Ten Highlights of China's Commercial Sector 2024

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Preface

Fung Business Intelligence and the Expert Committee of the China General Chamber of Commerce are pleased to present the 21st edition of our annual *Ten Highlights of China's Commercial Sector report.*

In 2023, China's commercial sector witnessed a recovery driven by a resurgence in domestic consumption and supportive government measures. The year marked the first after the relaxation of COVID-19 pandemic control measures and was characterized by shifting purchasing habits, accelerated digital transformation, and initiatives aimed at bridging the urban-rural divide. These factors have created a thriving and innovative business environment, providing ample opportunities for companies to flourish in a dynamic market.

Service consumption rebounded as people sought experiences they had missed during the pandemic. Sectors such as catering, culture and tourism, and entertainment saw a resurgence in business as people eagerly dined out, travelled, and explored various entertainment options. Influenced by the pandemic, consumers paid more attention to convenience, comfort, cost-effectiveness, and timeliness when shopping.

Chinese businesses showcased resilience and adaptability in response to changing consumer preferences and expectations. The heightened importance of consumer experiences has prompted retail enterprises to focus on offering personalized products, improving service quality and enhancing store experiences. Enhancing consumer experiences has become a critical factor in gaining a competitive edge in the market.

With input from more than 160 top-tier mainland experts, Ten Highlights once again identifies top trends of the past 12 months and anticipates what will shape China's commercial landscape in the year ahead.

China's commercial sector is poised to maintain its growth trajectory in 2024. Trends like increasing discretionary spending, rising rural consumption, rapid expansion of the silver economy, and growing demand for environmentally friendly products are likely to continue driving growth in the consumer market. Government policies to bolster rural incomes and consumption will further support this growth, benefiting urban residents with improved access to high-quality agricultural products. Meanwhile, businesses will intensify their efforts in areas like online-offline integration and cross-border e-commerce to seize the emerging opportunities arising from China's evolving economic and trade landscape.

Ten Highlights is a valuable resource for global brands and retailers, and firms and individuals seeking to better understand the latest commercial trends, issues, and opportunities in China. We wish to thank all panel members on the Expert Committee for sharing their important insights, and our Fung Business Intelligence colleagues for their many contributions.

Helen Chin Fung Business Intelligence



About the Organizations

The Expert Committee of the China General Chamber of Commerce

The Expert Committee of the China General Chamber of Commerce (ECCGCC), a sub-division of the CGCC, comprises over 160 prominent experts from various government departments, research institutes and universities, leading corporations, professional associations, consultancy firms and newspaper offices, which include the Ministry of Commerce, the Chinese Academy of Social Sciences, China Chain Store and Franchise Association and the Renmin University of China, etc. The ECCGCC serves as a platform for the experts to exchange ideas on the development of commercial enterprises and the distribution sector.

The China General Chamber of Commerce

Founded in 1994, the China General Chamber of Commerce (CGCC) has around 80,000 members, encompassing enterprises from retail, distribution, services and tourism sectors, local commercial chambers, national professional associations, intermediary organizations and individuals. Commissioned by the Chinese Government, the CGCC consists of 14 business committees. It also supervises 40 national associations and 33 newspapers and magazines published both inside and outside China.

Fung Business Intelligence

Fung Business Intelligence collects, analyses and interprets market data on global sourcing, supply chains, distribution, retail and technology.

Headquartered in Hong Kong, it leverages unique relationships and information networks to track and report on these issues with a particular focus on business trends and developments in China and other Asian countries. Fung Business Intelligence makes its data, impartial analysis and specialist

knowledge available to businesses, scholars and governments around the world through regular research reports and business publications.

As the knowledge bank and think tank for the Fung Group, a Hong Kong-based multinational corporation, Fung Business Intelligence also provides expertise, advice and consultancy services to the Group and its business partners on issues related to doing business in China, ranging from market entry and company structure, to tax, licensing and other regulatory matters.

Fung Business Intelligence was established in the year 2000.

The Fung Group

Fung Holdings (1937) Limited, a privatelyheld business entity headquartered in Hong Kong, is the major shareholder of the Fung Group of companies, whose core businesses operate across the entire global supply chain for consumer goods including sourcing, logistics, distribution and retail. The Fung Group comprises over 15,000 people working in more than 40 economies worldwide. We have a rich history and heritage in export trading and global supply chain management that dates back to 1906 and traces the story of how Hong Kong and the Pearl River Delta emerged as one of the world's foremost manufacturing and trading regions. We are focused on both creating the Supply Chain of the Future to help brands and retailers navigate the digital economy as well as creating new opportunities, product categories and market expansion for brands on a global scale.

Listed entities of the Group include Retail Asia Limited (SEHK: 00831). Privately-held entities include Li & Fung Limited, LH Pegasus, Branded Lifestyle Holdings Limited, Fung Kids (Holdings) Limited, Toys "R" Us (Asia) and Suhyang Networks.

Expert Panel Members

Cao Lisheng

Vice Chairman; Deputy Director

China General Chamber of Commerce; China National Commercial Information Centre

Chan So Ching

Vice President

Fung Business Intelligence

Chang Ka Mun

Managing Director;

Member

Fung Business Intelligence Chinese People's Political Consultative Conference (1998 – 2018)

Chen Jinran

Supervisor for Master's Students

Capital University of Economics and Business

Chen Liping

Professor

Capital University of Economics and Business

Cui Chuan

Deputy Secretary General, Director of the General Office

China General Chamber of Commerce

Ding Junfa

Former Executive Vice Chairman, Research Fellow

China Federation of Logistics & Purchasing

Fu Longcheng

Vice Chairman;

Director, Senior Economist

China General Chamber of Commerce; Expert Committee of the China General Chamber of Commerce

Gan Wei

President

China General Chamber of Commerce Commercial Logistics and Supply Chain Branch

Guo Xinmei

Professor

Faculty of Economics, Beijing Technology and Business University

Hu Bin

Vice President

China Business Herald

Huang Hai

Former Minister Assistant, Researcher

Ministry of Commerce

Jing Linbo

President, Researcher

Chinese Academy of Social Sciences Evaluation Studies

Lai Yang

Researcher; President

Business Research Institute, Beijing College of Finance and Commerce Beijing Jingshang Circulation Strategy Research Institute

Li Gang

Director

Department of Circulation Industry Development, Ministry of Commerce

Li Tao

Deputy Director;

Group Chief Representative – Northern China

Expert Committee of the China General Chamber of Commerce; Fung Business Intelligence

Ma Zengjun

President

China Agriculture Wholesale Market Association

Peng Jianzhen

Secretary General

China Chain-Store & Franchise Association

Ren Xingzhou

Former Director, Research Fellow

Institute for Market Economy, Development Research Center of the State Council

Song Yuanyuan

Deputy Director of the General Office

China General Chamber of Commerce

Song Ze

Research Fellow

National Academy of Economic Strategy, Chinese Academy of Social Sciences

Tang Shaojuan

President, Chief Lecturer

IBMG Commercial Think Tank

Wang Dongtang

Director

Department of Trade in Services and Business Services, Ministry of Commerce

Wang Wei

Director, Research Fellow

Institute for Market Economy, Development Research Center of the State Council

Wang Xiaodong

Department Head, Professor

Department of Trade Economics, Business School, Renmin University of China

Wu Ying

Vice Chairman

China Cuisine Association

Xie Lijuan

Professor

Business School, Renmin University of China

Xu Xingfeng

Director

Department of Market Operation and Consumption Promotion, Ministry of Commerce

Yang Jinlong

Deputy Secretary General, Director of the Secretariat

Expert Committee of the China General Chamber of Commerce

Yang Qingsong

Secretary General

China Commerce Association for General Merchandise

Yao Liming

Former Director, Research Fellow

China Commercial Group Commercial Economic Research Center

Yi Shaohua

Director, Research Fellow

Institute of Distribution and Consumption, National Academy of Economic Strategy, Chinese Academy of Social Sciences

Yu Di

Deputy Director, Secretary General

Expert Committee of the China General Chamber of Commerce

Zhang Hao

Assistant Research Fellow; Deputy Director

Institute of Distribution and Consumption, National Academy of Economic Strategy, Chinese Academy of Social Sciences; Editorial Department, *Finance and Trade Economics*

Zhou Qiang

Director

Department of Market System Development, Ministry of Commerce

Implications for Businesses and Tips for Foreign Enterprises

The Chinese consumer market experienced a rebound in 2023, driven by government policies and increased consumer spending. Throughout the year, the government implemented measures to boost consumption, including easing car purchase restrictions, promoting technological innovation in electronics, and supporting housing and living improvements. The government efforts, together with improved consumer confidence, led to a 5.2% year-on-year growth in the Chinese economy during the first three guarters of 2023, with final consumption expenditure contributing substantially to this growth.

Several sectors drove the consumer market's growth in 2023. Discretionary spending saw significant growth, and service consumption, online shopping, and new energy vehicles emerged as key drivers. The silver economy, catering to the aging population, also showed promising growth. Additionally, a growing consumer interest in eco-friendly products have presented a market opportunity in the sustainable sector.

Looking ahead to 2024, three prominent trends are expected to shape China's consumer market. First, consumption will continue to improve, with increased spending on services such as catering, culture and tourism, entertainment, and healthcare. Second, rural consumption will rise further due to infrastructure improvements and efforts to revitalize rural areas. Lastly, as China focuses on its green transition, consumers will increasingly embrace eco-friendly goods like new energy vehicles and green home appliances, driving green consumption.

