

# China Trade Quarterly

## Domestic Trade

China's economic growth picks up in 1Q22 but is expected to slow significantly in 2Q22

Growth in retail sales turns negative in March and April

China announces macroeconomic targets and policies for 2022

## Foreign Trade

Rise in China's exports in first four months signals strong external demand

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

China to step up measures to support foreign trade

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## Part One: Domestic Trade

### A. Recent developments

#### 1. China's economic growth picks up to 4.8% yoy in 1Q22 but is expected to slow significantly in 2Q22

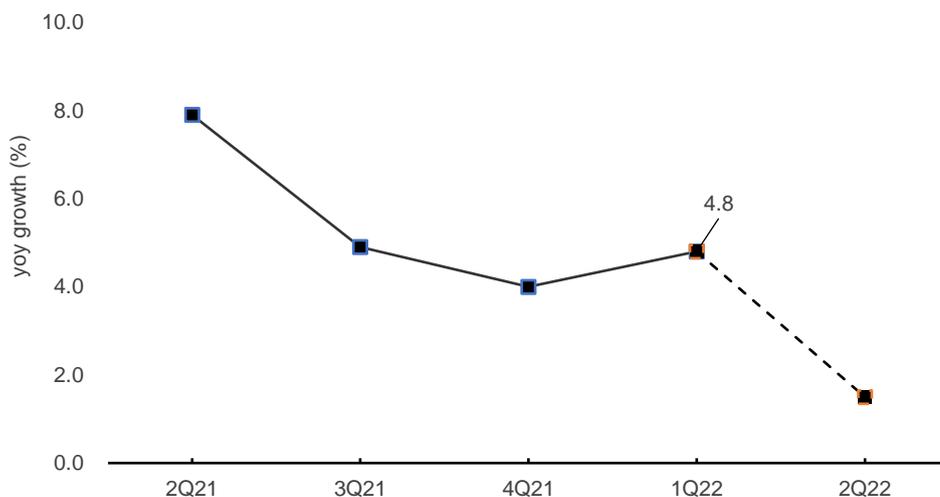
China's GDP grew by a better-than-expected 4.8% yoy in real terms in 1Q22, a modest increase over the previous quarter's 4.0% yoy growth (see *exhibit 1*). China's nominal GDP amounted to 27.0 trillion yuan in 1Q22.

We predict that China's real GDP growth will ease to 1.5% yoy in 2Q22, as a recent resurgence of COVID-19 and the resulting stay-at-home orders halt production and hurt consumer spending.

**We predict that China's real GDP growth will ease to 1.5% yoy in 2Q22, as a recent resurgence of COVID-19 and the resulting stay-at-home orders halt production and hurt consumer spending.**

Exhibit 1: China's real GDP growth and forecasts, 2Q21 to 2Q22

FY21	2Q21	3Q21	4Q21	1Q22	2Q22F
8.1%	7.9%	4.9%	4.0%	4.8%	1.5%



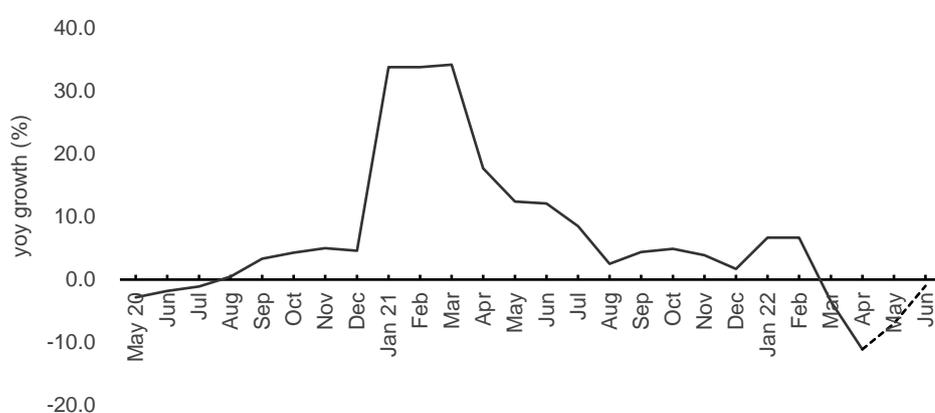
Source: National Bureau of Statistics, PRC

## 2. Growth in retail sales turns negative in March and April

China's total retail sales of consumer goods increased by 3.3% yoy to 10.9 trillion yuan in 1Q22. Retail sales recorded year-on-year drops in March and April as the Omicron variant of COVID-19 hit various provinces and cities – primarily Shanghai – forcing people to stay at home (see exhibits 2, 3 and 4).

