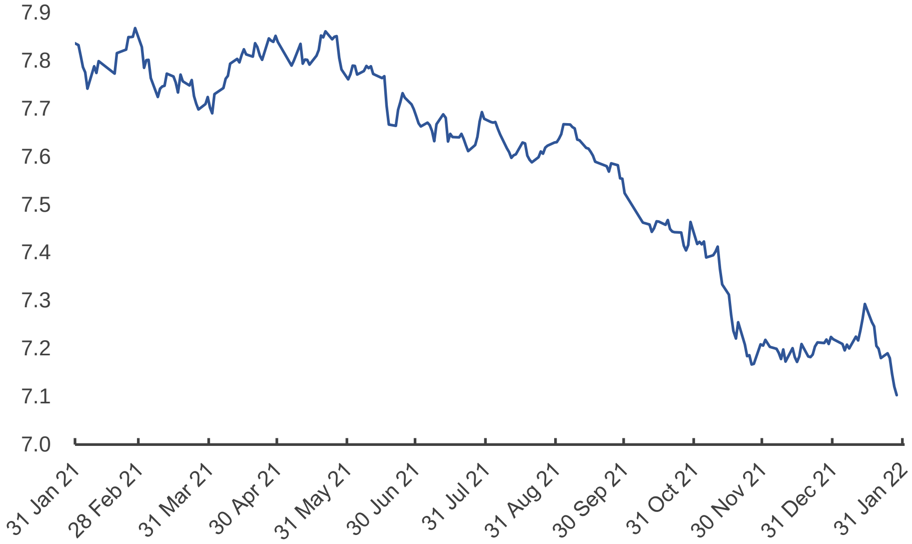
Exhibit 21: USD-CNY daily fixing rate, January 2021 to January 2022



Source: State Administration of Foreign Exchange

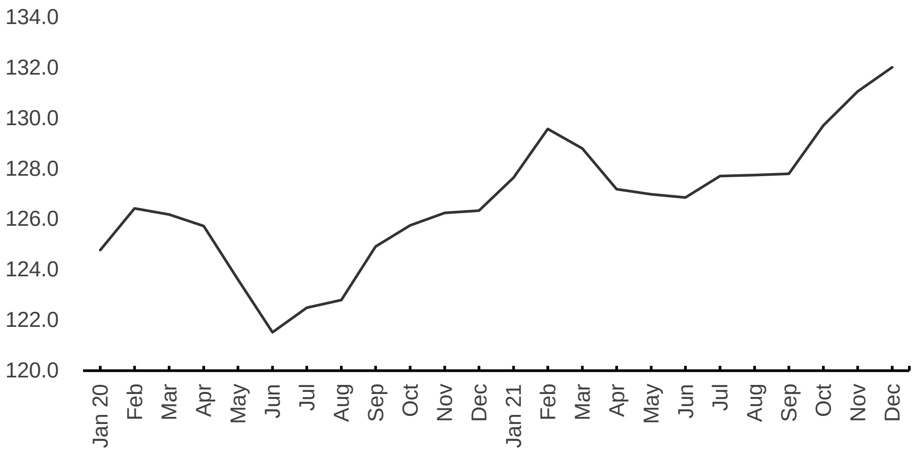
[4] According to the PBOC, the daily fixing rate of the Chinese yuan against the US dollar is directly formed by market makers based on the closing rate of the previous day, the movements of major international currencies, and ‘counter cyclical factor’, which has been gradually phased out since October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

Exhibit 22: EUR-CNY daily fixing rate, January 2021 to January 2022



Source: State Administration of Foreign Exchange

Exhibit 23: Real effective exchange rate of the Chinese yuan, January 2020 to December 2021



Source: Bank for International Settlements

B. Highlights

The white paper draws a distinction between the China-endorsed multilateralism and the US's discriminatory approach to export controls. This suggests that China's export control regime will not be as expansive as that of the US to include considerable unilateral controls.

1. China issues its first white paper on export controls

On 29 December last year, China issued its first white paper on export controls, outlining the country's efforts to modernize its export control system to both protect national security and ensure market openness and to promote global cooperation. The white paper also criticizes the US's abuses of its export control measures to crack down on other countries.[5]

The white paper, released by the State Council Information Office, consists of four chapters that give a systematic account of China's basic position on export controls, improvements underway to the legal and regulatory system for export controls, the modernization of the export control mechanism, and the push for international exchanges and partnerships.

2. China to step up measures to support foreign trade

A State Council executive meeting chaired by Premier Li Keqiang in late December last year has specified measures for cross-cycle adjustment to ensure steady development of foreign trade.[6]

According to the meeting, the Chinese government will increase policy support for foreign trade and implement measures to cut taxes and fees. The government will take more measures to encourage new business models for foreign trade, such as creating more pilot zones for cross-border e-commerce and building some cities into offshore trade centres. It will also enhance services for companies and help them develop 'Santong' products for both export and domestic sales that are produced on the same production lines, meet the same standards, and are of the same quality, as well as expand trading channels and improve supply chains.

