MONTHLY REPORT

TRADE SERVICING

– WUSATA

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

Executive Summary

China is actively boosting consumption as one of its key measures for driving economic growth. In particular, it is looking to upgrade the range of products available to consumers in order to meet their diverse, individual requirements, while promoting the development of new forms of consumption. It is also noteworthy that, in addition to the Greater Bay Area – a development zone more than familiar to many companies – the Guangdong‑proximate provinces of Hunan and Hubei are both major Central China transport hubs and two of the country's most economically active regions. As such, they represent ideal regional markets for any U.S. company or brand seeking to expand its retail business on the mainland.

Consumers in China's central region are more cautious and strategic than those in the mainland's fiercely competitive first‑tier markets. They tend to be more concerned with product quality than brand image and are highly price‑sensitive, favoring items that are value‑for‑money. When making a purchase, these consumers' main aim is to get satisfaction for themselves rather than to please others. They also expect products to meet their actual needs.

In line with mainland consumers' diversified demands, companies aiming to build market share must pay attention to their products' price-performance ratio. While boosting the quality of their products (including their practicality, functionality, design, packaging, etc.), they should also conduct an in-depth analysis of their competitors, allowing them to price their products appropriately.

Market Intelligence Update

China welcomes US dairy companies to share market dividends: official
A senior Chinese commerce official said on Tuesday that China welcomes US and other foreign dairy companies to explore the vast Chinese market and share development dividends during a meeting with US dairy industry representatives.

Wang Shouwen, vice commerce minister and China international trade representative, met with Krysta Harden, president and CEO of the US Dairy Export Council (USDEC), and they exchanged views on China-US economic and trade relations, cooperation in dairy and other agricultural products, and other issues, the Ministry of Commerce (MOFCOM) said in a statement.

Wang noted that China and the US are each other's important trading partners, and the US is China's second-largest source of dairy imports. Dairy trade has become an important example of mutual benefit and win-win results in bilateral trade, he said.

“Currently, China is promoting Chinese modernization with high-quality development. The dairy product consumer market has huge potential, providing broad space for global dairy companies," Wang said. "China welcomes companies from all over the world, including US dairy companies, to delve into the Chinese market, carry out investment and trade, and share the dividends of development.”

Harden said that US dairy companies attach great importance to the Chinese market and hope to establish long-term cooperative relationships with Chinese partners, adding that the USDEC will continue to build bridges between the industries of the two countries to promote trade, investment, and technological cooperation, according to the MOFCOM statement.

While US dairy exports to China have been declining, China remains one of the most important markets for US dairy producers. China accounts for roughly 20 percent of all US dairy exports and nearly half of all US dry whey exports, according to an article posted by the US National Milk Producers Federation.

Notably, the meeting with US dairy industry representatives on Tuesday came as Chinese domestic industries plan to apply for an anti-subsidy investigation into certain dairy products from the EU amid deteriorating trade tensions due to the European Commission's investigation into and subsequent additional tariffs on Chinese electric vehicles.

The Global Times has also learned from a business insider that relevant Chinese industries are preparing evidence, as they plan to apply to competent authorities to launch an anti-subsidy investigation into imports of certain dairy products from the EU.

China launches anti-dumping investigation into EU pork imports

China has opened an investigation into pork imports from the European Union after the bloc imposed anti-subsidy duties on Chinese-made electric cars.

China’s commerce ministry announced the investigation on Monday, saying it will focus on pork for human consumption, such as fresh, cold, and frozen whole cuts, as well as pig intestines, bladders, and stomachs.

“The Ministry of Commerce has opened an anti-dumping investigation into imports of relevant pork and pig by-products originating from the European Union,” the ministry said in a statement.

Pork is China’s most popular meat and a staple of diets across the country.

Beijing’s customs data show that imports of pork and pork byproducts from EU countries totalled over $3bn last year.

The probe into EU pork imports comes after the bloc’s decision last week to add additional tariffs, up to 38.1 percent, on Chinese electric car imports from next month after an anti-subsidy probe.

The European Commission pointed to “unfair subsidisation” in China, which it said “is causing a threat of economic injury” to EU electric car makers.

