

What the **experts say**

Ten Highlights of China's Commercial Sector 2021

January 2021



Contents

Preface **01**

About the Organizations **02**

Expert Panel Members **03**

Implications for Business and
Tips for Foreign Enterprises **04**

Ten Highlights for 2021 **08**

Preface

Fung Business Intelligence and the Expert Committee of the China General Chamber of Commerce are pleased to present the 18th edition of our annual Ten Highlights of China's Commercial Sector report.

2020 will surely go down as the toughest year for Chinese enterprises since China embarked upon economic reform and opening some four decades ago. Coming on top of various domestic and external economic challenges, the COVID-19 pandemic impacted commerce across the board. From retail to supply chain, business operations were severely disrupted by lock down and quarantine restrictions. Consumers had to shop online for even basic needs.

But we also saw how quickly enterprises in the mainland adapted to the new reality. The result was an acceleration of digital adoption, such as livestreaming to shoppers in lock down, and the application of new technologies to further optimize supply chains and business models.

In tandem, the Chinese government rolled out a raft of supportive policies and initiatives, including incentives encouraging a vibrant “night-time economy” to spur urban consumption, as well as measures to help export manufacturers sell in the domestic market.

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

In 2021, two significant factors will be the continued rise of China's middle class and the introduction of the 14th Five-Year Plan (2021-25), which focuses on boosting and further opening China's domestic commercial sector. The implementation of the government's “dual circulation” policy, which places greater emphasis on China's domestic market (or “internal circulation”), will be a further shot in the arm for the commercial sector, opening up new opportunities for local and foreign businesses alike. Meanwhile, the Regional Comprehensive Economic Partnership (RCEP) trade deal concluded in November last year between most of Asia's largest economies, with China as a founding member, will help to expedite the upgrading of Chinese industries and consumption.

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, Nancy Ngai
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, 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) is a quasi-government association endorsed by the State Council. The 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 12 committees, working on areas such as retailing, wholesaling, public relations and industry analyses, etc.; it also supervises 39 national associations, and over 30 newspapers and magazines published both inside and outside China.

Fung Business Intelligence

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

Headquartered in Hong Kong, it leverages unique relationships and information networks to monitor, research and report on these global issues with a particular focus on business trends and developments in China. Fung Business Intelligence makes its data, impartial analysis and specialist knowledge available to businesses, scholars and governments 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 consulting 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 is a privately-held business entity headquartered in Hong Kong with a rich history in trading and supply chain management dating back to 1906. It is the major shareholder of the Fung Group of companies whose diverse businesses operate across the entire global supply chain for consumer goods including trading, logistics, distribution and retail. The Fung Group comprises over 30,000 people working in more than 40 economies worldwide.

Expert Panel Members

Cao Lisheng

**Vice Chairman;
Deputy Director**
China General Chamber of
Commerce, China National
Commercial Information Center

Ding Junfa

**Former 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

Hu Bin

Deputy Editor-in-Chief
China Business Herald

Lai Yang

Director
Institute of Commerce and
Economics, Beijing College of
Finance and Commerce

Li Tao

**Group Chief Representative –
Beijing**
Fung Business Intelligence, Li &
Fung Development (China) Limited

Li Haidong

Marketing Director
China General Chamber of
Commerce

Liu Haifei

**Former Director;
Research Fellow**
Zhongshang Commercial Center
for Economic Research

Peng Jianzhen

Secretary General
China Chain-Store & Franchise
Association

Shen Shi

Deputy Secretary General
China General Chamber of
Commerce

Song Song

Deputy Director
Department of Market Operation
and Consumption Promotion,
Ministry of Commerce

Song Ze

Research Fellow
National Academy of Economic
Strategy, Chinese Academy of
Social Sciences

Stanley Lam

Director
Explorium (Shanghai) Trading Co.,
Ltd.

Tang Shaojuan

Director
IBMG Commercial Think Tank

Wang Xiaodong

**Dean of Department of Trade
Economics; Professor**
Department of Trade Economics,
Renmin University of China

Wu Ying

Vice Chairman
China Cuisine Association

Xie Lijuan

Associate Professor
Business School, Renmin
University of China

Yang Jinlong

Deputy Secretary General
Expert Committee of the China
General Chamber of Commerce

Yao Liming

Director; Research Fellow
Zhongshang Commercial Center
for Economic Research

Yang Qingsong

Secretary General
China Commerce Association for
General Merchandise

Yi Shaohua

Director; Research Fellow
Department of Circulation,
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

Zeng Lingtong

Director
China Retail Human Resource
Research Center

Zhang Hao

Assistant Research Fellow; PhD
Department of Circulation,
National Academy of Economic
Strategy, Chinese Academy of
Social Sciences

Zhang Juan

Deputy Secretary General
China Agricultural Wholesale
Market Association

Zhang Qian

Officer
Department of Market System
Development, Ministry of
Commerce

Implications for Business and Tips for Foreign Enterprises

The past year was the toughest in memory for businesses around the world as the COVID-19 pandemic sent the global economy into a tailspin. In China, policies and measures were introduced at national and local level to cushion the blow to the economy, to help businesses, and to support the development of the commercial sector.

In China's coming 14th Five-Year Plan period (2021-25), the "dual circulation" strategy – emphasizing domestic consumption – and the new Regional Comprehensive Economic Partnership (RCEP) free trade agreement between major economies in the Asia-Pacific, are set further to boost demand in China and to expedite the upgrading of consumption to higher value products and services. There will be many new opportunities for local and foreign businesses.

To stay relevant in the post-pandemic era and remain competitive, businesses should stay on top of the evolving trends and market developments. They need to stay agile and adapt quickly to changes, continue to innovate, embrace social commerce and deploy mobile commerce strategies, leverage on technology to optimize their supply chains and enhance operational efficiency, as well as keep abreast of latest government policies and regulations.



Explore new potential arising from changing business models and practices

The COVID-19 pandemic has prompted the acceleration of existing trends and the emergence of new business models in China's commercial sector. The pandemic has not only speeded up the shift towards online shopping and entertainment, but also pushed other activities online, such as education and work. Moreover, as people avoid commuting to shopping malls and other crowded public places, demand for community-based retail and local lifestyle services has surged. The widespread adoption of e-commerce has also opened up the O2O market to local lifestyle services such as O2O catering and online medical consultations.

Since people now aim to minimize physical contact when shopping, many innovative business models and retail practices have emerged around contactless commerce, such as group online buying at community level, contactless payment within stores, "smart lockers", and the use of delivery robots and drones. An increasing number of catering enterprises, too, have adopted service robots and launched unmanned restaurants. (See Highlights 5 & 6)

Our take: Pandemic-driven changes in China's consumer habits and patterns are likely to be permanent, providing new opportunities for enterprises. Those who explore such openings should aim to maximize synergies and complementarity with existing business.



Embrace social commerce and livestreaming e-commerce

Social commerce has become the driving force of China's e-commerce sector. It is particularly popular among millennials born in the early 1990s and even younger Generation Z consumers born between 1995 and 2009, who enjoy the "social" element of online shopping and have formed unique shopping habits via social media networks.

Livestreaming e-commerce – using videos to promote products and services live through online platforms – is also well established in China. During the COVID-19 crisis, it has become the preeminent way for retailers to sell products as people reduce physical store visits. Livestreaming is now used not only in general retail, but also in real estate and the promotion of tourist destinations. (See Highlight 8)

Our take: Beyond the pandemic, livestreaming as a selling tool will likely become mainstream, in particular among younger consumers. Enterprises trying to win the hearts of these consumers should consider adopting livestreaming e-commerce, either by partnering with influencers, KOLs and celebrities, or training their own sales teams to do livestreamed videos.



Leverage technology and digitalization

Advanced technologies have revolutionized the way enterprises conduct business. In physical stores and online, retailers are applying artificial intelligence (AI), virtual reality (VR) and augmented reality (AR) technologies with the support of cloud technology to enhance the customer experience. By adopting predictive analytics and advanced information systems, retailers can optimize inventory forecasts and conduct targeted marketing. Enterprises are also building digitized supply chains that are nimble and flexible enough to adapt to rapid change in the retail landscape. (See Highlight 9)

The COVID-19 pandemic has further accelerated digital transformation, such as the adoption of contactless technologies. It has also heightened consumer awareness of the need for food hygiene and safety, which underscores the importance of supply chain traceability. (See Highlight 4)

Our take: The accelerated adoption of technology is poised to continue post-COVID. Retail businesses should ramp up their digital efforts and investment in digital technology. They are advised to transform their business processes with digital tools and blockchain technology to enable their supply chains to be more nimble, flexible, transparent, and traceable. Businesses should also consider adopting consumer-to-manufacturer (C2M) production models and embed consumer insights in the design and production processes.



Deploy mobile/social media-centric O2O strategies

With the convergence of online and offline retail, omnichannel retailing - or online-to-offline (O2O) integration - will continue to dominate the retail scene. To stay ahead, many enterprises are proactively refining their O2O strategies – by fusing online and offline channels, adopting new technologies for payment, logistics and supply chain operations, and by providing a personalized, convenient shopping experience via all touch points. Meanwhile, the deep involvement of Chinese consumers in mobile commerce and social networks means that the lines between e-commerce, mobile and social have blurred. This opens up huge opportunities to leverage social media to engage with consumers and boost sales. (See Highlights 6 & 9)

Our take: Enterprises should increase their investment in omnichannel capabilities and fulfillment. They need to adopt the right mobile- and social media-centric O2O strategies to provide a seamless shopping experience, particularly for young consumers who already consider “digital” as an inherent part of life. It is imperative that enterprises choose appropriate platforms, channels, and marketing approaches to target, reach and attract customers.



Reap the benefits of RCEP

Regional Comprehensive Economic Partnership (RCEP) is the largest plurilateral trade agreement in the world. By creating a unified trading system in the Asia-Pacific, it will encourage cross-border trade and investment across the region and expedite the formation of an integrated regional supply chain. The RCEP will also give a strong boost to China’s cross-border e-commerce sector by reducing transaction costs, facilitating the establishment of overseas warehouses for cross-border logistics, and bolstering digital trade. (See Highlight 7)

Our take: Since China is both the largest consumer market and supplier in the RCEP region, foreign businesses producing in and selling to the China market will benefit from the RCEP deal. With a further integrated regional supply chain, businesses will be able to enjoy more flexibility and lower costs through effective orchestration of their supply chains in the Asia-Pacific region. It will also be easier and cheaper for companies from other RCEP member countries to enter China’s domestic market, through cross-border e-commerce and physical retail. Foreign trade enterprises anchored in China, meanwhile, can further expand their footprint in ASEAN’s promising production and consumption markets.



