



ASIA PERSPECTIVE

Insights: Quarter 4, 2019

# China Economic Update Report

## **This Issue:**

China's Economic Growth in Q4

The US-China Trade War and 'Phase 1 Deal'

Singles' Day Sales Broke Record

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## China's economy grew by 6.1% in 2019, the lowest annual growth rate in 29 years

**In Q4, China's economy saw its weakest growth in nearly three decades, as both the domestic and global demand remained low. However, at the end of the year, there were signs of improvement, as the tension in the US-China trade war eased.**

China's Gross Domestic Product (GDP) grew at a rate of 6.0% during the last quarter of the year, the weakest growth since 1990. However, the manufacturing sector improved, with an industrial output increase of 6.9% in December (YoY). In addition, retail sales also accelerated 8.0% (YoY) during the last month of Q4. For the whole year, the Chinese economy grew with 6.1%, in line with the government's expectations.

China's export rose 1.9% in Q4 (YoY) to a total value of USD 672.76 billion, with the main categories being refined petroleum and coal. On the other hand, imports jumped 3.2% in Q4 (YoY), driven by copper, iron ore, and pork purchases.

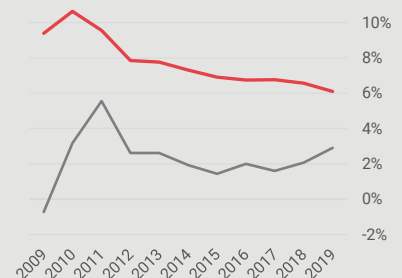
The Chinese Consumer Price Index (CPI) was 4.3% in Q4. The rate was the highest since January 2012, and was partly due to the pork prices surging 97.0% after the African swine fever outbreak. For the full 2019, the Chinese CPI showed 2.9%, also in line with the government's expectations.

Traveling during The Golden Week decreased due to a weaker RMB and economic slowdown

The Chinese Golden Week, starting the 1<sup>st</sup> of October, saw a sizeable decrease in both domestic and international traveling during 2019. Economic uncertainties and a devaluation of the RMB discouraged Chinese people opting for tours and frenzy shopping. China's Ministry of Tourism and Culture reported that the number of tourists who stayed within China during the seven-day holiday rose 7.8% in comparison with last year. Additionally, retail and catering sales rose merely 8.5% (YoY) during the week, decelerating from a 9.5% growth rate last year. 8.5% marks the slowest growth rate since 2001.

### China's historical GDP growth and CPI

China's GDP growth significantly slowed down in 2019 while the CPI rose to 2.9% in 2019, the highest since 2012.



# The US and China agrees on 'Phase 1 deal'

In mid-October, the US and China announced that they had come to an agreement regarding a "Phase 1" deal, with the purpose of rolling back tariffs on each other's goods.

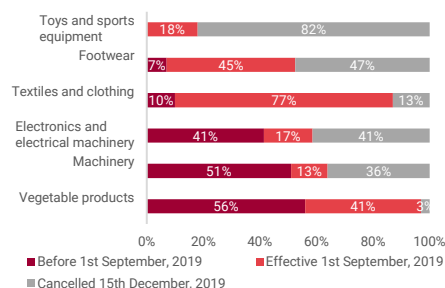


After a new round of tariffs was launched 1<sup>st</sup> September 2019, additional duties were applied on USD 375 billion worth of Chinese imports to the US and USD 185 billion worth of US imports to China. This event marked the highest trade tension between the world's two biggest economies.

However, both countries have shown significant actions to improve the situation. A two-day high-level meeting between the US and China was held in Washington DC in October 2019 were both sides successfully reached a "Phase 1" agreement, that they said would take several weeks to finalize.

Even though not officially signed yet, on 13<sup>th</sup> December 2019, the US and China announced that the "Phase 1" deal would cancel the scheduled round of tariffs two days later. This agreement removed the planned levies on Chinese imports, including (amongst others) cellphones, laptops and toys. Similarly, China did not apply its retaliatory tariff on the same due date, which would mainly affect automobiles and auto parts.

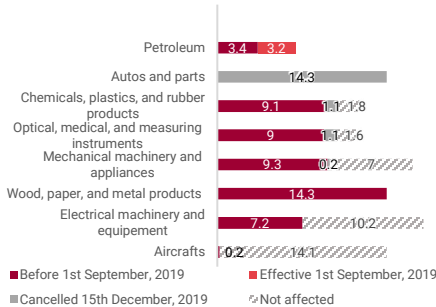
## Percentages of imports from China subject to tariffs (out of 100 percent)



Source: Peterson Institute for International Economics, 2019

In addition, the US announced a reduction of the tariff rate imposed on 1<sup>st</sup> September 2019, going from 15% to 7.5%. Nonetheless, the tariff rate of 25% on the remaining Chinese imports will stay the same. The "Phase 1" deal was officially signed and made public 15<sup>th</sup> January 2020, and further reductions will be discussed in future trade negotiations.

## Amount of US exports to China covered by Chinese retaliatory tariffs, by sector (in billion USD)



Source: Peterson Institute for International Economics, 2019

According to the "Phase 1" agreement, China will increase its purchases from the US by at least USD 200 billion over the next two years, including manufactured goods, agricultural goods, energy and services. Among those, agricultural imports is expected to rise by USD 40 and 50 billion respectively in the next two years. Another important part of the deal is China's implementation of intellectual property protection. The agreement contains commitments by China to execute stronger legal protections for patents, trademarks and copyrights, including improved criminal and civil procedures to combat online infringement, pirated and counterfeit goods. China also concurred to eliminate any pressure for foreign companies to transfer technology to Chinese firms or the government.