It proposed provisional hikes on tariffs on Chinese manufacturers of 17.4 percent for market major BYD, 20 percent for Geely and 38.1 percent for SAIC.

The state-backed Global Times newspaper first reported last month that Chinese firms planned to ask authorities to open an anti-dumping investigation into some European pork products, citing an unidentified “business insider”.

Chinese authorities have previously hinted at possible retaliatory measures through state media commentaries and interviews with industry.

A spokesperson for the European Commission said the bloc was not worried about China’s investigation and “will follow the proceedings very closely in coordination with EU industry and our member states”.

“We will intervene as appropriate to ensure that the investigation fully complies with all relevant World Trade Organization rules,” spokesperson Olof Gill said.

Spain’s Agriculture Minister Luis Planas said that he hoped there would be “room for understanding” regarding the decision.

“I’ve said it time and again: trade wars are not good, especially in the agrifood sector, because in the end, they affect the purchasing capacity of citizens and their ability to choose,” Planas said.

Spain is the EU’s largest exporter of pork products to China, selling 560,488 tonnes to the world’s second-largest economy last year, at a total value of 1.2bn euros ($1.29bn), according to the industry body Interporc.

China's consumer goods sector continues to see recovery

China's fast moving consumer goods sector underwent a moderate recovery in the first quarter of 2024 and throughout 2023, according to a report jointly released by consulting firms Bain & Company and Kantar Worldpanel on Thursday (Jun 27).

In the first quarter of this year, China's FMCG sector saw its value grew by approximately 2 percent, a half percentage point higher than that in the first quarter of 2023, according to the report, which has come to the 27th edition of its kind.

While the total volume sold by FMCG companies climbed by 3.5 percent year-on-year in the three months, the market experienced a deflation of 1.5 percent in average selling prices, down from the stable pricing trend observed in 2023, said the report.

Packaged food and beverages witnessed stable value growth of 2.7 percent and 4.3 percent respectively on a yearly basis during the first quarter of the year. Most categories within packaged food experienced volume growth amid recovering social mobility and activities. Beverage growth was driven by both volume and average selling prices, which is especially noticeable among "near-water" drinks such as juice, ready-to-drink tea and packaged water, said Bain & Co experts.

Home care categories tracked by the two market research firms displayed a price deflation in Q1 2024, which can be largely attributed to brands' price cuts and promotion of larger, bulk-sized products.

Personal care products witnessed robust volume growth, but average selling prices declined 7.5 percent year-on-year as consumers remained cost-conscious. The Chinese personal care market is witnessing intensified competition from domestic brands offering more value-for-money products, according to the report.

With consumers' continued return to offline shopping venues, sales of offline channels grew by 2.4 percent in the first quarter.

Within offline channels, grocery and mini formats continued to gain share, growing at 11 percent and 7 percent respectively on a yearly basis in the first three months. The hypermarket segment continued to shrink at 6 percent year-on-year. However, within the hypermarket, club warehouses saw a year-on-year spike of 22 percent, which is driven by the expansion of the Chinese middle income group, said Yu Jian, managing director of Kantar Worldpanel in China.

E-commerce growth grew moderately at around 2 percent year-on-year in the first quarter. Notably, Douyin surpassed JD to become the second-largest e-commerce platform in China, as the former registered year-on-year sales spike of 46 percent in the first quarter. Upon this, Douyin achieved an 18 percent market share, 6 percentage points higher than that in the first quarter of 2023.

Online discounter Pinduoduo saw increased traffic driven by its value-for-money proposition, gaining a 6 percent year-on-year sales growth and a 15 percent market share.

While Taobao and Tmall, the major e-commerce platforms of technology behemoth Alibaba, remained the largest online shopping venues in China, its market share contracted by 3 percentage points on a yearly basis to 32 percent.

Geographically, FMCG growth in 2023 was led by Tier 2 cities. These cities have received a population influx of 8 million or more in the past four years and have become must-win markets for most FMCG brands, according to the report.

“We continue to see positive signs of recovery such as healthy GDP figures and retail sales growth. Social mobility has also reached an all-time high, and so it is only a matter of time before these positive numbers trickle down to FMCG growth,” said Bruno Lannes, a partner at Bain & Company based in Shanghai.

Thank You!

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

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