



Country outlook

China





China



Form of Government: People's Republic

Capital: Beijing

Official language: Mandarin Chinese (lingua franca)

Population: 1,434 million inhabitants (2019)

Currency: Yuan (CNY)

Exchange rate: 1 EUR = 7.94 CNY (30/06/2020)
1 USD = 7.06 CNY (30/06/2020)

GDP: \$14,140 billion (19,2% of world GDP)

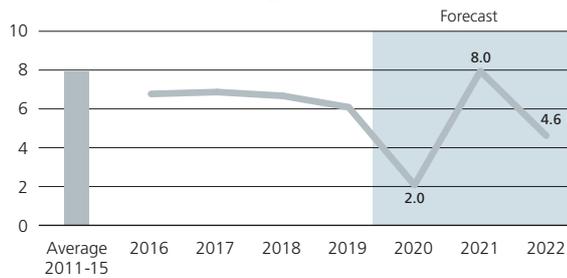
GDP per capita: \$10,099 (\$19,503 purchasing power parity)

Ease of doing business: 31th in the world out of 190 according to the World Bank (Doing Business)

Religion: Traditional Chinese religions: 87%

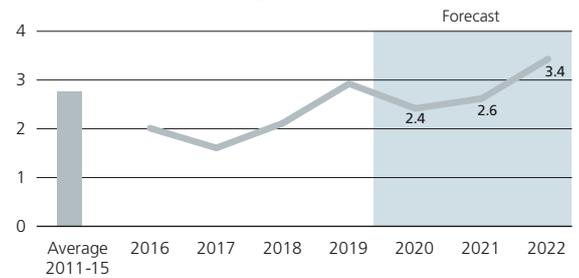
Economic forecast

GDP. Year-on-year change (%)



- China's GDP, in contrast to most main economies, will not drop in 2020, although its growth will be relatively modest (around 2.0%, whereas prior to the coronavirus, a growth of 6.0% was expected). The gradual recovery of domestic demand (real estate and industry have already normalised their activity) is expected to allow China to consolidate the improvement shown in Q2 in the second half of the year and return to the growth rate prior to the coronavirus after the collapse in Q1 due to COVID-19. Global uncertainty due to the coronavirus will continue to affect the foreign sector, preventing a faster recovery, although domestic activity could

CPI. Year-on-year change (%)

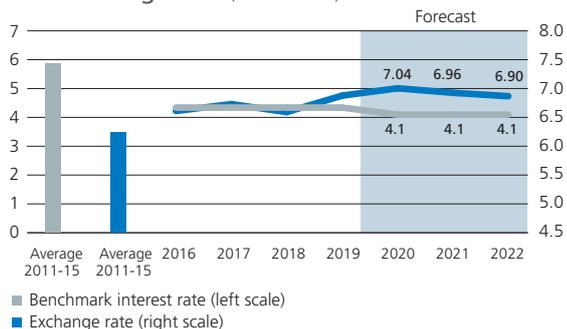


benefit due to greater easing in monetary and fiscal policies. In 2021, the upswing will be close to 8%. However, uncertainty is so great that, for the first time, the Chinese government has not set a growth target for 2020.

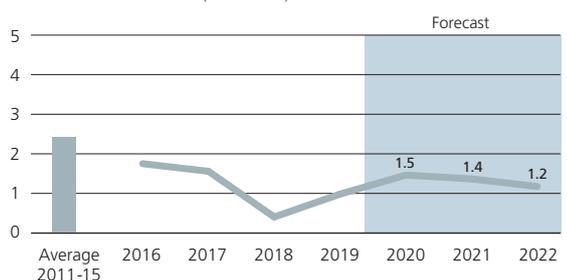
- Inflation will fall slightly in 2020 due to the cooling of the economy compared to 2019 as a result of COVID-19, a softening in the coming months of the rises in pork prices and the drop in oil prices. In 2021, in step with the upswing in the Asian economy, inflation will increase gradually.

