

China Trade Quarterly

Domestic Trade

China's economic growth recovers to 3.9% yoy in 3Q22
 Growth in retail sales recovers in 3Q22
 Recent COVID-19 resurgence leads to some factory shutdowns

Foreign Trade

China's exports up 10% yoy in 3Q22 despite global economic slowdown
 Jump in FDI indicates confidence in China's long-term prospects
 China ramps up measures to support foreign trade

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Part One: Domestic Trade

A. Recent developments

1. China's economic growth recovers to 3.9% yoy in 3Q22

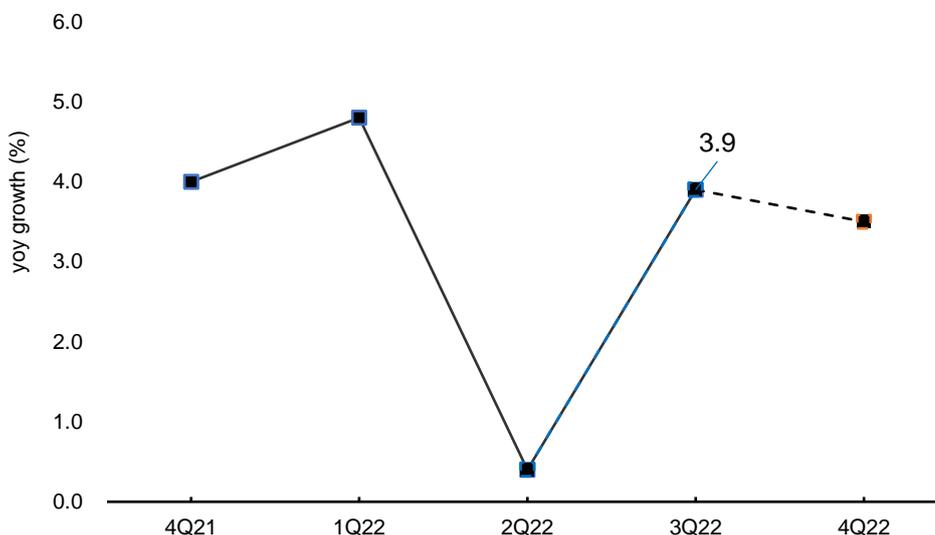
China's GDP grew by a better-than-expected 3.9% yoy in real terms in 3Q22, a significant improvement from the previous quarter's 0.4% yoy growth (see exhibit 1). Overall, in 1-3Q22, China's nominal GDP amounted to 87.0 trillion yuan, up by 3.0% in real terms.

We predict that China's real GDP growth will slow to 3.5% yoy in 4Q22. While the recent COVID-19 resurgence has disrupted the recovery in industrial production and consumer spending, a series of policy changes announced in mid-November, including the relaxation of COVID-19 restrictions and new financing measures aimed at shoring up the broader real estate sector, will help alleviate the downward pressure on the Chinese economy.

A series of policy changes announced in mid-November, including the relaxation of COVID-19 restrictions and new financing measures aimed at shoring up the broader real estate sector, will help alleviate the downward pressure on the Chinese economy.

Exhibit 1: China's real GDP growth and forecasts, 4Q21 to 4Q22

FY21	4Q21	1Q22	2Q22	3Q22	4Q22F
8.1%	4.0%	4.8%	0.4%	3.9%	3.5%



Source: National Bureau of Statistics, PRC

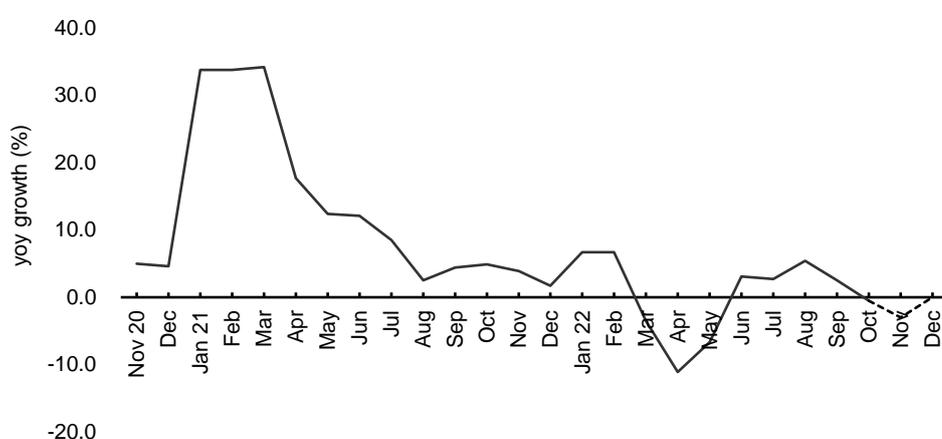
2. Growth in retail sales recovers in 3Q22

