

UPDATE ON CHINA

PREPARED BY PNC'S SHANGHAI REPRESENTATIVE OFFICE

Updated February 2021

HIGHLIGHTS

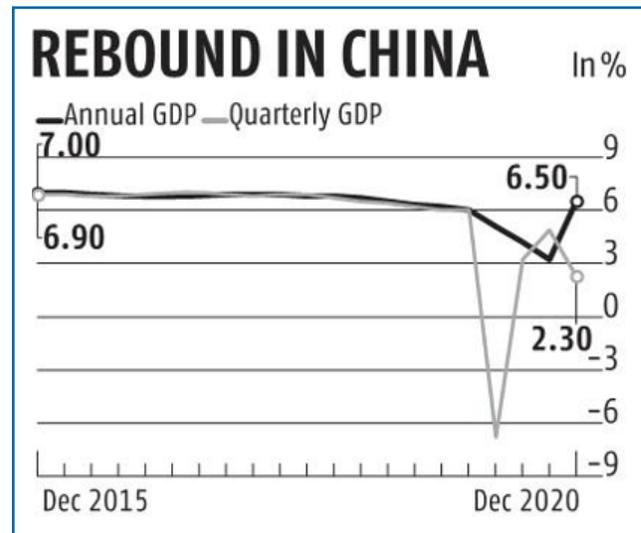
- **Gross Domestic Product (GDP)**
- **Foreign Trade**
- **Foreign Direct Investment (FDI)**
- **Livestreaming Industry Continues to Grow Rapidly in 2020**

GROSS DOMESTIC PRODUCT (GDP)

In 2020, countries all over the world endured unprecedented challenges due to the historic COVID-19 pandemic.

China's economy, the first to experience the uncertainties of the pandemic, was greatly impacted, with the country ultimately reporting a negative 6.8% growth in Q1 2020. Despite many unknowns, the Chinese government effectively enacted measures to control and prevent further spread of the virus and followed their virus mitigation tactics with strong policies to support economic recovery and fiscal stimulus. With these policies in place, China's economy quickly achieved a V-shape recovery, reporting 3.2%, 4.9% and 6.5% growth in Q2, Q3 and Q4 respectively. In 2020, full year growth was reported at 2.3%, exceeding the 100 trillion yuan (\$15.42 trillion) threshold to 101.5986 trillion yuan (\$15.68 trillion), according to the data from the National Bureau of Statistics of China¹ on January 18, 2021.

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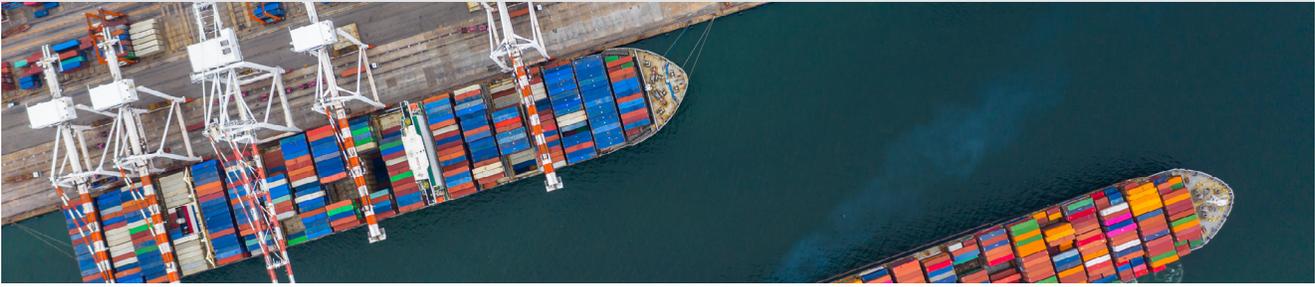


Source: Business Standard²

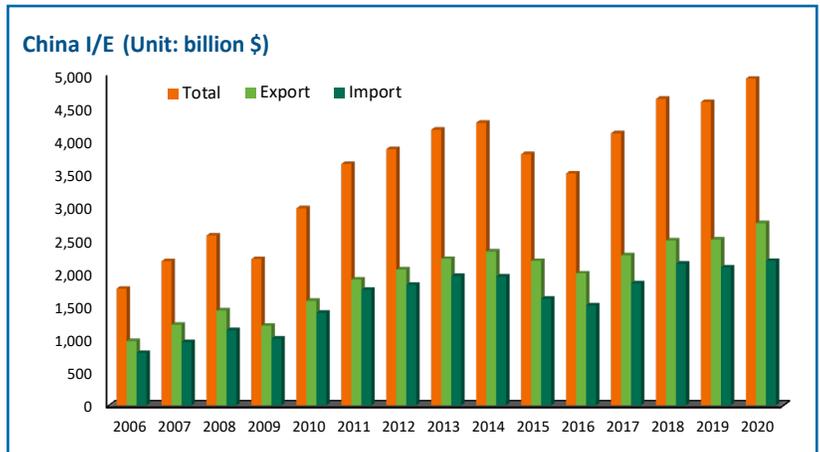
Although 2020 proved to be China's slowest annual growth rate since 1976, China is still likely to be the only major economy to achieve positive-growth, as other countries still struggle to contain the virus and subsequent economic impacts from the pandemic.

