

Insights: Quarter 4, 2021

China Economic Update Report

This Issue:

China's Economic Performance in Q4
Continuing recovery in the logistics sector

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China's economic growth slowed to 4% in Q4 2021, reaching 8.1% in growth for the whole year.

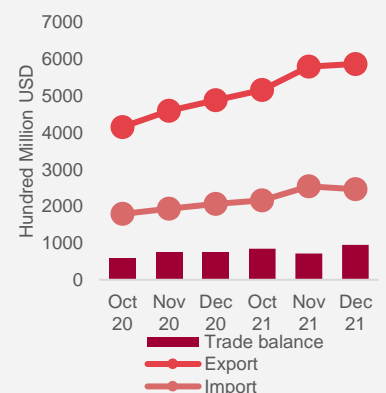
China's economy slowed down in Quarter 4 of 2021, as gross domestic product growth came in at 4% (YoY). The downturn in real estate combined with a series of new COVID-19 outbreaks in the last months of 2021 disrupted the growth of the economy.

China's GDP only registered a 4% growth in the last quarter of 2021, the country's weakest rate in a year and a half. The slowing growth can be explained by the worsened crisis in the real estate market, new COVID-19 outbreaks, and Beijing's stringent zero-COVID policy. Sporadic lockdowns have hurt the consumption during the year; retail sales rose barely 1.7% in December compared to the same month 2020, a plummet from November's 3.9% growth. The main driver of economic growth in Quarter 4 was from industrial production, which recorded a 4.3% YoY increase in December and surpassed November's 3.9%.

Despite the stagnant performance of quarter 4, the economy witnessed an annual growth rate of 8.1% for the full year of 2021, significantly exceeding the Chinese Government's target of 6%. The growth was the highest in a decade, setting China's GDP 2021 at 114.37 trillion RMB (18 trillion USD). In the near term, it is expected that the spread of new COVID variants will negatively affect sales and consumption during the Lunar New Year, but this impact is likely to wear off in Q2/2022. The economic outlook for China 2022 remains positive, as the country has eased monetary policies, kept exports strong, and gradually gained more control over the tumultuous real estate situation.

China's trade surplus increased sharply to a record peak in 2021

The robust pace of China's exports persisted to the fourth quarter of 2021. Exports in December hit a record high of 340.5 billion USD. Overall, the full-year exports showed a major growth of 29.9%, to 3.34 trillion USD in 2021, increasing dramatically from a 3.6% rise in 2020, a result of the rising global demand. While many nations still grappled with halted production, China handled the disruptions well and quickly recovered, delivering much-needed goods worldwide.



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

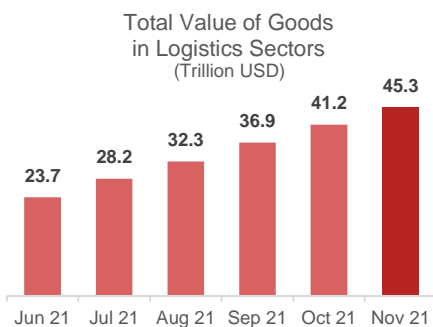
Import growth, on the contrary, was slightly below expectation. Imports totaled at 246 billion USD in December, and 2.69 trillion USD for the full year, resulting in a monthly trade surplus of 94.5 billion USD and a full-year surplus of 676 billion USD.

Continuing recovery in China's logistics sector

China's logistics industry continues to grow, despite multiple setbacks during the fourth quarter of 2021. The growth is driven by improving demand for logistics. New initiatives from the government help strengthen its nation's leading position as an emerging logistics market.

China's logistics industry under the 14th Five-year plan (2021-2025) continued to be a key growth sector for the country as it accelerates its integration into the global market. Despite the sporadic resurgence of COVID-19 cases, China's logistics market continued to grow during Q4, 2021.

According to the Chinese Federation of Logistics and Purchasing (CFLP), the total value of goods in the logistics sector reached 288.8 trillion RMB (~45.34 trillion USD) in the January-November period, rising 9.7% YoY. During the same period, the total revenue of the logistics sector reached approximately 1.7 billion USD, up by 15% (YoY).