China's total retail sales of consumer goods edged up 0.7% yoy to 32.0 trillion yuan in 1-3Q22. Retail sales growth recovered to 3.5% yoy in 3Q22, but the recovery pace has been derailed by the COVID-19 outbreaks and associated mobility restrictions recently – the growth in retail sales turned to negative in October (see exhibits 2, 3 and 4).

We predict that China's retail sales will record a small single-digit year-on-year drop in 4Q22 amid the recent COVID-19 flare-ups.

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

FY21	Nov 21	Dec	Jan-Feb 22	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct
12.5%	3.9%	1.7%	6.7%	-3.5%	-11.1%	-6.7%	3.1%	2.7%	5.4%	2.5%	-0.5%



Source: National Bureau of Statistics, PRC

Exhibit 3: China's total retail sales, month-on-month nominal growth, May to October 2022

mom growth (%), seasonally adjusted

	May 22	Jun	Jul	Aug	Sep	Oct
Total retail sales	-0.16	2.35	-0.09	-0.29	0.14	-0.68

Source: National Bureau of Statistics, PRC

Exhibit 4: China's total retail sales, 2021 to 1-3Q22

Nominal growth, yoy (%)	FY21	1Q22	1H22	1-3Q22
Total retail sales	12.5	3.3	-0.7	0.7
- Goods	11.8	3.6	0.1	1.3
Sales by enterprises above designated size	12.8	5.7	1.4	3.5
Online sales	12.0	8.8	5.6	6.1
- Catering services	18.6	0.5	-7.7	-4.6

Source: National Bureau of Statistics, PRC

Exhibit 5: China's retail sales by enterprises above designated size, by product, 2021 to 1-3Q22

Nominal growth, yoy (%)	FY21	1Q22	1H22	1-3Q22
Grain, oil and food	10.8	9.3	9.9	9.1
Beverages	20.4	11.8	8.2	6.9
Tobacco and liquor	21.2	11.8	6.7	4.7
Garments, footwear, hats, knitwear	12.7	-0.9	-6.5	-4.0
Cosmetics	14.0	1.8	-2.5	-2.7
Gold, silver and jewellery	29.8	7.6	-1.3	2.2
Commodities for daily use	14.4	6.6	1.3	2.0
Home appliances & audio/video equipment	10.0	5.9	0.4	0.7
Traditional Chinese and Western medicines	9.9	9.1	9.7	9.4
Cultural and office appliances	18.8	10.6	5.7	6.8
Furniture	14.5	-7.1	-9.0	-8.4
Communication appliances	14.6	4.3	-0.6	0.2
Petroleum and related products	21.2	19.7	14.2	14.0
Automobiles	7.6	-0.3	-5.7	0.4
Building and decoration materials	20.4	3.8	-2.9	-4.9

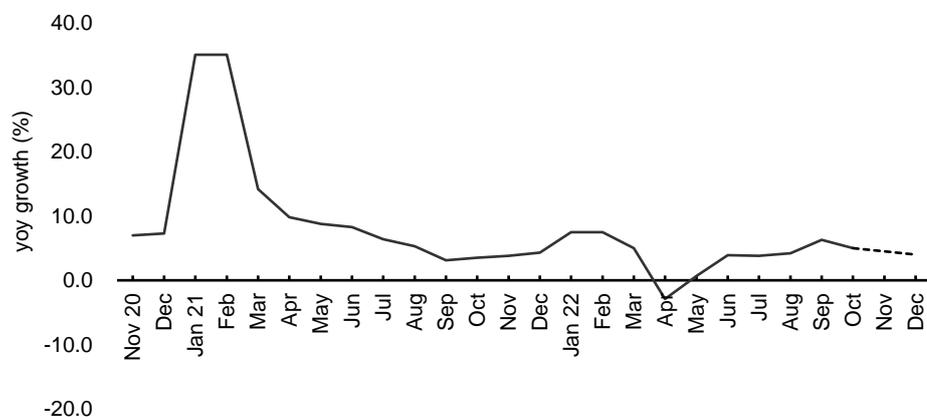
Source: National Bureau of Statistics, PRC

3. Growth in industrial production recovers in 3Q22

China's industrial production, measured by the value-added of industrial output of industrial enterprises above designated size¹, expanded by 4.8% yoy in 3Q22 and by 3.9% yoy in 1-3Q22 (see exhibit 6).

