

China's Economic Outlook 2021

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5th May, 2021



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Business Support on Your Doorstep

About Kristina

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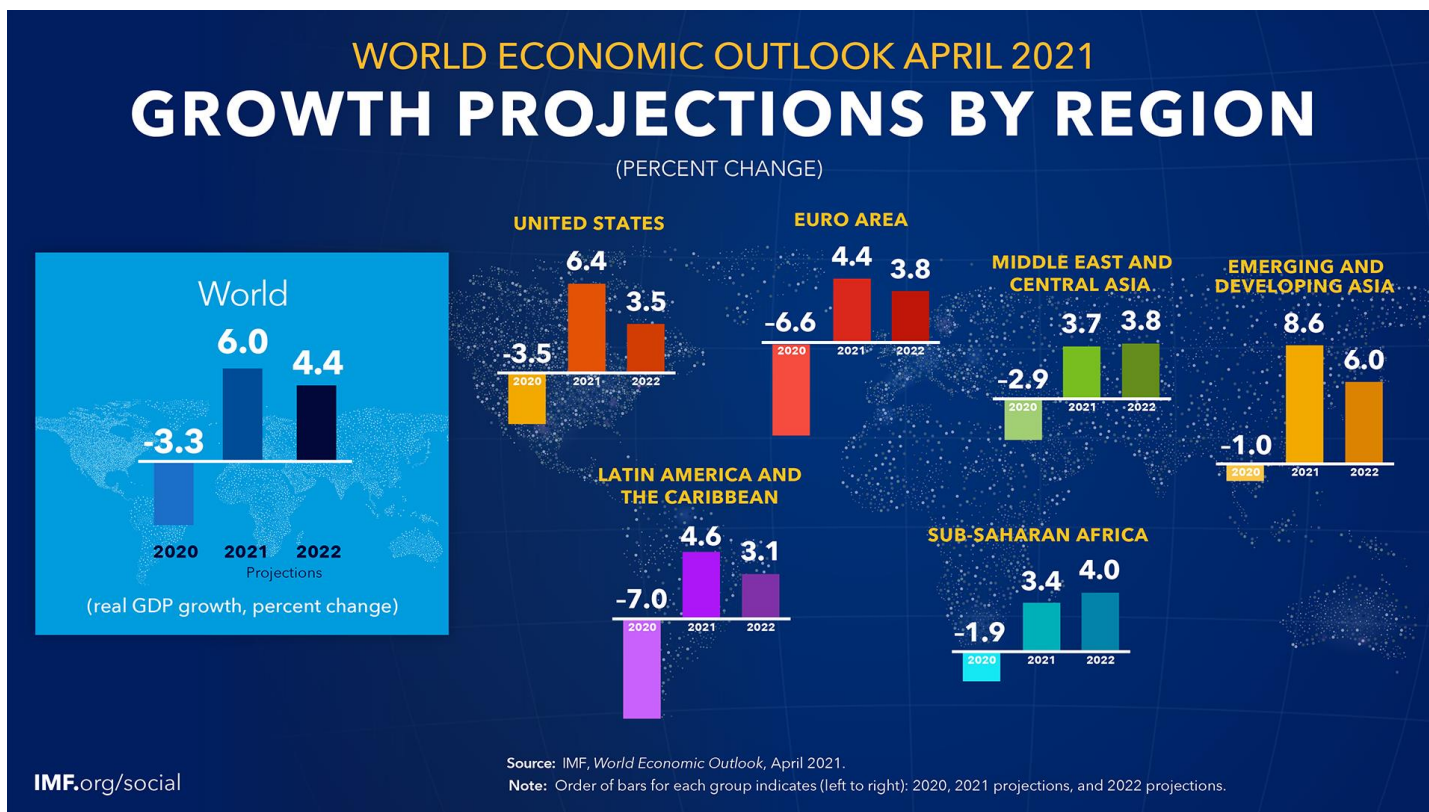
Agenda

- China's stimulus policies and policy normalization.
- US-China relations under new Biden administration, US-EU-China triangle and the impact on European SMEs.
- Management of COVID-19 flareups, vaccine developments and international mobility of foreign citizens, and how this will impact business models, growth and sustainability in the market
- Economic recovery: opportunities and challenges facing China's economy in 2021.