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

FY21	May 21	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan-Feb 22	Mar	Apr
12.5%	12.4%	12.1%	8.5%	2.5%	4.4%	4.9%	3.9%	1.7%	6.7%	-3.5%	-11.1%



Source: National Bureau of Statistics, PRC

Exhibit 3: China's total retail sales, month-on-month nominal growth, November 2021 to April 2022

*mom growth (%), seasonally adjusted*

	Nov 21	Dec	Jan 22	Feb	Mar	Apr
Total retail sales	0.03	0.06	0.30	0.19	-1.97	-0.69

Source: National Bureau of Statistics, PRC

Exhibit 4: China's total retail sales, 2021 to 1Q22

Nominal growth, yoy (%)	FY21	1Q22
Total retail sales	12.5	3.3
- Goods	11.8	3.6
Sales by enterprises above designated size	12.8	5.7
Online sales	12.0	8.8
- Catering services	18.6	0.5

Source: National Bureau of Statistics, PRC

**We predict that China's retail sales will record a single-digit year-on-year drop in 2Q22 amid the recent COVID-19 resurgence.**

**Catering sales showed signs of recovery in the first two months of the year with a growth rate of 8.9% yoy, but the resurgence in COVID-19 cases since March halted the momentum and led to year-on-year drops of 16.4% and 22.7% in catering sales in March and April, respectively.**

Exhibit 5: China's retail sales by enterprises above designated size, by product, 2021 to 1Q22

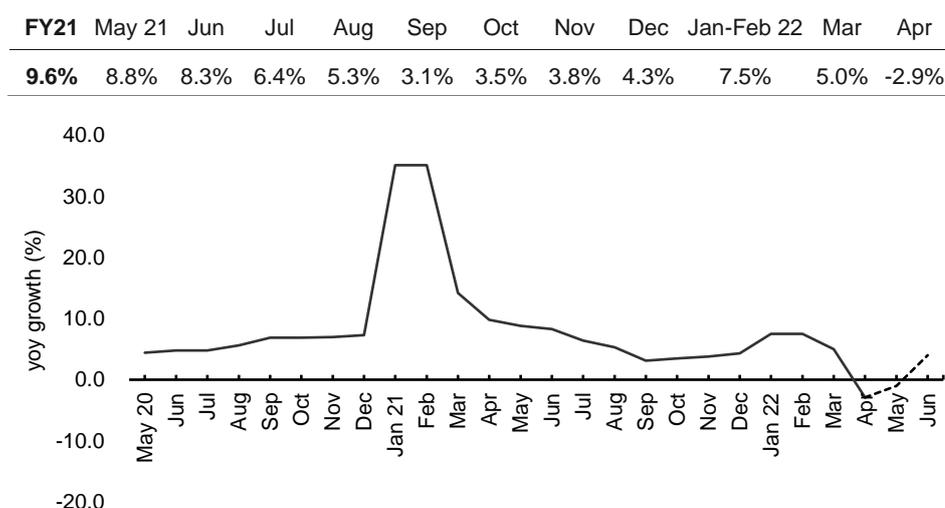
Nominal growth, yoy (%)	FY21	1Q22
Grain, oil and food	10.8	9.3
Beverages	20.4	11.8
Tobacco and liquor	21.2	11.8
Garments, footwear, hats, knitwear	12.7	-0.9
Cosmetics	14.0	1.8
Gold, silver and jewellery	29.8	7.6
Commodities for daily use	14.4	6.6
Home appliances & audio/video equipment	10.0	5.9
Traditional Chinese and Western medicines	9.9	9.1
Cultural and office appliances	18.8	10.6
Furniture	14.5	-7.1
Communication appliances	14.6	4.3
Petroleum and related products	21.2	19.7
Automobiles	7.6	-0.3
Building and decoration materials	20.4	3.8

Source: National Bureau of Statistics, PRC

### 3. Industrial production grows at robust pace in 1Q22 but contracts in April

China's industrial production, measured by the value-added of industrial output of industrial enterprises above designated size<sup>1</sup>, rose by a better-than-expected 6.5% yoy in 1Q22 but registered a year-on-year drop in April (see exhibit 6).

Exhibit 6: China's industrial production growth and forecasts, May 2020 to June 2022



Source: National Bureau of Statistics, PRC

**Consumer discretionary categories such as 'garments, footwear, hats, knitwear' and 'automobiles' recorded year-on-year drop in 1Q22, indicating that consumers have put discretionary spending on hold amid the economic slowdown and the COVID-19 resurgence.**

**We expect China's industrial production to stay flat in 2Q22 compared with 2Q21, as the recent resurgence of COVID-19 infections and the global economic downturn caused by the Russia-Ukraine conflict will continue to put a drag on China's industrial activities.**

<sup>1</sup> 'Industrial enterprises above designated size' refer to industrial enterprises with annual revenue of 20 million yuan or more.

#### 4. Fixed asset investment grows relatively fast in 1Q22

The nominal growth of China's fixed asset investment (FAI) (excluding rural households) registered 9.3% yoy in 1Q22 (see exhibit 7). China's FAI (excluding rural households) amounted to 9.6 trillion yuan in 1Q22.