Exhibit 6: China's industrial production growth and forecasts, November 2020 to December 2022

FY21	Nov 21	Dec	Jan-Feb 22	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct
9.6%	3.8%	4.3%	7.5%	5.0%	-2.9%	0.7%	3.9%	3.8%	4.2%	6.3%	5.0%



Source: National Bureau of Statistics, PRC

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

In 3Q22, the growth in car sales improved markedly, boosted by tax incentives and subsidies. However, housing-related spending on 'furniture' and 'building and decoration materials' remained weak amid the cooling property market.

We expect China's industrial production growth to ease to 4.5% yoy in 4Q22, as the recent COVID-19 resurgence has led to some factory shutdowns and the external demand has continued to slow.

4. Fixed asset investment grows 5.8% yoy in Jan-Oct period

The nominal growth of China's fixed asset investment (FAI) (excluding rural households) registered 5.8% yoy in January-October 2022 (see exhibit 7). China's FAI (excluding rural households) amounted to 47.1 trillion yuan in the period.

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

Year-to-date, yoy growth %	May 22	Jun	Jul	Aug	Sep	Oct
FAI (excluding rural households)	6.2	6.1	5.7	5.8	5.9	5.8
- Manufacturing sector	10.6	10.4	9.9	10.0	10.1	9.7
- Infrastructure (excluding power, heat, gas and water infrastructure)	6.7	7.1	7.4	8.3	8.6	8.7
- Real estate development	-4.0	-5.4	-6.4	-7.4	-8.0	-8.8

Source: National Bureau of Statistics, PRC

5. Growth in M2 and RMB loans decelerates

The broad money supply (M2) has grown at a slower pace in the past couple of months. Meanwhile, the growth in the total outstanding RMB loans has also decelerated lately (see exhibit 8 & 9).

Exhibit 8: Broad money supply (M2) and RMB loans, November 2021 to October 2022

As of	Broad money supply (M2)		Total outstanding RMB loans	
	Amount (trillion yuan)	yoy growth	Amount (trillion yuan)	yoy growth
End-Nov 21	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%
End-May	252.7	11.1%	203.5	11.0%
End-Jun	258.2	11.4%	206.4	11.2%
End-Jul	257.8	12.0%	207.0	11.0%
End-Aug	259.5	12.2%	208.3	10.9%
End-Sep	262.7	12.1%	210.8	11.2%
End-Oct	261.3	11.8%	211.4	11.1%

Source: People's Bank of China

The recent acceleration in the issuance of local-government special bonds will continue to shore up infrastructure investment in 4Q22, which will offset the slowdown in real estate investment caused by the cooling property market.

Exhibit 9: Increase in RMB loans, 2021 to 1-3Q22

Increase in RMB loans (trillion yuan)	
FY21	19.95
1-3Q22	18.08
Nov 21	1.27
Dec	1.13
Jan 22	3.98
Feb	1.23
Mar	3.13
Apr	0.65
May	1.89
Jun	2.81
Jul	0.68
Aug	1.25
Sep	2.47
Oct	0.62

Source: People's Bank of China

In a G20 Finance Ministers and Central Bank Governors Meeting in mid-October, Yi Gang, Governor of the People's Bank of China (PBoC), reiterated that the PBoC will step up policy support for the real economy, while maintaining a prudent monetary policy. Yi said that the PBoC will encourage banks to increase loans to infrastructure, manufacturing and property sectors.²

China will enhance the stability of credit growth and continue to lower loan costs for both enterprises and individuals to keep macro-economic fundamentals stable, Yi Gang said on 28 October in a report to the National People's Congress Standing Committee.³

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

² <http://www.pbc.gov.cn/goutongjiaoliu/113456/113469/4681416/index.html>

³ <http://m.safe.gov.cn/safe/2022/1030/21646.html>

6. PMI indicates downward pressure on manufacturing sector

China's manufacturing PMI rebounded from 49.0 in July to 49.4 in August and 50.1 in September, and then dropped to 49.2 in October (see *exhibit 10*). The headline PMI reading has returned to the contractionary territory lately, indicating downward pressure on the manufacturing sector.

