

JESA INVESTMENT & MANAGEMENT CO., LTD.

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Opportunities offered by the Chinese Pet Industry



Industry attractiveness

The pet industry, which includes a vast range of products and services from toys, nutrition and health-care to bathing and grooming, presents interesting characteristics that we want to share with the ones of you that might not be so aware of, along with the potential growth leveraging the new trends. Some years ago, we have already made out the big potential of this industry in China: the data has met the forecast.

China keeps being a very attractive market both for the incumbent players in the industry and for potential new entrants. Indeed, the dog and cats' markets, which represent almost the totality of the pet market, reached RMB 202.4 billion in 2019, increasing by 18.5% from 2018 (Pet Fair Asia, 2020) (Exhibit 1).

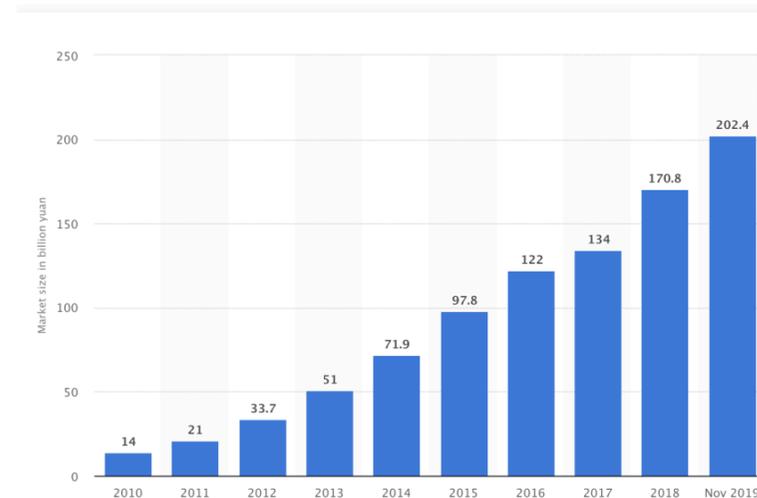


Exhibit 1 - Growth of the Dog and Cats Market from 2010 to 2019

Source: Statista, 2020

Moreover, the market research firm Frost & Sullivan estimates RMB 472.3 billion worth of the pet market by 2023, ten times bigger than 2013. Valued in 2019 at around \$223.1 billion, the pet care market is expected to reach the value of \$327.7 billion by 2026 (Chinaskinny, 2020). This is aligned with the fact that, the number of dog or cats' owners has increased by 4.72 million from 2018 to 2019, reaching

61.2 million people (Pet Fair Asia, 2020) and making Chinese pet owners a new breed of power purchasers.

By 2024, China is expected to have 248 million pet compared to 172 million in the US (Bloomberg, 2019) (Exhibit 2).

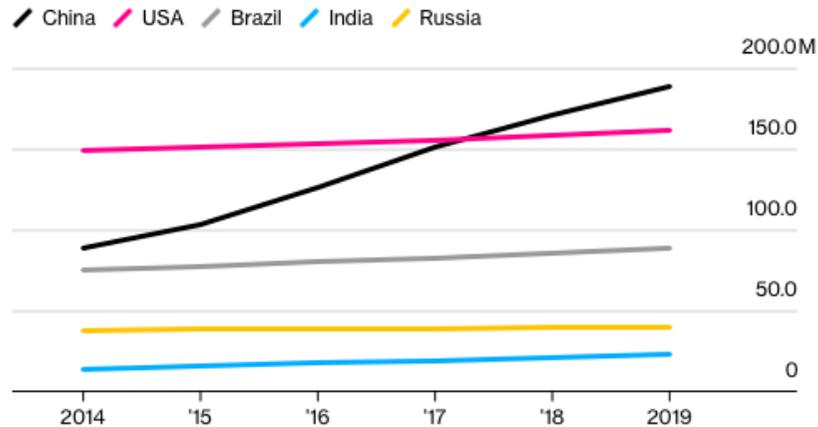


Exhibit 2: China’s dog and cat population in the world
Source: Euromonitor International

Only 17% of total Chinese households have a pet, which is very low compared with the 67% rate in US (PwC, 2020) (exhibit 3).