3. China promotes integrated development of domestic and foreign trade

The State Council, in a circular on 19 January, unveiled measures to advance the integrated development of domestic and foreign trade.[7]

To support trade integration, the circular stressed improving laws, regulations and supervisory rules, and further aligning domestic trading rules and standards with global ones. Efforts would be made to help enterprises, such as cross-border supply chain service providers, to navigate operations in markets at home and abroad. The document also said that promoting integrated trade requires nurturing new business models, such as customer-to-manufacturer (C2M) production and smart factories backed by advanced information technology. China will also promote the development of free trade ports and pilot free trade zones, which can act as pioneers in integrating domestic and foreign trade in line with international economic and trade rules.

[5] http://www.gov.cn/zhengce/2021-12/29/content_5665104.htm
[6] http://www.gov.cn/xinwen/2021-12/23/content_5664167.htm
[7] http://www.gov.cn/zhengce/content/2022-01/19/content_5669289.htm

4. China expands cross-border e-commerce pilot scheme

The State Council approved a plan to set up cross-border e-commerce comprehensive pilot zones in 27 cities and regions, according to an official reply released on 8 February.[8] The 27 cities and regions include Erdos, Yangzhou, Zhenjiang and Taizhou.

The State Council emphasized giving full play to the role of cross-border e-commerce in upgrading traditional industries and promoting industrial digitalization. Informationized management mechanisms for cross-border e-commerce should be established and improved, the plan said. Various government departments should also explore and innovate technical standards, business procedures, regulation models and informationization construction in cross-border e-commerce business-to-business modes. The government will exempt value-added and consumption taxes for cross-border e-commerce retail exports in the pilot zones, and support enterprises to set up and share overseas warehouses, according to the plan.

China is working to expand cross-border e-commerce, an emerging business model of foreign trade, to provide new impetus for foreign trade and to advance the high-quality development of the trade sector.

[8] http://www.gov.cn/zhengce/content/2022-02/08/content_5672535.htm

C. Outlook

1. Both US and Eurozone economies record faster growth in 4Q21

The US real GDP expanded by 5.5% yoy in 4Q21, and by 5.7% for 2021 as a whole *(see exhibit 24)*. Meanwhile, the Eurozone economy[9] grew by 4.6% yoy in 4Q21, and by 5.2% for 2021 *(see exhibit 25)*.

We expect that both the US and Eurozone economies will register slower growth in 1Q22 amid a weaker low base effect and a recent resurgence of COVID 19 cases.

Exhibit 24: US real GDP growth, 2020 to 4Q21

	2020	2021	1Q21	2Q21	3Q21	4Q21
Real GDP *(annualized qoq growth %)*			6.3	6.7	2.3	6.9
Real GDP *(yoy growth %)*	-3.4	5.7	0.5	12.2	4.9	5.5

Source: US Department of Commerce

Exhibit 25: Eurozone's real GDP growth, 2020 to 4Q21

	2020	2021	1Q21	2Q21	3Q21	4Q21
Real GDP *(qoq growth %)*			-0.2	2.2	2.3	0.3
Real GDP *(yoy growth %)*	-6.5	5.2	-1.1	14.4	3.9	4.6

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.

2. IMF projects slower growth for world economy in 2022

In the *World Economic Outlook Update* released in January, the IMF forecasts that the global economy will grow by 4.4% in 2022, down from a 4.9% rise predicted in October last year. The primary reason behind the latest revisions is lower growth in the US and China (*see exhibit 26*).

The emergence of new COVID-19 variants and the resultant mobility restrictions remain the biggest risks to global growth in 2022.

Exhibit 26: Latest GDP growth estimates and forecasts by the IMF (2021 to 2023)

yoy growth (%)

	2021 (Estimates)	2022 (Forecasts)	2023 (Forecasts)
World economy	5.9	4.4	3.8
Advanced economies	5.0	3.9	2.6
- US	5.6	4.0	2.6
- Eurozone	5.2	3.9	2.5
- Japan	1.6	3.3	1.8
- UK	7.2	4.7	2.3
Emerging market and developing economies	6.5	4.8	4.7
- China	8.1	4.8	5.2
- India*	9.0	9.0	7.1
- Brazil	4.7	0.3	1.6
- Russia	4.5	2.8	2.1
- ASEAN-5[10]	3.1	5.6	6.0

** Data and forecasts are presented on a fiscal year basis.*
Source: World Economic Outlook Update released in January 2022, 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.

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