Manufacturing output has declined lately, as the output index dipped below the critical 50-mark in October. The contraction in manufacturing output was partly attributed to a reduction in new orders: The new orders index went down to 48.1 in October, indicating a deterioration in the overall market demand lately.

Prices of industrial products have continued to drop recently, albeit at a slower pace: The ex-factory prices index went up from 47.1 in September to 48.7 in October. Meanwhile, the input prices index rose above the neutral level of 50 in September and went up further to 53.3 in October, indicating an increase in the prices of production inputs lately.

The business expectations index went down from 53.4 in September to 52.6 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 dropped to 49.2 in October, indicating downward pressure on the manufacturing sector. Production activities contracted amid a reduction in new orders. Prices of industrial products continued to fall, despite an increase in prices of production inputs.

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

Index	Seasonally adjusted index	Index compared with the previous month	Direction
PMI	49.2	Lower ▼	Contracting
Output	49.6	Lower ▼	Contracting
New Orders	48.1	Lower ▼	Contracting
New Export Orders	47.6	Higher ▲	Contracting
Backlogs of Orders	43.9	Lower ▼	Contracting
Stocks of Finished Goods	48.0	Higher ▲	Contracting
Stocks of Major Inputs	47.7	Higher ▲	Contracting
Purchases of Inputs	49.3	Lower ▼	Contracting
Imports	47.9	Lower ▼	Contracting
Input Prices	53.3	Higher ▲	Rising
Ex-factory Prices	48.7	Higher ▲	Falling
Employment	48.3	Lower ▼	Contracting
Suppliers' Delivery Time	47.1	Lower ▼	Slowing
Business Expectations	52.6	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), declined from a one-year high of 54.7 in June to 50.6 in September and 48.7 in October (see *exhibit 11*). The latest index reading indicates a contraction in the non-manufacturing sector.

The new orders index dropped to a six-month low of 42.8 in October, indicating a reduction in new orders lately.

The sales prices index has remained below the neutral level of 50 since April, meaning that enterprises have continued to lower their service charges recently. Meanwhile, the input prices index rose to 51.0 in October, indicating that input prices have started to increase lately.

The business expectation index went up from 57.1 in September to 57.9 in October, suggesting that purchasing managers in the non-manufacturing sector have become more optimistic about the near-term outlook for their respective industries.

We expect that China's non-manufacturing sector will stay low in the coming couple of months amid the recent COVID-19 flare-ups.

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

Index	Seasonally adjusted index	Index compared with the previous month	Direction
Business activity	48.7	Lower ▼	Contracting
New orders	42.8	Lower ▼	Contracting
Input prices	51.0	Higher ▲	Rising
Sales prices	48.1	Lower ▼	Falling
Business expectations	57.9	Higher ▲	Optimistic

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

B. Highlights

1. CPC meeting lays out policy orientation for 2H22

A meeting of the Political Bureau of the Communist Party of China (CPC) Central Committee was held on 28 July to make arrangements for the economic work for the second half of the year. The meeting urged efforts to consolidate the upward trend of economic recovery, keep employment and prices stable, keep the economy running within an appropriate range, and strive for the best possible outcome.⁴

It stressed that macro policies should play an active role in expanding demand, and fiscal policies should effectively make up for the lack of social demand. Monetary policies should seek to ensure reasonably sufficient liquidity, credit to firms should be boosted, and new loans from policy banks and investment funds for infrastructure construction should be better leveraged, the meeting said.

2. Recent COVID-19 resurgence leads to some factory shutdowns

Some of the largest cities of China, including Guangzhou, Beijing, Chongqing, and Zhengzhou, have imposed small-scale lockdowns and other mobility restrictions in some parts of the cities to contain the recent resurgence of COVID-19 cases.

Non-essential businesses and factories in locked-down districts have been shut down or put under COVID-19 restrictions. For example, a Foxconn Technology plant, known as 'iPhone City' for its size, in Zhengzhou was put under a 'closed loop' system and operating at a reduced capacity from mid-October to mid-November. Meanwhile, the COVID-19 containment measures in the Haizhu district of Guangzhou have forced a total shutdown of the Kangle textile compound, which is home to 59 wholesale textile markets and 23,000 shops, and also hit downstream garment factories and trading companies.

The Chinese government has been ramping up stimulus and support measures in recent months to boost the economy, which will help alleviate the downward pressure on the Chinese economy, in our view.