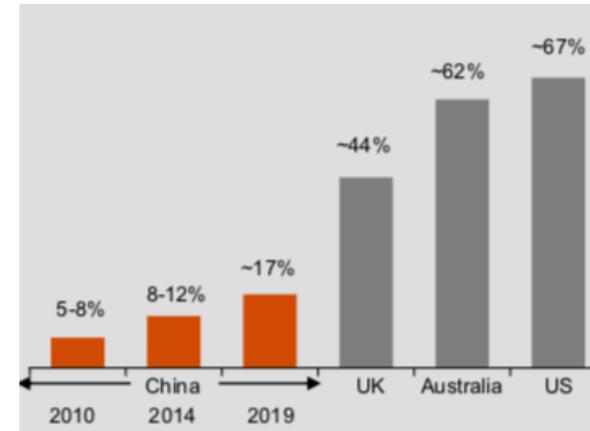


Exhibit 3: Pet ownership rate based on the urban household population.
Source: APPA, Euromonitor, Fitch Solutions, PwC Internal Database

It is worth to point out the increasing preference for cats, which has shifted from 31 to 44% in a time span of 5 years, between 2014-19. Same clear signals of the potential of this industry have come up in the last few years. During the 2019 edition of the 11.11 Global Shopping Festival, for instance, cat food outperformed popular products as baby formula and face serums. Moreover, health supplements for pets grew by 50% from 2017 to 2019 (CBNData,2019).

Pet food has become the most developed sector in the Chinese pet market, since it accounted for 55% of the industry size in 2019 and it is expected to grow annually by 4.5% (CAGR 2020-2025) (Statista, 2020).

Portrait of the Chinese pet owner

The rapid growth of the industry, which has in fact tripled over the last 5 years, is due to a major shift from the traditional pet owner profile in rural areas towards a young, digitalized generation more willing to spend for their pets, which accounts for 50% of post 90s/Millennials (Frost&Sullivan 2019).

The positive trend of the demand for pet products is mainly driven by Millennial. Almost 40% of pet holders in China are under 24 (CBNData, 2018), 45,2% are under 30 and 29.5% are between 30 and 40 years old (Forward the Economist, 2018).

Pet ownership accounted for 70/80% in 2010-2019 of market growth in top tier cities for upper middle class.

Moreover, data shows that 88.4% of Chinese pet owners are female and, even more interestingly, it is increasing the number of highly educated and high-income people that decide to adopt a pet.

Therefore, it seems clear that an effective advertising campaign should target mainly young woman with a college education and a good job which gives a quite high spending power (Exhibit 4).

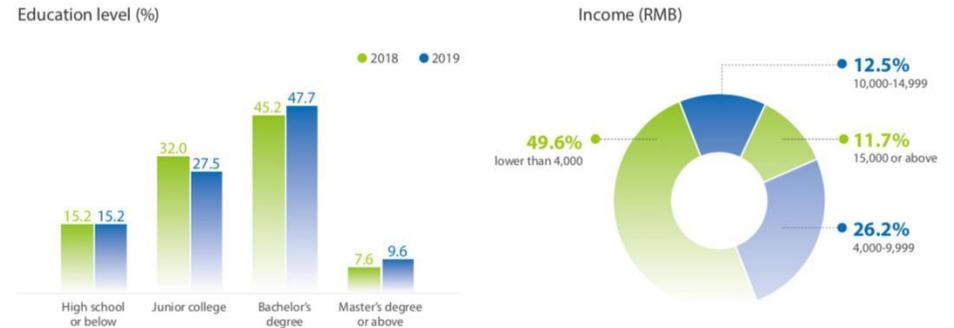


Exhibit 4 - Education and Income of Chinese per owners

Source: Source: Pet Fair Asia 2019 White Paper

Customer Habits

The Chinese pet owner, as most of Chinese customers, presents a preference for online shopping over the classical retail, due to social media influence. Almost 90% of Chinese pet owners declare to have bought pet products online in 2018 (CBNData, 2019). The 2019 White Paper of the Pet Fair Asia shows that internet is used as main purchase channel, with Taobao, Tmall and JD as main websites (Exhibit 5).

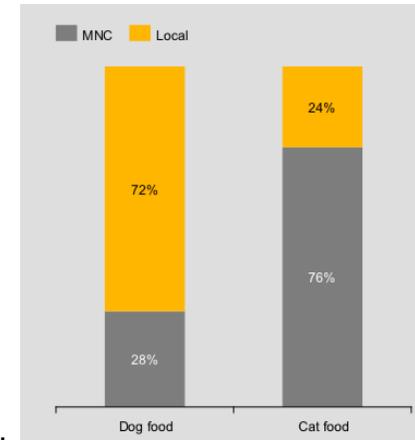
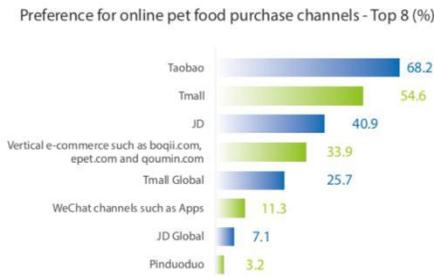
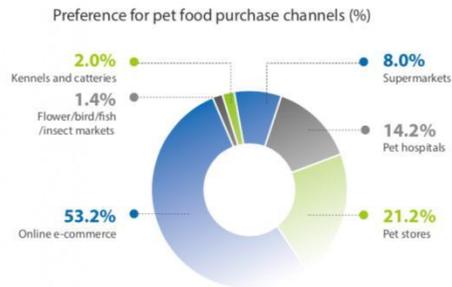