- Elevate consumer experience
- 2 Capture the new opportunities in rural areas
- 3 Embrace the trend of green products
- 4 Explore the promising silver economy
- 5 Improve efficiency through online-offline synergy
- 6 Adapt to the refined regulatory system of the catering sector
- 7 Unlock the benefits of export e-commerce policies



Elevate consumer experience

The retail sector in China is undergoing a significant shift with a strong emphasis on consumer experience. Consumer demands have become increasingly diverse, with a growing preference for personalized consumption. Additionally, consumers are highly price-conscious, seeking lower prices and better value for their money. Store experiences have also gained importance, as retailers recognize the need to create engaging and immersive environments that attract and retain customers. (Highlight 4)

Furthermore, there is a rising trend towards experiential forms of consumption, as indicated by the booming nighttime economy and the popularity of cultural tourism. These trends highlight the growing significance of providing unique and memorable experiences to cater to the evolving preferences of Chinese consumers. (Highlight 7)

Our take: Retail enterprises should focus on offering personalized products, competitive pricing, and enhanced store experiences. Experiential consumption, such as nighttime consumption and cultural tourism, will become a competitive battleground. Enterprises should leverage digital channels, continuously innovate, and adapt to evolving consumer preferences to stay ahead.



Capture the new opportunities in rural areas

In recent years, rural commerce has been thriving due to supportive policies and active business participation. The Chinese government has been actively promoting the integration of urban and rural circulation systems. It is expected that the efficiency of two-way flow of industrial and agricultural products between urban and rural areas will improve in 2024. (Highlight 2)

E-commerce platforms are playing a crucial role in empowering farmers to access urban markets, leading to increased market presence and income opportunities. This improved integration and two-way flow not only stimulate domestic demand but also enhance the income and quality of life for both rural and urban residents. (Highlight 3)

Our take: Businesses wanting to capture new opportunities in rural areas should utilize e-commerce platforms to expand their market presence. To maximize the benefits of the policies, businesses should understand government policies supporting rural commerce. Additionally, exploring partnerships with local stakeholders like agricultural cooperatives or rural service platforms can enhance distribution networks and provide valuable access to local knowledge and resources.



Embrace the trend of green products

China is witnessing a significant trend towards green products driven by government policies, increased public awareness, and growing consumer demand for sustainability. The government has implemented green policies at various levels to achieve carbon neutrality goals. Meanwhile, regulations and guidelines have been introduced to promote Environmental, Social, and Governance (ESG) practices in businesses.

Companies have been adapting by adopting greener technologies, establishing sustainable logistics projects, and leveraging digital advancements to reduce emissions. Shifting consumer values and preferences for eco-friendly products have pushed brands to increase their sustainability efforts. Consumers are willing to pay a premium for green products, particularly in health and beauty categories, as well as for sustainable experiences like travel and dining. (Highlight 6)

Our take: To align with the green trend, brands need to genuinely integrate sustainable practices and avoid superficial greenwashing to earn consumer loyalty, particularly among younger generations. Investment in research and development of eco-friendly products while communicating transparently about their sustainability efforts is essential in this process.



Explore the promising silver economy

China's silver economy is experiencing rapid growth as the elderly population is more willing to consume than their previous generations. With 280 million individuals aged 60 and above, comprising 19.8% of the population, the Chinese government is emphasizing the development of the elderly care industry. The silver economy reached 5.4 trillion yuan in 2020, growing 25.6% yoy, and is likely to reach 19.1 trillion yuan by 2035 and 40.7 trillion yuan by 2050.

As a sizeable portion of individuals who newly entered the elderly population maintain a youthful mindset and lead active lifestyles, the elderly consumption patterns are shifting towards quality products and services. Travel and online shopping have become increasingly popular in this age group. (Highlight 10)

Our take: Businesses should respond to the demographic shift by offering elderly-friendly products, upgrading their supply chain capabilities accordingly, and creating dedicated marketing campaigns. To fully grasp the potential of the silver economy, businesses also need to refine their facilities and services to provide a convenient and accessible shopping experience for older adults.



Improve efficiency through online-offline synergy

Digitalization and online-offline synergy have significantly improved the efficiency of retail businesses in China. Through the integration of technologies like 5G, AI, IoT, and VR/AR, the digital transformation has resulted in successful outcomes in various sectors, including retail, catering, and tourism. Enterprises have embraced digital tools such as instant retail platforms, precision marketing, online food delivery, and digital cultural tourism to enhance the consumer experience. Many omnichannel retailers have achieved efficient supply chain systems by integrating demand and optimizing management processes. (Highlight 5)

Our take: While progress has been made in front-end applications and consumerside digitization, there is still a need for further back-end digitization to integrate data and streamline business processes effectively. Collaboration among stakeholders, improving data collection and analysis, and addressing concerns among small and medium-sized enterprises are crucial for the next phase of business digital transformation.



Adapt to the refined regulatory system of the catering sector

China's catering sector, especially the emerging ready meal industry, is shifting towards a more regulated direction as part of the country's pursuit of high-quality development. With a focus on enhancing food safety and consumer protection, the government has implemented stricter regulations and standards in the sector. Producers are now required to comply with rigorous quality control measures, such as improved traceability systems and adherence to food safety standards.

Meanwhile, the government is promoting sustainable and healthy eating habits, and issuing guidelines that encourage the use of high-quality ingredients and stress the importance of balanced nutrition. These developments are reshaping the catering industry as businesses invest in technologies, strengthen quality control systems, and innovate to meet evolving requirements. (Highlight 8)

Our take: The rise of discerning consumers is driving evolutions in retail models and operations. To keep up with the rapidly evolving commercial landscape, retail businesses are expected to ramp up their efforts in digitalization and innovation, apply technologies which could improve their operation efficiency, and introduce new business models and formats to stand out from competitors.



Unlock the benefits of export e-commerce policies

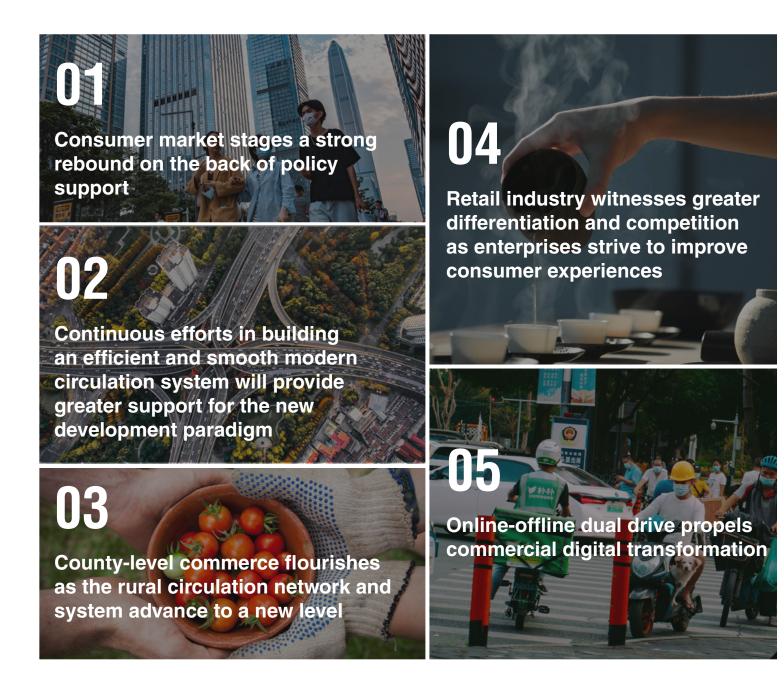
China's export e-commerce sector thrives amid favourable policies and international trade opportunities.

Improved trade relations and reduced obstacles due to the Belt and Road Initiative and the Regional Comprehensive Economic Partnership (RCEP) have encouraged consumer product companies to venture into overseas markets. Franchising companies in catering, retail, and lifestyle sectors are making progress in the Belt and Road market, while consumer brands perform well internationally. The RCEP agreement has lowered agricultural tariffs, reshaping industrial and value chains.

The Chinese government has implemented policies to support cross-border e-commerce, including the establishment of comprehensive pilot zones, schemes to connect industrial belts with overseas warehouses, and initiatives to streamline customs clearance and taxation processes. These policies have enhanced efficiency and reduced costs, empowering enterprises to expand international operations and access new markets for growth. (Highlight 9)

Our take: Both in the domestic and overseas markets, cross-border e-commerce has significant growth potential. Export e-commerce not only provides a fast track for enterprises, especially small and medium-sized enterprises, to enter the overseas market but also serves as a new growth driver for China's foreign trade. To unlock the benefits of export e-commerce policies, enterprises should prioritize building collaborations with the government, especially concerning the Belt and Road Initiative and RCEP.

Ten Highlights of China's Commercial Sector 2024







Retail sales recover in first ten months of 2023

The Chinese economy recovered to 5.2% yoy growth in the first three quarters of 2023. Final consumption expenditure contributed 83.2% of the economic growth in the period, making it the biggest driver of growth for the Chinese economy.

The central government and local authorities have implemented various policies and measures to encourage consumption and revitalize the consumer market, and these efforts have delivered remarkable results: China's total retail sales of consumer goods grew 6.9% yoy to 38.5 trillion yuan in the first ten months of 2023 – the growth rate is 6.3 percentage points higher than that in the same period last year.

With the continuous increase in people's income and rollout of policies to boost consumption, China's consumer market will continue to forge ahead. Our experts forecast that China's retail sales will grow by over 6% yoy in 2024.

Bright spots continue to pop up in consumer market

Some consumption sectors, retail formats, and product categories have emerged as the bright spots for the consumer market in 2023, according to our experts.

First, service consumption enjoyed rapid growth amid the resumption of various service consumption scenarios, increased social activities, and the rollout of consumption-promoting policies. In particular, consumer spending on domestic tourism and dining grew rapidly. In the first three quarters of 2023, per capita service consumption expenditure soared by 14.2% yoy, which was 5.0 percentage points faster than the growth rate of per capita consumption expenditure. In the first ten months of 2023, retail sales

of services surged by 19.0% yoy, which was 13.4 percentage points faster than the growth rate of retail sales of physical goods.

Second, online shopping continues to drive retail sales growth. Online retail sales of physical goods rose 8.4% yoy to 10.3 trillion yuan during January-October 2023, accounting for 26.7% of total retail sales of consumer goods, 0.5 percentage points higher than that in the same period in 2022.

Third, discretionary spending experienced a fast recovery. 'Gold, silver and jewellery' and 'garments, footwear, hats, knitwear' posted robust sales growth of 12.0% yoy and 10.2% yoy, respectively, during the first ten months of 2023. Moreover, sales of new energy vehicles – comprised mainly of electric and hybrid-powered vehicles, totalled 6.0 million in the January-October period, up 34.2% from the same period last year, according to data released by the China Passenger Car Association.