**Growth in infrastructure investment is expected to remain robust in 2Q22, which will boost China's FAI.**

Exhibit 7: China's FAI (excluding rural households) growth, October 2021 to April 2022

Year-to-date, yoy growth %	Oct 21	Nov	Dec	Feb 22	Mar	Apr
FAI (excluding rural households)	6.1	5.2	4.9	12.2	9.3	6.8
- Manufacturing sector	14.2	13.7	13.5	20.9	15.6	12.2
- Infrastructure (excluding power, heat, gas and water infrastructure)	1.0	0.5	0.4	8.1	8.5	6.5
- Real estate development	7.2	6.0	4.4	3.7	0.7	-2.7

Source: National Bureau of Statistics, PRC

#### 5. Growth in M2 accelerates

The broad money supply (M2) has grown at a faster pace in the first four months of 2022. 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, May 2022 to April 2022

As of	Broad money supply (M2)		Total outstanding RMB loans	
	Amount (trillion yuan)	yoy growth	Amount (trillion yuan)	yoy growth
End-May 21	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%
End-Jan 22	243.1	9.8%	196.7	11.5%
End-Feb	244.2	9.2%	197.9	11.4%
End-Mar	249.8	9.7%	201.0	11.4%
End-Apr	250.0	10.5%	201.7	10.9%

Source: People's Bank of China

Exhibit 9: Increase in RMB loans, 2020 to 1Q22

Increase in RMB loans (trillion yuan)	
<b>FY21</b>	<b>19.95</b>
<b>1Q22</b>	<b>8.34</b>
May 21	1.50
Jun	2.12
Jul	1.08
Aug	1.22
Sep	1.66
Oct	0.83
Nov	1.27
Dec	1.13
Jan 22	3.98
Feb	1.23
Mar	3.13
Apr	0.65

Source: People's Bank of China

Yi Gang, Governor of the People's Bank of China (PBoC), said in late April that China will continue to adopt the prudent monetary policy and provide targeted support for small- and medium-sized enterprises and the real economy.

The People's Bank of China (PBoC) has continued to take actions to maintain reasonably ample liquidity in the banking system. On 25 April, it cut the required reserve ratios (RRRs) for all commercial banks by 25 basis points (excluding those that have already implemented an RRR of 5%) to free up 530 billion yuan in long-term liquidity.

The PBoC also cut its benchmark lending rate on 20 May. The 5-year loan prime rate – which is a reference for mortgages – was cut from 4.6% to 4.45%.

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

## 6. PMI indicates sustained contraction in manufacturing sector

China's manufacturing PMI edged up from 50.1 in January to 50.2 in February, and then dropped to 49.5 in March and further to a two-year low of 47.4 in April (see exhibit 10). The headline PMI readings have remained in the contractionary zone lately, indicating continued contraction in the manufacturing sector amid recent COVID-19 resurgence.

Manufacturing output has declined lately, as the output index has remained below the critical 50-mark for two consecutive months. The contraction in manufacturing output was partly attributed to a reduction in new orders: The new orders index plunged to 42.6 in April, indicating a rapid deterioration in the overall market demand lately.

Prices of industrial products have risen lately: The ex-factory prices index rose from 50.9 in January to 56.7 in March, before retreating to 54.4 in April. The jump in product prices was due partly to the surge in the prices of materials: The input prices index went up from 56.4 in January to 66.1 in March and stayed high at 64.2 in April, well above the neutral level of 50.

The business expectations index went down from 58.7 in February to 55.7 in March and further to 53.3 in April, 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 a two-year low of 47.4 in April, indicating further contraction in the manufacturing sector amid recent COVID-19 resurgence. Production activities have contracted sharply amid a reduction in new orders. Prices of industrial products continued to rise, due largely to the jump in prices of production inputs.**

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

Index	Seasonally adjusted index	Index compared with the previous month	Direction
PMI	47.4	Lower ▼	Contracting
Output	44.4	Lower ▼	Contracting
New Orders	42.6	Lower ▼	Contracting
New Export Orders	41.6	Lower ▼	Contracting
Backlogs of Orders	46.0	Lower ▼	Contracting
Stocks of Finished Goods	50.3	Higher ▲	Expanding
Stocks of Major Inputs	46.5	Lower ▼	Contracting
Purchases of Inputs	43.5	Lower ▼	Contracting
Imports	42.9	Lower ▼	Contracting
Input Prices	64.2	Lower ▼	Rising
Ex-factory Prices	54.4	Lower ▼	Rising
Employment	47.2	Lower ▼	Contracting
Suppliers' Delivery Time	37.2	Lower ▼	Slowing
Business Expectations	53.3	Lower ▼	Optimistic

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

## 7. NMI indicates contraction in non-manufacturing sector

China's Non-manufacturing Business Activity Index, which is quoted as the Non-manufacturing Purchasing Managers' Index (NMI), slumped from 51.6 in February to 48.4 in March and a two-year low of 41.9 in April (see *exhibit 11*). The latest index reading indicates contraction 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 dropped from 51.1 in March to 48.9 in April, meaning that enterprises have lowered their service charges recently. Meanwhile, the input prices index remained above 50, indicating that input prices have continued to increase lately.

