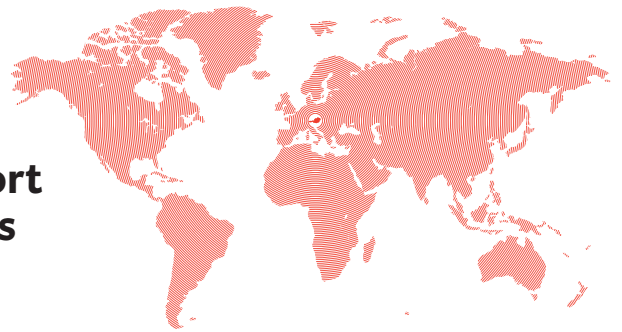


# Oberbank

## Economic and Banking Report

### Global Financial Institutions



# People's Republic of China

## Economic situation

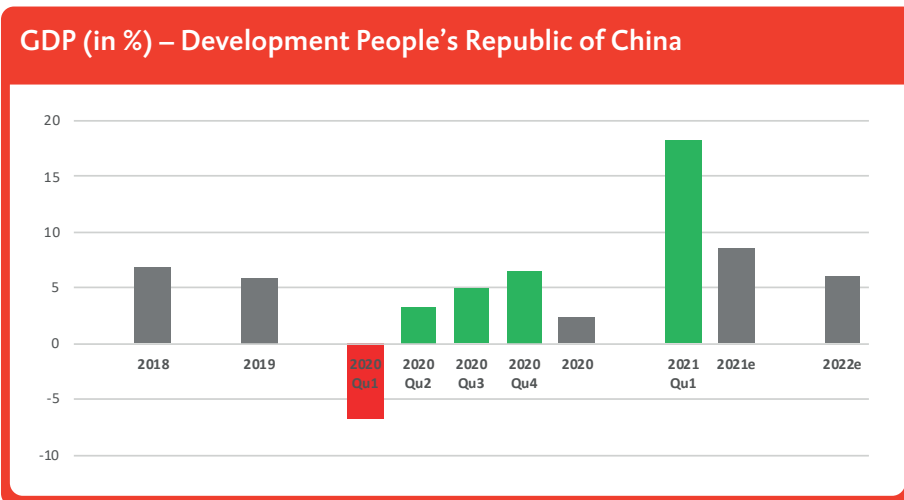
> Instead of recession: growth momentum

The People's Republic of China has already been able to more than compensate for the economic slump caused by the Corona pandemic - at least that is the impression at present. There seems to be nothing left of weakening domestic and foreign demand and restrained

industrial production with temporary production stops. The immediate and extremely consistent closure of the external borders, as well as the strict quarantine requirements, supported the rapid containment of the pandemic throughout China. For example, the

mandatory 21-day quarantine for entry into mainland China, without exception, is still in place.

This has made it possible to regain both health and economic stability much faster than in most other countries in the world. The resulting regained confidence in the economy as a whole, as well as the release of billions of dollars in additional government reserves to promote domestic economic development and finance infrastructure projects, quickly turned growth positive. By the end of 2020, China was the only G-20 country, apart from Turkey, to eventually record positive growth at 2.3 %.



Source: Oberbank, OECD

After the turnaround in the second quarter, the continued positive developments in the third and fourth quarters were accompanied by optimism. Renowned economic experts are therefore already forecasting growth figures in excess of 8 % for 2021.

Beijing is also very confident for the current year, especially supported by the 18.3 % growth in the first quarter of 2021.

For the sake of good order, however, it must be mentioned that this growth fi-

gure is based on a year-over-year comparison and thus includes the negative effect from the first quarter of 2020. Adjusted for this effect, China is nevertheless currently on an extremely dynamic growth path.

## Strengthening international independence

### > Lessons learned

In recent months, the Chinese government has been very hostile to the international political influence of other states. Especially the irritant issue of Hong Kong became the scene of an escalation and caused China's leadership to tighten the reins more strictly than previously expected. In particular, the insights gained in connection with the various dependencies during the Corona pandemic led directly to the adaptation of the strategic orientation.