China will ensure stable income growth to promote consumption

The Chinese government believes that stable income growth is crucial to the expansion of domestic consumption.

President Xi Jinping has emphasized the importance of expanding domestic consumption supported by stable income growth. He stated that China will establish a long-term mechanism to expand residents' consumption, so that residents can consume with stable incomes, dare to spend without worrying about the future, and have a strong desire to spend in a good consumption environment.

The 2023 Government Work Report also proposed that the incomes of urban and rural residents should be boosted through multiple channels, so as to promote the recovery and expansion of consumption.



Q: What measures has the Chinese government adopted to promote consumption?

The Chinese authorities have unveiled a series of measures to boost consumption, especially in the second half of 2023. For example,

- On 20 July, the National Development and Reform Commission (NDRC) released two
 notices to promote consumption. On the auto consumption front, the government
 will ease restrictions on car purchases, encourage the replacement of old cars with
 new ones, reduce costs on car purchase and use of new energy vehicles (NEVs),
 etc. On the electronics consumption front, it will promote technological innovation for
 better electronic products, create more scenarios for electronic product consumption,
 promote the consumption of home appliances in rural areas, etc.
- On 31 July, the NDRC released a notice outlining measures to expand consumption.
 The NDRC vowed to spur consumption of a wide range of items and services, including
 NEVs, home appliances, electronics, catering, cultural and tourism sectors, as well as
 that in rural areas. It also pledged to support 'rigid demand' for housing and improved
 living.
- The Ministry of Commerce (MOFCOM) organized and carried out a series of consumption promotion activities such as the 'Golden Autumn Shopping Festival' to energize the consumption market during the National Day and Mid-Autumn Festival holiday. Local commercial departments also hosted events such as 'automobile consumption carnivals' and 'home renewal consumption seasons'.





Q: How did micro and small retailers perform in 2023?

Boosted by increased policy support for the private sector and consumers' rising preference for personalization and diversification, micro and small retailers achieved fast sales growth in 2023. In the first ten months of 2023, retail sales of physical good of retail enterprises below designated size (retail enterprises with annual main business income of less than 5 million yuan) increased by 5.9% yoy, 0.7 percentage points faster than the growth rate of enterprises above designated size. Their share in retail sales of physical goods also rose to 61.1%, 0.9 percentage points higher than that in the same period in 2022. Meanwhile, revenue of catering enterprises below designated size (catering enterprises with annual main business income of less than 2 million yuan) increased by 18.4% yoy, contributing 73.9% of total catering revenue.

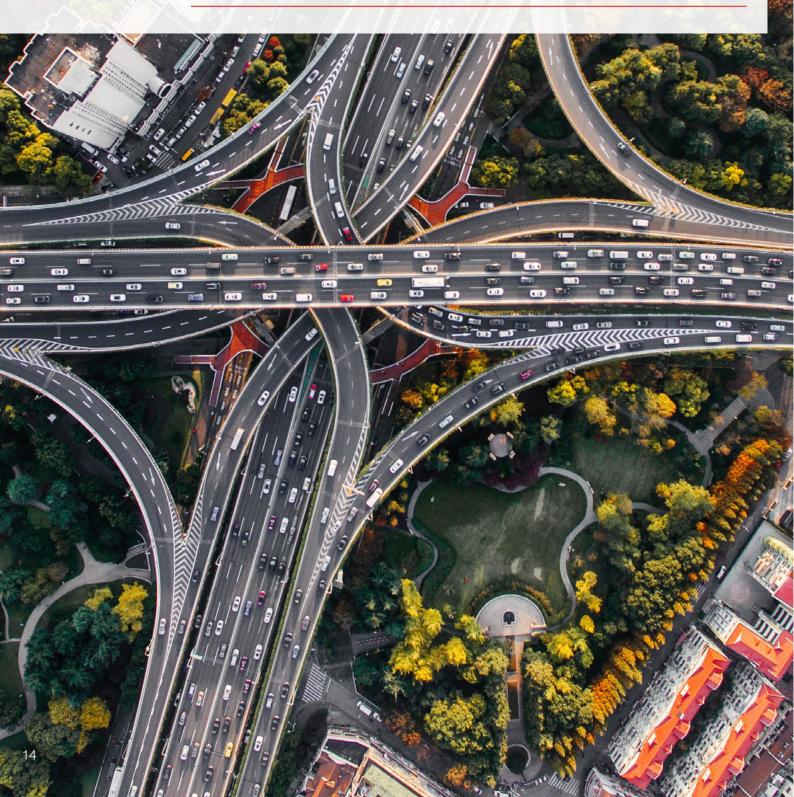
Q: How will China's consumption trends evolve in the coming years?

There are three important trends to note in China's consumer market. First, as consumption continues to upgrade, alongside government measures to expand service consumption, Chinese consumers are spending more on services such as catering, culture and tourism, entertainment and sports, healthcare, etc.

Second, rural consumption will rise further. The Chinese government has made continuous efforts to improve rural infrastructure and bolster rural commerce. Meanwhile, plans to advance rural revitalization will raise the income of rural residents. These will help unleash the consumption potential of rural areas.

Furthermore, as China accelerates its green transition, consumers will increasingly embrace eco-friendly goods such as NEVs and green home appliances, boosting green consumption.





A modern circulation system is at the heart of the new development paradigm

As the Chinese economy transitions towards a new stage of development in a changing international landscape, domestic consumption has emerged as the primary driver of China's economic growth, and the Chinese government is looking to further unleash domestic demand. This objective is being pursued through initiatives aimed at strengthening market supervision, improving logistics infrastructure, and promoting the expansion of sales channels. The construction of an efficient and smooth modern circulation system aligns with this objective, as it aims to optimize the supply chain and enhance efficiency from production to end customers. Such a system is particularly important to China, given the vast scale of the country's market.

Rural markets are key to the construction of a modern circulation system

A series of policy documents on the circulation sector that specifically focus on rural markets were released in 2023. These policies reflect the pivotal role played by rural markets in the construction of a modern circulation system.

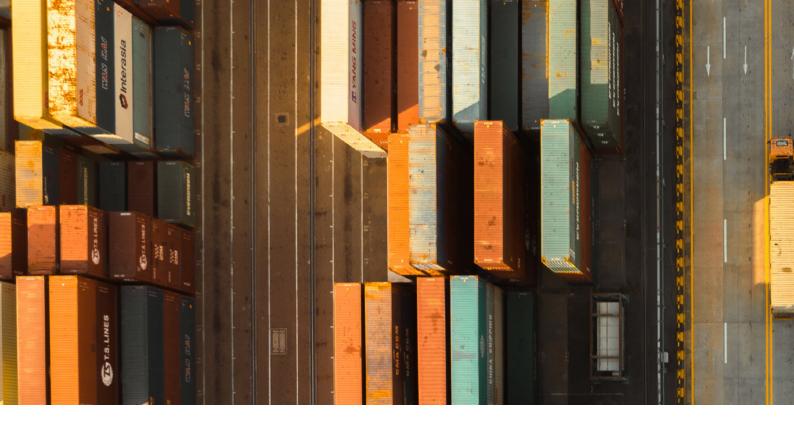
One notable initiative is the *Three-Year Action Plan for County-level Commerce* (2023-2025), which aims to foster the integrated development of urban and rural circulation systems and fully harness the potential of rural markets. Furthermore, two documents issued in August 2023 – a notice on the placement of modern circulation strategic pivot cities nationwide and a guideline on promoting the high-quality development of the rural circulation system – provide specific guidance to facilitate this integration. By prioritizing the development of a modern rural circulation system, two-way circulation channels can be established, allowing

industrial products to reach rural areas while agricultural products can enter cities. This coordinated development between urban and rural areas is instrumental in constructing a modern circulation system and expanding domestic demand.

Digitalization is highlighted as a crucial booster of the modern circulation system

The Chinese government has emphasized the role of digitalization in empowering the modern circulation system, as evident in several key policy documents, such as the 14th Five-Year Plan for the Construction of a Modern Circulation System, the 14th Five-Year Plan for the Development of Modern Logistics, the 14th Five-Year Plan for the Development of E-commerce, and the 14th Five-Year Plan for the Development of Cold Chain Logistics. Embracing digital advancements is seen as crucial for meeting the evolving needs of consumers, characterized by personalization, diversification, and high quality. Our experts pointed out that digitalization facilitates the integration of production and sales, thus optimizing supply-side reforms. By leveraging digitalization, the modern circulation system can unlock latent consumption needs. stimulate new demand, and promote the smooth operation of economic circulation.



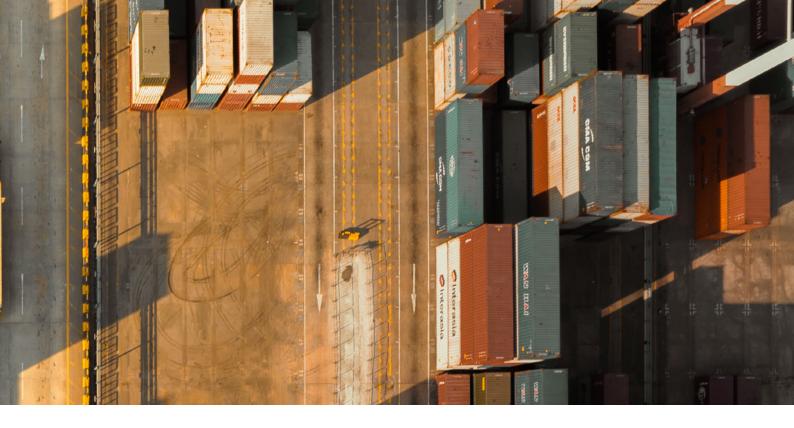




Q: What are the efforts made by the Chinese government in building a modern circulation system?

A: China has been making significant advancements in building a modern circulation system, focusing on various aspects such as the business environment, circulation networks, and logistics.