The business expectation index declined from 60.5 in February to 53.6 in April, suggesting that purchasing managers in the non-manufacturing sector have become less optimistic about the near-term outlook for their respective industries.

**We expect that China's non-manufacturing sector will recover in the coming months as the recent COVID-19 outbreaks start to fade.**

Exhibit 11: China's Non-manufacturing Purchasing Managers' Index (NMI) at a glance, April 2022

Index	Seasonally adjusted index	Index compared with the previous month	Direction
Business activity	41.9	Lower ▼	Contracting
New orders	37.4	Lower ▼	Contracting
Input prices	53.7	Lower ▼	Falling
Sales prices	48.9	Lower ▼	Falling
Business expectations	53.6	Lower ▼	Optimistic

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

## B. Policy updates

### 1. China unveils guideline to build a unified national market

On 10 April, China unveiled a guideline for accelerating the building of a unified national market, envisioning breaking local protection and market fragmentation and unblocking key sticking points that weigh on economic circulation, as part of a wide-ranging push for an effectively regulated, fairly competitive and fully open market across the country.<sup>2</sup>

The new guideline includes plans covering six areas, including unified systems and rules in property rights protection, market entry and fair competition; high-level connectivity of market facilities; unified sub-markets of factors and resources; unified sub-markets of goods and services; fair and unified market regulation and supervision; and measures against unfair competition and market intervention.

### 2. State Council publishes guideline to further tap consumption potential

On 25 April, China's State Council China unveiled a guideline to further tap the country's consumption potential, with detailed measures to tackle short-term bottlenecks and boost longer-term consumption vitality.<sup>3</sup>

The Chinese government plans to build a batch of warehouses in the suburbs of large and medium-sized cities to ensure the supply of daily necessities in case of emergencies. The guideline requires the financial institutions to further support the real economy through measures such as lowering lending rates and cutting fees. It also urges the promotion of new modes of consumption such as O2O consumption, information consumption, and smart products and services.

The guideline also details policies to boost consumption in the medium and long term. China will develop products and services that cater to the needs of the elderly and infants while encouraging green consumption, cultural and tourism consumption. It will also tap the consumption potential in the country's vast rural areas, promoting the sales of automobiles and home appliances in these regions. China also plans to build more duty-free shops within the cities and improve related policies to develop pro-consumption platforms.

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**Developing unified systems and market rules across the country will help inject confidence into both the consumer market and producer market. Setting up a unified national market is also crucial to the smooth circulation of the domestic economic system.**

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

<sup>2</sup> [http://www.gov.cn/zhengce/2022-04/10/content\\_5684385.htm](http://www.gov.cn/zhengce/2022-04/10/content_5684385.htm)

<sup>3</sup> [http://www.gov.cn/zhengce/content/2022-04/25/content\\_5687079.htm](http://www.gov.cn/zhengce/content/2022-04/25/content_5687079.htm)

### 3. China announces macroeconomic targets and policies for 2022

Chinese Premier Li Keqiang delivered the *2022 Government Work Report* to the fifth session of the 13<sup>th</sup> National People's Congress on 5 March.<sup>4</sup> According to the report, the Chinese government has set the following macroeconomic targets for 2022:

- GDP growth of around 5.5% (vs. 8.1% actual in 2021)
- Over 11 million new urban jobs (vs. 12.69 million actual in 2021).
- Surveyed urban unemployment rate of below 5.5% (vs. 5.1% actual at end-2021)
- CPI growth of around 3% (vs. 0.9% actual in 2021)

Premier Li has pledged to intensify cross- and counter-cyclical adjustments to provide strong support for a stable economic performance, keeping major economic indicators within an appropriate range. He has reiterated the policy stance of carrying out a proactive fiscal policy and a prudent monetary policy. The proactive fiscal policy should be more efficient, targeted and sustainable, while the prudent monetary policy should be both flexible and appropriate, to maintain reasonably ample liquidity. These policies should produce effects early on, and policy tools in reserve should be promptly deployed, according to the *2022 Government Work Report*.

These policy orientations were later reiterated in a meeting of the Political Bureau of the Communist Party of China (CPC) Central Committee held on 29 April.<sup>5</sup>

<sup>4</sup> [http://www.gov.cn/premier/2022-03/12/content\\_5678750.htm](http://www.gov.cn/premier/2022-03/12/content_5678750.htm)

<sup>5</sup> [http://www.gov.cn/xinwen/2022-04/29/content\\_5688016.htm](http://www.gov.cn/xinwen/2022-04/29/content_5688016.htm)

## Part Two: Foreign Trade

### A. Recent developments

#### 1. Rise in China's exports in first four months signals strong external demand

China's exports jumped by 15.8% yoy to US\$820.9 billion while its imports rose by 9.6% yoy to US\$658.0 billion in 1Q22. In April, China's export rose by 3.9% yoy and its imports stayed flat compared with April last year. (See exhibits 12, 13 and 14)