⁴ http://www.gov.cn/xinwen/2022-07/28/content_5703255.htm

Part Two: Foreign Trade

A. Recent developments

1. China's exports up 10% yoy in 3Q22 despite global economic slowdown

During January-October, China's exports jumped by 11.1% yoy to US\$2,992.3 billion while its imports increased by 3.5% yoy to US\$2,264.6 billion. In October, China's export edged down by 0.3% yoy, the first decline since May 2020. (See exhibits 12, 13 and 14)

With global growth slowing, we forecast that China's exports will record a low single-digit year-on-year decline in 4Q22.

Exhibit 12: China's quarterly foreign trade data, 4Q21 to 3Q22

	Exports		Imports		Trade Balance
	Amount (USD billion)	yoy growth	Amount (USD billion)	yoy growth	Amount (USD billion)
FY21	3,363.1	29.9%	2,687.2	30.1%	675.9
4Q21	964.6	22.9%	714.4	23.7%	250.2
1Q22	819.0	15.5%	664.0	10.6%	155.0
2Q22	909.3	12.5%	684.7	1.6%	224.6
3Q22	970.3	10.1%	704.8	0.9%	265.5

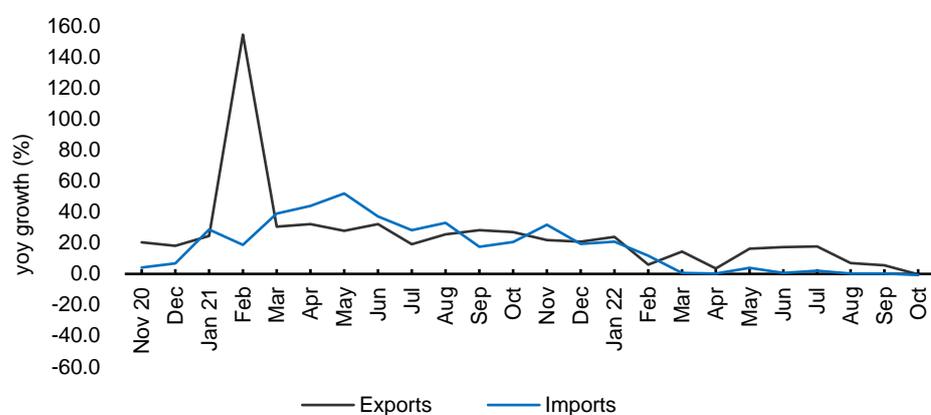
Source: China Customs, compiled by Fung Business Intelligence

Exhibit 13: China's monthly foreign trade data, November 2021 to October 2022

	Exports		Imports		Trade Balance
	Amount (USD billion)	yoy growth	Amount (USD billion)	yoy growth	Amount (USD billion)
November 21	324.8	22.0%	253.1	31.7%	71.7
December	340.2	20.9%	246.5	19.5%	93.7
January 22	326.7	23.9%	244.2	20.9%	82.5
February	217.0	6.0%	189.2	11.7%	27.8
March	275.3	14.4%	230.6	0.7%	44.7
April	272.7	3.5%	223.1	0.2%	49.6
May	306.6	16.3%	229.1	3.9%	77.6
June	330.0	17.4%	232.6	0.7%	97.4
July	332.6	17.8%	231.2	2.1%	101.4
August	314.9	7.1%	235.5	0.3%	79.4
September	322.8	5.7%	238.0	0.3%	84.7
October	298.4	-0.3%	213.2	-0.7%	85.2

Source: China Customs

Exhibit 14: Growth rates of exports and imports, November 2020 to October 2022



Source: China Customs

Exhibit 15: Exports by category, 2021 to 1-3Q22

yoy growth (%) of export value, in USD	2021	1Q22	1H22	1-3Q22
Textile yarn, fabrics and textile products	-5.6	15.1	11.3	8.7
Garments and clothing accessories	24.0	7.4	12.0	9.4
Footwear	35.3	23.0	32.5	27.5
Toys	37.7	19.4	24.7	14.9
Furniture and parts	26.4	3.9	1.2	-2.1
Lighting fittings and parts	31.2	-2.1	2.0	-2.8
Suitcases and handbags	35.1	26.7	35.7	33.3
Refined oil	26.6	4.3	2.2	29.2
Steel	80.2	22.8	30.6	27.8
Mechanical and electrical products	28.9	12.1	9.6	8.7

Source: China Customs

Exhibit 16: Imports by category, 2020 to 1-3Q22

yoy growth (%) of import value, in USD	2021	1Q22	1H22	1-3Q22
Soybeans	35.4	20.9	18.4	16.2
Iron ores	49.3	-34.8	-30.0	-31.9
Crude oil	44.3	39.4	54.0	47.0
Steel	11.3	12.8	1.5	-2.0
Textile yarn, fabrics and textile products	14.4	-9.1	-13.1	-20.3
Vehicles and vehicle chassis	15.4	9.4	-1.2	-0.6
Integrated circuits	23.6	14.6	6.4	1.5
Plastics	16.5	-0.1	-6.2	-4.5

Source: China Customs

The rise in China's imports in 1-3Q22 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 period.