As a result, China's 14th 5-Year plan was adopted in March this year, the contents of which strongly relate to a dual economic system in the years 2021 to 2025. In concrete terms, the plan means that China wants to significantly reduce global uncertainties and dependencies on the one hand and permanently

increase both industrial production (and the associated growth in exports) and domestic consumption on the other hand.

It is Beijing's declared goal to intensively advance China's transformation process into a modern state with the highest standards in terms of research, innovation and quality during this 5-year period. **Topics such as environmental protection, digitalisation, artificial intelligence, health and medical technology as well as the modernisation of agriculture including genetic engineering and biotechnology are at the top of the agenda.**

As strong as China presents itself in this regard, international analysts see

this development as fraught with challenges. Reducing dependencies on international trade and at the same time promoting the development of various high technologies is a balancing act. In addition, it can be assumed that China will not keep the money tap open for the already highly indebted state-owned enterprises in the previous form and that government spending on infrastructure projects, which among other things had an economic stimulating effect in the Covid-19 year, could be reduced again somewhat.

It is therefore obvious that China will continue to rely on foreign innovations and thus on European, especially Austrian and German technology providers to implement its 5-year plan.

## "One Belt, One Road" initiative remains in focus

Even though the initiative of the "new Chinese Silk Road", i.e., China's strategic orientation towards countries between China and Europe, has become rather quiet lately, the efforts remain in Beijing's focus.

The establishment of Chinese banks and companies along this land route, in order to ultimately accompany Chinese clientele in these countries in the best possible way, continues to be strategically pursued. This is a clear commitment by China to expand cooperation and trade with Europe and thus continue to strengthen the economic axis.

### Summary:

- Economic turnaround already achieved in 2020
- GDP growth forecast above 8 % in 2021
- Focus of the current 5-year plan is on
  - Reducing international dependencies
  - Massive strengthening of domestic consumption and exports
- Attractive opportunities for Austrian and German companies
- Additional strengthening of trade relations with Europe through China's "One Belt, One Road"-initiative

Key economic figures	2018	2019	2020	2021*
Nominal GDP in billion USD	13,842	14,402	14,850	17,224
GDP per capita in USD	15,640	16,988	17,649	19,399
Population in millions	1,385	1,390	1,395	1,399
Real economic growth in %	6.6	6.1	2.3	8.5
Inflation rate in %	1.8	4.5	0.1	2.5
Unemployment rate in %	3.8	3.6	4.2	5.0
Exchange rate EUR to CNY (1 EUR = x CNY)	7.85	7.85	6.54	6.63
Goods exports of the country in billion USD	2,417	2,399	2,497	2,965
Goods imports of the country in billion USD	2,022	1,974	1,967	2,129

\* Forecast OECD, WKO

Source: Wirtschaftsbericht WKO, Economic Report, March 2021

## Economic relations with Austria

### >Exports from Austria

According to the WKO, Austrian exports to China increased massively in Q1 2021. With an increase of 35.7 % compared to the previous year and a volume of EUR 1.14 billion, the significant slumps from 2020 were compensated for considerably.

### >Imports to Austria

According to the WKO, Austrian imports from China increased by 29.2 % to more than EUR 3 billion in the same period. China's declared goal is to massively increase its foreign relations, especially along the so-called New Silk Road.

The developments in the first quarter of 2021 thus clearly demonstrate that economic ties with China remain a top issue in Austrian foreign trade, regardless of the many discussions and disagreements. If one also considers the thematic areas of the 5-year plan presented by China, **additional increases in exports** are more than realistic, especially in the areas of **environmental protection, green energy, digitalisation, health care**, etc.