Exhibit 5 – Food purchase channels
Source: Pet Fair Asia 2019 White Paper

However, a data particularly important for foreign companies looking for opportunities in the Chinese market is that most of the Chinese pet owners tend to go on foreign e-commerce platforms looking for high quality, premium products not widely available offline in China. Which means that a good way to exploit this market is to target also this market share: in fact, in January 2020, premium imported food purchases have grown by 400%.

Also, local firms develop mostly through online channels, targeting price sensitive costumers, but are still emerging in the cat market, due to poor brand recognition and short R&D history, while in the dog segment represent 72% of the market players (Pwc, 2020) (Exhibit 6)

Exhibit 6 – Sales by type of company
Source: PwC Analysis

Although food represent the majority of animal products purchased, a rising trend is represented also by fashion accessories and beauty products, despite not being a mature segment. Indeed, pet-grooming items such as dry shampoos, paw lotions, eye serums and ear cleansers saw a triple digit sales growth on Tmall Global in the last two quarters of 2019 (Jing Wang, 2020). Moreover, the COVID-19 has fostered this trend. The impossibility of leaving homes and need for entertainment has resulted in a 375% year-over-year growth of pet-related livestream sessions in February (Dorothy So, 2020).

However, another research conducted by the Pet Fair Asia shows the highest growth rate for pet treat and medicine (Exhibit 7), suggesting another range of products with high potential of success.

Changes in overall consumption structure in 2019 (%)

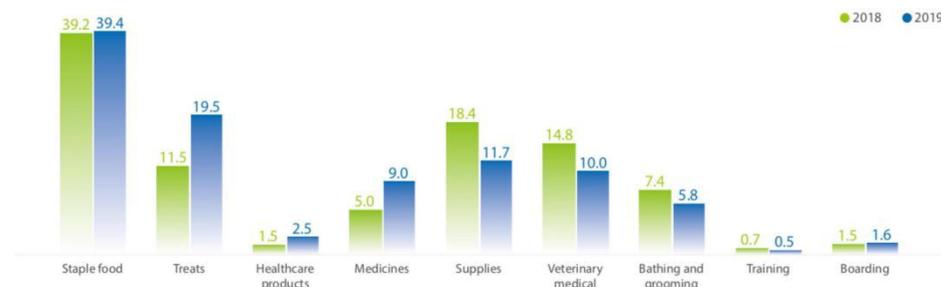


Exhibit 7 – Consumption of pet products

Source: Pet Fair Asia 2019 White Paper

Finally, an effective strategy and communication would also consider that the new generation of pet owners, as mentioned before mostly millennials, would rather define themselves as pet “parents”, which is then reflected in their attitude toward pet products and services: 87% of them consider their own furry as members of the family. In conclusion, this market in China is still very far from saturation and keep presenting opportunities that shouldn’t be undervalued.

Opportunità legate allo sviluppo della Pet Industry in Cina

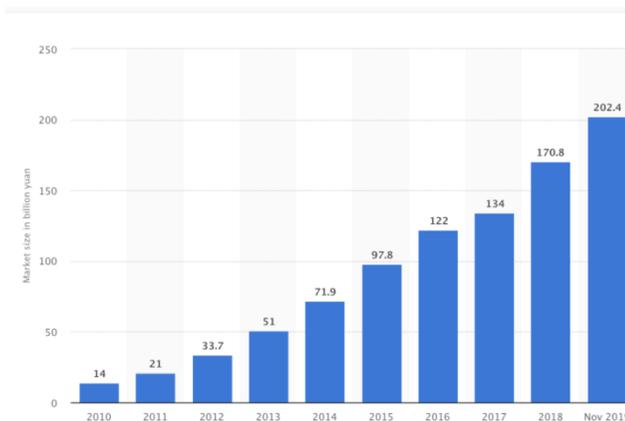


Attrattività del settore

Il mercato degli animali da compagnia, che comprende una vasta gamma di prodotti e servizi che includono giocattoli, alimentazione e assistenza medica, fino ad arrivare ad accessori per il bagno e toelettatura, presenta una potenziale crescita che sfrutta le nuove tendenze di mercato e caratteristiche interessanti che vogliamo trasferire anche a chi di voi non ne’ pienamente a conoscenza.