- In terms of the business environment, efforts have been made to create a more favourable and unified market by addressing policies and measures that impede fair competition. This includes initiatives to eliminate regional protectionism and administrative monopolies, and streamline market access systems. These measures aim to reduce costs, improve efficiency, and create a more standardized and conducive environment for circulation activities.
- China has also been actively expanding sales channels and enhancing the circulation networks. One notable development is the promotion of e-commerce in rural areas. Projects such as the penetration of e-commerce into rural areas, the establishment of multi-level e-commerce and logistics service points at county, township, and village levels, and the organization of various online consumption activities, have helped bridge the urban-rural divide and enhance the accessibility of products and services in rural areas. These efforts have contributed to rural consumption growth and the integration of rural markets into the overall circulation system.
- As for the development of logistics and transportation, China has been improving transportation infrastructure and addressing challenges in the distribution and delivery processes to enhance logistics capabilities. The continuous investment in logistics infrastructure and the strengthening of transportation capacity have contributed to the improvement of logistics operations, which helps meet the growing demands of domestic and international trade.



Q: What aspects of development in China's circulation field are the most worth looking forward to in 2024?

A: Looking ahead to 2024, several aspects of development in China's circulation field hold great promise for further progress.

- One significant area is the optimization of the industrial chain. Favourable policies and technological advancements will continue to drive the transformation and optimization of traditional industries. Circulation enterprises and institutions are expected to leverage technology and innovation to drive the upgrade of traditional sectors and foster the emergence of new industries and products. This will result in a higher-quality supply of products, meeting the evolving demands of consumers and stimulating additional consumption.
- Another aspect worth looking forward to is the upgrade of circulation enterprises. With the arrival of a new wave of technological revolution and the deep application of digital technology, modern circulation enterprises are expected to emerge as key players in the global market. These enterprises will expand their networks worldwide, integrate global resources, and leverage digital platforms to optimize their operations. Largescale retailers, for instance, are anticipated to increasingly utilize online platforms, while the integration of big data will enable better market insights and facilitate more efficient coordination between production and sales. This integration of technology and data will further strengthen the role of circulation enterprises in driving economic growth and satisfying consumer needs.
- Additionally, the cold chain logistics system for agricultural products is another area of focus. Efforts will be made to construct facilities for the storage, preservation, and cold chain transportation of agricultural products, and related infrastructure in key regions. This will enhance the efficiency and reliability of agricultural product distribution, ensuring the freshness and quality of perishable goods throughout the supply chain. Expanding and refining the agricultural product market will also boost consumer confidence, support the growth of the agricultural sector, and contribute to the long-term development and stability of the modern circulation system.

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County-level commerce flourishes as the rural circulation network and system advance to a new level



Supportive policies and business participation drive the transformation of county-level commerce

China's county-level commerce is underdeveloped and still has significant market potential compared to the relatively saturated urban commerce. It has been flourishing in recent years due to supportive policies and active business participation. The issuance of the Opinions on Strengthening the Construction of County-level Commercial Systems and Promoting Rural Consumption by the central government in 2021 officially launched the construction of county-level commercial systems. Over the past two years, the county-level commercial network has continued to improve, rural logistics and distribution have accelerated, the efficiency of agricultural product circulation has significantly increased, and the consumption potential in rural areas has been continuously unleashed.

Data show that in 2022, a total of 983 integrated commercial service centres were built or upgraded in counties, along with 3,941 commercial centres and markets in towns and townships. Additionally, 1,500 county-level logistics and delivery centres and 7,600 township express and mail processing sites were established, with 95% of administrative villages having direct express delivery services.

Government releases master plan to address the shortcomings of the county-level commercial system

The acceleration of consumption upgrading in China's county-level regions has led to higher requirements for the commercial system. Despite ongoing progress, the county-level commercial system still needs a wider variety of goods, further improvement in the consumption environment, and a reduction in logistics and distribution costs.

In July 2023, the Ministry of Commerce and eight other departments jointly issued the *Three-Year Action Plan for County-level Commerce* (2023-2025). This plan aims to guide the high-quality development of county-level commerce, addressing the identified shortcomings and

refining various aspects of the commercial system. The plan focuses on the supply chain, especially on logistics and distribution, aiming to facilitate the two-way flows of goods and services into rural areas and agricultural products into urban areas. It emphasizes digitization, chainbased development, and standardization to address the shortcomings in rural commercial facilities and promote resource allocation towards rural markets. The plan also aims to improve the rural logistics and distribution system, guide the transformation and upgrading of commerce and circulation enterprises, and foster the highquality development of county-level commerce. The ultimate goal is to establish a robust countylevel commercial system by 2025, leading to a virtuous cycle of increased income for farmers and upgraded consumption.

E-commerce service platforms play a crucial role in helping farmers tap into urban consumer markets

Initiated and empowered by local governments, e-commerce service platforms offer channels through which agricultural products can reach urban areas and expand their market presence. For example, in Zhejiang province, integrated service platforms centered around the concept of 'developing agriculture with digital commerce' have been actively developed and utilized. These platforms empower agricultural producers to sell their products through e-commerce. For instance, in Suichang, Lishui, the Ganjie Village Goods digital platform has been established to bring together local small and medium-sized farming households and source agricultural products that meet quality standards. The platform also connects with urban residents through groupbuying leaders, facilitating the entry of village goods into urban areas. Through methods such as 'Internet+' and livestreaming sales, Zhejiang has expanded the sales channels for agricultural products, enabling residents in county-level areas to pursue entrepreneurship and create employment. These efforts have contributed to the objectives of increasing farmers' incomes and promoting self-sufficiency within the county-level commercial system.



Q: How do enterprises assist agricultural products in accessing urban markets?

A: By utilizing online sales channels and intelligent logistics technologies, enterprises enable agricultural products to access urban markets more effectively. Here are a few examples of their contributions:

- During the 'Double 11' shopping festival in 2023, JD Supermarket invested substantial resources to support the sales of agricultural products. It offered cash subsidies, leveraged its traffic resources, and provided direct delivery from the source for fresh produce. Additionally, JD Supermarket introduced services like a 30-day price guarantee. These approaches resulted in sales increases for hundreds of thousands of high-quality agricultural products from over 2,000 industry belts nationwide. JD Logistics has also been actively integrating production and sales by establishing intelligent supply chain centres in agricultural production areas. Through measures such as direct delivery from the source and maintaining end-to-end temperature control, the company ensures the freshness of agricultural specialty products delivered nationwide.
- Over the past four years, sales of agricultural products on Taobao and Tmall have exceeded 1 trillion yuan. During the 2023 Harvest Festival, Taobao and Tmall provided significant traffic support and organized live broadcasts in over 130 industry belts, increasing the exposure of more than a million agricultural products to urban consumers. Cainiao Rural, a subsidiary of Alibaba Group, has also been actively supporting rural express logistics companies. It has assisted over 4,000 companies in more than a thousand counties by implementing joint smart delivery projects, resulting in a significant reduction of 30% to 50% in overall operating costs.



Q: How has the Three-Year Action Plan for County-level Commerce (2023-2025) been implemented?

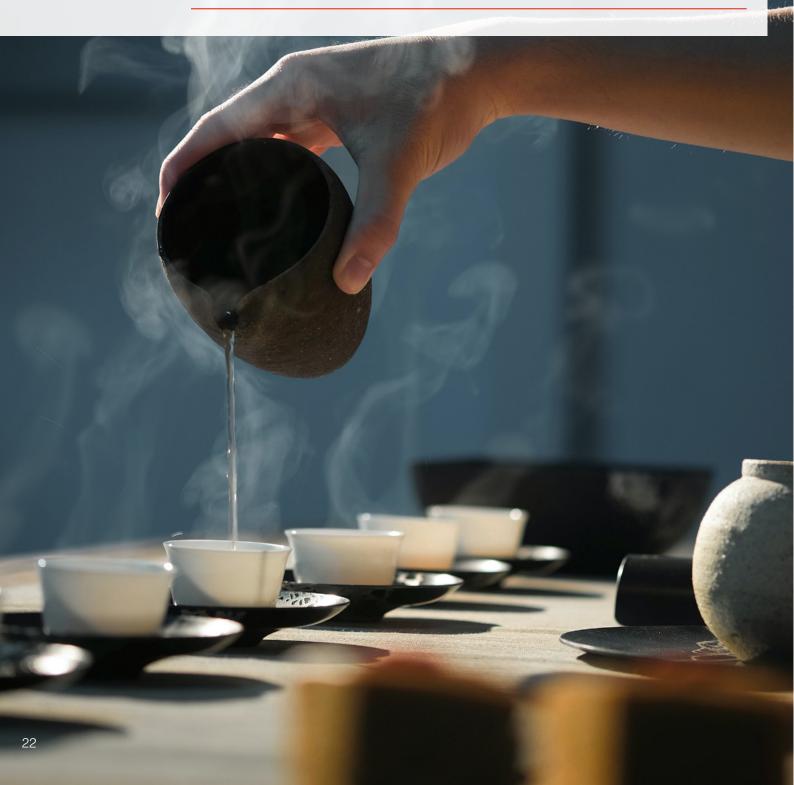
A: In line with the *Three-Year Action Plan for County-level Commerce (2023-2025)*, various regions have taken steps such as establishing integrated commercial service centres and delivery centres at the county level. There are also efforts on developing township malls in rural areas. E-commerce and digitalization are strongly emphasized in these moves to facilitate the flow of industrial products to rural areas and the movement of agricultural products to urban markets, thereby improving two-way circulation channels. Provinces like Sichuan and Ningxia have formulated their own implementation plans to support these initiatives.

Q: What can we expect regarding the implementation of the Three-Year Action Plan for County-level Commerce (2023-2025) in 2024?

A: In 2024, the second year of the action plan, we can anticipate significant progress in county-level commerce development. As consumer preferences and product quality in county areas evolve, new market opportunities will emerge. The completion of various projects under the action plan at the county, township, and village levels will also drive the high-quality development of county-level commerce. Furthermore, enhancing the rural distribution network and system will remain a focus in 2024, which will facilitate the smooth flow of industrial products to rural areas and agricultural products to urban markets. All in all, measures of the action plan will promote a higher-level dynamic balance between supply and demand in the county-level consumer market, contributing to rural revitalization and the expansion of domestic demand.