2. ASEAN remains China's top trading partner in 1-3Q22

In 1-3Q22, the ASEAN was still China's largest trading partner and the US 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 period.

Exhibit 17: China's trading partners, 1-3Q22

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	717.8	15.1	416.3	301.5	13.8	20.6	5.7
EU	646.0	13.6	428.7	217.2	7.9	16.9	-6.4
US	580.4	12.2	447.9	132.5	6.9	8.9	0.5
South Korea	277.1	5.8	122.6	154.4	6.0	15.3	-0.3
Japan	270.7	5.7	129.5	141.2	-1.4	6.5	-7.6
Russia	136.1	2.9	52.2	83.8	32.5	10.3	51.6
Brazil	133.3	2.8	48.0	85.4	6.4	25.5	-1.9
India	103.6	2.2	89.7	14.0	14.6	31.0	-36.4

Source: China Customs

Exhibit 18: China's trading partners, comparing growth rates for 2021 and 1-3Q22

Country/Region	yoy growth (%)					
	Total trade		Exports		Imports	
	2021	1-3Q22	2021	1-3Q22	2021	1-3Q22
ASEAN	28.1	13.8	26.1	20.6	30.8	5.7
EU	27.5	7.9	32.6	16.9	19.9	-6.4
US	28.7	6.9	27.5	8.9	32.7	0.5
South Korea	26.9	6.0	32.4	15.3	23.3	-0.3
Japan	17.1	-1.4	16.3	6.5	17.7	-7.6
Russia	35.8	32.5	33.8	10.3	37.5	51.6
Brazil	36.2	6.4	53.4	25.5	29.2	-1.9
India	43.3	14.6	46.2	31.0	34.2	-36.4

Source: China Customs

3. COVID-19 drags down export growth of Guangdong and Shanghai in 1-3Q22

China's top six provinces and municipalities in terms of value of exports – Guangdong, Jiangsu, Zhejiang, Shandong, Shanghai and Fujian – jointly accounted for 73.0% of China's total exports in 1-3Q22, down from 74.7% in 2021 (see *exhibit 19*). Among the top six provinces, Guangdong and Shanghai registered the lowest growth due to COVID-19 outbreaks during the year.

Exhibit 19: Top six provinces and municipalities in terms of value of exports, 1-3Q22

Provinces/ Municipalities	Value of exports (USD billion)	yoy growth (%)	Share of total exports (%)
Guangdong	658.3	0.0	24.4
Jiangsu	414.3	15.7	15.4
Zhejiang	382.8	16.6	14.2
Shandong	242.9	22.9	9.0
Shanghai	152.3	7.3	5.6
Fujian	130.1	14.1	4.4

Source: China Customs

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

China's foreign direct investment (FDI) increased by 15.6% yoy to 1,003.8 billion yuan (US\$155.3 billion, up by 18.9% yoy in US dollar terms) in 1-3Q22 (see *exhibit 20*).

Exhibit 20: China's FDI, 2021 to 1-3Q22

	Amount (billion yuan)	Yoy growth	Ytd amount (billion yuan)	Year-to-date, yoy growth
FY21	1149.4	14.9%	1149.4	14.9%
October 21	83.6	2.2%	943.2	17.8%
November	99.1	0.4%	1,042.2	15.9%
December	107.2	6.5%	1,149.4	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%
April	98.7	4.4%	478.6	20.5%
May	85.6	2.0%	564.2	17.3%
June	159.1	25.4%	723.3	17.4%
July	75.0	16.6%	798.3	17.3%
August	94.4	10.0%	892.7	16.4%
September	111.0	9.4%	1,003.8	15.6%

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 and Euro over past few months