Chapter 1: China's stimulus policies and policy normalization

- Growth projections by region
- China's GDP forecast for 2021
- Highlights of China's economic rebound
- Focus on stabilizing small businesses
- Economic policy reforms back on agenda
- China's consumption market

Latest World Economic Outlook Growth Projections, April 2021 from the International Monetary Fund



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	2020	2021 Projections	2022 Projections
UNITED STATES	-3.5	6.4	3.5
GERMANY	-4.9	3.6	3.4
UNITED KINGDOM	-9.9	5.3	5.1
CHINA	2.3	8.4	5.6

Highlights of China's economic rebound (1)

- Industrial output rebounded fastest with growth in Q2 2020, among which output from high-tech manufacturing grew significantly on a year-on-year basis.
- Retail consumption has been gradually improved, with significant growth in online consumption, accounting for more than 25% of the total retail sales of consumer goods.
- Growth shrinkage in trade of goods was below expectation, and the export of medical materials, medicines, etc. rose significantly.

Highlights of China's economic rebound (2)

- With respect to the service sector, the output of information transmission, software and information technology services as well as financial industry increased rapidly
- New commercial activities are developing rapidly, including online education, medical care and office, which may show a regular growth
- Foreign capital inflows recorded net growth, and the RMB had steadily strengthened.

Focus on stabilizing small businesses (1)

- Focus is on SMEs in China for 2021;
- China Lowers Corporate Income Tax Liability for Small and Low-Profit Enterprises;
- China Raises Pre-Tax Additional Deductions for R&D Expenses of Manufacturing Firms;

Focus on stabilizing small businesses (2)

- The State Council extended measures on allowing small and micro-sized enterprises to defer loan repayments;
- Two ministries required small-value government procurement projects to be entirely commissioned to SMEs; and
- Central Bank policies on inclusive loan repayment extension and credit loan support program for small business are prolonged.

Economic policy reforms back on agenda (1)

- Implement the proposals of the 14th Five-Year-Plan and accelerate the establishment of a “dual circulation, which will be a long-term strategy
- The “dual circulation strategy” (DCS) is China looking inwards.
- Result has been a shortening of the negative list and expansion of the encouraged catalogue to relax market access for foreign investment.
- Goal of this strategy is to achieve a reduction in China’s external dependence on unpredictable foreign markets while tapping into its home ground advantage.

Economic policy reforms back on agenda (2)

- China wants to limit its' dependence on 2 types of imports.
- First, high-tech products like chips, which China has not yet acquired the ability to produce independently.
- Second, imports of food, agriculture technology, bio-technology, and some energy supplies like oil, gas, and the key minerals used in new energy batteries, which could relate to national security and stability, especially given China's vast consumption needs.

Economic policy reforms back on agenda (3)

- China will NOT stop imports of these products.
- It will seek to retain maximum access to global suppliers
- Invite greater foreign investment in these areas to improve efficiency
- Export-wise, China will continue to break into global markets to export its new energy vehicles, 5G services, and technologies related to new infrastructure, smart factories, and smart cities.

Economic policy reforms back on agenda (4)

- Maintain a relatively high investment growth rate and continue to push ahead with the “new infrastructure and new urbanization initiatives and major projects”
- Deepen reform, energize the market and continue to improve the business environment to enhance the confidence of domestic and overseas investors

China's consumption market (1)

- China's domestic consumption accounted for 55% of the GDP in 2019;
- In 2020, consumption slowed down dramatically – picked up in the 2nd half of the year and registered growth from August 2020 onwards;
- Solid finish to the year with 11/11 having total sales on all e-commerce platforms up by 31% from 2019.

China's consumption market (2)

- High-end consumption and sales of luxury goods, cars, and homes also witnessed a rebound;
- High-end malls in China saw their sales grow 25 to 35 percent compared with 2019;
- Online retail sales maintained strong growth momentum, boosted by new business models like livestreaming e-commerce and digital transformation of market entities.

China's consumption market (3)

- BUT the income and spending gap between the rich and poor has widened significantly under the pandemic, resulting in China's overall sluggish consumption growth
- Lower-income households make up most of China's population and they remain unwilling or are unable to spend after setbacks during the pandemic.

Chapter 2: US-China relations under new Biden administration, US-EU-China triangle and the impact on European SMEs.

- US-China relations under new Biden administration
- US-EU-China triangle and the impact on European SMEs
- Foreign businesses plan to leave China
- Reasons for staying in China

US-China relations under new Biden administration

- Externally, a big risk to China's economy normalizing could be continued friction with the US.
- The trade war's retaliatory tariffs (followed by détente based on China agreeing to buy more US imports) has not impacted the US trade deficit as much – due to the pandemic.
- Despite Trump's efforts to push US manufacturing home, most US businesses in China do not plan to leave.

US-EU-China triangle and the impact on European SMEs (1)

- Comprehensive Agreement on Investment between China and the EU was signed on 30 December 2020
- A key message of the deal is “the EU is very independent from the United States.”
- The EU and the U.S. share some common strategic and political goals: to achieve reciprocity and a level economic playing field with China, to halt China’s abuse of human rights, to discourage China’s assertiveness abroad.