Alcuni anni fa avevamo già condiviso il grande potenziale di questo settore in Cina: i dati hanno soddisfatto le previsioni.

La Cina continua ad essere un mercato molto attraente sia per gli operatori storici del settore che per i potenziali nuovi operatori. In effetti, il mercato dei cani e gatti, che rappresenta quasi la totalità del mercato degli animali domestici, ha raggiunto i 202,4 miliardi di RMB nel 2019, aumentando del 18,5% rispetto al 2018 (Pet Fair Asia, 2020) (Grafico 1).



Allegato 1 - Crescita del mercato di cani e gatti dal 2010 al 2019

Fonte: Statista, 2020

Inoltre, la società di ricerche di mercato Frost & Sullivan, ha stimato un valore di 472,3 miliardi di RMB entro il 2023 per il mercato degli animali domestici, dieci volte più grande rispetto alle stime del 2013.

Valutato nel 2019 a circa \$ 223,1 miliardi, il settore dovrebbe raggiungere 327,7 miliardi entro il 2026 (Chinaskinny, 2020). Ciò è in linea con il fatto che il numero di proprietari di cani o gatti è aumentato di 4,72 milioni dal 2018 al 2019, raggiungendo 61,2 milioni di persone (Pet Fair Asia, 2020) e rendendo i proprietari di animali domestici cinesi una nuova generazione di acquirenti con forte potere di mercato.

Entro il 2024, la Cina dovrebbe avere 248 milioni di animali domestici rispetto ai 172 milioni degli Stati Uniti (Bloomberg, 2019) (Allegato 2).

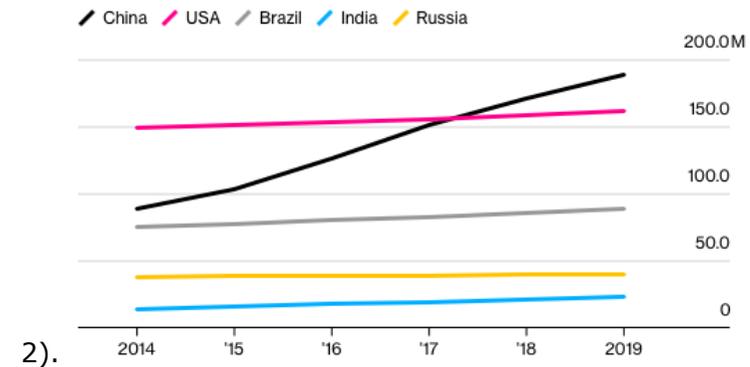


Figura 2: Popolazione di cani e gatti della Cina nel mondo

Fonte: Euromonitor International

Solo il 17% delle famiglie cinesi ha un animale da compagnia, un tasso molto basso se paragonato al 67% degli Stati Uniti (PwC, 2020) (figura 3).

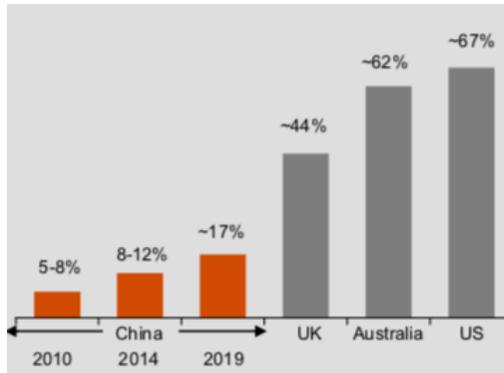


Grafico 3: tasso di proprietà degli animali domestici basato sulla popolazione domestica urbana. Fonte: APPA, Euromonitor, Fitch Solutions, PwC Internal Database

Da segnalare la crescente preferenza per i gatti, cresciuta dal 31 al 44% in un arco temporale di 5 anni, tra il 2014-19. Gli stessi chiari segnali del potenziale di questo settore sono emersi negli ultimi anni. Durante l'edizione 2019 dell'11.11 Global Shopping Festival, ad esempio, il cibo per gatti ha superato l'acquisto di prodotti popolari come il latte artificiale e i sieri per il viso.