Tap the consumption boom

The government's "dual circulation" strategy will be a key direction for China's development during the 14th Five-Year Plan period (2021-25) and beyond. China will seek to nurture a strong domestic market and establish a new growth model that focuses on "domestic circulation" (i.e. its domestic market) as the foundation for future growth. China will also continue to expand domestic demand and boost consumption by facilitating consumption upgrades to higher value products and services. (See Highlight 2)

For instance, over the past year, the government has introduced consumption-boosting measures to develop urban China's night-time economy, as well as to help export-oriented manufacturers sell their products to domestic consumers. (See Highlights 3 & 10)

Our take: China's huge consumer market is expected to expand further with the implementation of policies such as those mentioned above. As China's growth becomes increasingly driven by domestic consumption, enterprises will find new openings for business growth, especially with the upgrading of consumption to include more sophisticated, higher-value products and services.



Stay abreast of government policies

In 2020, the Chinese government launched a series of policies and measures to support the development of the commercial sector. These include plans to invest in an upgraded infrastructure for a more efficient, modern logistics system. In addition, more effort will be directed towards digitalizing the wholesale sector, and transforming traditional wholesale markets into modern wholesale trading platforms. On the retail front, the government is committed to accelerating construction of a "smart" ecosystem and the development and application of new technologies in the sector. (See Highlights 1 & 9)

Our take: The implementation of these policies will certainly provide fresh impetus for China's commercial sector. Enterprises are advised to pay close attention to latest policy developments, the emergence of new business opportunities, and to adjust their business strategies accordingly. This is crucial in today's volatile global environment which demands constant business innovation and timely responses to new and often sudden developments.

Ten Highlights of China's Commercial Sector 2021



01 Government to promote and strengthen the development of the circulation sector



02 Strong growth in consumer sector expected; China's "dual circulation" development to be further energized



03 Riding the wave of "dual circulation", export manufacturers turn to the domestic market



04 Transformation of agricultural wholesale markets accelerates; rural revitalization speeds up with enhanced distribution efficiency



05 China's catering industry set to recover in 2021; more effort will be put into reducing food waste



06 Digitalization and O2O integration remain the key development trends for the lifestyle services sector



07 RCEP to spur global economic recovery and give a strong boost to cross-border e-commerce



08 Changing consumer demands and technological advances drive innovation; social commerce and livestream shopping continue to boom in 2021



09 Embracing digital technologies and innovation is key for retail businesses to seize new opportunities and remain competitive



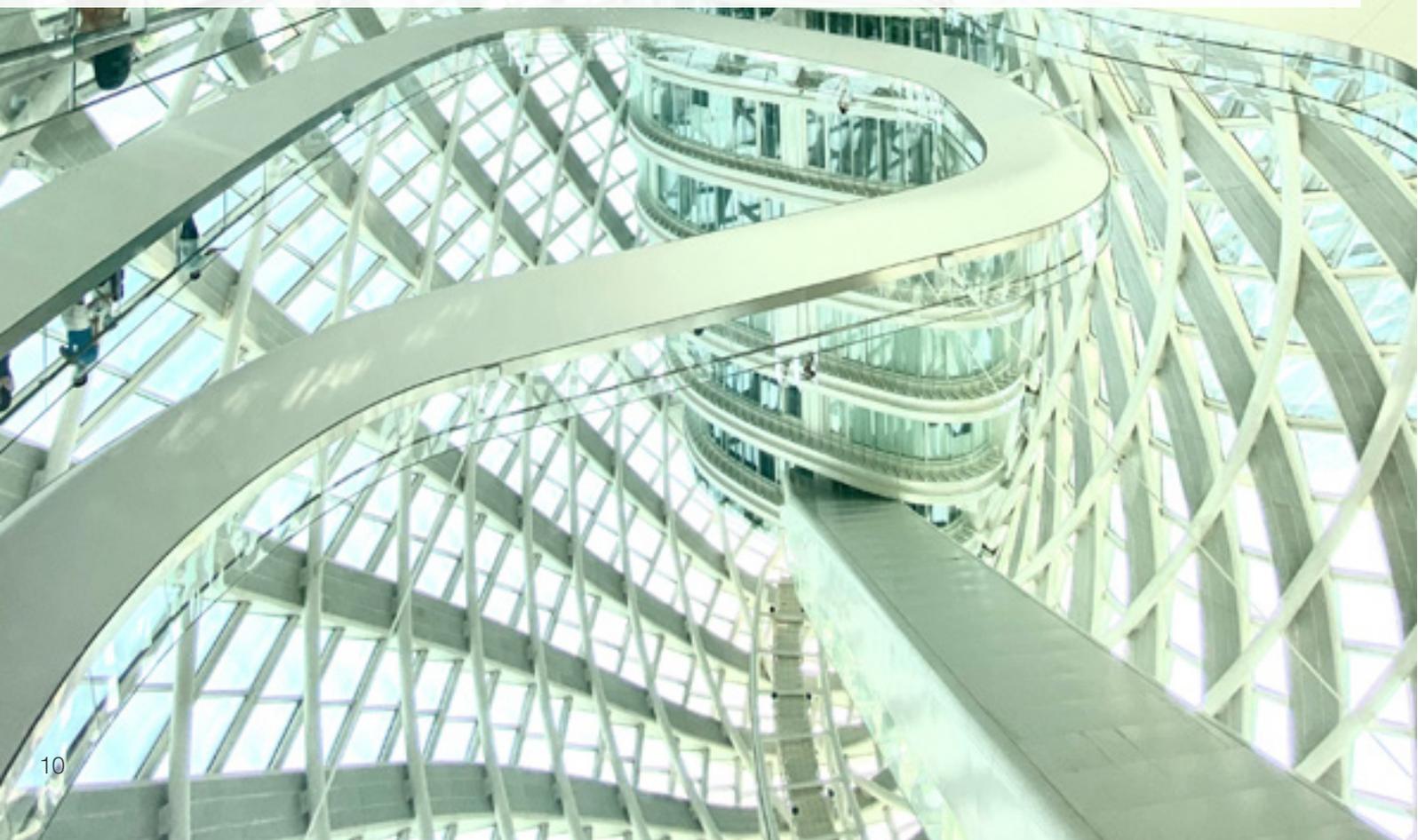
10 China's night-time economy continues to evolve and flourish; huge growth opportunities for small stores and shops





01

Government to promote and strengthen the development of the circulation sector





What the experts say

Efficiency and competitiveness of the circulation sector to be further enhanced during the 14th Five Year Plan period

The Chinese government has repeatedly emphasized the need to further enhance the efficiency and competitiveness of the circulation sector, which includes the wholesale, retail, and logistics industries. In September 2020, President Xi Jinping presided over the eighth meeting of the Central Finance and Economics Committee and emphasized that the construction and development of the circulation sector must be treated as an important strategic task, along with the “dual circulation” policy, which emphasizes growing China’s domestic market and boosting domestic demand to achieve long-term sustainable growth. In October 2020, the 19th Central Committee of the Communist Party of China (CPC) concluded its fifth plenary session in Beijing and adopted the CPC Central Committee’s proposals for the formulation of the *14th Five-Year Plan (2021-25) for National Economic and Social Development and the Long-Range Objectives Through the Year 2035*. The Plan emphasized the importance of building a modern and efficient circulation sector.

High-quality development of the circulation sector will be further promoted

China will continue to promote high-quality development of the circulation sector. With regards to the logistics sector, the Chinese government will focus on building an efficient and modern logistics system to facilitate both “domestic” and “international” circulation as advocated in China’s “Dual Circulation” strategy. Specifically, the government will further invest in and upgrade logistics and transportation infrastructure; promote innovation and the application of new technologies; encourage innovative business models; strengthen industry standards and

regulations; and nurture globally competitive modern logistics companies. Regarding the wholesale sector, the government will continue to accelerate the upgrading and transformation of traditional wholesale markets to modern wholesale trading platforms and cultivate internationally competitive wholesalers. On the retail front, the advancement and application of new technologies such as big data and AI have allowed retailers to gain in-depth insights into consumer needs by analyzing downstream data and to apply those insights in the design and production processes to further enhance operational efficiency and drive innovation.

Digitalization to further empower China’s wholesale, retail, and logistics sectors

China has been at the forefront of innovation and experimentation with new technologies in distribution and retail. China’s “Internet Plus” strategy and digitalization initiatives have played a crucial role in the upgrading and transformation of the industry over the past years. Specifically, e-commerce, O2O/ omnichannel retailing, and the application of new technologies in the retail sector have allowed businesses to better serve customers and played a critical role in fulfilling consumer needs during the COVID-19 pandemic.

Going forward, more efforts will be directed towards digitalizing the wholesale sector. Meanwhile, technological advancements in big data and AI have been evolving traditional manufacturing from a product-driven process into a consumer-driven one, further integrating production and retail supply chains. In the logistics sector, digitalization has accelerated the advancement of logistics infrastructure, smart warehousing, and transportation networks.

Q&As

Q: How will China's "Dual Circulation" strategy help promote the development of the circulation sector?

A: China's socio-economic shift and its rising middle class continue to drive domestic market growth, with consumption playing an increasingly important role in driving China's economic growth. "Dual circulation" will be one of the key directions of China's development in the 14th Five-Year Plan period. According to this strategy, the Chinese government will fully utilize resources to empower its domestic economy by stimulating domestic demand, upgrading consumption, and further investing in technology and innovation efforts. The government has also rolled out policies and major guidelines to encourage domestic consumption. These initiatives will provide further impetus for the growth and development of the circulation sector.

Q: What government initiatives have been released to support the circulation sector?

A: The development of the circulation sector is a high priority for the Chinese government and its importance has been emphasized in various high-level meetings. Since the 18th National Congress of the Communist Party of China, held in 2012, more than 40 policy documents have been released to promote the industry. In 2020, China unveiled the "dual circulation" policy and emphasized in various high-level meetings that it will further promote high-quality development of the circulation sector by deepening supply-side structural reforms, ensuring better integration of the roles of the market and the government in resource allocation, further investing in infrastructure and technology, encouraging innovation and the development of new business models, as well as fostering the development of modern logistics enterprises. In addition, according to the Ministry of Commerce, the government is currently formulating the 14th Five-Year Plan for the Circulation sector and will issue a series of supporting measures to further expand domestic demand, as well as promote consumption, digitalization and innovation, and the integration of domestic and foreign trade.



Q: What are some of the key areas that the circulation sector should focus on to ensure healthy development of the sector?

A: The circulation sector should pay attention to the following areas to promote the sector's healthy development:

1

Ensure that resources are more efficiently distributed across the country. The government should plan and regulate the industry at the macro level whilst the market should play a decisive role in the allocation of resources.

2

Further promote rural consumption: With the upgrading of infrastructure and distribution networks in rural areas, rural and urban markets will be further integrated. The healthy development of the circulation sector in rural areas will also help create more employment opportunities for workers, which will help reduce poverty levels.

3

Ensure the balanced development of the virtual economy and the real economy and avoid the pitfalls of excessive risk taking and excessive financialization of the circulation sector.





02

Strong growth in consumer sector expected; China’s “dual circulation” development to be further energized





What the experts say

Retail sales recover after slump in 1Q20

The outbreak of COVID-19 in China in early 2020 had significant adverse effects on private consumption. Total retail sales of consumer goods fell by 20.5% yoy in the first two months of the year, the first year-on-year contraction on record. In response, the central government and local authorities unveiled a series of policies and measures to help promote consumption and revitalize the consumer market. On the back of these government efforts and a rapid containment of the coronavirus, retail sales have picked up since March. Total retail sales of consumer goods were up 0.9% yoy in 3Q20, compared with a 3.9% drop in 2Q20. In 1-3Q20, China's total retail sales of consumer goods reached 27.33 trillion yuan, down by 7.2% yoy, up from an 11.4% fall in 1H20.