US-EU-China triangle and the impact on European SMEs (2)

- By cutting a separate deal with China, the EU has repeated the mistake of the Trump administration when it went solo in its trade war against China.
- The CAI will damage both the EU's comparative advantage vis-à-vis China and its transatlantic alliance with the U.S.

Foreign businesses plan to leave China

	STAY IN CHINA	LEAVE CHINA
US BUSINESSES	87%	13%
EU BUSINESSES	89%	11%
JAPANESE BUSINESSES	96%	4%

Source: US-China Business Council; European Chamber of Commerce; and Tokyo Shoku Research; Macropolo.org

Reasons for staying in China

- China's lucrative market;
- Superior manufacturing capacity;
- Wide sourcing networks;
- Sophisticated supply chain infrastructure; and
- Management of COVID-19

Chapter 3: Management of COVID-19 flareups, vaccine developments and international mobility of foreign citizens, and how this will impact business models, growth and sustainability in the market

- Management of COVID-19 and vaccine developments
- International mobility of foreign citizens
- How will this impact business models in China, growth and sustainability in the market

Management of COVID-19 flareups and vaccine developments

- China has acquired the ability to rapidly control the spread of the virus through close contact tracing systems, swift lockdowns, and large-scale nucleic acid testing.
- Sporadic outbreaks, mostly small, across the country throughout the year do occur (we just don't hear about them as much)
- Starting mid-December, China widened the inoculation scheme to include workers in customs, medicine and healthcare, the cold chain industry, public transportation, produce and seafood markets, and those traveling to medium or high-risk areas for work or study, in an effort to stem a COVID-19 resurgence in winter and spring.

International mobility of foreign citizens to/from China

- Severe restrictions still exist.
- Advisable to contact the Chinese embassy in your jurisdiction to understand what their rules and regulations are for visa issuance for entry into China.

How this will impact business models, growth and sustainability in the market

- From a corporate compliance perspective, you do NOT need to be in China to incorporate your company OR operate your company.
- Not ideal, but foreign investors have even formulated joint venture agreements, setup production facilities and started marketing campaigns to generate business in the market.
- There are companies that have an entity in China with zero employees and are still able to transact.
- Don't let the virus, vaccine or travel blockages impact your China expansion.

Chapter 4: Opportunities and challenges facing China's economy in 2021.

- Opportunities in China in 2021
- Challenges in China in 2021

Opportunities in China in 2021 (1)

- Technology
 - Gaining an intelligent edge
 - Cloudy with a chance of clouds
 - From virtual to reality
 - Technology and the business of sports
 - The start of the 8K wave

Opportunities in China in 2021 (2)

- Automotive
 - Rise of high-end electric vehicles
 - Software defining vehicles

Opportunities in China in 2021 (3)

- Life sciences and healthcare
 - A year of policy-oriented e-medicine development
 - The key changes in 2020 took place in innovation and digital upgrading, policy reform, a changing external environment, and demand growth in the post-pandemic era.
 - Opportunity: Internet + Innovation will bring impetus to healthcare industry in 2021
 - Challenge: market is shrinking and prices are tumbling since VBP adoption as barriers remain to e-medicine information integration

Opportunities in China in 2021 (4)

- Energy
 - Balancing the post-COVID recovery and low-carbon growth
 - High-carbon energy has an important role in post-COVID recovery
 - Technology innovation tops SOEs' agenda
 - Emerging low carbon solutions

Opportunities in China in 2021 (5)

- Logistics
 - Achieving breakthroughs via innovation, integration and efficiency improvements
 - The evolution of China's logistics industry is accelerating
 - The evolution of the express delivery market since 2016
 - Chinese logistics companies to focus on and implement "two in and one out" strategy
 - Innovation, integration, and efficiency enhancements will become the focus of enterprise development

Opportunities in China in 2021 (6)

- Retail
 - Post-COVID consumer market driven by traditional Chinese style and culture, healthier lifestyles, and intelligent technology - Domestic products will continue to drive the growth of China's consumer market.
 - In cross-border e-commerce imports which meet domestic consumption upgrading needs and pull demand forward, Chinese consumers will purchase high-quality imported goods
 - In "new normal" of pandemic mitigation measures, physical stores will not only accelerate their omni-channel strategies, but also promote the development of business models that match consumers' spending habits.

Challenges in China in 2021

- The pandemic may continue to expand globally, making it difficult for some countries to recover from economic recessions.
- The recovery may stagnate as major economies have prematurely scaled back their relief and stimulus efforts.
- Risks are rising in global financial markets.
- Sino-US economic and trade frictions could remain and US embargo of foreign technology may escalate further.
- The excessive inflow of foreign capital will lead to the rapid appreciation of the RMB and the expansion of asset bubbles.

Q&A



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Thank You!

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