**With global growth slowing, we forecast that China's exports will only register low single-digit year-on-year growth in 2Q22.**

Exhibit 12: China's quarterly foreign trade data, 2Q21 to 1Q22

	Exports		Imports		Trade Balance
	Amount (USD billion)	yoy growth	Amount (USD billion)	yoy growth	Amount (USD billion)
<b>FY21</b>	<b>3,364.0</b>	<b>29.9%</b>	<b>2,687.5</b>	<b>30.1%</b>	<b>676.4</b>
2Q21	808.1	30.6%	673.9	44.1%	134.2
3Q21	881.5	24.2%	698.5	25.4%	183.1
4Q21	964.8	22.9%	713.9	23.6%	250.9
1Q22	820.9	15.8%	658.0	9.6%	162.9

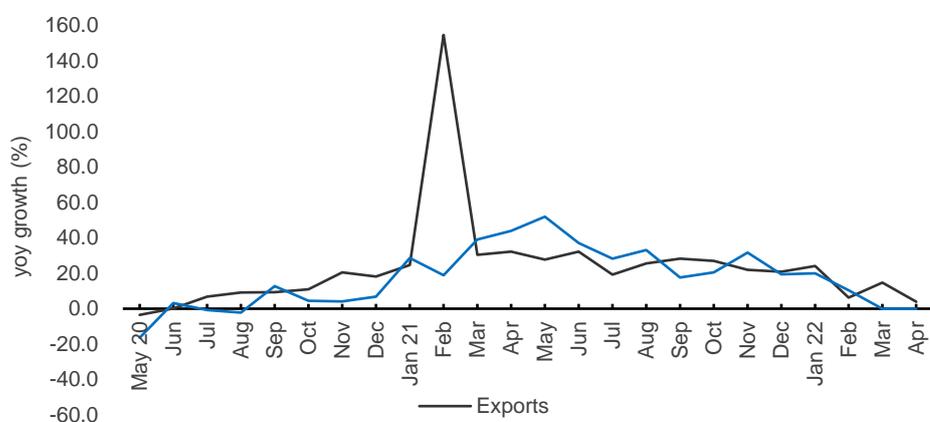
Source: China Customs, compiled by Fung Business Intelligence

Exhibit 13: China's monthly foreign trade data, May 2021 to April 2022

	Exports		Imports		Trade Balance
	Amount (USD billion)	yoy growth	Amount (USD billion)	yoy growth	Amount (USD billion)
May 21	263.6	27.8%	220.4	52.0%	43.3
June	281.0	32.2%	230.9	37.1%	50.1
July	282.3	19.3%	226.4	28.3%	55.9
August	294.0	25.6%	234.8	33.1%	59.1
September	305.3	28.2%	237.3	17.6%	68.0
October	299.6	27.1%	214.8	20.6%	84.8
November	324.8	22.0%	253.0	31.7%	71.8
December	340.4	20.9%	246.2	19.5%	94.3
January 22	327.3	24.2%	242.2	19.9%	85.1
February	217.5	6.3%	187.0	10.5%	30.5
March	276.1	14.7%	228.7	-0.1%	47.4
April	273.6	3.9%	222.5	0.0%	51.1

Source: China Customs

Exhibit 14: Growth rates of exports and imports, May 2020 to April 2022



Source: China Customs

Exhibit 15: Exports by category, 2021 to 1Q22

yoy growth (%) of export value, in USD	2021	1Q22
Textile yarn, fabrics and textile products	-5.6	15.1
Garments and clothing accessories	24.0	7.4
Footwear	35.3	23.0
Toys	37.7	19.4
Furniture and parts	26.4	3.9
Lighting fittings and parts	31.2	-2.1
Suitcases and handbags	35.1	26.7
Refined oil	26.6	4.3
Steel	80.2	22.8
Mechanical and electrical products	28.9	12.1

Source: China Customs

Exhibit 16: Imports by category, 2020 to 1Q22

yoy growth (%) of import value, in USD	2021	1Q22
Soybeans	35.4	<b>20.9</b>
Iron ores	49.3	-34.8
Crude oil	44.3	<b>39.4</b>
Steel	11.3	12.8
Textile yarn, fabrics and textile products	14.4	-9.1
Vehicles and vehicle chassis	15.4	9.4
Integrated circuits	23.6	14.6
Plastics	16.5	-0.1

Source: China Customs

**The rise in China's imports in 1Q22 was led by the increase in the import value of soybeans and crude oil, due to escalations in global commodity prices. However, it should be noted that the import quantities of these commodities actually dropped year-on-year during the quarter.**

## 2. ASEAN remains China's top trading partner in 1Q22

In 1Q22, the ASEAN was China's largest trading partner and the US also retained its status as China's largest export market (see exhibits 17 and 18). Also noteworthy is that South Korea has overtaken Japan as China's top trading partner country in Asia during the quarter.