Consumers continue to shift online after coronavirus outbreak

The COVID-19 outbreak has further accelerated the shift from offline to online shopping. Online retail sales of goods jumped 15.3% yoy to 6,647.7 billion yuan in 1-3Q20. Consequently, the share of online retail sales in the total retail sales of consumer goods went up to 24.3% in 1-3Q20 from 20.7% in 2019. Since March, online retail sales of goods have registered double-digit growth, indicating the growing popularity of online shopping. As Chinese consumers fall into the habit of shopping online, they become increasingly reliant on e-commerce; such a change in consumer shopping behaviour is likely to persist beyond the pandemic.

Consumption rebound will buoy retail sales in 2021

Our experts expected that the growth in the consumer market would accelerate in 4Q20, even though the pace of recovery in offline consumption, accommodation and catering services would still lag behind that of other sectors. Nevertheless, China's total retail sales of consumer goods in 2020 is likely to record negative growth for the first time since records began. Going into 2021, China's consumer spending is expected to return to its pre-COVID-19 level and total retail sales will grow by more than 10% yoy, given the consumption boost from China's "dual circulation" strategy as well as expected across-the-board improvement in the macro-economy.

China will further boost consumption in the 14th Five-Year Plan period

The implementation of policies and measures proposed in the 14th Five-Year Plan (2021- 25) will certainly provide new impetus for consumption growth. China will continue to expand domestic demand. Together with the deepening of supply-side structural reforms and innovation-driven and high-quality supply, it is hoped that new demand will be created alongside further expansion of domestic demand. China will also boost consumption by facilitating consumption upgrade, promoting service consumption, encouraging omnichannel integration, and cultivating new modes of consumption led by new business formats and models.

Q&As

Q: Which retail sectors and consumer product categories were hit worst by the COVID-19 outbreak?

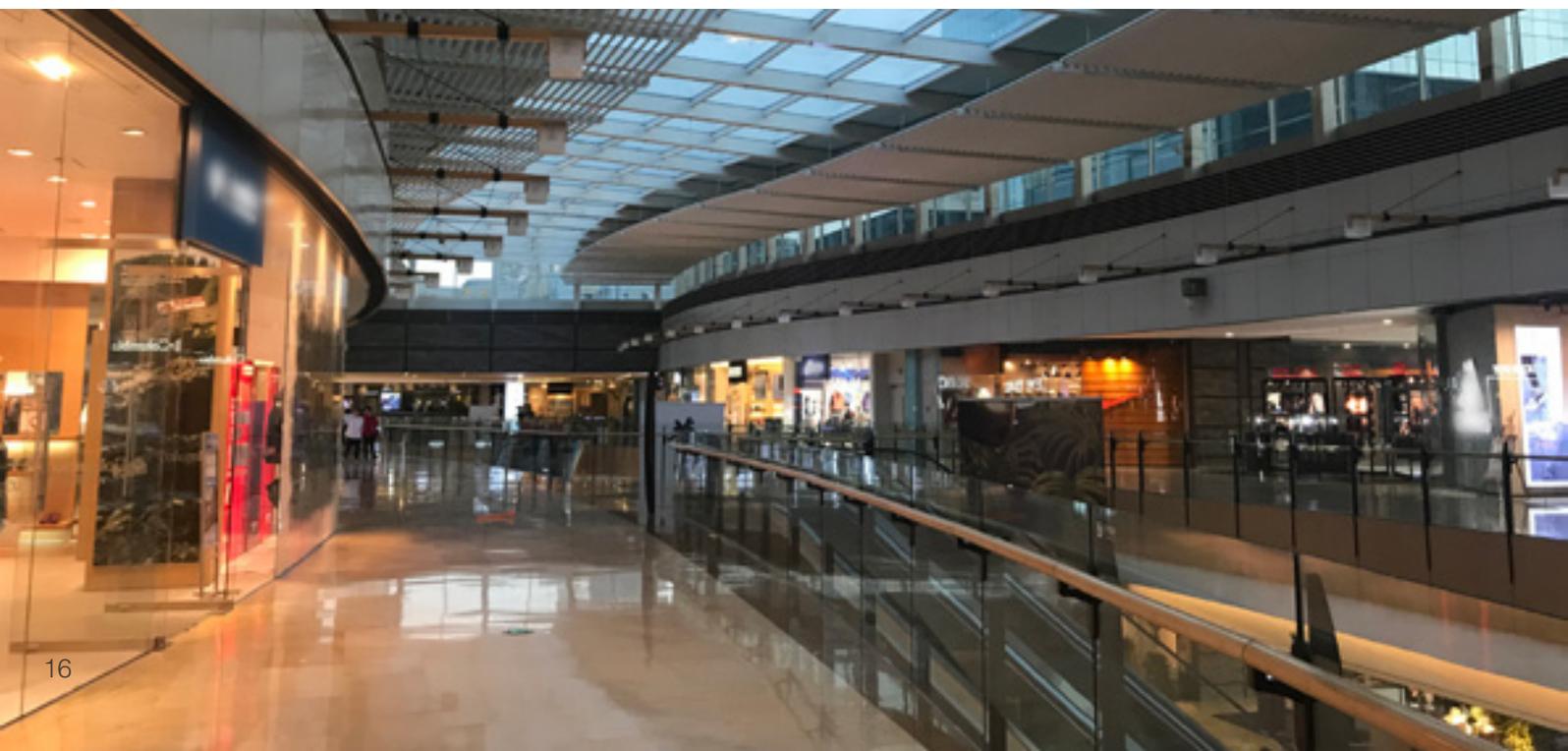
A: The accommodation and catering sectors were hit worst by the COVID-19 outbreak as people stayed home and maintained social distancing. In the first two months of 2020, sales revenue from hotel rooms plunged by nearly 50% yoy, while catering sales dropped by 43.1% yoy. In the consumer goods category, retail sales of discretionary goods such as gold, silver and jewellery (down by 41.1% yoy) and automobiles (down by 37.0% yoy) suffered the worst drop in the two-month period.

Q: Which consumer product categories managed to enjoy sales growth amid the pandemic?

A: In 1-3Q20, basic consumer staples categories such as beverages and grain, oil and food still posted strong sales growth of 12.3% yoy and 10.6% yoy respectively. Retail sales of higher-end consumer goods also managed to record respectable growth, with retail sales of communication appliances and cosmetics rising by 7.2% yoy and 4.5% yoy respectively in the period.

Q: How were consumer prices affected by the COVID-19 outbreak?

A: The outbreak of COVID-19 in early 2020 had quite a significant impact on the consumer price levels in China. The year-on-year growth in food inflation surpassed 20% in January and February, due partly to supply chain disruptions caused by transport control measures implemented across the country and hoarding of food by some households. Since then, consumer price inflation has shown a downward trend, falling from an eight-year high of 5.4% yoy in January to -0.5% yoy in November. In 1-3Q20, overall consumer prices were up by 3.3% from the same period in 2019.



Q: What does China’s “dual circulation” strategy mean for its consumer market?

A: The “dual circulation” strategy is a new model of development that relies primarily on domestic demand whilst developing external markets as a complement. China will strive to develop a powerful domestic market, expand its middle class and raise people’s income to further promote domestic consumption. China’s huge consumer market is expected to expand further with the implementation of the “dual circulation” strategy.

Q: What specific measures has the Chinese government adopted lately to spur consumption?

A: On 29 October 2020, the National Development and Reform Commission and 13 other government departments jointly issued the Work Plan for Expanding Domestic Demand and Promoting Consumption in the Near Future. The Work Plan outlines 19 measures in four areas, including:

1

Promoting the expansion of online sporting events, online education courses and online museums

2

Reviving the restaurant and tourism industries

3

Encouraging new modes of service consumption such as information services

4

Providing community services such as breakfast shops, barbershops, elderly homes and day care centers in districts where such services are lacking

5

Speeding up the construction of 5G network base stations

6

Helping export companies sell their products to domestic consumers

03

Riding the wave of “dual circulation”,
export manufacturers turn to the domestic
market





What the experts say

Export manufacturers turn to the domestic market for opportunities

The global economic downturn, exacerbated by COVID-19, geopolitical tensions and rising protectionism, have all led to a decrease on the global demand side. Global supply chains have been severely disrupted and large numbers of export orders have been delayed or cancelled whilst businesses remain extremely cautious and conservative with new order placements. Whilst the export market is predicted to make some recovery in 2021, it will not be the main engine of growth. Our experts are of the view that export manufacturers will increasingly start to look for opportunities in the domestic market going forward to supplement their existing business.

Government releases policies to support export-oriented businesses

China recently announced the “dual circulation” strategy which emphasizes growing its domestic market and boosting domestic demand to achieve long-term sustainable growth. In addition, the government has released a series of support measures to specifically help export-oriented businesses. In June 2020, the General Office of the State Council issued the *Implementation Opinions on supporting the Domestic Sales of Export Products* to address some of the existing challenges export-oriented businesses face.

E-commerce platforms becomes a key distribution channel for export-oriented businesses to reach out to domestic consumers

Our experts noted that one of the key challenges for export-oriented businesses when trying to engage in domestic sales is that many are not familiar with the domestic selling model. They generally do not have their own local distribution network or channels and it takes time and resources to build up their own. In addition, export-oriented businesses are not familiar with the preferences and needs of domestic consumers. To help address these issues, the Chinese government is encouraging and helping export manufacturers to connect with major e-commerce platforms, which is one of the quickest and most accessible ways to reach domestic consumers. China's e-commerce market is the fastest growing and largest in the world. E-commerce sales accounted for 24.2% of the total retail sales of consumer goods from January to October in 2020.

Consumer-to-manufacturer (C2M) model gains traction

Our experts are of the view that the C2M model will gain further traction as e-commerce platforms partner up with export-oriented manufacturers to deliver value to consumers. E-commerce platforms are working with manufacturers by offering consumer insights and big data analysis to help factories fine-tune their products and innovate new products which better meet the preferences of domestic consumers. Manufacturers can better anticipate product demand, reduce inventory, and save on production costs, whilst consumers are able to enjoy quality products that suit their needs at more friendly price-points.

Q&As

Q: What are the key differences between export and domestic trade?

A: Export and domestic trade differ in terms of their business model, order size, order cycle, and settlement methods. The export market is mainly dominated by big retailers and brands. They have a mature procurement model in place and orders are usually pre-planned and placed months ahead of time. China's own retail market, on the other hand, is a lot more dynamic and fragmented with a lot of different players, especially given that e-commerce sales accounts for a much higher percentage in the domestic market than the export market. Compared to export orders, domestic orders are typically spread across a larger number of SKUs and placed on a more frequent basis. The lead time is usually shorter for domestic orders and the payment collection cycle is longer.