FOREIGN TRADE

With the recovery of the full manufacturing and supply chain in March of 2020, demand from domestic and overseas markets grew. Since June 2020, China has registered positive growth in foreign trade for seven consecutive months. As a result, China's foreign trade expanded 1.9% year-over-year to 32.16 trillion yuan (\$4.928 trillion) in 2020. Exports rose 4% to 17.93 trillion yuan (\$2.748 trillion) and imports decreased 0.7% to 14.23 trillion yuan (\$2.18 trillion).



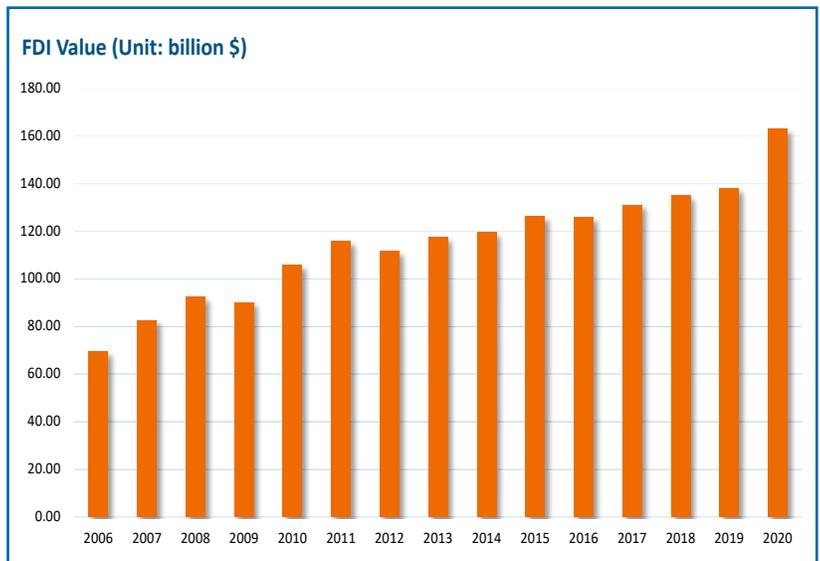
According to data from the General Administration of Customs,³ China’s foreign trade hit record highs in total foreign trade volume, exports and international market share, becoming the only major economy with positive growth of trade, in goods, for the year. The export of electro-mechanical products, laptops, home appliances, medical equipment and textile products, such as face masks and anti-epidemic materials, all contributed to export growth. Playing an important role in global trade, China’s exports and imports have accounted for 14.2% and 11.5% of the international market, all reaching historical highs according to the data from the World Trade Organization and countries around the world.



Source: General Administration of Customs

FOREIGN DIRECT INVESTMENT (FDI)

China became the largest recipient of foreign direct investment (FDI) in 2020, attracting \$163 billion of inflows. Meanwhile, global FDI collapsed 42% to an estimated \$859 billion, down from \$1.5 trillion in 2019, the lowest level since the 1990s according to the United Nations Conference on Trade and Development (UNCTAD).⁴ In China, Shanghai has historically attracted the largest FDI, totaling \$270 billion in investment over the past 40 years. More than four hundred Fortune 500 companies have investments in the city. Despite foreign-invested companies accounting for only 2% of Shanghai’s total business entities, these investments generate 20% of jobs, 27% of GDP, 33% of tax revenues, and 65% of imports and exports, according to data released by the local Shanghai government in 2019. In January 2021, the Shanghai government signed foreign investment agreements for 62 projects, totaling \$11.85 billion, covering industries such as artificial intelligence, biomedicine, integrated circuit, digital economy, fashion and consumption. These agreements demonstrate the foreign investors’ confidence in both Shanghai and in China.



Source: Ministry of Commerce

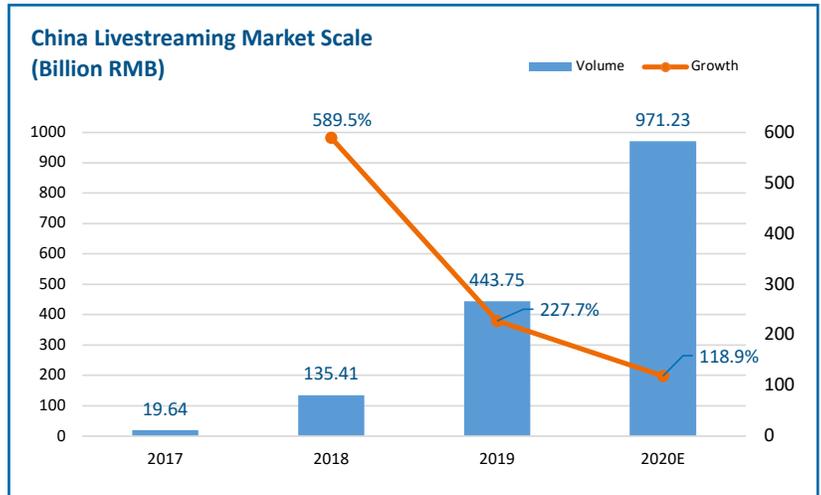
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LIVESTREAMING INDUSTRY CONTINUES TO GROW RAPIDLY IN 2020