In 2023, the retail industry has seen greater differentiation among retail enterprises across various business formats in terms of business strategies and development. As the consumer market levels out once again, businesses are focusing on improving the customer experience to increase competitiveness and create long-term development opportunities.

Department stores and shopping centres show signs of recovery

As a positive trend, many listed department store enterprises have shown signs of recovery in 2023: Wangfujing Department Store, Chongqing Department Store, Hefei Department Store, and Xinhua Department Store all sustained year-on-year increases in operating income and net profits during the first three quarters of the year.

Moreover, department stores are now offering more services and experiences such as family entertainment, salons, and fitness facilities. They are also organizing themed markets, exhibitions, and other activities to enhance customer engagement. Similarly, notable outlet divisions such as Wangfujing and Bailian are incorporating cultural tourism elements into their operations and scaling up their membership programme offerings.

Shopping centres have also shown signs of recovery, with 200 new openings in the first three quarters of 2023 – mainly in first and second tier cities. Furthermore, membership-only stores such as Sam's Club and Costco have each opened several new locations, targeting more discerning customers by offering high-quality products and services.

The instant retail sector maintains rapid growth

The instant retail industry continues to grow rapidly, with service categories becoming more refined.

Leading platform companies and major retail enterprises have entered the instant retail market, offering a diverse range of services like in-home pet grooming and 'high-speed delivery' services.

Some instant retail platforms are also providing greater merchant support for local services. Meituan, Ele.me and JD Instant Retail have all implemented programme to support and empower local merchants through various services and benefits such as boosting customer traffic, lower barriers to entry, and financial subsidies.

Consumers become more price-conscious, with more complex demands and expectations

Consumer sentiment is still recovering, meaning that consumption attitudes remain conservative. As such, businesses must focus on cutting costs while improving product quality – this is the key factor in attracting consumers amidst fierce competition.

Furthermore, as shopping channels continue to diversify, consumer demands are becoming more refined. Even higher-income groups exhibit price-consciousness, while most consumers are more willing to pay a premium for healthy foods. In response, retailers must increase differentiation across various dimensions, such as product offerings, store experiences, supply chain integration, etc.

However, fierce price competition is expected to continue into 2024, which may limit retailers' differentiation strategies.



Q: How are major retail companies increasing their price competitiveness?

Notable supermarket enterprises have begun offering steep discounts in their physical stores and online channels to attract and retain customers in a competitive market. For example, following in Freshippo and Meituan's footsteps, Yonghui Superstores introduced discount sections on its app, mini-program, and offline stores in October 2023. Customers can now enjoy substantial price reductions ranging from 30% to 70% off on full-price items.

Q: What are some recent examples of new instant retail service categories?

Some instant retail platforms are expanding their express delivery services, primarily in major cities. Cainiao Premium, for instance, has launched a new half-day delivery service in eight key cities. Similarly, JD Daojia has integrated 1,500 convenience stores into its platform to provide home delivery services. Meituan Delivery has been testing a 15-minute express delivery service in selected commercial areas in Beijing. These initiatives reflect platforms' efforts to meet the growing demand for swift delivery services in urban areas.

Q: How can retail enterprises best position themselves to align with current industry trends?

Retail businesses should increase their efforts to reduce costs to attract today's more price conscious consumers, with the understanding that product quality and cost effectiveness should go hand-in-hand.

Moreover, one-stop shopping destinations, particularly department stores, should prioritize differentiation as a key strategy. This can be achieved by curating high-quality product collections and creating unique experiential elements that set them apart from their competitors. By focusing on delivering exceptional value and memorable shopping experiences, retail companies can enhance their appeal and attract a loyal customer base.







Online-offline dual drive propels commercial digital transformation



China's commerce industry is undergoing a significant digital transformation, driven by technologies like 5G, Artificial Intelligence (AI), Internet of Things (IoT), and Virtual Reality (VR)/ Augmented Reality (AR). The digitization has led to successful outcomes in retail, catering, tourism, and other sectors, strengthening the trend of online and offline integration.

According to the *China Digital Economic Development Research Report (2023)* released by the China Academy of Information and Communications Technology, in 2022, China's digital economy surpassed 50 trillion yuan, up by 10.3% yoy. Industrial digitization played a key role in driving digital economic growth, totalling 41 trillion yuan, comprising 81.7% of the total value.

Digital transformation drives China's commercial sector

The integration of the digital and real economies has given rise to new industries and business models, empowering high-quality economic development. Consumer experience has improved with dynamic growth in new digital models like instant retail, precision marketing, online food delivery, and digital cultural tourism.

Currently, the commerce industry has made progress in digitalization, with a focus on front-end applications and consumerside digitization. Small and medium-sized enterprises benefit from platform companies' supply chain digitization and obtain support from large-scale commerce enterprises. The current digital transformation efforts prioritize front-end applications for end-consumers, such as online ordering, intelligent navigation, platform integration, and live streaming promotion. However, there is a need to further integrate data and business processes through back-end digitization.

Accelerating digital transformation in China

In the next phase, the industry should further advance digital transformation by improving data collection, storage, processing, analysis, and interconnectivity across various sectors. Collaboration among multiple stakeholders, including the government, associations, platform companies, large-scale commerce enterprises, and small and medium-sized enterprises, is crucial in creating a conducive ecosystem for digital transformation. Encouraging platform companies and large-scale commerce enterprises to take a lead can inspire others and generate digital benefits throughout the supply chain ecosystem of the commerce industry. Lastly, it is essential to address concerns regarding digital transformation among small and medium-sized enterprises.





Q: What is the most notable example of digital retail transformation in recent years?

Instant retail, characterized by online ordering and offline fulfilment, has leveraged the collaboration between platform enterprises like Meituan, JD.com, and Alibaba with offline retailers and brands. By combining the advantages of platform enterprises and physical stores, instant retail achieves the integration of online and offline development, thereby serving consumers in more scenarios.

In 2023, instant retail experienced rapid growth. Leading examples include JD.com's instant retail platform, JD Daojia, which saw a 25% yoy revenue increase in Q2 2023 as the number of active stores on the platform grew over 70% yoy to more than 300,000. Additionally, omnichannel retailers like Freshippo and 7FRESH have established reliable and efficient supply chain systems by integrating demand, analysing market data, and optimizing sourcing, warehousing, and distribution management. These advancements promote digital transformation and enable the sharing of digital development benefits.

Q: How is the progress of digital transformation in China's catering industry?

The catering industry in China is undergoing a significant digital transformation, encompassing both online food delivery and offline dining.

According to the *China Digital Development Report for the Catering Industry* by the National Information Center, in 2022, China had 521 million online food delivery users, and the revenue of online food delivery accounted for over 20% of the total revenue of the catering industry (excluding group meals). Online food delivery has expanded the customer base of catering businesses and increased their revenue. Additionally, it has created new opportunities for ready meal companies and other related businesses.

Meanwhile, physical restaurants are adopting digital applications such as QR code ordering, marketing, and store design to facilitate connections with customers. Prominent brands like Mixue Ice Cream & Tea, Luckin Coffee, and Guoquan Shihui have successfully utilized digital assets to enhance supply chain management, improve warehouse and cold chain infrastructure, and establish an extensive chain network operation.

Q: How is digitalization transforming China's tourism industry?

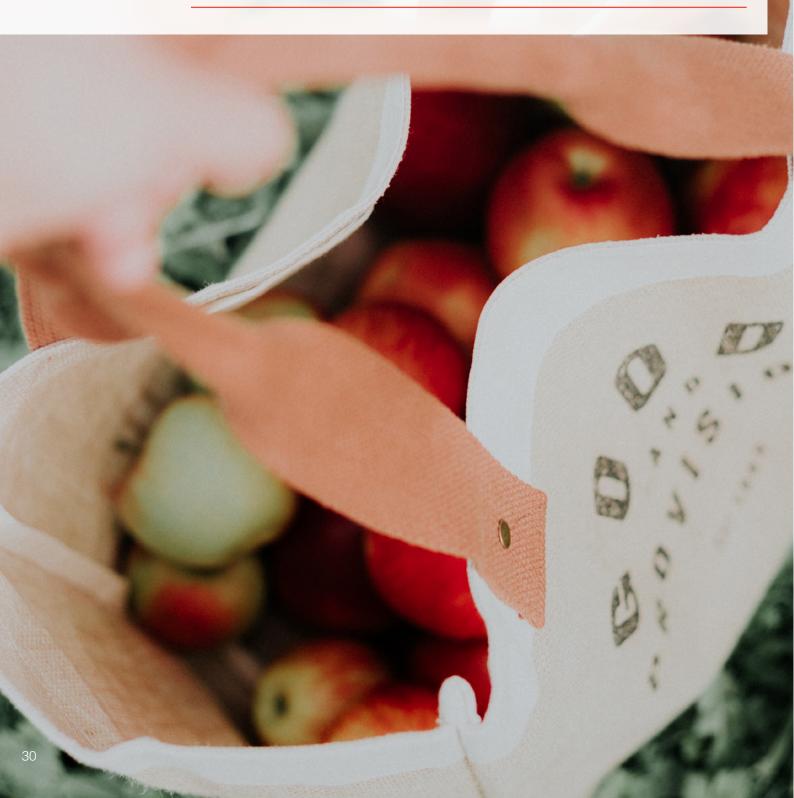
The tourism industry in China witnessed a significant digital transformation in response to the COVID-19 pandemic. This transformation led to the emergence of new business formats such as digital cultural tourism and digital wellness tourism, which combine commerce, culture, tourism, and sports through digital means. Popular tourism destinations, such as Longmen Grottoes in Henan, Xunzhou Ancient Town in Zhejiang, and Jinsha Site Museum in Chengdu, have introduced online tour experiences.