Exhibit 17: China's trading partners, 1Q22

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	212.4	14.4	118.1	94.3	10.7	12.3	8.8
EU	205.9	13.9	135.8	70.1	12.2	23.3	-4.5
US	185.9	12.6	138.9	47.0	12.2	16.7	0.8
South Korea	90.2	6.1	36.9	53.3	14.6	17.0	13.0
Japan	89.6	6.1	41.9	47.7	3.9	8.3	0.4
Russia	38.2	2.6	16.4	21.7	28.7	25.9	31.0
Brazil	33.4	2.3	13.3	20.1	4.5	20.2	-3.7
India	32.0	2.2	27.1	4.9	15.3	28.3	-26.1

Source: China Customs

Exhibit 18: China's trading partners, comparing growth rates for 2021 and 1Q22

yoy growth (%)

Country/Region	Total trade		Exports		Imports	
	2021	1Q22	2021	1Q22	2021	1Q22
ASEAN	28.1	10.7	26.1	12.3	30.8	8.8
EU	27.5	12.2	32.6	23.3	19.9	-4.5
US	28.7	12.2	27.5	16.7	32.7	0.8
South Korea	26.9	14.6	32.4	17.0	23.3	13.0
Japan	17.1	3.9	16.3	8.3	17.7	0.4
Russia	35.8	28.7	33.8	25.9	37.5	31.0
Brazil	36.2	4.5	53.4	20.2	29.2	-3.7
India	43.3	15.3	46.2	28.3	34.2	-26.1

Source: China Customs

### 3. Leading export provinces except Guangdong register export growth in 1Q22

China's top six provinces and municipalities in terms of value of exports – Guangdong, Jiangsu, Zhejiang, Shandong, Shanghai and Fujian – jointly accounted for 74.3% of China's total exports in 1Q22, down from 74.7% in 2021 (see *exhibit 19*). All six provinces except Guangdong, which had COVID-19 outbreaks during the quarter, registered strong export growth of over 18.0% yoy in 1Q22.

Exhibit 19: Top six provinces and municipalities in terms of value of exports, 1Q22

Provinces/ Municipalities	Value of exports (USD billion)	yoy growth (%)	Share of total exports (%)
Guangdong	194.6	-3.1	23.7
Jiangsu	131.0	20.3	16.0
Zhejiang	120.8	30.2	14.7
Shandong	70.8	31.9	8.6
Shanghai	53.8	25.7	6.6
Fujian	38.7	18.7	4.7

Source: China Customs

**We expect Shanghai to record a year-on-year drop in exports in 2Q22 as its partial COVID-19 lockdown since late March has depressed exports.**

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

China's foreign direct investment (FDI) increased by 25.6% yoy to 379.9 billion yuan (US\$59.1 billion, up by 31.7% yoy in US dollar terms) in 1Q22 (see *exhibit 20*).

Exhibit 20: China's FDI, 2021 to 1Q22

	Amount (billion yuan)	Yoy growth	Ytd amount (billion yuan)	Year-to-date, yoy growth
<b>FY21</b>	<b>1149.4</b>	<b>14.9%</b>	<b>1149.4</b>	<b>14.9%</b>
April 21	94.6	34.4%	397.1	38.6%
May	83.9	22.3%	481.0	35.4%
June	126.8	8.4%	607.8	28.7%
July	64.4	1.4%	672.2	25.5%
August	85.9	1.8%	758.1	22.3%
September	101.5	2.5%	859.5	19.6%
October	83.6	2.2%	943.2	17.8%
November	99.1	0.4%	1042.2	15.9%
December	107.2	6.5%	1149.4	14.9%
January 2022	102.3	11.6%	102.3	11.6%
February	141.4	66.1%	243.7	37.9%
March	136.2	8.3%	379.9	25.6%

Source: Ministry of Commerce, PRC

**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.**

## 5. Chinese yuan depreciates against US dollar but appreciates against Euro in first four months of 2022

The daily fixing rate (also known as the central parity rate) of the Chinese yuan against the US dollar depreciated from 6.3757 on 31 December last year to 6.6177 on 29 April (see *exhibit 21*).<sup>6</sup> The Chinese yuan depreciated by 3.7% against the US dollar so far this year (as of 29 April).

Meanwhile, the daily fixing rate of the Chinese yuan against the Euro appreciated from 7.2197 on 31 December to a six-year high of 6.8634 on 8 March, before retreating to 6.9531 on 29 April (see *exhibit 22*). The Chinese yuan appreciated by 3.8% against the Euro so far this year (as of 29 April).

According to the Bank for International Settlements, the Chinese yuan appreciated in real terms against its trading partners by 0.6% in 1Q21 (see *exhibit 23*).