Economic policy

Benchmark interest rate (%) and exchange rate (CNY/USD)

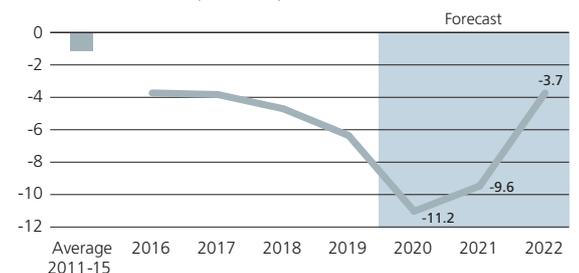


Current account (% GDP)

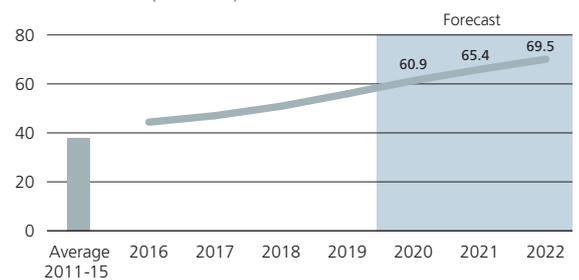


- In the monetary policy section, it is very likely that the People's Bank of China will continue to relax its monetary policy in order to stimulate credit, though this will be done in a relatively contained way in order to prevent levels of debt from rising excessively again. Specifically, the Central Bank is expected to take steps to further reduce the cost of financing the banks, making additional cuts to the reserve ratio. In terms of the exchange rate, an easing of the renminbi is expected due to global uncertainty (though this should be moderate, as capital controls and the adequate level of foreign reserves will help to manage the situation).

Fiscal balance (% GDP)



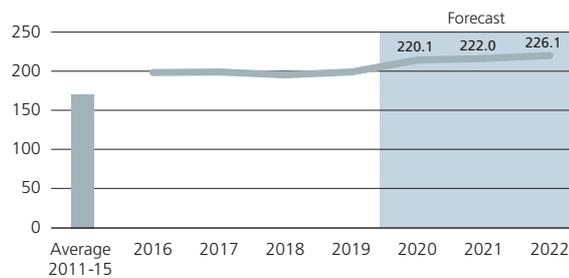
Public debt (% GDP)



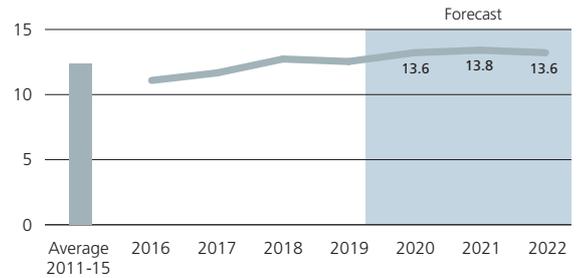
- So far, and with the aim of curbing the negative impact of COVID-19, the Chinese economic authorities have implemented a series of measures to ease fiscal policies (providing liquidity support, reducing the cost of loans, Social Security tax cuts and the issuance of special bonds by local governments for investment in infrastructure). In addition, the government is also significantly boosting the spending and investment of public corporations and local entities. Overall, the expansionary fiscal measures will generate a significant worsening of the fiscal balance in 2020, but it will be temporary and manageable, so that in 2022 it will be reasonably balanced.

Financial conditions

Private credit (% GDP)



Gross external debt (% GDP)



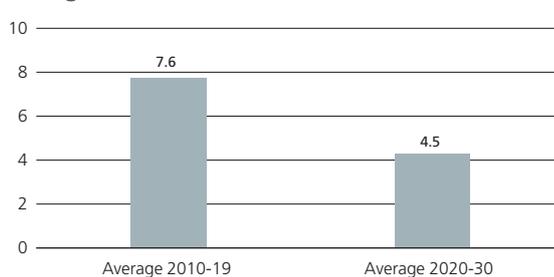
- According to the official figures, the bank balance sheets are healthy (regulatory capital: 14.2%; non-performing loan ratio: 1.9% in Q1 2020). However, the Chinese banking sector is heterogeneous and the high-risk loan to total asset ratios of the regional banks remain very high. COVID-19 will generate a rise in NPLs, but this is expected to be manageable. In the first half of the year, the increase in the number of companies that went bankrupt was relatively contained, possibly a positive result of the steps taken by the Chinese authorities to increase the liquidity of markets and companies (fewer restrictions since February in the issuance of new corporate bonds for refinancing debt and injections of liquidity into financial markets).
- The easing of certain regulations could cause a medium-term rise in the Asian giant's high corporate debt (149% of GDP at the start of 2020 according to the BIS). It is also worrying that a considerable amount of this borrowing has a short-term maturity and has been issued by state-owned enterprises, which are highly leveraged. In the short term, the recent improvement in China's macroeconomic outlook after the crash in Q1 due to COVID-19 will reassure investors, making situations of financial instability less likely. The recovery of the real estate sector after COVID-19 has been significant, but it is expected to be temporary (the result of retained demand), as global uncertainty will take time to dissipate and will condition the evolution of the sector.