Q: What specific support measures has been offered by the Chinese government to help export-oriented businesses?

A: Key measures the government has rolled out to support export-oriented businesses include:

- | | |
|--|--|
| 1 Relaxing market access restrictions for export companies | 4 Helping export manufacturers build their domestic distribution channels |
| 2 Simplifying and standardizing the testing and certification processes | 5 Strengthening the protection of intellectual property rights |
| 3 Easing the tax burdens of export-oriented businesses | 6 Offering financial and credit support |

Q: Does the China Compulsory Certification (CCC) requirement apply to products that were originally intended for the export market but are subsequently sold domestically?

A: The CCC certification, which is a compulsory testing standard in China is currently applied to 103 products in 17 categories that directly affect the personal safety and health of consumers and the environment, e.g. electrical appliances and toys. This certification is required before products originally intended for the export market can be sold domestically. Meanwhile, the Certification and Accreditation Administration of China has released measures to expedite the approval process, shorten the approval time, and to recognize testing, inspection and certification results by designated certification bodies upon meeting relevant requirements.

Q: What are some of the key initiatives rolled out by leading e-commerce platforms to help export manufactures connect with domestic consumers?

A: Major e-commerce platforms, such as Taobao, JD.com, Pinduoduo, and Suning, etc. have rolled out a series of initiatives to help export-oriented businesses resell their products in the domestic market. Key initiatives include:

1

Setting up dedicated zones/special sections on their platforms for export-oriented products

2

Waiving platform joining fees, offering lower commission rates, and providing traffic support to export-oriented businesses

3

Organizing special promotional events, marketing initiatives and online shopping festivals on their platforms

4

Collaborating with local governments to help local factories promote and sell their products online by hosting live-streaming sessions

5

Offering special discounts to consumers on products from export-oriented businesses

6

Providing financial support such as interest-free loans to export-oriented businesses

Q: Is it important for export manufacturers to develop capabilities to serve the domestic market in the long run? What key capabilities will they need to develop?

A: In the long run, given the huge growth potential of China's consumer and e-commerce market, export-oriented businesses should strengthen their own capabilities along the value chain in order to be in a better position to serve both the export and domestic market. They should extend their capabilities beyond manufacturing and build both upstream and downstream knowledge and capabilities in the areas of design, branding, marketing, and sales operations to successfully gain a foothold in the domestic market.



04 Transformation of agricultural wholesale markets accelerates; rural revitalization speeds up with enhanced distribution efficiency



What the experts say

Government continues to accelerate and promote the development and transformation of agricultural wholesale markets

Agricultural wholesale markets have played a prominent role in ensuring the supply of daily necessities, efficiently distributing agricultural products to consumers, and stabilizing commodity prices during the COVID-19 pandemic. However, issues such as inadequate infrastructure support, lack of management expertise, and low levels of information-based economic activity still need to be addressed. Our experts expect that the formulation of relevant regulations and policies to enhance distribution and supply chain efficiency, accelerate digitization and informatization, as well as measures to further accelerate rural revitalization will be expedited.

Digital transformation of agricultural wholesale markets will speed up

The COVID-19 outbreak has significantly disrupted the supply chain and traditional offline distribution channels, yet e-commerce platforms offering fresh produce have recorded explosive growth during the pandemic. Going forward, agricultural wholesale markets will continue to transform, upgrade, and explore new business formats, models and technologies to better meet market and consumer needs. Specifically, the concept of “smart wholesale” will be further promoted by accelerating the digitalization and informatization of various services and information to form an integrated agricultural supply chain which will further enhance distribution efficiency.

Implementation of traceability systems for agricultural products will be promoted

The supply chain structure has become increasingly complex in our world today, which has heightened the need for the assurance of the quality and safety of agricultural products. Implementation of effective traceability systems that utilise new technologies such as blockchain to capture and store product information through various stages of the supply chain, e.g. from

farm to table, will be further promoted to give consumers greater confidence on the quality and safety of the products. This will also help prevent fraud, scams and quality risks. In the coming year, the government will also be stepping up efforts to ensure the safety and traceability of cold chain products. Chinese authorities have published guidelines to tighten supervision of all imported cold chain products after COVID-19 infections linked to imported frozen food have been confirmed in a couple of Chinese cities.

Development of cold chain logistics will be accelerated

China's cold chain logistics market is set to witness robust growth in the coming year. The COVID-19 pandemic has seen a rise in the consumption of fresh food via online channels. According to the China Federation of Logistics and Purchasing, China's cold chain logistics market is expected to reach 470 billion yuan by 2020, with an annual compound growth rate of over 20% from 2017-2020. The government will continue to promote the development of the cold chain industry and boost investments in the construction of cold chain facilities, equipment, storage, transportation, and other value-added segments.

Rural revitalization speeds up with enhanced distribution efficiency

The government has made considerable efforts to speed up rural revitalization in order to increase farmers' income and alleviate poverty in rural areas. The transformation of agricultural wholesale markets will continue to play a significant role in connecting farmers in rural areas with consumers in urban areas and will help better match supply with demand. Traditional agricultural distribution enterprises are encouraged to explore new business formats and models, adopt supply chain innovations and establish their own distribution centers and cold storage warehouses, as well as build their own brands so they can gradually transform into integrated supply chain service providers.

Q&As

Q: How was the transaction of agricultural products in China affected by the COVID-19 outbreak in China?

A: The transaction of agricultural products in China dropped substantially at the peak of the COVID-19 pandemic. According to a survey undertaken by the China Agriculture Wholesale Market Association, from January–March 2020, the transaction value of agricultural wholesale markets fell by 30%, trading volume dropped by more than 30%, and income declined by nearly 40%. With the effective control of the outbreak and the introduction of a series of policies and measures to promote the distribution of agricultural products, market transactions have rebounded rapidly and achieved a “U-shaped” recovery. Market activities and operations recovered by 96% at the end of the first quarter and returned to normal levels in the second quarter.

Q: What are the most frequently used fresh food e-commerce platforms by Chinese consumers?

A: According to the *China Fresh Food Online Platforms Data Monitoring Report (2020Q1)* released by iiMedia Research, Hema Fresh is the most frequently used fresh food e-commerce platform by Chinese consumers (51.85%) in 2020, followed by MissFresh (45.93%) and Tmall Supermarket (35.56%). Other popular fresh food e-commerce platforms include Dingdong Maicai (19.26%), Ele.me (17.78%), Meituan Maicai (11.85%) and JD’s 7Fresh (11.11%).

Q: What is the outlook for the agricultural import market?

A: Currently, China is the world’s largest importer of agricultural products. China’s agricultural imports reached US\$150.97 billion in 2019, an increase of 10% yoy. From January-July 2020, total agricultural imports reached US\$96.18 billion, an increase of 13.4% yoy. Our experts predict that a growing middle class, rising income, urbanization and changing consumption patterns and habits will continue to serve as a solid foundation for the growth in demand for agricultural imports. While bulk commodities such as soybeans will remain the dominant import commodity, imports of processed and consumer-oriented products such as meat and dairy products are predicted to surge.







05

China's catering industry set to recover in 2021; more effort will be put into reducing food waste



What the experts say

Catering market set to recover in 2021

China's catering market reached 2,959.8 billion yuan, a decrease of 21% yoy from January to October 2020. As one of the industries hardest hit by the COVID-19 outbreak at the beginning of 2020, the catering industry fell by over 40% in terms of revenue in the first quarter as restaurants were forced temporarily to shut down. The industry has been picking up since the second quarter with most restaurants resuming some level of operation. The industry registered positive growth of 0.8% in October 2020, which was the first month in 2020 that has recorded a positive yoy growth. As the epidemic has been generally contained in China, the industry is showing clear signs of recovery heading into 2021.

Food delivery services gain further momentum

Food-delivery orders grew significantly during the pandemic. Delivery orders accounted for over 60% of the total revenue share of the catering industry at its peak in 2020. As restaurants gradually resumed normal operations in Q2 2020, the revenue share of delivery orders stabilized at around 20% to 25%, notably higher than the 10-15% share before the pandemic. Our experts predict that more restaurants will be adjusting their business models and offer delivery services to consumers.

Government strengthens supervision of the food and catering industry

The government has stepped up its efforts and tightened its supervision of the food and catering industry. Since the outbreak of COVID-19, China has passed laws to ban illegal wildlife trade and consumption to further reduce public health risks. The COVID-19 pandemic has also increased consumers' awareness of the quality and safety of food, presenting higher requirements for the products and services provided by catering companies. Catering companies are paying more attention to ensuring the quality and safety of its food ingredients, reviewing their logistics and delivery processes, providing a clean and safe dining environment, and providing training

and guidelines to its employees to ensure that customers can enjoy safe and healthy food in restaurants and at home.

National campaigns launched to reduce food waste

President Xi Jinping has on various occasions emphasized the need to raise public awareness towards reducing food waste and cultivating thrifty habits. The "Clean Plate Campaign" was launched nationwide in August 2020 after President Xi called for resolute efforts to promote frugality and reduce food waste in order to better safeguard food security. National associations across China, such as the China General Chamber of Commerce, the China Cuisine Association and the China Hotel Association jointly proposed that the catering industry should curb food waste and promote frugality. Restaurants and eateries have implemented several measures to reduce food waste, including packing up leftovers for takeaway, suggesting that customers order one dish less than the total number of diners, and offering smaller portions or serving half portions of dishes.

Digital transformation of the catering industry continues to accelerate

New consumer habits are emerging under the COVID-19 pandemic. Consumers are becoming more conscious of food, health, and personal safety, and are spending more time cooking at home or ordering food online rather than dining out. These trends will continue well after the pandemic fades. Many catering enterprises are coming up with new and innovative business models and product offerings to better serve consumers on both online and offline channels. Meanwhile, digital transformation fueled by technological advancement continues to drive change and growth in the industry. Wider access to emerging technologies such as 5G, Internet of Things (IoT), big data, artificial intelligence, blockchain, etc. will accelerate the development of the catering industry and further drive innovation, as well as enhance operational efficiency and effectiveness.

Q&As

Q: What are some of the key challenges facing catering businesses during the pandemic?



Dine-in services have been severely impacted



Rising raw material prices due to supply chain disruptions



High commissions charged by delivery platforms



Working capital and cash flow pressures

Q: Why is the recovery of the catering industry important for China? What are some of the key success factors that have helped restore the growth of China's catering industry?

A: The catering industry is an important area in China's efforts to stabilize economic growth and improve people's livelihood. It is also a barometer of economic recovery. Key success factors that have helped restore growth of the catering industry include:

1

China's effective and ongoing COVID-19 epidemic prevention and control measures have yielded positive results, which has allowed for the orderly resumption of work and production of catering businesses.

2

The Chinese government has rolled out various policies to promote consumption and provide assistance to catering enterprises, such as rent reductions, tax discounts and subsidies, etc. which have accelerated the recovery and growth of the catering sector.

3

The epidemic has prompted the catering industry to adopt innovations, new business models and formats to boost sales and keep customers engaged. Catering enterprises have been adopting initiatives such as increasing digital marketing efforts by using live-streaming and social media to promote their products and offerings; expanding food-delivery services; setting up "contactless food-delivery" stations; and developing standardized finished and semi-finished products which can be delivered to customers.