Source: China Federation of Logistics and Purchasing

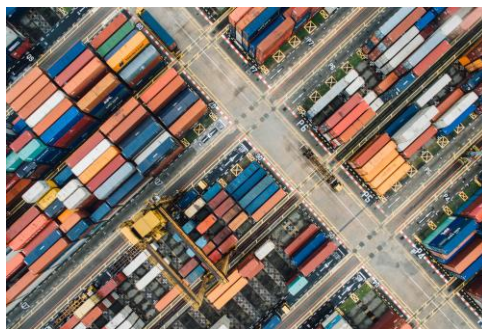
The growth was attributed to the rising demand for logistics from industries, as well as rise in consumption. Especially, high-tech and equipment manufacturing logistics grew 15.1% and 5.5% (YoY) respectively in November.

Several steps were taken by the government throughout the fourth quarter of 2021 to pave the way for the future expansion of China's logistics sector. On November 18th, 2021, the Ministry of Transport issued the 'Development Plan for Integrated Transport Services during the 14th Five-year plan' detailing higher requirements for the development of the logistics industry. Accordingly, the Chinese government would continue to extend its focus on advancing the country's logistics

system domestically and internationally in 2022.

On December 6th, 2021, China formally established a new state-owned logistics group, the China Logistics Group (CLG). The group is a merge of several state-owned enterprises into a single conglomerate, aiming to become a world-class comprehensive logistics enterprise group with global competitiveness. According to state broadcaster CCTV, CTG currently covers 30 Chinese provinces, has a presence in 5 continents, and operate 3 million vehicles.

China's State Council also released a plan to bolster the cold-chain logistics market, through the application of modern technology, facilities, and equipment. The Chinese cold-chain market value neared 60 billion USD in 2020 and maintained a double-digit increase for several years, according to data from the Cold Chain Logistics Professional Committee of the CFLP. The plan emphasizes that the government will improve the structure of overseas cold-chain logistics facilities and support the implementation of a "dual circulation" strategy, the strategy to reorient China's economy by prioritizing domestic consumption while remaining open to international trade and investment.



With enhanced government focus, improving physical infrastructure, and upgrading technology applications, China's logistics sector has witnessed another yet another year of growth. Despite continuing trade disruption, the industry persists in its course to recovery. It is expected that in 2022, the logistics industry of China will focus more on intensive and effective service systems to serve both domestic and international demands. The integration of the industry is likely to continue, and more global logistics enterprises will emerge in the nation.

China's electric vehicle market grew by 158% in 2021

Facing many challenges in 2021, China continued to excel in the field of electric vehicle (EV) production. The country's EV consumption hit a record high of 2.9 million units in 2021. Currently, the Chinese market accounts for 60% of total global EV consumption.



The surge of EVs helped to offset a 5% decline in fossil fuel vehicle sales, amid a shortage of semiconductors. According to the China Association of Automobile Manufacturers, new car sales in the whole market 2021 increased by 3.8% to 26.27 million units. Thanks to EVs, car sales have recovered after a persistent decline for 4 years.

The growth is the result of China's efforts to become a key nation in the automotive industry. Different strategies have been implemented, such as setting targets on the percentage of new energy vehicles for manufacturers, and extending subsidies for consumers to buy EVs. These measures have helped boost production for low-cost electric cars, which range from 5,000 USD to 10,000 USD, especially in rural areas. Higher-segment electric models from Tesla and emerging manufacturers have also been experiencing promising sales performance in China.

It is predicted that demand for electric vehicles will continue to grow in China in 2022, with sales reaching nearly six million units. However, the China Passenger Car Association worry that the persistent lack of critical components required in EVs may obstruct the expansion. They estimate that China's supply of key components will only be enough to produce four million new energy vehicles. Overall, there are still uncertainties and risks in the EV production capacity of China, but customers can certainly expect a wider range of products to choose from in the increasingly competitive industry.



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