Inoltre, le vendite online di integratori alimentari per animali domestici sono aumentate del 50% dal 2017 al 2019 (CBNData, 2019).

Il cibo per animali domestici è diventato il segmento più sviluppato nel mercato cinese degli animali da compagnia; nel 2019 ha rappresentato il 55% del mercato e si prevede che crescerà annualmente del 4,5% (CAGR 2020-2025) (Statista, 2020).

“Ritratto” del proprietario cinese dell'animale domestico

La rapida crescita del settore, che di fatto è triplicata negli ultimi 5 anni, è dovuta ad un importante passaggio dal tradizionale profilo di proprietario nelle aree rurali verso una generazione giovane e digitalizzata, più disposta a spendere per i propri animali domestici, che è rappresentata al 50% da Millennials e post 90s (Frost & Sullivan 2019).

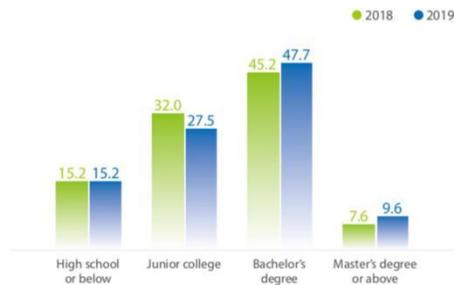
Quasi il 40% dei possessori di animali domestici in Cina ha meno di 24 anni (CBNData, 2018), il 45,2% meno di 30 e il 29,5% ha un'età compresa tra i 30 e i 40 anni (Forward the Economist, 2018).

La proprietà di animali domestici ha rappresentato il 70/80% di crescita per la classe medio-alta dal 2010 al 2019 nelle città top-tier.

Inoltre, i dati mostrano che l'88,4% dei proprietari di animali domestici cinesi sono donne e che, cosa ancora più interessante, sta aumentando il numero di persone altamente istruite e ad alto reddito che decidono di adottare un cucciolo.

Pertanto, è chiaro che una campagna pubblicitaria efficace dovrebbe essere rivolta principalmente alle giovani donne con istruzione universitaria e un buon lavoro che dia loro un potere di spesa piuttosto alto (Figura 4).

Education level (%)



Allegato 4 - Istruzione e reddito dei cinesi per proprietario

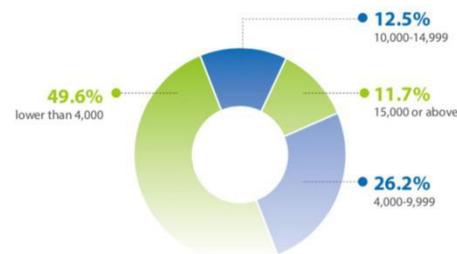
Fonte: White Paper Pet Fair Asia 2019

Abitudini dei proprietari

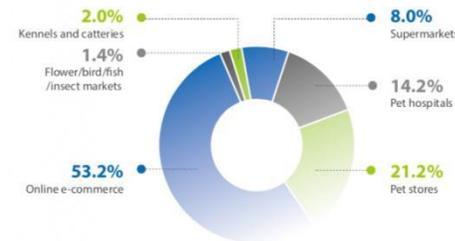
Il proprietario di animali domestici cinese, come la maggior parte dei clienti cinesi, preferisce lo shopping online rispetto alla vendita al dettaglio classica, a causa dell'influenza dei social media.

In Cina, quasi il 90% dei proprietari dichiara di aver acquistato prodotti per i propri animali domestici online nel 2018 (CBNData, 2019). Il White Paper 2019 di Pet Fair Asia mostra che Internet è utilizzato come principale canale di acquisto, con Taobao, Tmall e JD siti web principali (Figura 5).

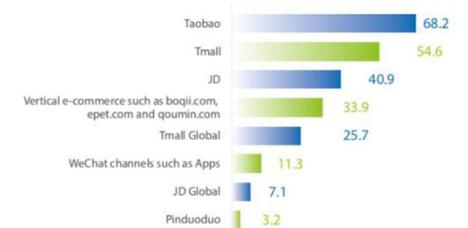
Income (RMB)



Preference for pet food purchase channels (%)



Preference for online pet food purchase channels - Top 8 (%)



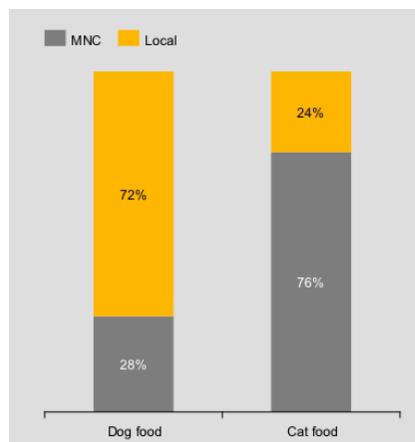
Allegato 5 - Canali di acquisto

Fonte: White Paper Pet Fair Asia 2019

Tuttavia, un dato particolarmente importante per le aziende straniere alla ricerca di opportunità nel mercato cinese è che la maggior parte dei proprietari di animali domestici cinesi tende ad usare anche piattaforme di e-commerce estere alla ricerca di prodotti premium di alta qualità non disponibili offline in Cina su larga scala.