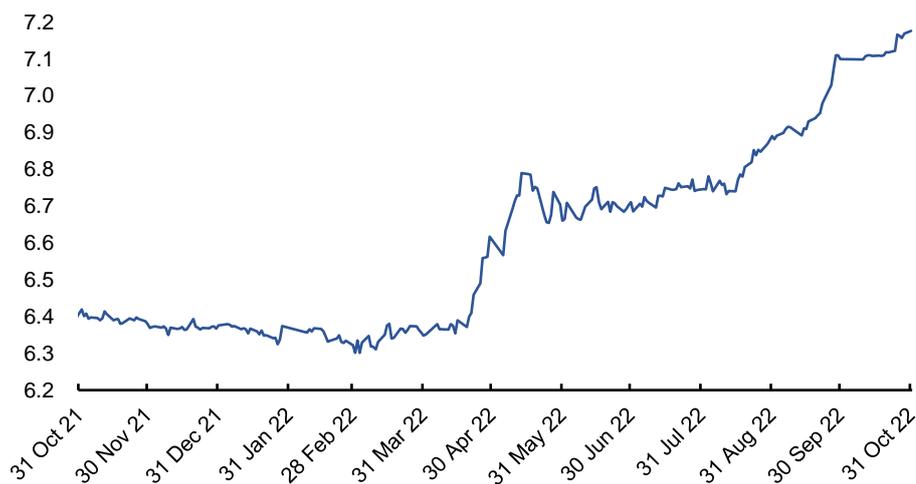
The daily fixing rate (also known as the central parity rate) of the Chinese yuan against the US dollar depreciated from 6.7114 on 30 June to 7.0998 on September and further to 7.1768 on 31 October (see exhibit 21).⁵ The Chinese yuan depreciated by 11.2% against the US dollar so far this year (as of 31 October).

Meanwhile, the daily fixing rate of the Chinese yuan against the Euro appreciated from 7.0084 on 30 June to 6.9892 on 30 September, before dropping to 7.1703 on 31 October (see exhibit 22). The Chinese yuan appreciated by 0.7% against the Euro so far this year (as of 31 October).

According to the Bank for International Settlements, the Chinese yuan depreciated in real terms against its trading partners by 0.3% in 3Q22 and by 4.4% in the first three quarters of this year (see exhibit 23).

With the US being expected to continue to tighten monetary policy while China is likely to ease further, we expect the Chinese yuan to remain weak against the US dollar in the coming months.

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



Source: State Administration of Foreign Exchange

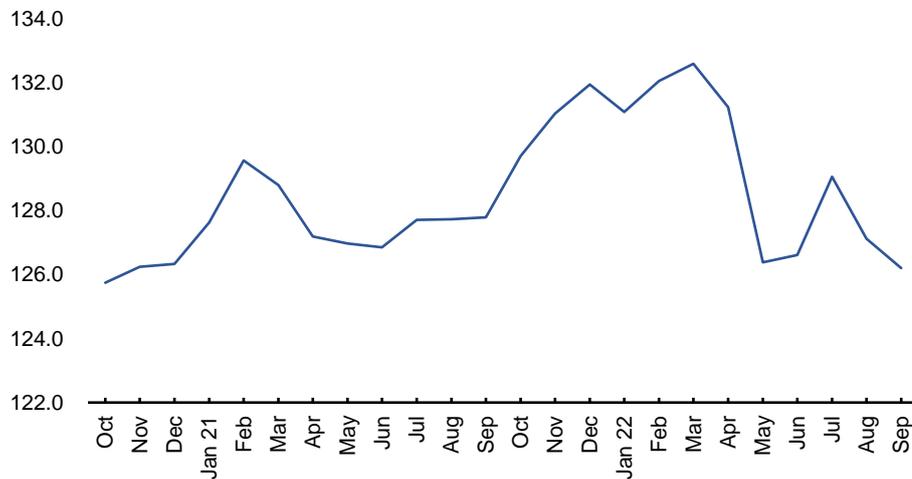
⁵ According to the PBOC, the daily fixing rate of the Chinese yuan against the US dollar is directly formed by market makers based on the closing rate of the previous day and the movements of major international currencies.

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



Source: State Administration of Foreign Exchange

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



Source: Bank for International Settlements

B. Highlights

1. China ramps up measures to support foreign trade

On 27 September, China's Ministry of Commerce (MOFCOM) issued a circular on stabilizing foreign trade to help companies navigate current difficulties.⁶

China will strengthen the capability of foreign trade companies to deliver contracts and further expand their presence in the international market. Efforts will be made to enhance services for companies to participate in overseas exhibitions and conduct business negotiations. The government will pilot market procurement trade on a new list of markets, develop a new batch of innovation demonstration zones for the import trade and establish a number of new integrated pilot zones for cross-border e-commerce. Moreover, measures are in place to improve the efficiency of the transportation of goods between inland regions and coastal ports, and to improve domestic land transport to accelerate transshipments as well as the inbound and outbound transport of goods.