Furthermore, in April 2023, the Ministry of Culture and Tourism and the Ministry of Industry and Information Technology issued a notice to maximize the utilization of 5G technology in the tourism industry. In particular, the notice emphasized the enhancement of 5G network services in key domestic tourism areas, the diversification of 5G-powered tourism products, and the improvement of tourism experiences through 5G technology.

Regarding digital marketing, the Resource Development Department of the Ministry of Culture and Tourism has collaborated with online platforms like Sina Weibo, Douyin, and Ximalaya to roll out various promotional activities with specialized themes.







China has committed to peak its carbon emissions by 2030 and reach carbon neutrality by 2060. Considering these objectives, the government has continued to implement green policies at both the national and regional levels. Environmental, Social, and Governance (ESG) momentum has also continued to grow within China, alongside increasing regulations, and greater public and commercial awareness of sustainability. Green circulation, industry and consumption have become areas of common interest between the government, businesses, and consumers.

More policies and guidelines are released regarding corporate ESG

In 2023, Chinese regulators have released more financial regulations related to ESG and introduced new evaluation criteria that encourage companies to enhance their ESG capabilities. For instance, in February, the Shanghai Stock Exchange revised the stock listing rules, incorporating clearer requirements for non-financial reporting and offering more specific guidelines on ESG disclosure by listed companies. Additionally, in April, the State-owned Assets Supervision and Administration Commission of the State Council (SASAC) released the first ESG evaluation system issued by central state-owned enterprises, the "Guoxin ESG Evaluation System." This system served as the basis for the "Zhongzheng Guoxin Central State-owned Enterprises ESG Growth 100 Index" launched in May. These actions reflect the government's efforts to improve ESG regulations and standardize ESG assessments in the long-term.

Additionally, the authorities have published several policies to promote green manufacturing, green consumption, and low carbon lifestyles, including the Guiding Principles for Promoting Sustainable Consumption in Urban Business Districts

issued by the Ministry of Commerce in April 2023, and the *Measures on Restoring and Expanding Consumption* issued by the National Development and Reform Commission (NDRC) in July 2023.

Furthermore, there has been a focus on the application of green technologies. In September 2023, the Ministry of Industry and Information Technology began adopting local governments' recommendations for energy-saving technologies in communications infrastructure and industrial equipment across the country. In October, the NDRC and three other departments jointly released a three-year action plan to gradually replace single-use plastics with bamboo because it is easier to produce, more durable and biodegradable.

Companies are working towards long-term sustainable development

Well-known international and domestic brands have already set up various projects in sustainable logistics, leveraging ongoing technological innovations to create greener supply chains. In 2023, Alibaba partnered with L'Oreal to explore circular economy solutions and green supply chains in the cosmetics industry. Alibaba's logistics arm, Cainiao, has also established several green initiatives, including the reduction and recycling of packaging materials and a 21,000-ton decrease in warehouse carbon emissions. Joining these sustainability efforts, Nike China launched a zero-carbon smart logistics park in March, operating entirely on renewable energy.

Furthermore, digital technologies such as AI, cloud computing, and 5G can help carbon-intensive industries reduce emissions by further integrating manufacturing systems, increasing energy efficiency, and enabling smart emissions monitoring and management.

Shifting consumer values drive brands to increase their sustainability efforts

As consumers become more environmentally conscious, their expectations for brands and companies in terms of sustainability are rising. A NielsenIQ survey released in April 2023 shows that more than three-quarters of consumers believe it is particularly important for companies to take the lead in decarbonization efforts, and nearly half of the consumers surveyed believe that brands bear the primary responsibility for driving sustainable development.

According to a survey conducted by Deloitte, more than 60% of consumers are willing to pay a green premium for eco-friendly products – and are most willing to pay more for health and nutrition products, and beauty and skincare products. They are also willing to pay more for sustainable high-end experiences, such as travel and fine dining.





Q: How does technology enable sustainability?

Artificial intelligence, cloud computing, blockchain, 5G, big data, and other digital technologies have the potential to help carbon reduction and promote green development in high-emission industries. For instance:

- Smart manufacturing: By enhancing the integration of systems along the industrial supply chain, companies can achieve on-demand supply, improve production efficiency, and reduce energy consumption. This can be achieved through the Aldriven optimization algorithms, real-time data analytics, and intelligent automation.
- Construction sector: 5G connectivity and smart sensors can enable better energy
 efficiency and emissions reduction in the construction industry. For example, realtime monitoring and control systems can optimize energy usage, enhance building
 performance, and minimize environmental impact.
- Carbon emission management: Digital technologies enable more precise monitoring and management of carbon emissions, helping businesses in planning and managing their carbon quotas. By leveraging big data analytics and blockchain technology, companies can track and verify emissions data, implement emission reduction strategies, and ensure compliance with sustainability goals.

Q: What industries are emerging from the sustainability trend?

The circular economy is growing as sustainability becomes a priority for businesses and consumers alike. According to Frost & Sullivan, China's second-hand goods market will be worth approximately 3 trillion yuan by 2025. The primary advantage of the circular economy lies in its environmental benefits, particularly in reducing waste generated by redundant production. In the 2023 fiscal year, transactions on the second-hand trading platform Xianyu contributed to a significant carbon reduction of 3.142 million tons.

Q: How can brands best position themselves to align with the growing public awareness of sustainability?

It is becoming clear that consumers are willing to vote with their wallets to support sustainable brands, and their increasing expectations towards sustainability measures will continue to drive the green transition within the commercial sector. To enhance brand loyalty, businesses should integrate sustainable practices into the core of their brand. This is particularly crucial for consumers belonging to the post-90s generation and Generation Z, as they expect brands to undertake tangible sustainability reforms and are not easily swayed by superficial 'greenwashing'.





Over the past year, the further integration of tourism and culture has brought new momentum into the tourism industry, offering a range of immersive museums, live music events, themed festivals, and many other experiential elements. According to the Ministry of Culture and Tourism, the first half of 2023 saw a significant rise in domestic tourism arrivals, reaching a total of 2.384 billion – a significant increase of 63.9% yoy. This rapid industry growth brings new opportunities, while the blend of commerce, culture and tourism has resulted in more personalized and experiential consumption that seamlessly blends into people's daily lives.

Growing popularity of themed attractions and landmarks

Themed shopping streets are becoming increasingly popular in recent years, such as Huaxi Live and Joy Breeze in Beijing and Xinanli in Nanjing. These shopping streets, referred to as '里' (li) in Chinese, meaning 'lanes', integrate traditional cultural elements with urban tourism and commerce.

Some cities have also developed large-scale landmark tourist attractions such as Beijing Universal Studios and Shanghai Disneyland, which are in more suburban areas but nonetheless attract large numbers of visitors. In 2023, many theme parks across the country have experienced significant growth. For example, in the first half of 2023, Haichang Ocean Park's revenue increased by 190.4% yoy. Theme park operator Happy Valley saw a 40% yoy increase in tourist numbers during the October Golden Week holiday period.

Consumers seeking work-life balance are driving the night-time economy

The night-time economy (including the afterwork economy) is booming across China, with cultural tourism playing a significant role. Modern consumers look for greater work-life

balance, meaning that more cultural, leisure and tourism activities occur in the evening after work hours, particularly around residential districts, hotels, and areas where young people tend to congregate.

Young consumers have become the driving force of the night-time economy, creating unique regional cultures that shape the local urban tourism industry.

Furthermore, as the catering industry continued its post-pandemic recovery this year, it also became further integrated into local tourism. For example, Zibo barbecue, unique to Zibo city in Shandong province, surged in popularity over the course of several months, doubling the number of barbecue restaurants while driving growth for other local businesses and overall local consumption.

Growing demand for regional cultural experiences

In recent years, there has been growing demand for regional cultural experiences. In response to this trend, some cities have developed distinct cultural tourism experiences such as 'historical' towns. One notable example is Datang City in Xi'an, which offers an immersive experience where the staff are dressed in Tang Dynasty clothing, alongside tourists wearing *Hanfu* (traditional Han Chinese clothing). This in turn has increased the popularity of *Hanfu* experiences in Xi'an. In 2023, the internet search volume for 'Hanfu experiences' increased by 480% yoy, with Xi'an ranking first in terms of search popularity.

This surge in demand for cultural experiences is part of a broader demand for experiential products. As tourists seek more meaningful and immersive experiences, traditional retail is no longer the sole focus of tourism consumption. Travelers are increasingly looking for opportunities to engage with local culture, history and traditions, driving the growth of experiential tourism product offerings.



Q: How has the cultural tourism industry changed in 2023?

As mass tourism moves into a new stage of development, upgrades in consumer demand have been driving supply-side innovation and structural optimization in the tourism industry. 2023 has seen the creation of high-quality tourism projects with deep cultural significance and artistic talent, which have also boosted consumption and created socioeconomic benefits for the local economy.

Q: What are the main cultural tourism trends to look for in 2024?

Building on the strong recovery of cultural tourism in 2023, the focus for 2024 will shift towards more high-quality offerings. The symbiotic relationship between culture and tourism will grow even stronger, with both sectors mutually influencing and benefiting each other.

Another important trend to watch for is the increasing consumer demand for diverse cultural experiences. Travelers are eager to explore and engage with a wide range of cultural events, seeking unique and immersive experiences. This trend presents an opportunity for businesses to tap into new markets and cater to the evolving preferences of discerning travellers.

Q: How is the government supporting the cultural tourism industry at a national level?

This year, the Ministry of Culture and Tourism selected a diverse range of projects as part of the Performing Arts Tourism list. The list includes music festivals, operas, folk performances, and so on, with a total of 40 performances selected for national recognition.

Furthermore, the government has also provided policy support for technological innovation within the cultural tourism industry. In August 2023, the Ministry of Culture and Tourism announced the first batch of Technology Innovation Centres, which will focus on fostering technological applications such as performing arts equipment, entertainment facilities, smart tourism, digital art displays, interactive experiences, and cultural digitization. Partner institutions for these projects include well-known businesses and notable universities.