Q: What new development spotlights will we see in the catering industry after the pandemic?

A: New technologies and digitization will continue to drive change and growth in the catering industry. The use of smart applications such as smart cooking machines, service robots, and unmanned intelligent restaurants have been adopted by an increasing number of catering companies across cities in China after the pandemic.

On the consumer front, there is a growing demand for a more diverse, personalized, and experiential consumption experience, as well as a greater focus on food safety and demand for healthier meal options.





06

Digitalization and O2O integration remain the key development trends for the lifestyle services sector





What the experts say

Businesses continue to reinvent and expand their service offerings; O2O integration to further accelerate

The COVID-19 pandemic has further accelerated the upgrading and transformation of the lifestyle services sector. Our experts note that businesses are continuing to reinvent and expand the range and variety of their service offerings as well as accelerate digitalization and O2O integration to better meet the changing consumption habits and needs of consumers.

Technologies such as high-speed internet, mobile apps, IoT, virtual reality (VR), cloud computing, big data, 5G, etc., have further enabled businesses to digitalize their operations. This increases operational efficiency and provides innovative methods to better engage and serve customers. For example, many businesses have been offering online booking and appointment services to customers via the use of mobile apps and programs to reduce waiting time as well as improve operational efficiency. Real estate companies have been utilizing VR technology to offer 360-degree views of apartments to potential buyers and tenants.

New business and employment opportunities are emerging

China's growing middle class with rising disposable income has resulted in an ever-increasing number of consumers who are more discerning and sophisticated. They are looking to try out new experiences as well

as pick up interesting and exciting hobbies. According to a joint study conducted by China's leading online recruitment website operator zhaopin.com and the Meituan Research Institute, Chinese consumers are spending more on education, entertainment, and tourism services, which would create more employment opportunities in these areas. Meanwhile, consumer interest in extreme sports such as surfing, parachuting, paragliding, etc., and hobbies such as oil painting and floral art are increasing, also creating more job opportunities for instructors in those areas. Meanwhile, the COVID-19 pandemic has also seen a rise in the demand for talent in the medical and health care sectors.

Community-based retail will be further promoted

Accelerated urbanization in China will continue to fuel demand for community retailing services. The government is encouraging and promoting the "15-minute community" concept. The goal is to promote the establishment of community centers/ malls in various local neighborhoods which can provide residents with comprehensive services – within walking distance - to meet their everyday needs. Our experts foresee that an increasing number of community malls will be upgraded to become "one-stop retail plus lifestyle" destinations, which will encompass retail shops, restaurants, hairdressers, laundry shops, clinics, elderly care facilities, etc.

Q&As

Q: What services are included in the lifestyle services sector in China?

A: Lifestyle services refers to a variety of services and activities provided to meet the daily needs of urban and rural residents. The services are classified into the following categories:

- | | |
|---|--|
| 1 Cultural and sports services | 4 Catering and accommodation services |
| 2 Education and healthcare services | 5 *Resident daily services |
| 3 Tourism and entertainment services | 6 Other lifestyle services |

*Resident daily services include services and activities that meet the daily individual and family needs of residents such as housekeeping services, elderly care, funeral services, beauty and hairdressing, massage and spa services, laundry services, etc.



Q: What is the overall level of digitalization in the lifestyle services sector?

A: Whilst the COVID-19 pandemic has accelerated the digitalization of the lifestyle services sector, a lot of micro, small and medium businesses are still heavily brick-and-mortar reliant and have not yet fully established or adopted a proper digital strategy to drive their business. Going forward, it is expected that more SMEs will begin their digital transformation journey to cope with changing consumer expectations, habits, and needs developed during the pandemic.

Q: What are some of the key areas of focus for future development in the lifestyle services sector?

A: The COVID-19 pandemic has seen a rise in demand for online services in retail, education, entertainment, food delivery, fitness, etc. Going forward, we expect that changing consumer habits and patterns will continue to fuel the growth of online services in these categories.

Meanwhile, a rapidly aging population in China means that both home and community care services will gain further attention and support from both the government and business sector. According to China's National Bureau of Statistics, 12.57% of China's population was aged 65 or above as of the end of 2019. The China Development Research Foundation forecasts that by the end of 2025, the same demographic will account for 15% of China's population, providing huge growth impetus for elderly care and healthcare services.



07 RCEP to spur global economic recovery and give a strong boost to cross-border e-commerce





What the experts say

RCEP to drive global economic growth and recovery

The Regional Comprehensive Economic Partnership (RCEP) trade deal will be a key engine for global economic recovery in the post COVID-19 era. In a world unsettled by the pandemic and protectionism, RCEP, by upholding the system of rule-based free trade and international cooperation, injects confidence and vitality into the world economy. China is the fastest growing major economy in the world, and the increase in growth spillovers from China to other RCEP members through trade linkages will help boost regional economic growth and recovery.

RCEP to help reshape and integrate regional supply chains

The RCEP will progressively eliminate tariffs on at least 92% of goods traded and provide for unified rules of origin and streamlined customs procedures among member countries. These initiatives will facilitate cross-border trade of production inputs as well as intermediate and final goods across the Asia-Pacific region, thus expediting regional economic and trade integration. This will strengthen the international division of labour between RCEP member countries and a more integrated regional supply chain will be formed, with each RCEP country consolidating its competitive advantage along the regional supply chain. Businesses will be able to enjoy more flexibility and lower costs through effective orchestration of their supply chains in the region.

RCEP to promote consumption upgrade in China

China has been actively expanding the import of quality goods and services to better meet the needs of its growing middle class, which is characterized by rising income and new consumption patterns. In fact, a lot of popular imports among Chinese consumers come from other RCEP member countries, such as electronics and food from Japan, cosmetics from South Korea, and dairy products and fruits from Australia and New Zealand. Once RCEP comes into force, production costs and tariffs on imported goods will be lowered. Chinese consumers will therefore be able to buy a wider range of high-quality imported goods at lower prices. Moreover, China's ongoing industrial upgrade, which RCEP will help facilitate, will also lead to an increase in the supply of quality goods and services in the domestic market, expediting China's consumption upgrade.

Regional cross-border e-commerce receives a strong boost from RCEP

RCEP will eliminate trade and investment barriers and streamline customs procedures, thereby reducing the cost of trade and facilitating the establishment of overseas warehouses for cross-border logistics. These initiatives will help promote cross-border e-commerce trade among RCEP member countries. In addition, RCEP agreement has a chapter dedicated to e-commerce.

Through the facilitation of paperless trade, electronic authentication, and electronic signatures, as well as the strengthening of consumer protection and personal information protection for transactions made online, RCEP will give a strong boost to the cross-border e-commerce industry. It will be easier and cheaper for Chinese products to enter the markets of other RCEP member countries, and vice versa.

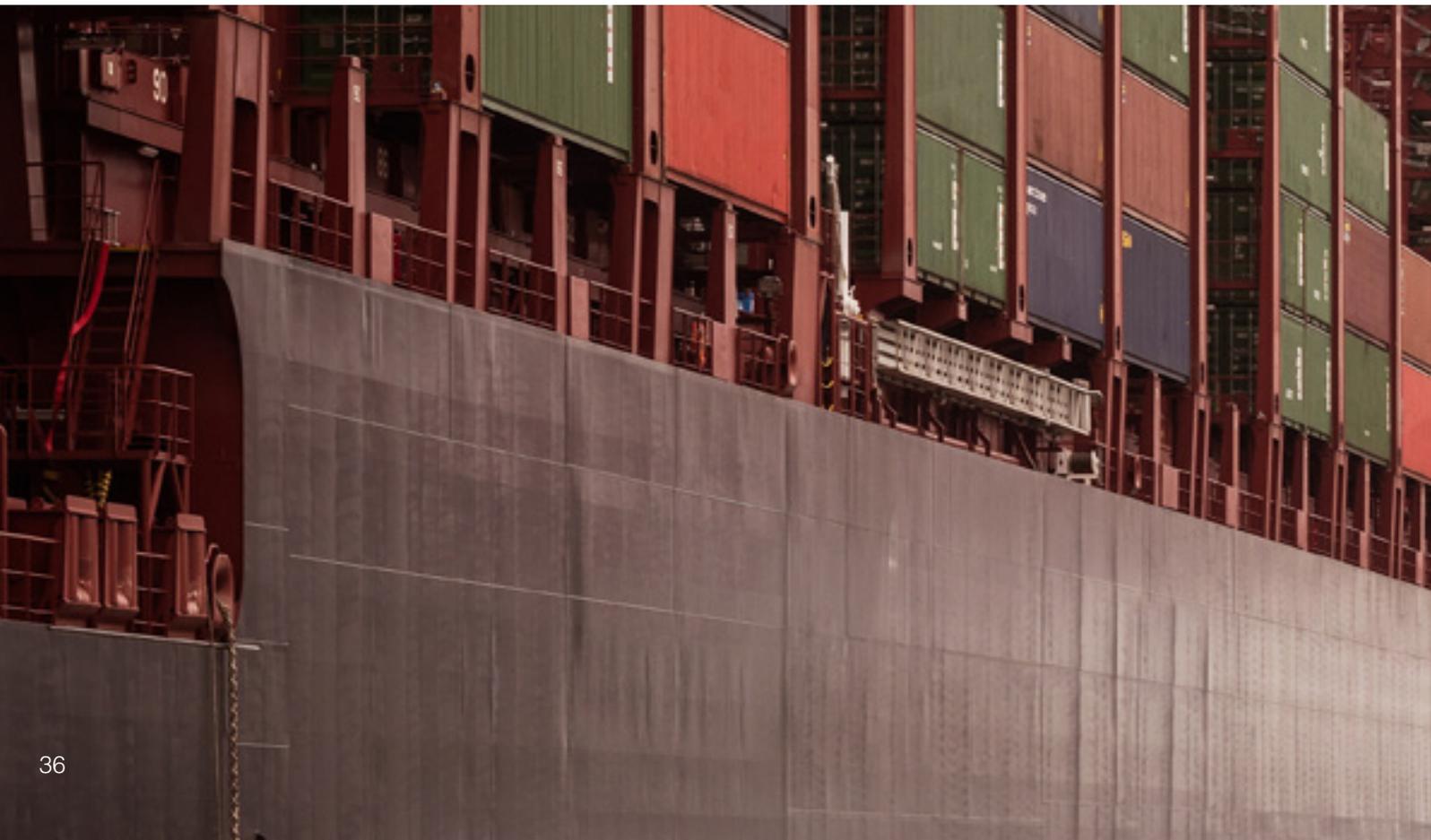
Q&As

Q: What is RCEP?

A: Signed on 15 November 2020, RCEP is the largest plurilateral trade agreement in the world, comprising about a third of the world's population and global GDP. It involves the 10 member countries of the Association of Southeast Asian Nations (ASEAN) as well as China, Japan, South Korea, Australia and New Zealand. By gradually eliminating tariffs on at least 92% of goods traded, opening up at least 65% of services sectors, and creating a unified set of trade rules for the Asia-Pacific region, RCEP will encourage cross-border trade, investment and flows of people across the region, thus expediting regional economic and trade integration. RCEP will come into force 60 days after a minimum of six ASEAN members and three non-ASEAN partners have ratified the deal.