Economic relations	2020	2019	Change compared to
Austria and Germany	in EUR million	in EUR million	previous year in %
Austrian exports of goods to China	3,920	4,450	-11.9
Austrian imports of goods from China	10,140	9,820	3.2
Austrian exports of services	466	677	-31.2
Austrian imports of services	398	512	-22.3
German exports of goods to China	95,904	96,011	-0.1
German imports of goods from China	116,721	110,108	5.7

Source: Wirtschaftsbericht WKO, German Trade & Invest 2021

## Assessment of the business environment

Ease of Doing Business 2020 <sup>1)</sup>	Rank 31 out of 190 countries
Global Competitiveness Index 2019 <sup>2)</sup>	Rank 28 out of 141 countries
Corruption Perceptions Index 2020 <sup>3)</sup>	Rank 78 out of 180 countries
Rule of Law Index (World Justice Project) 2020 <sup>4)</sup>	Rank 88 out of 128 countries
Importance of goods export market for Austria	Rank 10
Importance of goods export market for Germany	Rank 2

1) <https://www.doingbusiness.org/en/rankings>

2) [http://www3.weforum.org/docs/WEF\\_TheGlobalCompetitivenessReport2019.pdf](http://www3.weforum.org/docs/WEF_TheGlobalCompetitivenessReport2019.pdf)

3) <https://www.transparency.org/en/cpi/2020/index/chn>

4) <https://worldjusticeproject.org/rule-of-law-index/country/China>

In the **Ease-of-Doing-Business** ranking, i.e., in the comparison of the ease of doing business of national economies, China is definitely top-ranked and is comparatively on a par with Germany (22nd place) and Austria (27th place). Since this index is also used for business decisions by large companies, some governments are promoting reforms to improve their ranking.

The **Global Competitiveness Index** on a country's competitiveness was paused in 2020 due to the turbulent development caused by Covid-19, so the ranking from 2019 is still used as an indication.

The **Rule of Law Index** is intended to present a picture of the rule of law in countries on the basis of 44 indicators

and is published annually. The People's Republic of China continues to be in an area where caution is advised. Significant legal contracts are still concluded through Hong Kong, as the rule of law is much stronger there - Hong Kong ranks No. 16 out of 128 countries.

## Rating People's Republic of China

> Investment grade

Agency	Rating	Outlook	Date
Fitch	A+	stable	28.06.2021
S&P	A+	stable	25.06.2021
Moody's	A1	stable	14.09.2020

Source: Fitch / Bankers Almanac / Reuters

*All three major rating agencies confirm A+ rating with stable outlook*

## Banks

> High stability and security in times of crisis

The banking sector in China not only includes the four largest banks in the world, but also enjoys special attention from the Chinese government. The state's ownership stake in many banks is sometimes very controversial, especially abroad, but in China itself it ensures an extremely high degree of stability and thus also security in times of crisis.

In this way, the economic consequences in the Covid-19 crisis year could be positively supported by targeted financial measures and negative tendencies could be quickly counteracted.

With the "One Belt, One Road" initiative, China's leadership is clearly committed to the further development and

support of Chinese banks abroad - especially along this new Silk Road.

This seems to ensure that the Chinese banks mentioned below, with which Oberbank regularly maintains a very positive exchange of information and business, will remain good and reliable partner banks in the long term.

## Largest banks

Place	Bank	Total assets in USD billion as of 31.12.2019
1	ICBC – Industrial & Commercial Bank of China Limited	4,319
2	CCB – China Construction Bank Corp.	3,649
3	Agriculture Bank of China Limited	3,569
4	Bank of China Limited	3,266
5	China Development Bank	2,367
6	Postal Savings Bank of China Co Ltd.	1,465
7	Bank of Communication Co Ltd.	1,421
8	CMB – China Merchants Bank Co Ltd.	1,064
9	IBC – Industrial Bank Co Ltd.	1,025
10	Shanghai Pudong Development Bank	1,005

Source: Bankers Almanac

### Oberbank Expertise

#### Banks shaded in grey:

Oberbank has an active relationship (SWIFT/RMA) with these relationship banks and can thus present documentary transactions for customers.

Payment transactions are also possible with all Chinese banks via our clearing bank partners.

#### Reference to sources:

For the preparation of this economic report, personal discussions with the trade delegates of the Austrian Federal Economic Chamber as well as written reports and information from the following sources were used: Bankers Almanac, WKO economic reports, German Trade & Invest, rating agencies Fitch/S&P/Moody's, Reuters.

#### Disclaimer:

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