**With the US expected to further tighten monetary policy while China is starting to ease, the Chinese yuan is likely to remain weak against the US dollar in the coming months, in our view.**

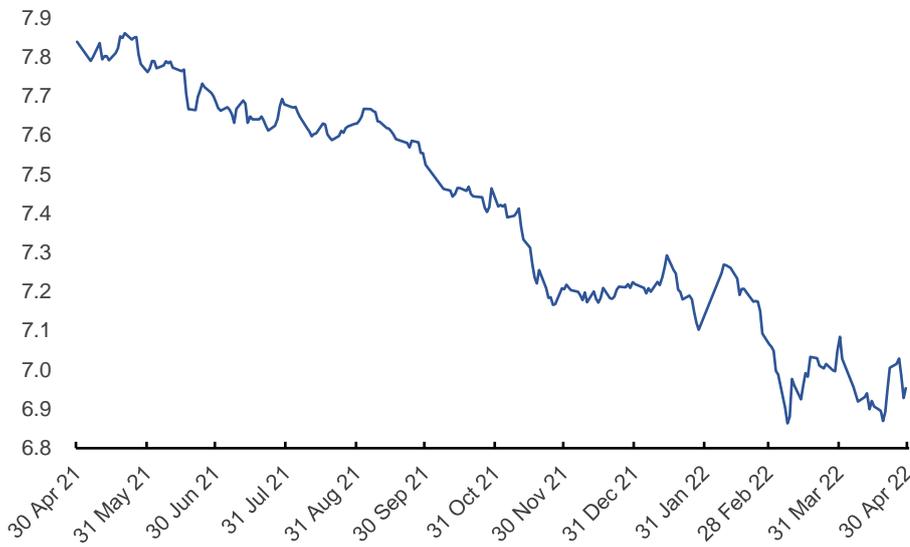
### Exhibit 21: USD-CNY daily fixing rate, April 2021 to April 2022



Source: State Administration of Foreign Exchange

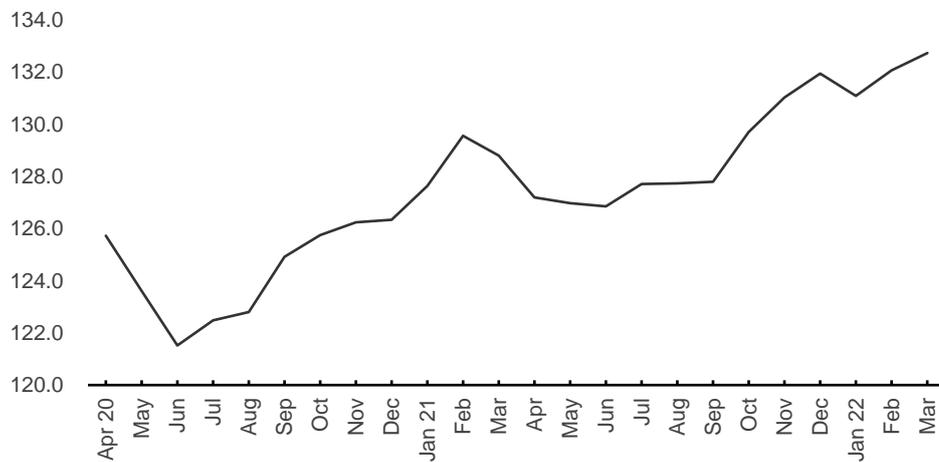
<sup>6</sup> According to the PBOC, the daily fixing rate of the Chinese yuan against the US dollar is directly formed by market makers based on the closing rate of the previous day, the movements of major international currencies, and 'counter cyclical factor', which has been gradually phased out since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

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



Source: State Administration of Foreign Exchange

Exhibit 23: Real effective exchange rate of the Chinese yuan, April 2020 to March 2022



Source: Bank for International Settlements

## B. Highlights

### 1. China to step up measures to support foreign trade

A State Council executive meeting chaired by Premier Li Keqiang on 5 May has decided on policy steps to stabilize and upgrade foreign trade, in an effort to keep the economy and supply chains stable.<sup>7</sup>

The meeting pledged to help foreign trade enterprises retain orders, and support the production, logistics and employment of key foreign trade enterprises. Transportation of goods to and from seaports and airports will be unclogged at a faster pace, and the efficiency of logistics and customs clearance will be improved. Policies will be swiftly rolled out to facilitate cross-border e-commerce returns and exchanges. Eligible cross-border e-commerce firms will be supported in applying for the status of high- and new-technology enterprises. Credit loans issued to micro, small and medium-sized enterprises (MSMEs) in foreign trade will be increased. Eligible firms in urgent need of funding will be given support on a priority basis. Services by such platforms as the China Import and Export Fair (Canton Fair) will be improved, to reinforce interactions with cross-border e-commerce businesses.

### 2. China to trial some CPTPP rules in pilot FTZs

Chinese customs will trial part of the rules of the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP) in some of China's pilot free trade zones (FTZs), according to the country's customs authority.<sup>8</sup>

Over the years, China has established more than 20 pilot FTZs across the country as a testing ground for new trade policies and a platform for overseas products and services to enter the country.