2. China revises Catalogue of Encouraged Industries for Foreign Investment

On 28 October, the National Development and Reform Commission and the MOFCOM released the *Catalogue of Encouraged Industries for Foreign Investment (2022 Version)*, which will come into force on 1 January 2023.

The new Catalogue contains a total of 1,474 items (519 in the national catalogue and 955 in the regional catalogue), increased by 19% from 1,235 items (480 in the national catalogue and 755 in the regional catalogue) in the 2020 version. The revision of the Catalogue will serve three main purposes:

- Boost foreign investment in manufacturing to upgrade China's industrial and supply chains;
- Promote the integrated development of the service and manufacturing sectors; and
- Encourage foreign investment in China's central, western, and northeastern regions.

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

The move is part of China's intensified efforts to attract more foreign investment and expand high-standard opening-up. The revised catalogue will help boost foreign investment in key industries like advanced manufacturing and producer services.

⁶ <http://www.mofcom.gov.cn/article/zwqk/gkzcfb/202209/20220903351830.shtml>

C. Outlook

1. Both US and Eurozone economies register sluggish growth in 3Q22

The US's GDP growth stayed low at 1.8% yoy in 3Q22 amid persistent inflation and rising interest rates (see *exhibit 24*). Meanwhile, the GDP growth of the Eurozone economy⁷ also slowed to 2.1% yoy in 3Q22. The Eurozone has been facing the economic fallout from the Russia—Ukraine conflict in addition to the rising inflation and interest rates (see *exhibit 25*).

We expect that both the US and Eurozone economies will slow further in 4Q22 amid high inflation and monetary tightening.

Exhibit 24: US real GDP growth, 2020 to 3Q22

	2020	2021	4Q21	1Q22	2Q22	3Q22
Real GDP (<i>annualized qoq growth %</i>)			7.0	-1.6	-0.6	2.6
Real GDP (<i>yoy growth %</i>)	-2.8	5.9	5.7	3.7	1.8	1.8

Source: US Department of Commerce

Exhibit 25: Eurozone's real GDP growth, 2020 to 3Q22

	2020	2021	4Q21	1Q22	2Q22	3Q22
Real GDP (<i>qoq growth %</i>)			0.5	0.6	0.8	0.2
Real GDP (<i>yoy growth %</i>)	-6.5	5.2	4.8	5.5	4.3	2.1

Source: Eurostat, IMF

⁷ The member countries of the Eurozone include Austria, Belgium, Cyprus, Estonia, Finland, France, Germany, Greece, Ireland, Italy, Latvia, Lithuania, Luxembourg, Malta, the Netherlands, Portugal, Slovakia, Slovenia and Spain.

2. IMF projects slower growth for world economy in 2023

In the *World Economic Outlook* released in October, the IMF maintained its 2022 growth forecast for the global economy at 3.2% yoy, reflecting stronger-than-expected output in Europe but a weaker performance in the US. The IMF said that global GDP growth next year will slow to 2.7% yoy, down from its July forecast of 2.9% yoy, as rising interest rates continue to slow the global economy, Europe struggles with high energy prices and China contends with continued COVID-19 restrictions (see *exhibit 26*).

Further monetary tightening in advanced economies and a possible COVID-19 surge this winter remain the biggest risks to the global economy in the near future.

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

	yoy growth (%)		
	2021 (Estimates)	2022 (Forecasts)	2023 (Forecasts)
World economy	6.0	3.2	2.7
Advanced economies	5.2	2.4	1.4
- US	5.7	1.6	1.0
- Eurozone	5.2	3.1	0.5
- Japan	1.7	1.7	1.6
- UK	7.4	3.6	0.3
Emerging market and developing economies	6.6	3.7	3.7
- China	8.1	3.2	4.4
- India*	8.7	6.8	6.1
- Brazil	4.6	2.8	1.0
- Russia	4.7	-3.4	-2.3
- ASEAN-5 ⁸	3.4	5.3	4.9

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

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

⁸ 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 sourcing, logistics, distribution and retail. The Fung Group comprises over 25,000 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 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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