Political situation

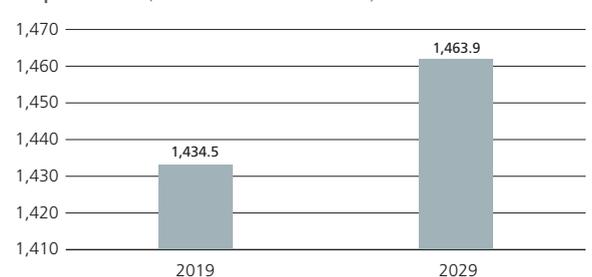
- The recent passing of a security law that gives China more power in Hong Kong could lead to a rise in instability on the island and to heightened tensions with advanced economies. It is therefore very possible that in the run-up to the 2020 US presidential elections, the US administration will toughen its discourse against Beijing (although the complex global macroeconomic context will make it difficult for tariffs to be increased again). Ultimately, we believe that tensions between the major world powers will continue in the near future, with periods in which they clash and others of relative relaxation.
- China will follow a "carrot and stick" policy in the geopolitical area. On the one hand, it will maintain its protectionist measures if the US does not reduce its tariffs on Chinese products and it will take a firm stance on Hong Kong. On the other, it will support free trade and continue sending medical supplies to the countries most affected by COVID-19 and to its allies on the New Silk Road.

Long-term outlook

GDP growth (%)



Population (millions of inhabitant)



- China is in the midst of a transition to rebalance its economy from a productive model based on investment and manufacturing to a model based on consumption and services. The transition is expected to be smooth and gradual, although it will be implemented against a backdrop of significant macroeconomic imbalances (corporate debt, higher deficit for the recovery after COVID-19, trade tensions, etc.). If the rebalancing is completed successfully, the Chinese economy will grow at a slower rate, but will also become more balanced.
- The economic rebalancing continues to progress gradually, although there is still a long way to go. Only modest progress has been made in the last year: private consumption's contribution to growth fell for the first time since 2013 and the growth of services as a percentage of GDP slowed down. The Asian giant's economy clearly requires ambitious structural reforms, such as a tax reform to stimulate consumption and measures that help to increase mobility in the labour market and the digitisation of production processes.

Country risk

	Rating	Last changed	Outlook
STANDARD & POOR'S	A+	21/09/17	Stable
MOODY'S	A1	24/05/17	Stable
FitchRatings	A+	05/11/07	Stable

■ Indicates that the country has "investment grade".
□ Indicates that the country does not have "investment grade".

CDS* 5 years (basis points)

Period	CDS* 5 years (basis points)
Average 2016-19	75
30/06/2020	52

OECD credit risk rating
(from 0 to 7, with 0 being the best)

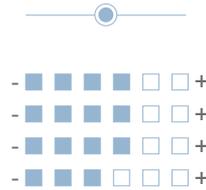
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*Credit default swap: a measure of country risk that reflects the cost of insuring the default of the sovereign bond.

Risks

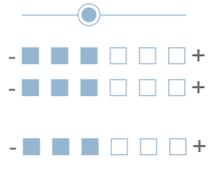
SHORT-TERM

- Greater than expected global impact of the pandemic
- Corporate debt
- Geopolitical tensions
- Financial risks



LONG-TERM

- Absence of structural reforms
- Inequality
- Political tensions between reformers and old-guard politicians



Business environment

STRENGTHS

- Size of the domestic market.
- Labour costs.
- Growth of the middle and upper classes.

WEAKNESSES

- Bureaucracy.
- Protection of intellectual property rights.
- Excessive interventionism by the public authorities.

Main sectors

EXPORTS

- Electronics; machinery; furniture; fabrics and clothes; optical, photographic and medical devices; plastics; vehicles; steel and aluminium items; and footwear.

IMPORTS

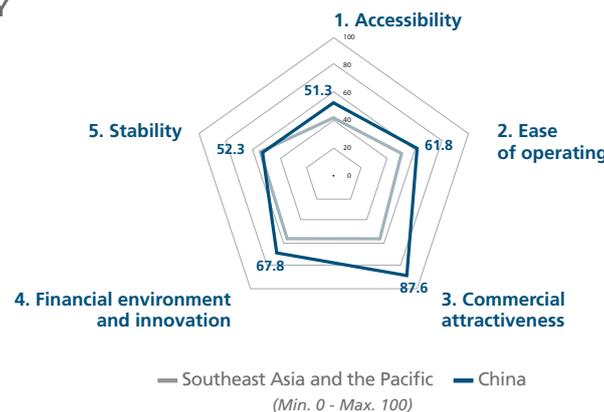
- Electronics; mineral fuels; machinery; minerals; optical, photographic and medical devices; metals and precious stones; vehicles; organic chemical products; and oils and plant products.

