MONTHLY REPORT

TRADE SERVICING

– WUSATA

April 2022

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Market: China & HK **Submitted by**: China In-market Representative **Month & Year:** April 2022

Executive Summary

According to the FAS China office, at a recent Beijing municipal press conference, authorities announced that effective April 1, 2022, imported cold-chain food products will be rejected if shipped into Beijing without prior inspection appointments at a Beijing Entry Checkpoint. Food industry analysts in Beijing have reported this measure as the strictest prevention and control of COVID-19 measure for imported cold-chain food products to date.

Major aspects of the newly announced policy include a) imported cold-chain food products will not be allowed into Beijing without a mandatory inspection appointment in advance; b) all products must be verified and inspected at a checkpoint before arriving into Beijing; c) information on the flow of cold-chain food products will be recorded and updated in the Beijing cold-chain system; d) all cold-chain food products will go into a First Stop Transition Inspection Warehouse newly constructed for inspection and disinfection connected with inspection at Beijing entry checkpoints; and e) management measures on cold-chain imported food products.

Implementation of the policy in these first few days has not caused major issues, though some traders have reported slower transport of goods. Other traders reported an average time of four hours to go through the checkpoint, which is about the same amount of time required for clearance to enter Beijing prior to introduction of the new policy. Notably, the new policy applies to imported cold-chain food products only, and there are no announcements indicating that the measures will be applied to domestic products in the future.

With various cities in China going through a wave of Covid outbreak over March and April, most notably the international trading hub of Shanghai, scrutiny on imported foods is expected to grow, and the month-long city-wide lockdown that Shanghai is undergoing is also expected to slow down businesses between U.S. suppliers and buyers based in Shanghai.

Market Intelligence Update

Experts warn China's COVID-19 lockdowns will once again cripple global supply chains

Experts are warning China's recent string of COVID-19 lockdowns is about to send another shock through global supply chains.

At least 373 million people—in cities that represent roughly 40% of China's gross domestic product—have been affected by the most recent wave of lockdowns across China, Reuters reported in April.

The strict lockdowns have left some residents desperate for food and led to viral videos of Shanghai residents screaming from the windows of their high-rise apartments. And with Chinese President Xi Jinping doubling down on the country's zero-COVID approach, what happens in China isn't likely to stay there. Global supply chains are set to take a hit.

After all, Shanghai is home to the world's largest port, and although it has largely remained open, trucks are struggling to unload cargo due to strict permit regulations, causing shipping containers to stack up.

"Even with air and ocean ports open, the length of the shutdown could make this iteration the most significant logistics disruption since the start of the pandemic," the shipping company Freightos said in an update to clients.

That means, once lockdowns end, there's going to be an "overwhelming movement of goods" that cripples supply chains, Jon Monroe, an ocean shipping and supply-chain expert who runs Jon Monroe Consulting, told FreightWaves.

The economists added that they believe the Chinese government is unlikely to adjust its current policy anytime soon, even if officials are working to reduce transport blockages and production disruptions, meaning supply-chain chaos is likely to continue in the near term.

The effects of the widespread lockdowns in China are already being felt as far as Europe, according to the European Union Chamber of Commerce in China. The organization sent a letter to the Chinese government urging officials to revise their policies last week, arguing the effects of the lockdowns have already begun to affect European suppliers.

Lockdown-induced Shortages Boost Prospects of GMOs

The media catnip of the Tesla brand has ensured coverage of Chinese lockdowns has focused on Shanghai, where the carmaker has a factory. But coronavirus restrictions are threatening a far more essential commodity: food from the farming province of Jilin. That creates an opportunity for businesses specializing in genetically-modified organisms, controversial in China as elsewhere.

Lengthy lockdowns have stopped many farmers in Jilin from planting crops. Last year's harvest was disrupted in the same way. Local stockpiles of corn are depleted. The Ukraine war has pushed up the price of food imports.

The sheer volume of these means China has an outsized impact on prices for the rest of the world. Last year, global corn prices hit a record. China had almost tripled its imports, according to customs data. Soyabean imports also soared.

One solution would be to boost yields. China's corn fields yield an average of 40 per cent less than equivalent land in the US. Climate change, including extreme droughts, is one reason Chinese agriculture has underperformed.

US farms also benefit from using genetically-modified seeds. More than 90 per cent of US corn is grown this way. In contrast, genetically-modified corn has been largely banned from Chinese markets, though it is sometimes used illegally. Officials only recently approved 10 genetically-modified crops, including corn and soyabeans, after new regulations were drafted late last year.

Further approvals are likely. The trend should produce a windfall for first movers such as Beijing Dabeinong Technology in the genetically-modified corn market. Each seed variety typically brings in hundreds of millions in dollars in royalties for the makers. The global genetically-modified crops market, valued at more than $25bn in 2020, is expected to grow to $45bn in five years.

Shares of Dabeinong and local peer Yuan Longping High-Tech Agriculture are up about 6 per cent and 9 per cent in the past year. They already trade on steep multiples of around 60 times forward earnings. Prices will rise further if they can develop products to rival those of GMO giants such as Bayer.

Updates on US-China Tariffs

The February 14, 2020 implementation of the phase one agreement between the Trump administration and China established new US tariffs on imports from China for the foreseeable future. Average US tariffs on Chinese exports remain elevated at 19.3 percent. These tariffs are more than six times higher than before the trade war began in 2018. These tariffs cover 66.4 percent of US imports from China, or roughly $335 billion of trade (measured in terms of 2017 import levels).

Average Chinese tariffs on US exports also remain elevated at an average of 21.2 percent. China's retaliatory tariffs continue to cover 58.3 percent of imports from the United States or roughly $90 billion of trade (measured in terms of 2017 import levels). On February 17, 2020, the Chinese government announced an exclusion process whereby Chinese companies could apply for a temporary exemption from the retaliatory tariffs. Nevertheless, China was not able to live up to the commitment of purchasing an additional $200 billion of US goods and services over 2020 and 2021, as described in the legal agreement signed on

January 15, 2020.

Overall, the trade war proceeded in five stages between 2018 and 2022. The first six months of 2018 featured only a moderate increase in tariffs. The months of July through September 2018 resulted in a sharp tariff increase on both sides: US average tariffs increased from 3.8 percent to 12.0 percent, and China's average tariffs increased from 7.2 percent to 18.3 percent. In stage three, there was an 8-month period (September 25, 2018, through June 2019) of little change in tariffs. From June to September 2019, another set of tariff increases kicked in. In the current stage five, and despite the phase one agreement, tariffs between the two countries remain elevated and are the new normal.

During this same period, China has lowered the tariffs it applies on imports from the rest of the world. China's average tariffs toward those exporters have declined from 8.0 percent in early 2018 to 6.5 percent by early 2022. The United States increased its average tariffs on imports from the rest of the world from 2.2 percent to 3.0 percent over this same period.

➢ *Activities & Achievement*

This month’s activity is mainly related to trader contact for Mainland China and Hong Kong markets.

Thank You!

Submitted by SMH, China/Hong Kong In-market Representative