



ASIA PERSPECTIVE

Insights: Quarter 3, 2021

China Economic Update Report

This Issue:

**China's Economic Performance in Q3
Trade surges as global demand rises**

www.asiaperspective.com





China's economy grew 4.9% in Q3 2021, the slowest growth rate in a year

China's economy decelerated in the third quarter of 2021, as gross domestic product growth came in at 4.9% (YoY). Zero-tolerance COVID measures and major energy crunch softened economic growth to the weakest rate since the third quarter last year.

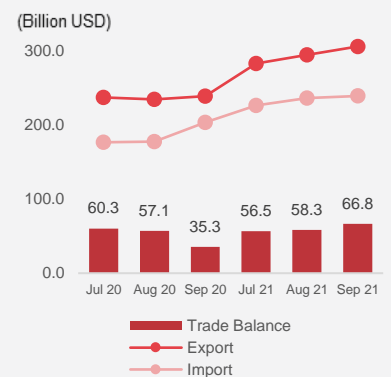
China's GDP fell from 7.9% in the second quarter, weighed down by various problems China faced during July - September. Heavy COVID restrictions coupled with intensive electric shortages weakened both manufacturing and consumer spending. Other factors included the increased commodity prices and the debt crisis in the property sector. While the GDP growth has fallen during the third quarter, the overall economic performance of 2021 has thus far grown by 9.8% (YoY).

Industrial production in China advanced 3.1% (YoY) in September 2021, marking the 18th month of increase in industrial production but the weakest in the sequence. Retail trade grew by 4.4% (YoY) during September, as consumer spending recovered from the COVID outbreaks in August. Growth was witnessed in sales of most sectors, including telecoms, home appliances, furniture, and building materials. Fixed-asset investment rose by 7.3% (YoY) from January to September 2021, slowing from an 8.9% rise from the previous period (January-August 2021). Investment slowed in both public and private sectors. Economists expect the Chinese government to boost bond sales to support further infrastructure investment toward the end of 2021. The government aims to reach a modest 6% growth in GDP for the year.

China's export value surpassed expectations while imports lagged

China's exports expanded beyond expectation during the third quarter of 2021. Rising global demand offset the pressure on the economy from the power curbs that forced factories to halt operations and the resurgence of COVID-19 cases, especially at export terminals.

In the third quarter of 2021, China achieved 882.7 billion USD in export value, marking a 24.4% YoY growth. High global demand coupled with the rise in commodity prices allowed export value to grow amid a troubled phase for China. However, import growth is slowing significantly during September, resulting in a heightened trade surplus of 66.8 billion USD during the month.



Source: National Bureau of Statistics of China, China General Administrations of Customs

Trade surges in China as global demand rises

Despite complications caused by the resurgence of COVID cases and ongoing power shortages, China's trade performance recorded impressive growth during the third quarter of 2021. Experts attributed this surge in export to the strong demand from the US and EU far ahead of the year-end holiday season.

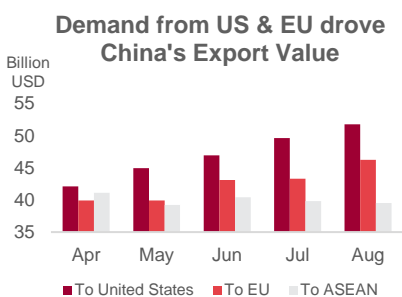
According to data released by the General Administration of Customs, China witnessed impressive trade growth during third quarters of 2021. The total export value in August jumped to 294.3 billion USD, equating to 25.6% growth year-on-year (YoY). September result hit a record high at 305.7 billion USD in export value and 28.1% in YoY growth.



Source: China General Administration of Customs

Major trading ports in China, including the second-largest Ningbo-Zhoushan, partially halted their operations during August due to COVID cases surge, causing congestion and further increasing shipping costs. Airfreight shipment was also affected after a COVID outbreak forced a cargo terminal zone to shutdown at Shanghai's Pudong International Airport.