CIBI | CaixaBank Index for Business Internationalisation

POSITION IN COUNTRY RANKING



PILLARS



SUBPILLARS

- Top**
- Similar tastes to Spain
 - Infrastructures
 - Investment relations with Spain
- Bottom**
- Distance, communications, and agreements with Spain
 - Labour conditions
 - Institutional stability

Taxation

The standard rate of corporate tax on corporate profits is 25%, whereas SMEs can benefit from a lower rate of 20% when they comply with regulatory requirements (in fact, until 31/12/2021, their effective tax rate is reduced to 5% for annual taxable income of up to 1 million RMB and to 10% for taxable income of between 1 million and 3 million RMB). Companies classified by the central government as high-tech, those with investment in incentivised industries in the western regions of China (valid until 31/12/2020) and those included in the pilot regions of Guangzhou, Fujian and Shenzhen, with investment in incentivised industries (valid until 31/12/2020), are subject to a tax rate of 15%.

The VAT reform has been completely implemented in China and has been expanded to all industries, currently standing at 13% on

the sale and import of goods (except farm products), the provision of processing, repair and replacement services, and the leasing of tangible personal property; 9% on the sale and import of farm products, the provision of transportation, postal and basic telecommunications services, construction services, leasing and sale of real estate and the transfer of the right to use land, and 6% on the provision of value-added telecommunications, financial and consumer services, modern services other than the leasing and transfer services of intangible assets different to the right to use land.

Taxpayers with an annual income from taxable activities that exceeds 5 million RMB are considered general VAT payers. Others are classified as small-scale VAT payers, whose applicable VAT rate is 3%.

Investment

There were 60,553 businesses established with foreign investment in 2018, representing a year-on-year increase of 69.8%. The sectors attracting the largest share of direct foreign investment in the last few years have been

those related to manufacturing, to develop a more competitive industrial base, followed by the real estate sector. The countries investing most heavily in China are mostly Asian (Hong Kong, Singapore, Japan, Korea, etc.).

Establishment**WHOLLY FOREIGN-OWNED ENTERPRISE (WFOE)**

This is the most common way to set up a company in China because the foreign company maintains complete control. Such enterprises are normally incorporated as limited liability companies. Although there is no longer any

minimum capital requirement for foreign investment, it is still subject to the negative list for foreign investment that is issued and approved by the central government's council.

BRANCH

Foreign companies can set up a branch although they have no legal personality, with the parent company assuming all liability. The possibility to

set up a branch is limited to a few sectors such as banking, insurance, oil and contractors involved in civil engineering projects.

REPRESENTATIVE OFFICE

As is the case with branches, foreign companies can set up representative offices in China, although they are not allowed to carry out profitable activities (hiring personnel, invoicing or receiving income not related to the parent

company) as they do not have their own legal personality. They can only be used to control the sales of products, provide services or other kinds of related activities.

Alliances strategic

FREE TRADE ZONES

There are 18 free trade zones for international trade and goods storage.

JOINT VENTURE

The creation of a joint venture (JV) with Chinese partners is subject to approval by the Chinese government (in the *Catalogue of Industries for Guiding Foreign Investment*, updated in March 2015, those sectors where investment can be made and those where investment is prohibited or restricted are indicated). One type of JV to access the Chinese market is an equity joint venture (EJV), which must be set up as a limited liability company whose profits, control and risk are distributed proportionally among the shareholders' equity stakes. Depending on the

type of industry, the percentages of participation may vary and generally, the foreign partner has access to 25% of the shares. The minimum capital required to register a JV is usually around one million CNY although this can vary depending on the location and sector. The other way to set up a business is via a cooperative joint venture (CJV), in which case a JV contract must be drawn up and signed between the foreign partner and the Chinese partner, detailing the responsibilities, rights and interests of each party.

FICE

Foreign Invested Commercial Enterprise. FICEs are wholesale and retail distribution companies in the Chinese market created through a WFOE

or a JV and can be set up exclusively as a FICE or combine their activities.