Il che significa che è suggeribile puntare anche a questa quota di mercato: a gennaio 2020, infatti, gli acquisti di alimenti premium importati sono cresciuti del 400%.

Le aziende locali si sviluppano principalmente attraverso canali online, rivolgendosi a clienti sensibili al prezzo, ma stanno ancora emergendo nel mercato dei gatti, a causa dello scarso riconoscimento dei marchi e della breve storia di ricerca e sviluppo; nel segmento dei cani, invece, rappresentano il 72% del mercato (PwC, 2020) (Reperto 6).



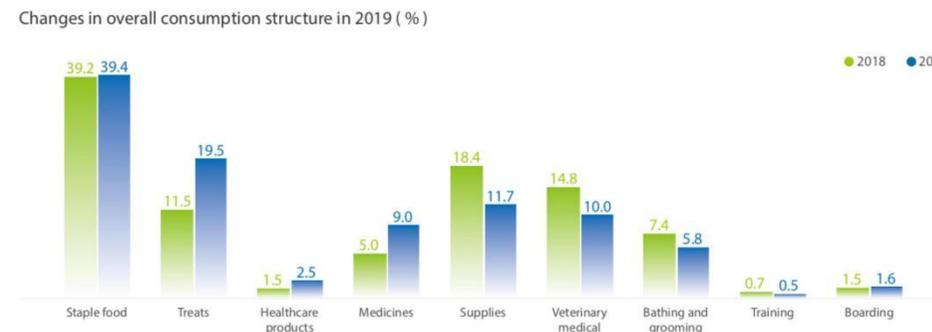
Allegato 6 - Vendite per tipo di azienda

Fonte: analisi PwC

Sebbene il cibo rappresenti la maggioranza dei prodotti per animali acquistati, un trend in crescita è rappresentato anche dagli accessori moda e dai prodotti di bellezza, che rappresentano un segmento ancora non interamente maturo. In effetti, articoli per la toelettatura degli animali domestici come dry-shampoo, lozioni per zampe, sieri per gli occhi e detergenti per le orecchie hanno registrato una crescita delle vendite a tre cifre su Tmall Global negli ultimi due quarti del 2019 (Jing Wang, 2020).

Inoltre, il COVID-19 ha favorito questa tendenza: l'impossibilità di lasciare la casa e il bisogno di intrattenimento ha portato ad una crescita a Febbraio 2020 del 375% per quanto riguarda le sessioni di live streaming relative agli animali domestici (Dorothy So, 2020).

Tuttavia, un'altra ricerca condotta dalla Pet Fair Asia mostra il più alto tasso di crescita per le prelibatezze e i medicinali (Allegato 7), suggerendo un'altra gamma di prodotti ad alto potenziale di successo.



Allegato 7 - Consumo di prodotti per animali domestici

Fonte: White Paper Pet Fair Asia 2019

A nostro avviso, quindi, una strategia efficace non può non considerare il fatto che i Millennials si definiscono "genitori" e non proprietari dei propri animali da compagnia; il loro atteggiamento nei confronti dei prodotti e servizi offerti dal settore deve essere un importante driver: l'87% di loro considera i propri animali come membri della famiglia.

In conclusione, questo mercato in Cina è ancora molto lontano dalla saturazione e continua a presentare opportunità da non sottovalutare.

E-RMB: Rise of the New Digital Yuan

Tested by the People’s Bank of China in Shenzhen, Suzhou, Chengdu and Xiong’an since April 2020, the **e-RMB** is the newly introduced digital substitute to the traditional Chinese Yuan, nonetheless the first sovereign digital currency ever released.

The Digital Currency Electronic Payment (*DCEP*) would replace banknotes and coins, accelerating and monitoring the economic transaction in real time.

A larger testing pool is expected to roll out in three new regions, as stated recently by the Chinese Ministry of Commerce, looking forward to an even wider one with the perspective of **Beijing Winter Olympics** in **2022**. If implemented correctly, the distribution of aid to rural areas will be eased, thanks to the elimination of certain bureaucratic inefficiencies, while transactions across national borders will be quickened by the major internationalization of the Yuan.