Q: What roles does China play in RCEP?

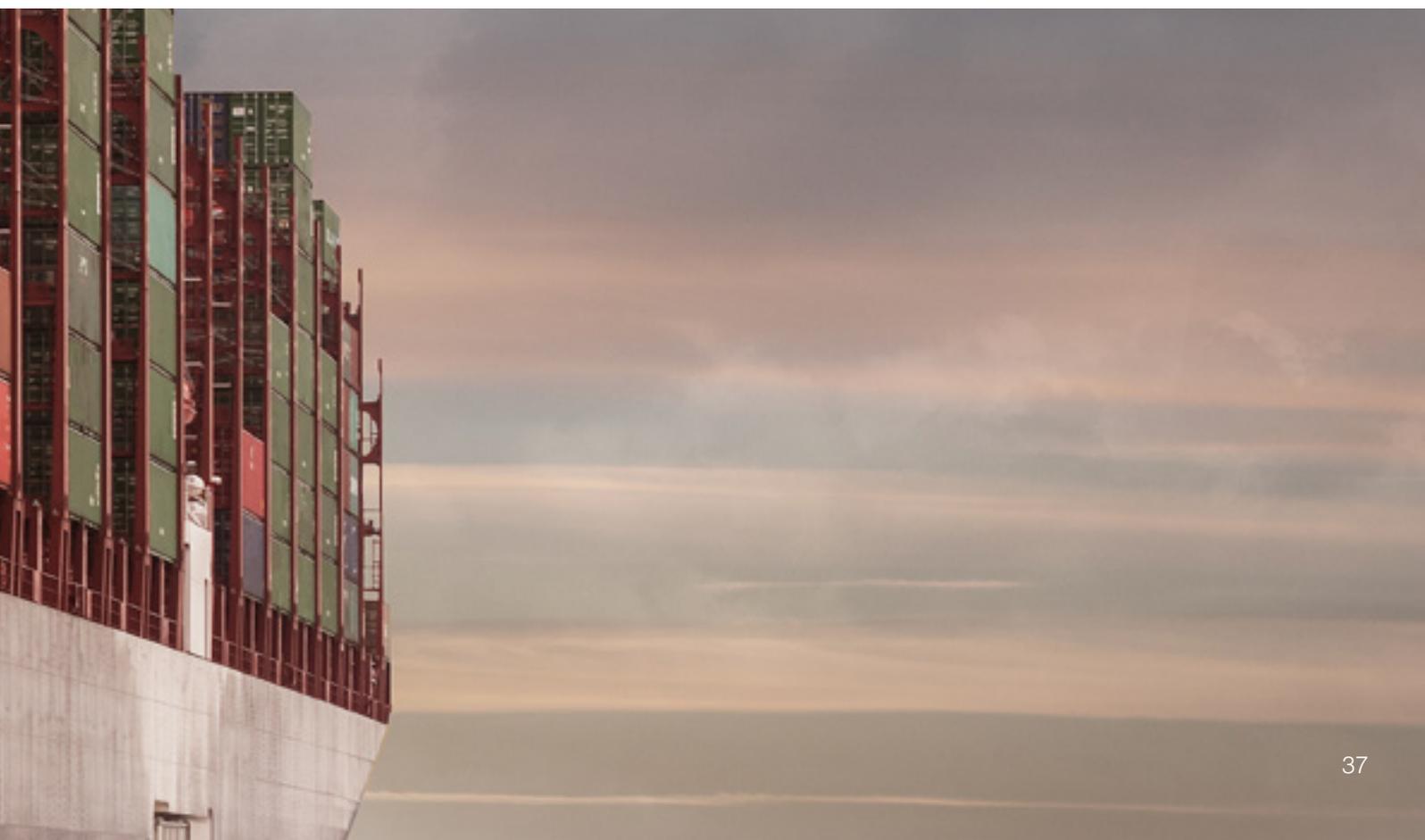
A: China is the biggest and one of the fastest growing consumer markets in the region. China's "dual circulation" strategy and its efforts to boost domestic consumption make it a major consumer market for other RCEP member countries. On the other hand, with its well-established integrated industrial and supply chains, China is also a major supplier of finished goods to the RCEP region and the rest of the world. The dual roles of China as the largest consumer market as well as the major supplier in RCEP indicate China's prominent position in the region.



Q: How will RCEP promote cooperation between China and other member countries in cross-border e-commerce?

A: The Chinese government has been very supportive towards the development of cross-border e-commerce. In recent years, it has rolled out a number of favourable policies to promote and regularize cross-border e-commerce, including setting up comprehensive cross-border e-commerce (CBEC) pilot zones that offer preferential policies to enterprises registered in these zones. In May 2020, the State Council announced the establishment of another 46 CBEC pilot zones across the country, bringing the total number of pilot zones to 105. These CBEC pilot zones take the lead in setting new standards and exploring innovative breakthroughs in the areas of customs clearance, tax collection, foreign exchange supervision, cross-border financial services, and logistics to facilitate the development of cross-border e-commerce.

Meanwhile, in January 2020, six ministries and commissions, including the Ministry of Commerce (MOFCOM), jointly released a notice to add 50 cities and the whole Hainan island on top of the existing 36 cities into the pilot scheme of CBEC retail importation. Under the scheme, retail imports will be regulated as personal goods, which are exempt from domestic licensing, registration and testing requirements, and can enjoy preferential tax rates when imported.



08 **Changing consumer demands and technological advances drive innovation; social commerce and livestream shopping continue to boom in 2021**





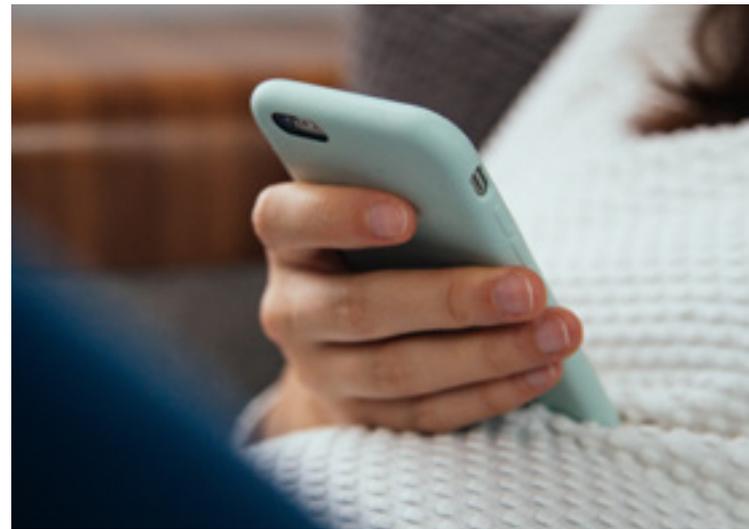
What the experts say

Changes in consumer demand are driving innovation

With the rise of the middle class and increase in disposable incomes, Chinese consumers are becoming more sophisticated, increasingly seeking high-quality products and services and new, richer experiences. The COVID-19 pandemic has further accelerated consumers shifting from traditional offline retail channels towards online channels to fulfill everyday needs. Businesses are coming up with new and innovative ways to engage customers and better serve their needs by providing diverse content and services as well as adding social and entertainment elements for a more fulfilling consumer experience. Social commerce and livestream e-commerce saw rapid growth in 2020 and are expected to gain further momentum going into 2021.

Social commerce continues to evolve as a mainstream retail channel

According to a report issued by the Internet Society of China and Chuangqi Social Commerce Research Center, social commerce sales in China will make up 30% of China's online retail market in 2020. Young consumers, particularly those aged below 25, and those aged between 25-30 are the key consumer groups shopping on social commerce platforms. The development of China's social commerce market first started with the emergence of "micro-stores" on popular social media platforms such as WeChat. Currently, there are three major types of social commerce platforms in China: content-sharing platforms, membership-based platforms, and team purchase platforms. Team purchase platforms that integrate social commerce and group buying models with low pricing strategies such as Pinduoduo, JD Pingou, and Suning Pingou have seen rapid growth in recent years, gaining popularity amongst consumers in lower-tier cities who are more price-conscious in general. Looking ahead, our experts recommend companies to build stronger supply chain relationships with both upstream and downstream stakeholders to further improve the value propositions of their goods and services and differentiate themselves from their competitors.



Livestream shopping sees explosive growth

The livestream e-commerce market experienced explosive growth in 2020. Livestream shopping is the broadcasting of videos in real time, usually via an influencer or celebrity, to promote and sell goods or services online. The COVID-19 pandemic has fueled livestream shopping as an increasing number of brands and retailers are creating their own live-streaming shows to market their products and connect with customers due to offline store closures. iResearch predicts that by the end of 2020, China will have 524 million livestreaming users. The total scale of China's livestreaming e-commerce industry reached RMB 433.8 billion in 2019 and is expected to double by the end of 2020. According to data released by the Chinese government, in the first half of 2020, more than 10 million live-streaming sessions were hosted online with over 50 billion views. Our experts note that to stand out from the crowd, brands and retailers need to offer top-notch products, services, and content to attract and engage customers. Meanwhile, live-stream platforms are also building up long-term competitiveness. For instance, Alibaba has launched reality shows online to nurture professional live-streamers. Meanwhile, JD.com has made investments to build an eco-system to promote its own livestream platform.