Customs conditions

FREE TRADE AGREEMENTS

Trade relations between the EU and China are governed by the Trade and Economic Cooperation Agreement of 1985. Regarding trade, this is a non-preferential agreement based on the "most-favoured nation" (MFN) approach. The EU has anti-dumping and anti-subsidy proceedings under way against China. Some products subject to anti-dumping measures on Spanish exports to China are chloroform, tetrachloroethylene and other chemical products. The EU also applies these kinds of measures to imports from China, such as tinned tangerines, steel, silicon metal, dishes, ceramic tiles and solar panels, etc. Customs duties in China vary widely and depend to a large extent on the type of product being exported. The regime applied to EU countries is the MFN. In the case of bottled wine, for example, the duty is 14%, for ceramic tiles it is 12%, etc. The policy based on exemption from duties includes:

- Scientific educational materials.
- Special products for disabled people.
- Sources of relief from poverty and charitable donations.
- Processing of commercial products.
- Goods being traded in free trade zones.

China has free trade agreements (FTAs) with ASEAN (the Association of Southeast Asian Nations), the Maldives, Georgia, Australia, South Korea, Switzerland, Costa Rica, Peru, Singapore, New Zealand, Chile and Pakistan.

It is in the process of negotiating agreements with the State of Palestine and RCEP (Regional Comprehensive Economic Partnership), the Gulf Cooperation Council (GCC), Japan/South Korea, Sri Lanka, Israel, Norway, New Zealand (upgrade), Mauritius, Moldova, Panama, South Korea (phase II) and Peru (upgrade).

Agreements with Colombia, Fiji, Nepal, Papua New Guinea, Canada, Bangladesh, Mongolia and Switzerland are currently in the feasibility study stage.

FREE TRADE ZONE

There are customs-related advantages for companies operating in the country; some products such as machinery, capital goods, construction materials, spare parts and components, as well as commodities, may be

tariff-free. In general, companies use them to keep stocks of their products in the country free from taxes. Products can remain in the free trade zone for one year.

GENERALISED SYSTEM OF PREFERENCES (GSP)

Until 2014, China benefited from the EU's system of preferential trade conditions. Due to the World Bank increasing the country's average income in

the last few years, the EU decided to remove this preferential status as of January 2015.

Negotiations and protocol**BUSINESS CULTURE**

Special attention should be paid to the far-reaching cultural and language differences in China and, when entering the market, closing contracts and negotiations should not be expected in the short-term. In general, the Chinese are mistrustful and modest, typically punctual and, as in other Asian cultures, they use symbolic gifts as a gesture of deference and friendship. It is also important to realise they

are ambiguous when it comes to making decisions and the negotiation process focuses mainly on building up a relationship based on trust, respect, friendliness, tolerance and patience. Meetings are usually held in Chinese and so it is vital to have a good translator who is familiar with the particular features and technical aspects to be dealt with at the meeting.

Top fairs

- World of Food Beijing
- China International Exhibition on Nuclear Power Industry (Cienpi)
- TopWine China (TWC)
- The International Food Processing and Packing Machinery Exhibition (China Foodtech)
- China Food & Drinks Fair
- Food & Hotel China (FHC)
- SIAL China
- Automotive Testing Expo
- China Beauty Expo
- All China Leather Exhibition
- China International Import Expo
- Canton Fair

Websites of interest

- Investing in China: <http://www.fdi.gov.cn/>
- Ministry of Trade of the People's Republic of China: www.mofcom.gov.cn
- Customs of the People's Republic of China: <http://english.customs.gov.cn/>
- AQSIQ (General Administration of Quality Supervision, Inspection and Quarantine): <http://english.aqsiq.gov.cn/>

Payment and charging methods**MEANS OF COLLECTION**

It is always advisable to ensure collection by using the customary international methods, primarily documentary credit, which offers the most guarantees, especially when working with a client for the first time. Particular attention should be paid when exporting to China, as numerous firms

have been defrauded due to the opaque nature of the information available in the country (high country risk). When the client is trustworthy, other faster and more economical direct collection methods can be used, such as bank transfers.

MEANS OF PAYMENT

Documentary credit is the payment method that offers the most reliability for both parties. It can be with payment on demand or deferred. In the latter case, the issuing bank can finance the Chinese supplier at a very low interest rate, this being a

good commercial tactic for importers. Documentary remittances also tend to be used: on demand (cash against document) or term (deliver against acceptance).