According to a 2019 survey released by the Bank for International Settlements, most of the Central Banks worldwide are contemplating the idea of implementing a similar payment method, and China is the earliest mover on that matter.

In fact, despite its recent launch, the project started back to 2014, when the PRC Government decided to find a more effective way to penetrate the ever more competitive and fast-paced global market.



Digital e-RMB wallet. Photo credit: 21st Century Business Herald

The transaction volume of payments completed online in China has grown steadily in most recent years, increasing 36 times between 2013 and 2019, with higher penetration than other western countries, such as the UK and the US.

The latest digitalized legal tender is not intended to substitute other mobile payment providers, such as **WeChat Pay** and **Alipay**, but rather a way for the government to safeguard sovereignty over its currency. In fact, it will work with either of the already existing digital platforms (if not both), and it is said to utilize blockchain partially. As stated by medias of the country, the flows of Central Bank Digital Currencies (CBDC) will be regulated in order to track more effectively the cash movements in real time, differently from other cryptocurrencies used worldwide.

Electronic Chop and Electronic Signature in China



With such a fast online consumer and producer market, as well as online government services, the Chinese government has pushed to regulate the act of using electronic seal (“chop”) and electronic signatures while conducting businesses.

An electronic chop is the digital correspondent of an actual chop, having the same legal effect and status. It is used for online financial and contractual operations or transactions. In the same way, an electronic signature is the digital correspondent of an actual signature. However, in some exceptions they cannot be used, such as for marriage, adoption, or inheritance documents.

In order to register a valid electronic chop a company must be validly registered in China. Electronics chops are issued by the government, who entrusts and appoints an electronic certification service provider. Every chop must be approved by the local Public Security Bureau (PSB), where a copy of the virtual chop is kept in case it needs to handle instances of fraud or misuse.

Based on the current policies in force, which aimed to solidify the validity and legal effects of electronic chops and signatures in China, an electronic chop is as legally binding given that two major conditions are met:

- 1) The electronic chop’s creation data is exclusively owned and controlled by the signatory at the time of signing;
- 2) If the signatory become aware that its electronic chop’s creation data has become compromised, they are held accountable and must promptly inform any relevant parties and cease to use the electronic chop.

There have been several recorded cases of not only electronic signatures being forged by fraudsters, such as in the case of Tencent versus Lao Gan Ma, for their own personal gain, but also cases of electronic chops being abused by local employees.

This is why the Ministry of Justice of the People’s Republic of China has also made clear the fines and possible punishments that could occur in the case of electronic chop frauds. These punishments are not just limited to corporate entities and individuals using the electronic signatures, but also to the electronic certification systems that are tasked with ensuring the authenticity and protection of the electronic chops.

Recently, Hangzhou city has launched a new e-seal application platform that matches e-seals with physical seals in a one-to-one correspondence. It lays on a blockchain technology that ensures the traceability of e-seal process and usage.

China’s E-Invoicing

In order to develop the E-Invoice system in China, on March 23, 2020 the Ministry of Finance issued the regulation Caikuai 2020 (No. 6) about standardizing the filing of electronic accounting documents.

Electronic accounting documents include e-invoices, e-tickets, electronic itinerary, electronic customs payment letter, bank electronic return, financial electronic bills.



If the hard copy of the electronic accounting voucher is recorded, the original electronic accounting voucher must be kept at the same time based on the new regulation to prevent that an invoice is double booked.

The electronic vouchers can be booked into the relevant account, only upon meeting the accounting principles’ requirements as per related relevant policy in force (such as meals, travel expenses, fixed assets, etc.).

Therefore, new related procedures shall be implemented by each enterprise to avoid tax risks and strengthen internal controls.

Brief Overview on High Speed Rail Network in China

While there is no single international standard for high speed rail, new train lines having speeds in excess of 250 km/h, and existing lines in excess of 200 km/h are generally considered to be high speed. Many countries in Europe and Asia have developed high-speed rail for passenger travel, although some systems also offer freight service.

The first high-speed rail system began operations in Japan in 1964, and is known as the Shinkansen, or “bullet train.” Now, Japanese trains travel up to 320 km/h, and over 50 years of operation, there have been no passenger injuries or fatalities due to accidents.

Thanks to the large funding from the Chinese government, high-speed rail in China has developed rapidly over the past 15 years.

