



MONTHLY REPORT

TRADE SERVICING

– WUSATA

January 2024



Monthly Trade Servicing Report

Market: China & HK Submitted by: China/HK In-market Representative Month & Year: January 2024

Executive Summary

China's retail sector, long relied upon for double-digit growth, has entered a period of more modest increases. The third quarter of 2022 saw retail sales of goods grow by only 3%, a marked slowdown across various categories. China's household savings rate is significantly higher than pre-Covid levels, indicating potential for future consumer expenditure.

Despite a broader retail slowdown, China's service sector, especially travel and entertainment, is surging back to life. Domestic travel has now surpassed pre-pandemic levels, and is suggested to be more than a mere rebound; it represents a profound shift in consumer behavior. With current constraints on international travel due to visa processing times and high-priced flights, there's an increased focus among Chinese consumers on premium domestic experiences, such as high-end dining and luxury accommodations. Such restaurants and hotels often have strong demand for meat and seafood from the U.S., in addition to the likes of tree nuts, dairy, fruits and alcohol. This is expected to provide more opportunities to U.S. suppliers looking to access the market in 2024.

Market Intelligence Update

Tariff reductions show country continues to open its market

Since Jan 1 of this year, China has begun implementing provisional import tax rates lower than the most-favored-nation rate on 1,010 types of goods from foreign countries, with zero tariffs on some of them. The new rates cover 143 types of agricultural and industrial products from Argentina. The South American country's media recently reported that China's move has greatly benefited Argentine dairy products, seafood, sweet corn and other items.

The overall level of tariffs is an important indicator of a country's openness to the outside. Since it joined the World Trade Organization, China has continuously lowered tariffs and expanded imports. However, in recent years, protectionism and unilateralism have intensified, and some countries have abused the concept of national security, engaging in technological blockades and trade barriers, which have caused shocks to the multilateral trading system.

Despite the globalization headwinds, China has continued to reduce tariffs and further open up its market, lowering its tariff level from 15.3 percent in 2001 to 7.3 percent in 2023. This reflects its firm stance in supporting economic

globalization and its commitment to opening wider to the outside world.

China's tariff cuts have enabled the international community to better share the opportunities in the Chinese market. Taking Argentina as an example, driven by favorable trade policies such as tariff reductions, against the impact of the COVID-19 pandemic, bilateral trade between China and Argentina has risen in recent years to reach \$25.5 billion in 2023. At present, China is Argentina's second-largest trading partner and largest agricultural export market. The steady development of China-Argentina trade is giving a huge boost to the Argentine economy which has encountered difficulties.

Some least developed countries have also benefited greatly from China's targeted tariff cuts. In order to help the least developed countries accelerate their development, China announced in 2021 a decision to further expand the scope of zero-tariff products to China from the least developed countries having diplomatic relations with it, applying a zero-tariff preferential rate to 98 percent of products originating from the least developed countries. Such measures will demonstrate that China's development provides opportunities for the world.

It should be noted that China's tariff cuts also fully benefit the domestic economy and people's livelihood while benefiting the international community. For example, in the adjustment of tariffs, medicines have been a key area for tax reduction, and the import tariffs on many anti-cancer drugs, drugs for some rare diseases, and related raw materials have been reduced to zero, effectively improving their accessibility and affordability for people in China. Lowered tariffs on some key raw materials have also helped domestic enterprises reduce production costs and improve the resilience of relevant industry and supply chains.

China's Services Activity Growth Hits Five-Month High in December

Activity in China's services sector expanded at the fastest pace in the past five months in December, according to a widely watched private survey.

The Caixin services purchasing managers' index came in at 52.9 last month, up from 51.5 in November, data released today by financial media group Caixin showed. The figure was 50.4 in October, 50.2 in September, 51.8 in August, and 54.1 in July. A reading above 50 indicates expansion.

The Caixin PMI was better than the official services PMI, which remained unchanged in contraction territory at 49.3 percent, according to figures earlier released by the National Bureau of Statistics.

"The services sector logged diverging price increases in December, with rising costs in raw materials and labor contributing to the fastest growth in input costs

over the past five months,” said Wang Zhe, senior economist at Caixin’s think tank. “However, intense market competition restrained service providers from raising fees, resulting in only a marginal increase and the gauge measuring a four-month low.”

The services business activity and new order sub-indexes grew substantially in December, while the services employment sub-index rebounded for the first time in three months.

“Optimism prevailed in the services industry, with enterprises expressing confidence in an improved economic outlook for the coming year,” Wang noted.

The Caixin China General Composite PMI, which combines both manufacturing and services activity, rose to 52.6 in December from 51.6 in November, the best growth recorded since May, Caixin said.

“The annual Central Economic Work Conference in December highlighted ongoing economic recovery and progress in high-quality development,” Wang pointed out. “But it is also crucial to note that domestic and external demand is still insufficient, and the foundation for a positive economic recovery needs to be consolidated.”

Experts optimistic as China navigates economic transition

Experts are maintaining an optimistic outlook on China’s future trajectory as it navigates a crucial phase of economic transition.

The positive perspective is grounded in a robust new growth engine, characterized by a burgeoning middle class, evolving consumption patterns, substantial greenfield investment, and the integration of artificial intelligence and data into the economic landscape.

Official figures released on Wednesday revealed that the Chinese economy exceeded expectations by growing 5.2 percent in 2023, surpassing the government’s set target of 5 percent.

Notably, consumption emerged as a significant growth driver.

Data from the National Bureau of Statistics revealed final consumption contributed 82.5 percent to GDP growth in 2023, with retail sales of consumer goods up 7.2 percent year-on-year to more than 47 trillion yuan (\$6.6 trillion).

Speaking at a session during the World Economic Forum in Davos, Kevin Rudd, Australia’s ambassador to the United States, emphatically dismissed the notion of “peak China” and underscored the significant role of the Chinese consumer.

"The Chinese consumer is the best guarantor of China's economic future. So long as the Chinese consumer has confidence in the future, the economy will continue to grow reasonably well – that's a core fact," he said.

"Remember, the scale of the Chinese consumer market is unprecedented in global economic history. I don't accept 'peak China' at all. I think it's intellectually and analytically flawed because of the untapped potential of Chinese consumer demand."

Premier Li Qiang, in his Davos address, highlighted China's supersized market with its rapidly unlocking demand. The middle-income bracket, currently comprising more than 400 million people, is projected to double, to 800 million, in the next decade.

Lu Minfang, CEO of Mengniu Dairy, a leading Chinese dairy company, shared insights into three key factors contributing to China's economic optimism during an interview with China Daily in Davos.

He emphasized the rapid expansion of the middle class as a massive consumer market. The second factor, according to Lu, involves strategic investments in green initiatives, data and AI, which are identified as the new engines driving economic growth. The third factor is attributed to the hard work of the Chinese people, who position China as a global leader in productivity.

Lu further underscored the prevalent desire among the Chinese population for an improved quality of life, foreseeing advancements in food quality, nutrition and overall well-being. While acknowledging existing constraints in infrastructure, healthcare and education, he expressed his belief that the government is actively addressing these challenges.

Thank You!

Submitted by SMH, China/Hong Kong In-market Representative

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