

Week of 16th November 2020

What's on our mind this week?

A new regional economic partnership: the RCEP

Four years ago, when Donald Trump became President of the United States, one of the first things he did was to remove the United States from the Trans-Pacific Partnership (TPP) project, a pan-Asian omnibus trade deal which included the US and China. The move effectively killed the project. It was later on resurrected in a milder form which included neither countries: the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP). It was not as far reaching.

Over the weekend it was announced that, after 8 years of negotiations, the 10 ASEAN nations plus China, Japan, Korea, Australia, and New Zealand had agreed to the Regional Comprehensive Economic Partnership (RCEP). It is the first trade treaty to link China, Japan and South Korea, 3 of the 4 largest economies in the region. Together, the countries of the RCEP form the largest trading block by GDP and population (about 30% of the world total for both) and the 2nd largest (next to EU) by the size of total goods traded (28% of the total). The RCEP involves a progressive tariff rollback of up to 90% of tariff line items, with carve-outs for agricultural products.

Two economies are noticeably absent from the deal: India which opted out in late 2019 as its concerns over the protection of its local producers were not met with adequate provisions; and Taiwan which was left out as China would never sit side by side with Taiwan in an international organisation. Taiwan stands to lose the most as 50% of its exports are to RCEP countries while it may face increased competition from Japan and Korea which will benefit from tariff advantages.

Many were quick to signal that the deal overlapped pre-existing free trade agreements between many of the countries involved and lacked specific provisions on items such as services, investments or e-commerce. Nevertheless, it is a significant milestone as it will ease the administrative burden of doing business throughout Asia (RCEP economies will only need one certificate of origin to ship goods between RCEP members for instance) and as it paves the way for pan-Asian sourcing and manufacturing strategies.

RCEP is also significant for reasons that reach beyond its economic provisions. It is a big diplomatic win for China which was at the heart of the negotiations and which demonstrated its leadership skills. The RCEP shows the strong commitment of all Asian countries to trade freely and to improve relations among themselves following the setbacks the TPP cancellation and the ensuing US-China trade war triggered. It is worth noting on that last point that countries with strong ties to the US and frosty ones with China (Japan, Australia and South Korea) entered the deal without hesitations. Finally, it is the first commercial treaty that links China to Japan and South Korea to Japan, something that is quite meaningful by itself.

November 11th : Singles' Day 2020 edition

Every year, on November 11th, the Chinese e-commerce space celebrates Singles' Day (or Double 11 as it was named after the numerical reading of the date 11/11) during which Alibaba offers big discounts to shoppers. It is the equivalent of Black Friday in the US or Amazon's Prime Day. It is always a good opportunity to assess the health of e-commerce and general consumption in China.

The comparison with 2019 is not easy this year as Alibaba decided to extend Singles' Day to the first 11 days of November while it only lasted one day last year. During the annual Singles' Day event this year, Alibaba generated RMB 498bn in gross merchandise value (GMV) between November 1st and November 11th, compared with RMB 268bn in 2019 on the single day. More than 250,000 brands participated in the event, about 31,000 of which were from overseas, with livestreaming becoming a key marketing tool for vendors. Livestreaming e-commerce is one of the fastest-growing area of e-commerce in China. Over 30 livestream anchors generated more than RMB 100m in sales during Singles' Day.

Alibaba indicated that 2 million new products were introduced on its platforms during the Singles' Day, twice the number recorded last year. Over 470 brands surpassed RMB 100m in GMV on Alibaba's platforms, including Apple, Huawei, Xiaomi, Nike, Adidas, L'Oréal, Estée Lauder, and Lancome, to name a few. Alibaba also hosted a Singles' Day gala on November 10th which included international pop stars like Taylor Swift, Katy Perry, and Mariah Carey.

Singles' Day is most closely associated with Alibaba, but many other e-commerce platforms have joined in since it started in 2009. JD.com, Suning.com and Vipshop, as well as short video platforms Douyin and Kuaishou, have all taken part in the shopping festival. JD.com recorded RMB 272bn in GMV for the 11-day period, compared with RMB 204bn last year.

Altogether 2020 was another strong edition of Singles' Day. The results may look less impressive as they were spread over a longer time period but the level of engagement and spending remains very significant.

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