However, global demand remained resilient, particularly from the US and EU. Several experts reasoned that, given the continuing global disruption to the supply chain, retailers were buying forward their Thanksgiving and Christmas orders.



Source: China General Administration of Customs

As Southeast Asia struggled with the new Delta variant, global retailers might also have diverted their orders to China. The launch of Apple's new products is also expected to contribute to the growth in trade value during the third and fourth quarters.

The industries with the highest export values were electrical products, hi-tech products, and garments and clothing accessories. During August, the mechanical and electrical products industry raved a total value of 169.6 billion USD in export, with a 34.4% YoY growth in the first eight months of 2021. High-tech products followed with 80 billion USD in export value. Further behind in the third spot was garment and clothing accessories with an export value of 17.6 billion USD.



However, experts are cautious with the third quarter's trade growth as they expect production activities to slow down in the following months. The strong US and EU's consumption would likely lose momentum towards the end of the year. Diverted orders would also ease once rival exporters contain the pandemic.

The recent Manufacturing Purchasing Managers' Index (PMI), released by the National Bureau of Statistics of China, showed a contraction for the six consecutive months to 49.6% in September, while the new export orders fell from 51.2% to 46.2% during the months. Several complications are factored in this lowered expectation. The government's 'zero-tolerance policy' in pandemic control could easily force production lines to close. Besides, power shortage stemming from a coal shortage and transition to clean energy has halted production in multiple factories. In response to the economic slowdown, the Chinese government has announced plans to fully liberalize pricing for electricity generated by coal to ensure power supplies. China's Central Bank has also ramped up their support for small businesses through extra lending.

China applied to join Trans-Pacific trade pact

In September, China formally applied to join the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP). The CPTPP, originally known as the Trans-Pacific Partnership, is a mega free trade agreement (FTA) signed by 11 countries – including 7 members of Regional Comprehensive Economic Partnership (RCEP) that China is also a part of, as well as 4 North, Central, and South American countries.

CPTPP holds rigorous standards on economic and trade rules. Its long joining process requires consensus among existing members. China has only completed the first step – submitting an official membership application. From then, a commission of representatives from CPTPP member states will determine whether to proceed with the accession process. If the commission agrees, an Accession Working Group (AWG) will be formed to negotiate with China.



The biggest challenges for China are to get the consent of all CPTPP members and to meet the high standards of the pact. China's strained relations with some CPTPP members, namely Australia, Canada, and Japan, may hinder its accession. China may also fall short of meeting CPTPP rules on SOEs, data flows, and labor rights. Vietnam, a founding member of CPTPP and a heavy state economy, was required labor reforms before joining – a road that China may be unwilling to follow.

Entry to CPTPP would consolidate China's economic integration drive, building on for example its RCEP participation and the Belt and Road Initiative, although the road to membership would be an arduous one.



Asia Perspective is an independent management consultancy with global presence and local knowledge. We assist our clients with business advisory regarding analysis, strategy and implementation. Our mission is to turn our clients' Asia business vision into reality and add significant value to your business.

We offer specialist services covering purchasing, market entry, commodity strategy and financial advisory. This includes market research and forecasts, sourcing and pricing strategy, M&A advisory, risk assessment studies etc.



Contact Asia Perspective

For full office postal addresses, please visit: <http://www.asiaperspective.com/contact-us/>

Shanghai

Tel: +86-(0)-21-340-106-10
shinfo@asiaperspective.com

Ho Chi Minh City

Tel: +84-35 417 4913
vninfo@asiaperspective.com

Beijing

Tel: +86-(0)-185 0048 6766
beijinginfo@asiaperspective.com

Stockholm

Tel: +46-(0)-70-769-92-07
stockholminfo@asiaperspective.com

Zhongshan

Tel: +86 18 826 002 703
zhinfo@asiaperspective.com

Helsinki Representatives

Johan Hackman
Tel: +358 400607378
johan.hackman@asiaperspective.com
Sami Lindstrom
Tel: +358 405774344
sami.lindstrom@asiaperspective.com