The livestreaming industry in China has quickly become an important platform for business promotion. Due to COVID-19, livestreaming shopping has boomed and local e-commerce giants have boosted sales by partnering with livestreaming video game players, such as Viya and Li Jiaqi, who can engage tens of millions of potential consumers per day. Products such as cosmetics and quick snacks benefited greatly from livestreaming, and for many brands, livestreaming was an effective strategy to drive high conversion rates and increased sales. In 2020, Singles Day sales from livestreaming partnerships reached \$3 billion on Tmall and Taobao. On Taobao, sales during livestreaming surpassed those from last year within one hour. And this is only the beginning: Alibaba said it expects livestreaming on its platforms to contribute at least \$70 billion in revenue between 2019 and 2021.

According to the 2020 China Livestreaming E-commerce White Paper,⁵ the number of merchants newly engaged in livestreaming since February 2020 has increased by 719% month-over-month. On June 18, 2020, for the large online-shopping day called Taobao Maker Festival, the total transaction volume through livestreaming was over 5.1 billion RMB (\$719.32 million). According to data from China Internet Network Information Center,⁶ as of June 2020, the number of livestream users in China reached 309 million, an increase of 44.3 million from March 2020.

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Source: <https://www.100ec.cn/zt/2020szbbg/>

Taobao Live also hosted agriculture-related livestreams, which helped to increase business for farmers in rural China. On April 7, 2020, Taobao began its “Chun Lei Plan,” an effort to establish 1,000 digital agricultural bases, along with organizing a live broadcast at the place of origin. Some super hosts devoted more time to charity in 2020, with their teams going to smaller towns to discover, and promote, local specialties. Furthermore, in April 2020, after the pandemic began to stabilize in Hubei, Taobao Live launched the largest village broadcast day event in history for Hubei agricultural products. More than 30 local county heads in Hubei walked into the Taobao Live broadcast room to shout for local specialty agricultural products. By April 15, 2020, the Hubei agricultural products sold exceeded 60 million RMB (\$8.52 million).

Moreover, livestreaming has penetrated the financial sector. At the end of May 2020, Alipay connected Taobao’s live broadcast function, allowing fund companies to begin selling their fund products via livestreaming. To attract continual user attention, fund companies distribute gifts, consumer red bags and physical prizes over the broadcast. While the contribution of live broadcasts to fund sales is relatively limited as of January 2021, the streams are playing a vital role in customer communication and investor education. This has also proven to be an effective channel to promote fund company brands and enhance customer stickiness, which is complementary to the concept of long-term investments.

The most popular platform amongst fund companies is “Huan Ju,” which is used by 80% of fund companies and has cooperated over 300 H.O. of financial institutions in 2020, including banks, fund companies and insurance companies.

In addition to the financial sector, China Import and Export Fair also went online in a time of normalized epidemic prevention and control, further establishing its role as an all-around open platform, promoting the stable and healthy development of foreign trade. The online fair has also helped to reduce trade barriers, as companies are able to present more products than in their physical showrooms.

As the COVID-19 pandemic continues to play out globally and consumers worldwide are encouraged to stay at home, their digital viewing and buying habits have completely changed. The pace of digitization will continue to accelerate, and individual consumers are continuing to shift their shopping habits from offline to online.



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READY TO HELP

Established in 2008, PNC’s Shanghai Representative Office (SRO) is available as a resource to PNC clients who are doing business with China or in China. The SRO can provide assistance and guidance on:

- Corporate Establishment
- Market Information
- Obtaining Local Banking Services
- Introductions to Local Resources

Should you have any questions, please contact your PNC International Advisor, or contact Grace Zhu, Chief Representative, at grace.zhu@pnc.com, or Jenny Xu, Deputy Representative, at jenny.xu@pnc.com, in the PNC Shanghai Representative Office.

¹ National Bureau of Statistics of China: <http://www.stats.gov.cn/english/>

² Business Standard: https://www.business-standard.com/article/international/china-gdp-grows-2-3-in-2020-back-to-pre-covid-pandemic-trajectory-121011900041_1.html

³ General Administration of Customs: <http://english.customs.gov.cn/Statics/436edfa3-b30d-45cd-8260-7d5baf34a5a8.html>

⁴ South China Morning Post: <https://www.scmp.com/economy/china-economy/article/3119069/china-largest-recipient-fdi-2020-even-global-foreign-direct>

⁵ Ebrun: <https://www.ebrun.com/data/>

⁶ China Internet Network Information Center: http://www.cnnic.cn/hlwfzyj/hlwzxbg/hlwjtjbg/202009/t20200929_71257.htm

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