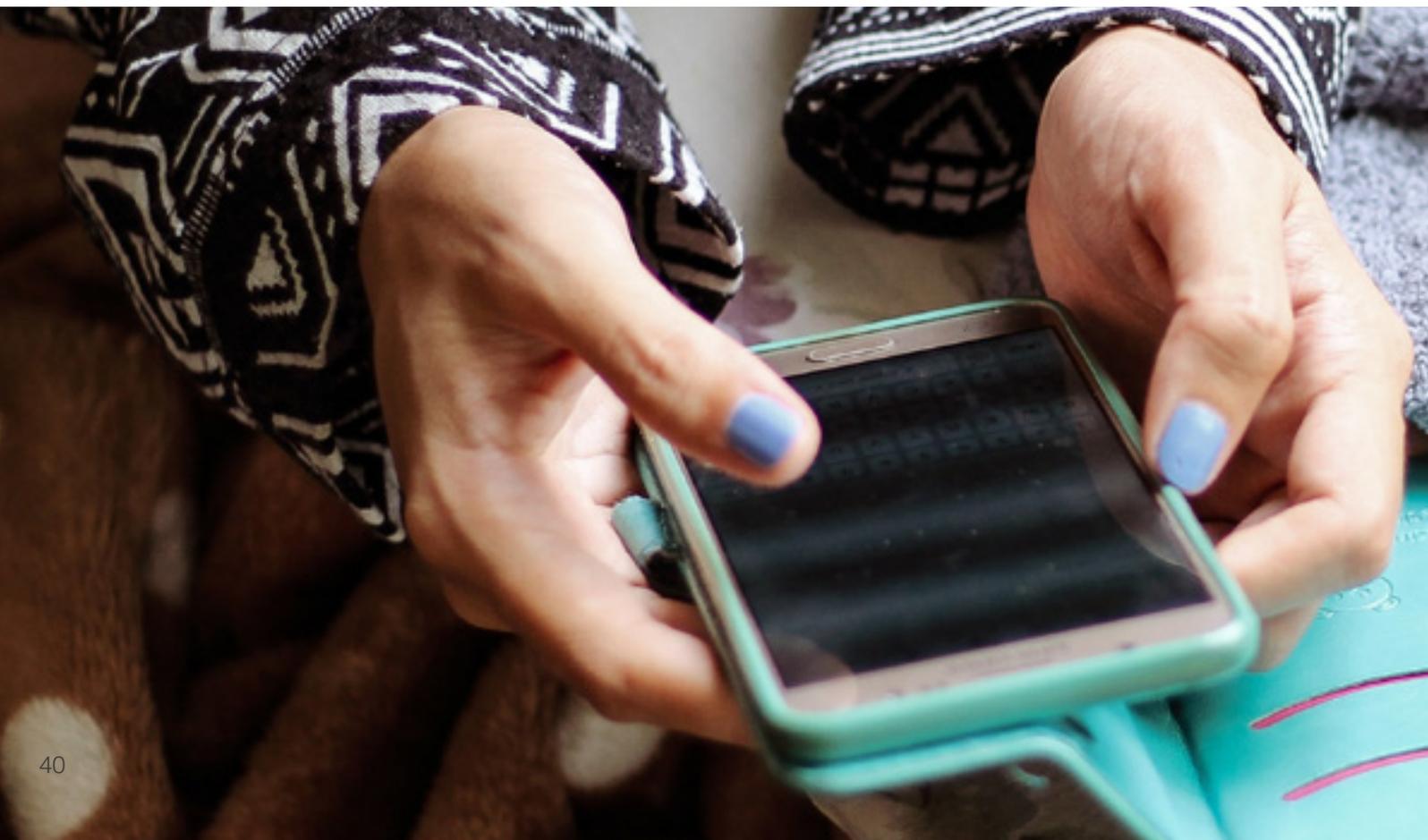
Q&As

Q: Why do consumers enjoy shopping via social commerce platforms?

A: Social media is an integral part of consumers' daily lives, and buying and selling on social media apps has become increasingly popular in China, especially with the mobile-savvy young generation. The appeal of social commerce is that it allows users to interact within their social groups, as well as foster and maintain relationships with each other. Consumers, especially the younger generation, particularly enjoy the “social” element of the shopping experience. They enjoy sharing product recommendations, shopping tips and coupons with their family and friends and are more likely to trust and purchase products recommended by their inner circles as well as Key Opinion Leaders (KOL). With the growth of social commerce shoppers, our experts believe that social commerce will gain further momentum in 2021 and it will continue to be an effective channel for businesses to market their products and services to customers.

Q: Why has livestream shopping gained so much popularity and experienced such a strong growth?

A: The COVID-19 pandemic, lockdowns and social distancing measures have continued to fuel online consumption. Compared to shopping on traditional e-commerce platforms where consumers typically search for products by looking at graphics and videos, livestream shopping offers consumers a more engaging and entertaining experience to learn about brands and products in real time and make



instant purchases. Livestream shopping sessions are often hosted by influencers, KOLs and celebrities, and viewers can interact and ask questions in real time and receive instant feedback. Consumers are also more inclined to trust and accept the opinions of influencers they follow, and they have higher confidence in the quality and authenticity of the products. Another big motivation for consumers to purchase via livestreaming sessions is that they can enjoy deeper discounts or get exclusive deals as anchors often give out coupons or free gifts. Also, consumers tend to enjoy the entertainment aspect of the livestream shopping experience and are often driven to make impulse purchases when the anchor creates a sense of urgency and calls upon viewers to “grab it” or “buy it now”.

Q: Is digital transformation essential for business growth?

A: The COVID-19 pandemic has accelerated digital adoption over the past year and our experts foresee that businesses will continue with the digital transformation this year. An increasing number of businesses have established an online presence and we have also witnessed rapid growth in O2O and community-based services. We are also seeing more companies embrace and adopt digital technologies such as big data, artificial intelligence (AI), Internet of Things (IoT), cloud computing, etc. to digitize their operations and supply chain to improve operational efficiency. Our experts note that successfully integrating technology to support and realise business innovations in fulfilling consumer needs is essential for business growth and long-term success.





09

Embracing digital technologies and innovation is key for retail businesses to seize new opportunities and remain competitive



What the experts say

COVID-19 has pushed businesses to embrace technology and innovate

The COVID-19 pandemic has accelerated the digitalization of the entire world. During the pandemic, traditional brick-and-mortar businesses without any form of digital presence were most severely impacted. As a result, an increasing number of businesses have been establishing some form of online presence via launching social media accounts and expanding their sales channels online via selling on e-commerce and social commerce platforms as well as mobile apps, mini-programs, and livestreaming. The ability to provide on-demand delivery services also became a critical success factor during the pandemic, especially in the catering and retail sectors. Our experts note that the pandemic has changed consumers' consumption habits, which are likely to continue into the recovery. It is important for traditional businesses that were not previously tech-enabled to continuously leverage the use of technology and experiment with new business models empowered by digital innovations to meet the evolving needs of consumers.

Emerging technologies continue to drive business development and innovation in the retail industry

Many retail businesses have applied new technologies such as artificial intelligence (AI), virtual reality (VR) and augmented reality (AR) technologies across their supply chain and core operations to enhance their operational efficiency and deliver a more fulfilling customer experience. Contactless payment, virtual try-on services, and the use of robotics and AI to provide customer

services has gained further popularity during the pandemic. Smart manufacturing has also gained further traction. On the logistics and fulfilment front, operations powered by AI such as automated and digital warehouses and smart storage systems have become increasingly popular. Cloud computing and cloud services will also play an increasingly important role as businesses digitize their business data and internal systems to increase efficiency and enhance performance. For example, Intime Department Store's retail operations are now fully cloud-based. Its core operating systems, database, membership scheme, marketing programs, and supporting systems have been completely transitioned to cloud and it will further develop new retail capabilities through cloud computing and big data.

Omnichannel retailing/ online-to-offline (O2O) integration will continue to dominate the retail scene

Having an effective omnichannel / O2O strategy is particularly important for brands and retailers in China. Our experts note that businesses that are able to provide consumers with the best "end-to-end customer journey" will stand out from their competition. The ability to seamlessly integrate the consumer journey between multiple online and offline touchpoints in real-time will be essential for long-term success. Meanwhile, having the right mobile and social media-centric O2O strategies becomes increasingly important for businesses as these channels have become an integral part of people's lives, especially the younger generation who are becoming the engine of China's consumption growth.

 **Q&As**

Q: What measures has the government announced to promote innovation in the retail industry in 2020?

A: On 13 March 2020, the National Development and Reform Commission (NDRC) and 22 other departments/ministries jointly released the *Opinions on Promoting Consumption Expansion, Improving Consumption Quality and Accelerating the Development of a Strong Domestic Market*. The Opinions revealed measures to promote consumption and innovation in the retail industry. Specifically, the Opinions call for accelerating the construction of a “smart” ecosystem in the retail sector and the development of new technologies and IT infrastructure; to encourage the integration of online and offline channels; and to promote new consumptions formats and business models.

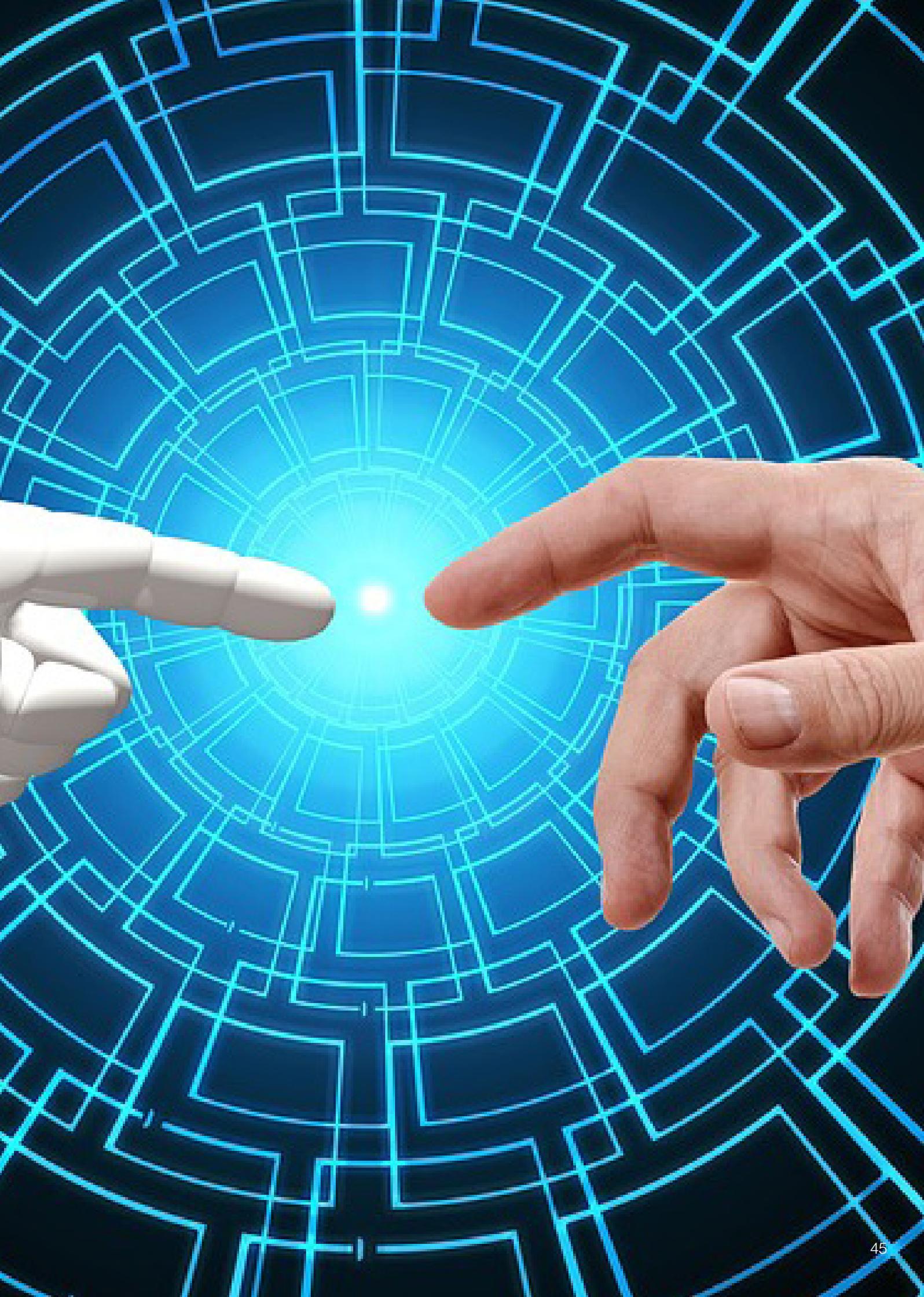
Q: What are some notable technological innovations adopted by e-commerce platforms?