Ready meal industry enters a period of regulated growth



Ready meals are premade food products prepared in centralized kitchens and then frozen or vacuum-packed before being sold to businesses or retail customers. Over the past few years, the ready meal industry has experienced rapid growth, with the domestic penetration rate reaching approximately 10-15% in 2021. It is projected that by 2030, the market size of the industry will reach 1.2 trillion yuan, with a penetration rate of up to 20%. Currently, catering companies, including fast food restaurants, chain restaurants, takeaway businesses, rural kitchens, and other casual dining locations, account for 80% of the demand for ready meals.

The COVID-19 pandemic has further accelerated the growth of the ready meal industry, as low-effort home meals have become increasingly popular. However, the lack of unified industry standards and regulations during this period has resulted in mixed public opinions and a decrease in consumer trust.

Government support boosts the ready meal industry

In recent years, the national government has paid close attention to the development of the ready meal industry. The CPC Central Committee, the State Council, and the National Development and Reform Commission have all released policies calling for improved industry standards and the development of a supportive ecosystem – which includes centralized kitchens, cold chain logistics and catering locations.

In addition to national initiatives, several regional governments, such as Guangdong, Fujian, Shandong and Henan, have introduced incentives and support measures for the local ready meal industry. These actions are accompanied by comprehensive long-term development plans aimed at harnessing the industry's growth potential.

Consumers are concerned about food safety and quality due to rapid growth and lack of standardization

The public opinion towards ready meals is somewhat divided: while some consumers believe that the market has huge growth potential which will benefit the catering industry overall, others think that the production process is too opaque, and that such highly processed foods are unhealthy and not fit for regular consumption.

The industry has also experienced some growing pains during its period of accelerated growth. Various food safety concerns have emerged, including the use of stale ingredients and improper food storage practices. Moreover, the market has also suffered from low-quality products, further undermining consumer confidence.

The lack of standardization is a pressing issue. Consumers are increasingly worried about whether the industry can establish and adhere to a set of common standards across food safety, nutrition, and quality.

Increased standards for the catering industry in recent years

In 2022, the China Cuisine Association issued various standards for the catering industry, including a set of specific guidelines for the ready meal industry. The guidelines cover various production and logistics processes along the industry chain, such as raw ingredient selection, hygiene standards, packaging and labelling, storage, etc.

As of August 2023, the ready meal industry had seen the formulation of eight local-level standards, 54 group-level standards, and 42 enterprise-level standards. However, there is still a lack of national-level standards that cover the entire industry chain.



Q: What are the main industry trends to expect in 2024?

The main industry trends to expect in 2024 are as follows:

- The industry will continue to establish clear segmentation and standardization policies going into 2024, continuing the trend of high-quality development and upgrading, ushering in a new era of healthy growth.
- The ready meal industry's growth is part of the broader expansion of the food processing industry. In 2024, this expansion will continue to gain momentum, serving as a powerful driving force for rural revitalization.
- Catering businesses are well-positioned to capitalize on the growth of the ready meal industry in 2024. They can leverage this momentum to expand their revenue streams by incorporating ready meals into their offerings. This will meet the increasing consumer demand and pave the way for further industrialization and standardization across the entire industry.

Q: How can the ready meal industry earn consumer trust in the current market?

Ready meal enterprises should make food quality and safety their top priority. This includes sourcing high-quality ingredients, implementing stringent quality control measures, and adhering to proper food handling and storage practices. As such, businesses can build trust with consumers by demonstrating their commitment to providing safe and nutritious meals.

Businesses should also focus on balancing cost efficiency, taste, convenience, and health when supplying ready meals. This can be achieved through innovative recipes, using nutritious ingredients, and offering various options that cater to different dietary preferences and restrictions.

In addition, the industry should advocate for establishing national standards and regulations. These standards would ensure transparency and supervision across the supply chain, from raw material sourcing all the way to sales. By implementing comprehensive standards, businesses can prove their commitment to quality and safety.

Moreover, ready meal enterprises should actively engage with consumers and provide transparent information about their products. This includes clear labelling, nutritional information, and details about sourcing and production processes. Educating consumers about the benefits and precautions associated with ready meals can help dispel common misconceptions and further build trust.















The BRI and cross-border e-commerce drive the internationalization of China's commerce and trade



Closer interconnection with other BRI countries will unleash new growth momentum

2023 is the 10th anniversary of China's 'Belt and Road' initiative (BRI) and a milestone for the full enforcement of the Regional Comprehensive Economic Partnership (RCEP). The influence of the two frameworks in the commercial circulation service industry continue to expand, covering agriculture, aquaculture, electronics products, clothing, cross-border e-commerce, retail, beauty products, etc.

With closer trade relations between China and other BRI countries and some trade obstacles being removed, consumer product companies are increasingly willing to explore new opportunities overseas. Many leading Chinese franchising companies in the catering, retail, and lifestyle service industries have achieved initial results in expanding into the 'Belt and Road' market. Some consumer brands are making significant headway in entering the 'Belt and Road' market and showing promising performance in overseas markets. We expect that franchising will be pivotal in driving China's service trade development, as more brands will enter overseas markets in this way.

RCEP becomes a new engine driving agricultural trade

Trade in agricultural products holds a significant share among RCEP member countries, with China, Australia, New Zealand, and Japan having a strong historical presence in agricultural trade. Additionally, most ASEAN nations possess abundant agricultural resources. The agriculture sector plays a pivotal role in the cooperation between China and ASEAN, particularly during the early days of the China-ASEAN Free Trade Area. Notably, in the first half of 2023, China's imports of agricultural products from ASEAN increased by 7.5% yoy, higher

than the overall import growth rate from ASEAN, which stood at 6.4% yoy.

Agriculture is a significant area for China's outbound direct investment (ODI). According to the *China Agricultural Foreign Investment Cooperation Analysis Report 2018*, prior to the COVID-19 epidemic, which resulted in a sharp decline in China's agricultural ODI, China's ODI growth in agriculture outpaced that of the overall ODI. RCEP member countries are among China's primary destinations for agricultural ODI. Singapore, Thailand, and New Zealand attracted the largest flows of agricultural investment from China, while Singapore and Australia harboured the most significant stocks of China's agricultural ODI.

The RCEP agreement, which came into effect in 2022, has substantially reduced tariffs and non-tariff costs in agricultural trade within the region, as well as restrictive measures on investment in agriculture-related fields. This is poised to boost agricultural trade and reshape both the industrial and value chains within the agriculture sector. For China, the increased competition from imported goods will force domestic operators to enhance the quality of their agricultural products. In the meantime, decreased barriers in agricultural trade and investment will stimulate both inbound and outbound agricultural investments. This will aid the international development of China's agricultural service industry and enhance China's global influence in agricultural service trade.

In 2022, the total trade in agricultural products between China and other RCEP member countries surged 12.8% yoy and reached US\$105.7 billion. The growth was nearly 3 percentage points higher than the overall growth rate of China's agricultural trade. As the agreement's benefits to farmers continue to unfold, the positive impacts of RCEP on the development of agricultural trade will become increasingly evident.

The Chinese government also actively promotes agricultural trade development. In 2023, the National Federation of Urban Agricultural Trade Centers, the China-ASEAN Business Council, and the RCEP Industrial Cooperation Committee collaborated to establish the RCEP Agricultural Products Circulation Industry Cooperation Committee. This committee is dedicated to facilitating Chinese agricultural product wholesalers in importing and exporting agricultural products through foreign wholesale markets. It also aims to foster Sino-foreign cooperation in building integrated infrastructure like warehousing and logistics and to establish secure and efficient transportation channels for agricultural products, so as to promote international agricultural trade. At the same time, it drives the integration of the agricultural product industry and supply chain, encouraging Chinese importers to cooperate with upstream industries to establish overseas bases for production, processing, packaging, storage, and transportation of agricultural products. Furthermore, it encourages Chinese firms to participate in cooperations with agricultural production regions in Thailand, Malaysia, Indonesia, and other countries, promoting joint construction and resource-sharing of agricultural infrastructure in cooperation zones, enhancing agricultural industry chains and fostering the concentration of agricultural industries.

Cross-border e-commerce helps brands access overseas markets

In recent years, the cross-border e-commerce market has sustained impressive growth, achieving an average annual growth rate exceeding 20%. The wide use of mobile internet and advancements in logistics infrastructure have promoted the fast development of cross-border e-commerce. The proliferation of cross-border e-commerce platforms and the increased accessibility of

cross-border payments have also bolstered market expansion. The range of cross-border e-commerce products has considerably expanded to include clothing, electronic products, beauty products, and food items. China stands as the world's largest consumer market for cross-border e-commerce, constituting nearly one-third of global cross-border e-commerce retail sales.

Three years after the outbreak of the COVIDpandemic, the risk of global economic recession has amplified, causing a persistent slowdown in external demand growth. Consequently, numerous international brands have downscaled their orders, impacting China's traditional exporters that rely heavily on the Original Equipment Manufacturer (OEM) model. To cope with the challenges, an increasing number of Chinese manufacturing companies are pivoting towards cross-border e-commerce for exports. Engaging directly with downstream companies and end-users globally, many export-oriented enterprises have started establishing their proprietary brands, aiming for direct market sales.

With its responsiveness and cost-efficiency, cross-border e-commerce has emerged as a driving force for foreign trade, particularly in manufactured goods exports. Customs data show that China's cross-border e-commerce import and export volume reached 2.11 trillion yuan in 2022, marking a year-on-year increase of 9.8%. The share of cross-border e-commerce goods in foreign trade has also increased from less than 1% five years ago to about 5%. Ministry of Commerce statistics indicate that, as of May 2023, there were over 100,000 cross-border e-commerce entities. more than 200,000 independent online stores, and about 690 cross-border e-commerce industrial parks in comprehensive pilot zones across China. Additionally, China has signed memoranda of understanding on bilateral e-commerce cooperation with 29 countries.



Q: What specific opportunities do Chinese commerce companies have in agricultural trade?

By easing the constraints on agricultural product trade, the enforcement of RCEP has promoted agricultural trade among its 15 members and will potentially push for industrial upgrading, production relocation, and trade node transitions. The agreement will also boost the two-way agricultural trade between China and other RCEP countries.