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**These measures represent further effort of the Chinese government to alleviate the woes of foreign trade enterprises, as well as to keep foreign trade growth on track amid the global economic slowdown.**

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**FTZs across China could be a platform to test out CPTPP rules before they are adopted in other parts of the country. This trial shows that China is willing to adhere to the standards of the CPTPP via reforms, while committing to greater market access.**

<sup>7</sup> [http://www.gov.cn/xinwen/2021-12/23/content\\_5664167.htm](http://www.gov.cn/xinwen/2021-12/23/content_5664167.htm)

<sup>8</sup> [http://www.gov.cn/xinwen/2022-02/03/content\\_5671827.htm](http://www.gov.cn/xinwen/2022-02/03/content_5671827.htm)

### 3. China releases *Negative List for Market Access 2022*

On 25 March, the National Development and Reform Commission and the Ministry of Commerce jointly released a new edition of the *Negative List for Market Access*.<sup>9</sup> The 2022 list, which took immediate effect, consists of 117 items, six fewer than the 2020 edition. It covers six prohibited items and 111 items that require government approval for market entry.

The new negative list removes restrictions on stock issuance, mergers and acquisitions of listed companies, and internet financial information services. Now, investors no longer need prior approval to participate in these industries.

### 4. China to launch pilot projects for integration of domestic and foreign trade

On 10 May, 14 government departments issued a notice about launching pilot projects to advance the integration of domestic and foreign trade by removing institutional barriers.<sup>10</sup>

The notice set a clear target of using three years to cultivate a number of companies in domestic and foreign trade integrated businesses, building corresponding supportive platforms, and forming a group of industrial clusters with international competitiveness and integrated development. Various innovative and supportive measures will also be put in place in the areas of laws and regulations, regulatory systems, business qualifications, quality standards, alignment of certification and accreditation, etc.

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**The move suggests that the Chinese government is determined to further open its economy to private investment and improve business environment.**

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**The integrated development of domestic and foreign trade will help promote a more self-reliant 'dual circulation' economic strategy for sustainable growth in the coming years.**

<sup>9</sup> [https://www.ndrc.gov.cn/xxgk/zcfb/gfxwj/202203/t20220325\\_1320231.html?code=&state=123](https://www.ndrc.gov.cn/xxgk/zcfb/gfxwj/202203/t20220325_1320231.html?code=&state=123)

<sup>10</sup> [http://www.gov.cn/xinwen/2022-02/03/content\\_5671827.htm](http://www.gov.cn/xinwen/2022-02/03/content_5671827.htm)

## C. Outlook

### 1. US economy registers slower growth in 1Q22

The US's GDP growth eased to 3.6% yoy in 1Q22, amid disruptions in economic activity caused by a surge in COVID-19 cases related to the Omicron variant (see *exhibit 24*). Meanwhile, the Eurozone economy<sup>11</sup> grew by 5.0% yoy in 1Q22 due partly to a low comparison base last year (see *exhibit 25*).

**We expect that both the US and Eurozone economies will register slower growth in 2Q22 amid the Russia–Ukraine conflict and the resultant supply chain disruptions.**

Exhibit 24: US real GDP growth, 2020 to 1Q22

	2020	2021	2Q21	3Q21	4Q21	1Q22
Real GDP ( <i>annualized qoq growth %</i> )			6.7	2.3	6.9	-1.4
Real GDP ( <i>yoy growth %</i> )	-3.4	5.7	12.2	4.9	5.5	3.6

Source: US Department of Commerce

Exhibit 25: Eurozone's real GDP growth, 2020 to 1Q22

	2020	2021	2Q21	3Q21	4Q21	1Q22
Real GDP ( <i>qoq growth %</i> )			2.2	2.2	0.3	0.2
Real GDP ( <i>yoy growth %</i> )	-6.5	5.3	14.6	4.1	4.7	5.0

Source: Eurostat, IMF

<sup>11</sup> 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* released in April, the IMF forecasts that the global economy will grow by 3.6% in 2022, down from a 4.4% rise predicted in January. The primary reason behind the latest revisions is the economic fallout from the Russia–Ukraine conflict (see exhibit 26).

**A possible worsening of the Russia–Ukraine conflict and emergence of new COVID-19 variants are the biggest risks to the global economy 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	6.1	3.6	3.6
Advanced economies	5.2	3.3	2.4
- US	5.7	3.7	2.3
- Eurozone	5.3	2.8	2.3
- Japan	1.6	2.4	2.3
- UK	7.4	3.7	1.2
Emerging market and developing economies	6.8	3.8	4.4
- China	8.1	4.4	5.1
- India*	8.9	8.2	6.9
- Brazil	4.6	0.8	1.4
- Russia	4.7	-8.5	-2.3
- ASEAN-5 <sup>12</sup>	3.4	5.3	5.9

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

Source: *World Economic Outlook* released in April 2022, IMF

<sup>12</sup> 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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