Chinese high-speed rail service began operation in 2008, connecting Beijing to Tianjin (117 km) and running at speeds from 250 km/h to 350 km/h. This network currently is extended for 36,000 km, according to the UIC, the Worldwide Railway Organisation, accounting for more than two third of the global total high-speed track.

China’s most profitable high-speed rail line, reporting over \$1 billion in net operational profit in 2015, connects Beijing to Shanghai, the two most important Chinese cities.

China’s high-speed rail now carries more than twice as many passengers as its domestic airlines.

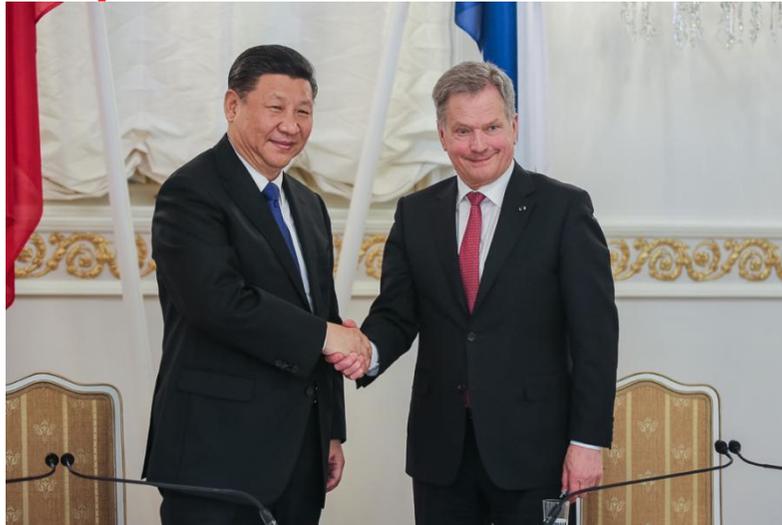


Source: Statista

Nevertheless, the goal set by President Xi Jinping is to further expand the network to 70,000 km by 2035 (Bangkok Post, 2020). Therefore, it is clear that this Chinese project presents a huge opportunity for European company involved in the sector.

Historically, China has imported most of its HSR systems through joint ventures with Japan, but also European countries as Germany and France. Although, China has been developing an internal production capability, Italian, Finnish and other European companies operating in the sector should move fast presenting their projects to the Chinese authorities hoping to be part of this enormous infrastructure project.

Some Info and Data on Finland-China Cooperation



The Sino-Finnish cooperation keeps developing thanks to the China-Finland Committee for Innovative Business Cooperation that was set-up in 2017 by President Xi Jinping and President Sauli Niinistö.

The four sectors of focus for this cooperation are: Energy, Maritime Logistics, Forestry and Cleantech.

With this short article, we would like to share with you some brief related information and data.

Energy

Recent developments in the cooperation between China and Finland in the energy sector include four new pilot projects, as announced on January 2020 by China's New Energy Administration (NEA). The four projects are:

1. Energy Internet
2. Geothermal in Zhoukou
3. Biomass gasification for coal fueled power plant
4. Micro-energy grids in Nansha.

Maritime Logistics

Prior to the establishment of the committee, Finland had already set out plans for its shipping industry in the "Maritime Transport Strategy for Finland 2014-2022". Specifically, the plan outlined intentions to focus exports of arctic transportation on China, among other countries, also outlining the increasing attention on businesses oriented towards China.

As of June 2020, however, new cooperation opportunities arise in the sector following the Finnish government's decision to provide close to €25 million in subsidies to the shipping industry.

Forestry

With China's recent interest in opening its forests for commercial use, it is increasingly seeking expertise in sustainable forestry, for which Finland is one of the world's leading countries, creating new export opportunities for Finland and new commercial cooperation opportunities for the Chinese forestry sector.

Initial evidence of this fruitful cooperation comes from a 3-month long master's program from the University of Eastern Finland in Joensuu which hosted students from Shaanxi's Northwest Agriculture University. Ultimately, China is looking for experience which Finland has an abundance of, allowing for countless export and cooperation opportunities within the Forestry industry.

Cleantech

The aforementioned 4 energy pilot projects also denote new cooperation opportunities in Cleantech given the primary focus of the projects is clean energy supply.

Finland is in a particularly advantageous position as the government wishes to stimulate the growth of the cleantech sector, specifically through creating a favourable business environment. Additionally, Finland is set to become one of the leading countries in the cleantech market.

This is due to the increased synergy and strengthened cooperation. Cooperation with China is particularly relevant as the country is increasingly seeking to shift towards cleaner energy, meaning an increased need for cleantech.

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