Besides the progressing deal in Q4, China received the World Trade Organization's (WTO) go-ahead to impose retaliatory sanctions on American products worth USD 3.6 billion for the US failure to abide by anti-dumping rules on 13 Chinese products, including machinery, electronics, metals, and minerals. The decision centers around a case that originated six years ago, predating the trade war between the US and China. Despite dealing with matters outside the current negotiations, the ruling may give China an advantage in future talks.

## The US launched a national security review of TikTok



TikTok is a video-sharing social media platform for mobiles, launched in 2017. The app is owned by ByteDance, one of China's fastest-growing startups, and is used to create lip-sync, comedy and talent videos. In the US, TikTok has grown rapidly among teenagers, with over 110 million downloads in total, and 26.5 million active users monthly. About 60% of these range from 16 to 24 years old.

In October, US senators called for an investigation into TikTok after the Beijing based company acquired the US social media app Musical.ly, being concerned that the Chinese company may censor politically sensitive content and store personal data.

However, the investigation, led by The Committee of Foreign Investment in the US (CFIUS), has focused merely on the handling of personal data rather than political censorship. Some of the personal data, such as names, ages, email addresses and phone numbers are submitted by the users themselves, while location information is collected automatically. User-generated content, such as photos and videos, is also stored by TikTok.

During the last weeks of Q4, a security firm, Check Point, reported that they had discovered multiple vulnerabilities in TikTok that let hackers compromise accounts, obtain content, delete videos, and reveal personal account information.



# Singles' Day sales broke record

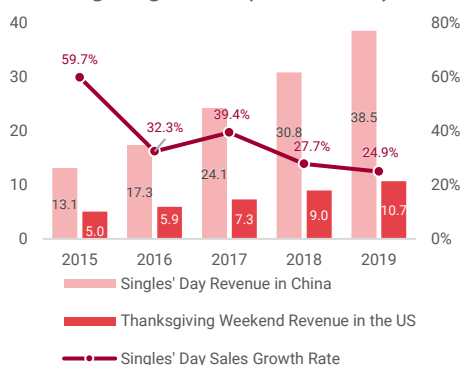
The Singles' Day sale, happening on the 11<sup>th</sup> November annually, is the world's biggest one-day online shopping event. In 2019, Alibaba, the Chinese company that successfully transformed the day into a frenzy shopping occasion, broke its own sales record and hit USD 38.5 billion in only 24 hours, regardless of doubts about the economic slowdown in China.



Having started as a bachelors' cynical response to Valentines' Day, the Singles' Day on 11<sup>th</sup> November has been converted into an extravagant online-purchasing event in China and some other Southeast Asian countries. In 2009, Alibaba's popularized it to become a unifying cultural event, naming it *Double 11*, with tons of social media campaigns and participation of A-list celebrities. During the 24-hour period, Alibaba offered huge discounts across its e-commerce platforms, such as T-mall and Taobao.

This one-day event is equivalent to Black Friday and Cyber Monday in the US, but its revenues have long surpassed the spending of the US consumers during the Thanksgiving weekend. Despite the new sales record, Alibaba showed disappointment this year, due to the lowest growth rate of the shopping-day yet.

## Comparison of Singles' Day and Thanksgiving sales (USD billion)



Source: Forbes, 2019; Statista, 2019

Alibaba currently has about 730 million customers in China, but the ambitious company is also reaching out to other markets. Through its franchises in Southeast Asia, Lazada and AliExpress, Alibaba have gained another 130 million people to its already huge customer base. Furthermore, AliExpress is evolving from a China-to-the-world B2C model to a global platform where merchants from any place, such as the US, Spain, and Mexico, can sell their products globally.



Lazada is one of the leading e-commerce players in Southeast Asia, present in six countries. Owned by Alibaba, the company also promoted substantial discounts on the Singles' Day event to boost sales. Although it did not disclose the revenue from the *Double 11* in 2019, Lazada showed optimistic signals during the big shopping day, with 10 million more users and double the amount of sellers from last year.

The 11th edition of *Double 11* this year came in the context of China's decelerating economy and tough domestic competition with other e-commerce rivals, which also capitalizes on the shopping event. JD.com, for example, offered special deals even before the actual day.

After Singles' Day 2019, JD.com also broke a new record of USD 29.4 billion, a 27.8% growth compared to 2018. JD.com's strategy focused on lower-tier cities, using their already established nationwide logistics network to cover those areas. Top categories for them included home appliances, mobile phones, desktops, sports, baby, and maternal products.

## Pork price surged in Q4, keeping inflation at eight-year high

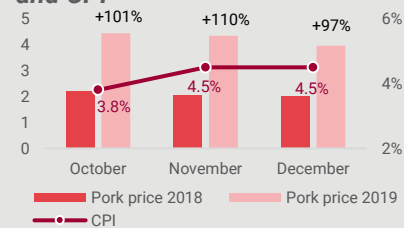


Pork traditionally forms a key part in family meals and business banquets in Chinese culture, especially during the Lunar New Year. However, pork prices are increasing, resulting in high consumer inflation and bigger pressure on Chinese families.

In Q4, pork prices had doubled from a year ago, due to the African swine fever crisis. Consequently, food prices in general also rose by 17.4% (YoY) in December. For example, prices of beef, mutton, chicken, duck, eggs and vegetables all increased between 7.3% and 20.4%.

Non-food and prices of services also climbed up 1.2% and 1.3%, respectively. As a result, China's consumer inflation peaked in November and December, reaching 4.5% both months, the highest since January 2012.

## Pork Prices (USD per kilogram) and CPI



Sources: Nikkei Asian Review, CNBC, South China Morning Post, 2019

However, there are positive signals for China. The hog herd expanded by 2.2% in December compared to November. Further, the tight supply before the Lunar New Year was handled by releases of the central and local frozen pork reserves, as well as increased imports. Now the domestic pork production is recovering.



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