A: E-commerce platforms have been at the forefront of technological innovation. For example, Tmall launched its “Flagship Store 2.0 Upgrade Program” last year. The upgraded features offer retailers and brands the ability to provide a customizable experience, leveraging new technologies including 5G, big data, AI, AR, etc., to offer consumers an immersive retail experience, as well as integrating O2O, live-streaming, and in-app shopping experiences. In addition, earlier this year, Tmall officially launched its 3D shopping feature, which creates an immersive and interactive experience for consumers to browse real-life 3D showrooms of over 100 brands, including IKEA, online by leveraging 5G technology.

Q: What digital innovations have been adopted by logistics operators?

A: To better cope with rapid shifts in consumer preferences due to the COVID-19 pandemic, both retailers and logistics players have been actively exploring innovative ways to improve logistics services to better serve customers. Logistics providers have been offering “contactless delivery” and services deploying autonomous vehicles or drones to deliver orders in rural areas to prevent the spread of the coronavirus. For example, Meituan’s autonomous vehicles team joined hands with Meituan Maicai to pilot driverless delivery in Beijing, whilst JD Logistics deployed autonomous shuttles and drones to deliver medical and commercial cargo throughout quarantine zones in Wuhan and other cities in Hubei. In addition, logistics companies are also stepping up investments to “go smart” and have been adopting new technologies such as AI, IoT, cloud computing, big data analytics, machine learning, automation and robotics to digitalize and streamline their operations.

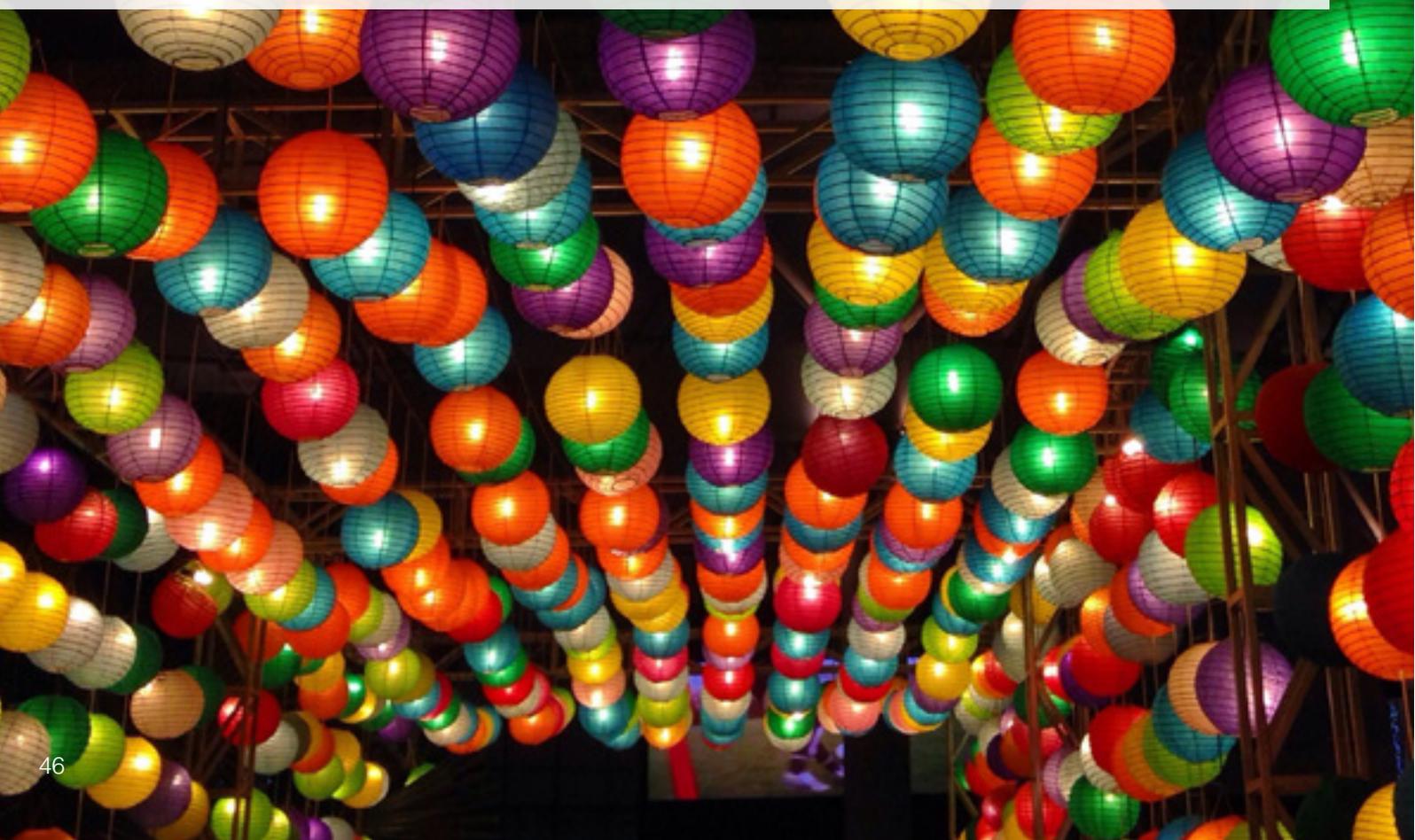






10

China's night-time economy continues to evolve and flourish; huge growth opportunities for small stores and shops





What the experts say

Night consumption experiences notable growth as China's economy picks up from COVID-19

The scale of China's night-time economy is expected to have reached 30 trillion yuan in 2020, according to iiMedia Research. China's night-time consumption experienced notable growth in the second half of the year as the economy picked up from COVID-19. The catering, shopping, travelling, and entertainment sectors experienced the strongest growth. Our experts expect that the night-time economy will continue to flourish in 2021.

Significant proportion of online transactions conducted during night hours

Statistics from online shopping platforms show that a significant proportion of online transactions were conducted during night hours. According to e-commerce giant Alibaba, up to 40% of its daily sales on Taobao were made during night hours. According to data from Meituan, an online platform for food delivery and retail services, as of September 2020, night-time consumption on its platform increased 37.2% yoy. In addition, over 90% of cities in China recorded an increase in night-time consumption levels compared to the same period last year.

Strong Government support to help promote development of night-time economy

In 2020, the Chinese government has made great efforts to boost consumption by promoting the night-time economy. According to statistics released by the China Tourism Academy, as of 1st October 2020, China had released a total of 197 policies and guidelines related to promoting the development of the night-time economy. Of these, 82 policies had the word 'night economy' in their title.

Policies related to boosting the night economy that were released in the first three quarters of 2020 were almost four times those released in 2019, reflecting the government's strong

determination to further develop the night-time economy in 2021. The overall direction is to extend the opening hours for commercial activities, build up a night-time eco-system, and come up with new and innovative ways to offer diversified experiences for consumers during night hours, so as to promote consumption and stimulate domestic demand.

Night-time cultural and leisure activities and shows gaining popularity

The General Office of the State Council and the Ministry of Culture and Tourism have both released Opinions to further develop the night-time economy, especially in the areas of culture and tourism. Major cities across China have actively participated and hosted different night-time activities to attract visitors. For example, the "Night Tour to Jinjiang" project in Chengdu and the "Ice and Snow World" in Harbin attracts tourists from all over the country. Shanghai's evening cruise on the Huangpu River and the "Night Tour of Qinhuai" project in Nanjing has become a name card for local night tourism. Meanwhile, the Grand Tang Dynasty Everbright City in Xi'an hosts regular cultural and live band performances. Cultural relics from the Tang Dynasty make it a popular photography hotspot for both tourists and KOLs.

Flourishing night economy online presents huge growth opportunities for small stores and shops

Small and medium businesses are playing an increasingly important role in the night market economy. Our experts are of the view that small stores and shops have huge growth potential, especially in the era of digitalization and e-commerce. In addition, the COVID-19 outbreak has accelerated the shift from offline to online consumption. It is easier for entrepreneurs to start up their businesses online. Data from Meituan revealed that small stores accounted for 89% of total merchants on its platform, whilst nearly 300,000 new stores joined the platform in the third quarter of 2020.

Q&As

Q: How has the night-time economy evolved from its original form?

A: China's night-time economy has evolved from traditional night markets that offer food and entertainment to a much more diversified setting that covers food, shopping, sightseeing, night tours, arts and cultural events, sports, exhibitions, performances, etc., that can better meet people's social and leisure needs.

Q: What is the definition of a “small store”?

A: Small stores and shops are ubiquitous in China and come in a variety of formats, e.g., street vendors, specialty retail stores, convenience stores, food stalls and restaurants, online stores, etc.

Businesses which meet one of the following criteria can generally be classified as a small store:

- 1 Businesses with less than 10 employees
- 2 Micro-enterprises with an annual turnover of less than RMB 1 million
- 3 Online stores with an annual turnover of less than RMB 15 million

As of December 2019, China had more than 80 million small stores and shops, with a total of 200 million employees.

Q: What is the government policy towards the development of small stores and shops?

A: Small stores and shops are key to China's economic development and plays an important role in promoting consumption, stimulating employment, and enhancing economic vitality. The Ministry of Commerce and six other government departments jointly issued a circular in July 2020 to promote a healthy and vibrant “small-store economy”, with the goal of fostering “100 million small stores in 1,000 clusters in 100 cities/districts” across China by 2025.

Specifically, the government has called for improving the infrastructure facilities for small stores, including revitalizing existing facilities and freeing up idle space. In terms of financial support, the government is offering eligible small stores start-up loans and subsidies on interest payments. The government is also encouraging small stores to expand their product offerings, extend their operating hours, introduce new retail formats and experiences, and further leverage digitalization to better meet the needs of consumers.





Contact us

Authors:

Helen Chin

Vice President
helenchin@fung1937.com

Nancy Ngai

Senior Manager
nancyngai@fung1937.com

Contributors:

William Kong

Senior Research Manager
williamkong@fung1937.com

Winnie He

Research Manager
winniehe@fung1937.com

Winnie Lo

Senior Research Manager
winnielowl@fung1937.com

Sophie Zhang

Senior Research Manager
sophiezhang@fung1937.com

Fung Business Intelligence

1/F, LiFung Tower, 888 Cheung Sha Wan Road, Kowloon, Hong Kong
fbicgroup@fung1937.com
<https://www.fbicgroup.com>



@ Copyright 2021 Fung Business Intelligence and the Secretariat of the Expert Committee of the China General Chamber of Commerce (ECCGCC). All rights reserved.

Though Fung Business Intelligence and the Secretariat of the ECCGCC endeavor to ensure the information discussed in this material is accurate and updated, no legal liability can be attached as to the contents hereof. Reproduction or redistribution of this material without Fung Business Intelligence's or the Secretariat of the ECCGCC's prior written consent is prohibited.