Chinese agricultural trading companies can create a pivotal Asian distribution hub in China for various agricultural products by leveraging the opportunities brought by cross-border e-commerce, the 'Belt and Road' Initiative, and the RCEP. To achieve this, agricultural trading companies should strengthen collaborations with agricultural producers to establish more resilient industrial chains, thereby increasing their competitiveness in overseas markets.

Q: What policies and measures has China implemented to support the development of cross-border e-commerce?

By the end of 2022, the State Council of China had set up 165 comprehensive pilot zones for cross-border e-commerce in seven batches, spanning across 31 provinces, autonomous regions and municipalities. This initiative has connected the inland and coastal regions, fostering mutual support between the east and west.

The Ministry of Commerce has proposed a scheme of 'cross-border e-commerce + industrial belts' based on the 165 cross-border e-commerce pilot zones. This plan aims to harness the industrial strengths and geographic advantages of diverse regions to help locally distinctive products flow into the international market. The Ministry intends to optimize the functions of these zones as service platforms by connecting them with overseas warehouses. The ultimate goal is to streamline customs clearance, taxation, finance, and overseas warehousing services into a unified, user-friendly approach, offering comprehensive services at a single access point.

Local governments are also actively fostering the high-quality development of cross-border e-commerce. For instance, Shanghai has outlined 18 pivotal tasks in the *Shanghai Action Plan to Promote High-Quality Development of Cross-border E-commerce (2023-2025)*. The tasks include the continued construction of cross-border e-commerce demonstration parks, implementation of the 'Haiyoupin' (premium export products) action plan, and enhancements in cross-border e-commerce public services. Shandong province has set the objectives of establishing 20 industry belts centred on cross-border e-commerce, cultivating 100 internationally competitive cross-border e-commerce brands, and nurturing 1,000 cutting-edge cross-border e-commerce companies by 2025.

Since the beginning of 2023, the Central government has introduced a series of policies to support the development of cross-border e-commerce. These policies are aimed at enhancing customs clearance efficiency, cultivating and expanding overseas warehouses, lowering export return costs, and improving logistics infrastructure. These policies have further bolstered the confidence of relevant enterprises to expand their operations overseas.



Silver economy becomes a new consumption growth point

The rise of China's silver economy and its business opportunities

The growing influence of China's elderly population has fuelled the expansion of China's silver economy, as those who have recently joined the elderly population demonstrate substantial purchasing power and desire to consume. By the end of 2022, China had 280 million individuals aged 60 and above, comprising 19.8% of the total population. In response to this development, the Chinese government has repeatedly emphasised the need to address the consumption demand of the elderly population and promote the development of the elderly care industry.

In 2020, China's elderly market grew 25.6% yoy and reached 5.4 trillion yuan, outpacing the growth of the younger market. Fudan Institute on Aging forecasted that by 2035, the silver economy in China could reach 19.1 trillion yuan, making up 27.8% of total consumption and 9.6% of the GDP. Another projection by the China Research Center on Aging indicated that by 2050, the consumption of Chinese elderly could soar to 40.7 trillion yuan, representing 12.2% of the country's GDP.

In May 2023, the Chinese government released the national standards for elderly-friendly products. In October, the Ministry of Industry and Information Technology published a catalogue promoting 263 elderly products, which cover clothing, caring products, and age-friendly home products like smart turning beds and smart anti-fall clothing. The authorities are working on design guidelines for age-friendly home products.

The consumer behaviour of Chinese elderly is changing

The rise of silver economy in China is characterized by a diverse range of consumption behaviours among the elderly population and their constantly changing consumption patterns. The market is pursuing a more comprehensive approach to older adults' well-being. Expanding beyond traditional perceptions of elderly care and nursing, China's silver economy now encompasses various sectors such as health and wellness, culture, entertainment, social networking, education and training, and lifestyle services. Our experts have observed a significant increase in spending on services and a continuous upgrade of consumption structures within the grey-hair market. Older adults are actively seeking quality products and services that cater to their spiritual and cultural values and enhance their quality of life. Many individuals from 60 to 75 remain young in mindset and lead active lifestyles, creating new business opportunities. Online shopping has become increasingly popular among the silver population, as many of them are techsavvy and willing to adopt trendy technologies. They prefer buying technology, clothing, beauty, and home products on the Internet.

Additionally, travel holds significant appeal, with older adults showing a strong desire to explore and experience new destinations. A report by Ctrip in 2023 reveals that the silver population are more willing to travel, spend more on average, prefer group tours, and show differentiation in travel consumption. By the mid-October 2023, the number of travels by people aged 55 and above had nearly doubled compared with the same period in the previous year. With less budget and time restrictions, older adults are more likely to choose sojourning, customized traveling experiences, wellness tourism, and health tourism. The silver tourism industry has become a trillion-yuan market with tremendous untapped potential.



Q: How do older adults in China drive online consumption growth?

Our experts point out that the new lifestyle and psychological characteristics of older adults have made them an important user base of mobile internet, and this trend is expected to continue in the coming years. According to QuestMobile, the silver population aged 51 and above accounted for 26.4% of the total 1.2 billion monthly active mobile internet users in June 2023. More importantly, statistics show that their daily online usage exceeded four hours, significantly higher than the overall average. Moreover, short video platforms have become immensely popular among the elderly.

The silver generation is actively embracing digital life and has become an important driving force of online consumption. In 2021, the silver population born in the 1960s spends three times more on average in cross-border e-commerce compared to Generation Z, according to data from Kaola HaiGou, a cross-border e-commerce platform.

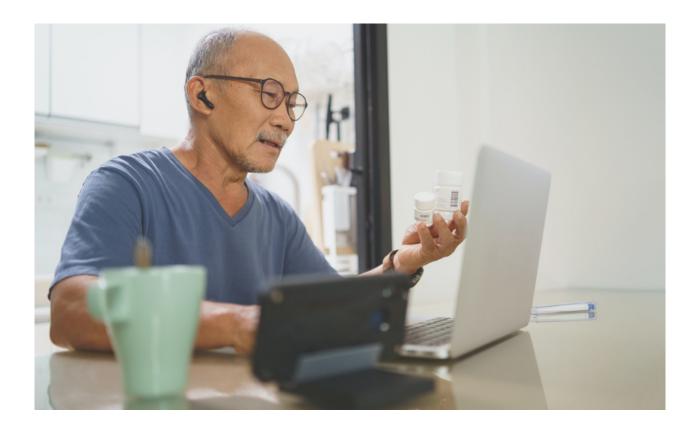
Furthermore, the consumption patterns of the silver generation are shifting from basic needs towards health, interests, and consumer experiences, showing a clear trend of consumption upgrading. According to Alibaba's report on elderly consumer behaviour, the senior consumer market grew by 20.9% in 2022, with beauty, travel, and smart devices being new areas of growth. In 2023, the purchase of smart devices by elderly grew remarkably by more than 50%. The emergence of interest-based communities, such as choirs, cycling teams, modelling groups, and dance troupes, among the elderly has led to increased consumption in areas like musical instruments, photography, cultural tourism, and performance tickets.

Q: How did online and offline enterprises fulfil the needs of the new elderly in China?

JD.com has upgraded its supply chain capabilities, services, and product offerings for the elderly, providing comprehensive solutions for elderly care. In terms of marketing campaigns, they have organized four consecutive Elderly Care Shopping Festivals. During the 2023 'Double 11' period, the company collaborated with brands like Arrow, Jomoo, Midea, and Robam to provide over 100 million items and various consumption packages. They also introduced Virtual Reality (VR) scene purchasing, enabling one-stop shopping.

In a similar vein, Alibaba recognized the significance of the elderly care industry and established a dedicated department in 2022. By integrating brands that offer elderly-friendly products and partnering with major domestic and international home furnishing brands, Alibaba has expanded its offerings in this domain. On top of that, they launch an elderly care section on their e-commerce platforms during the annual '6.18' and 'Double 11' promotion periods.

Meanwhile, mobile apps are becoming more elderly-friendly by introducing 'elderly modes'. Alibaba has improved information accessibility in 15 of its apps, and has plans for further enhancements in this regard.



On the other hand, offline businesses in retail and catering sectors are increasingly adapting to the needs of older adults by implementing elderly-friendly transformations. For instance, Beijing Chang'an Market launched the 'Silver-Haired Golden Street' in 2023, which caters to the consumption, lifestyle, and health needs of older adults. The shopping mall integrated amenities such as a lifestyle services station, health station, community canteen, senior classes, reading corner, and pharmacy. The aim is to offer the silver generation a one-stop-shop experience in their local communities, encompassing socializing, shopping, dining, and entertainment.

Q: How can business grasp the potential of the new elderly market?

Currently, there is a mismatch between supply and demand of the elderly market. The needs of the new elderly are not fully met, as limited variety of available goods, inconsistent quality, weak adaptability, and inconvenience constrained the silver generation's consumption potential. Therefore, accelerating the transformation to be more elderly-friendly by offering a wider range of products, services, and consumption scenarios tailored to the elderly will be a significant growth driver for business.

In 2024, brick-and-mortar businesses need to upgrade their facilities and services, both in terms of hardware and software, to provide a more convenient shopping experience for older adults. This includes offering barrier-free access, accessible restrooms, handrails in elevators, and wheelchair rental services.

In terms of product offerings, there is significant potential in emerging areas of silver economy such as food, fashion, beauty, personal care, small home appliances, smart wearables, smart homes, health and wellness, and leisure activities. Brands that sell traditional categories of goods have to expand their product lines to meet the needs of the aging population.

Contact us

Authors:

Helen Chin

Vice President helenchin@fung1937.com

Wendy Weng

Senior Research Manager wendyweng@fung1937.com

Brigitte Ng

Senior Officer - Research v-brigitteng@fung1937.com

Winnie Lo

Senior Research Manager winnielowl@fung1937.com

William Kong

Senior Research Manager williamkong@fung1937.com

Sophie Zhang

Senior Research Manager sophiezhang@fung1937.com

Fung Business Intelligence

11/F, LiFung Tower, 868 Cheung Sha Wan Road, Kowloon, Hong Kong fbicgroup@fung1937.com https://www.fbicgroup.com











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