EXCHANGE RATE INSURANCE

International transactions are affected by market fluctuations and it is therefore advisable to insure this kind of transaction against exchange rate

risks. The currency typically used for operations is USD, although the local currency, the yuan, is increasingly popular.

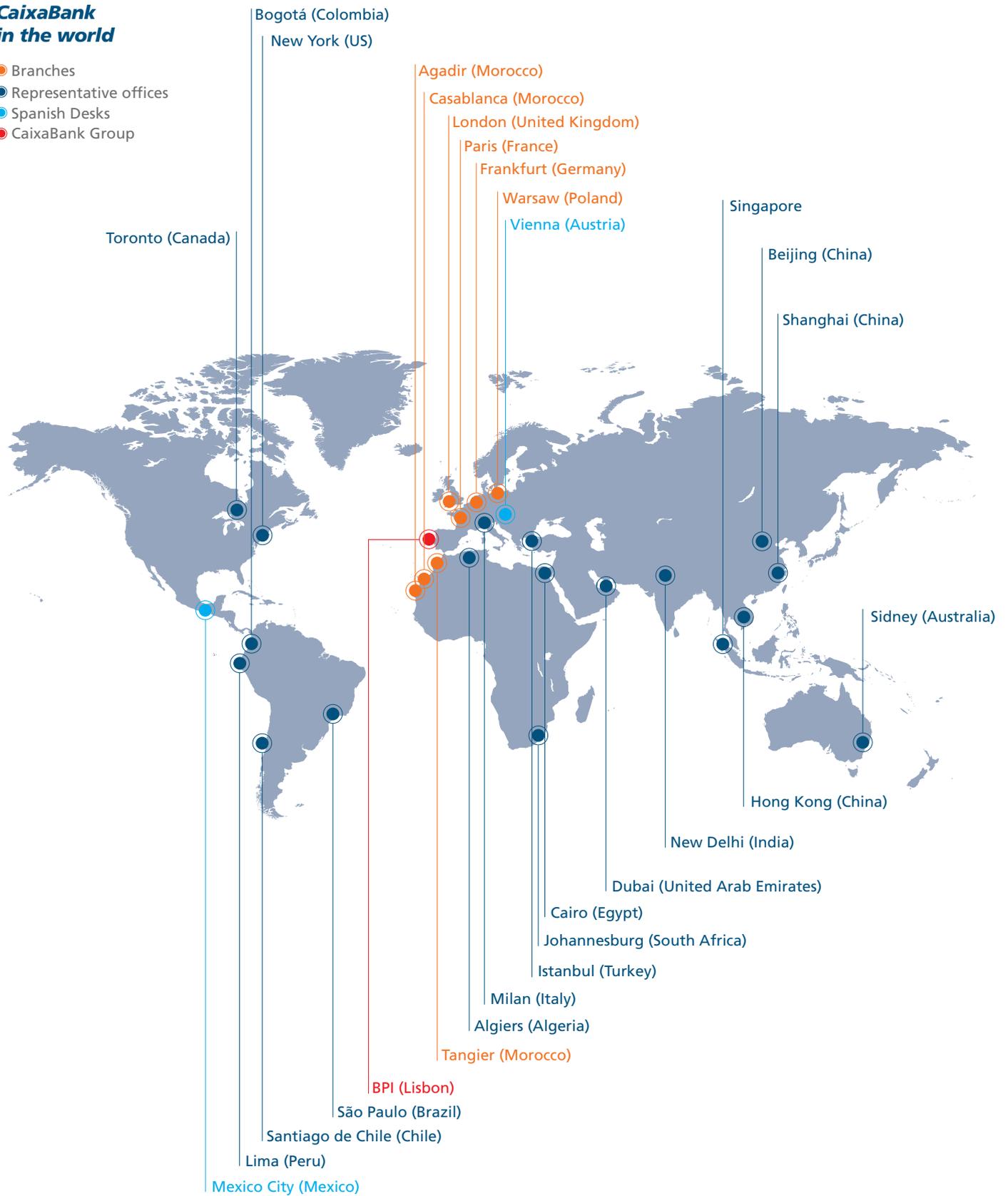
CaixaBank in the country

CaixaBank is present in Asia through three Representative Offices in Beijing, Shanghai and Hong Kong. The main objective is to improve communication channels with local financial institutions, supporting CaixaBank customers'

activities in the country, whether they are international trade or investment and deployment projects. They also offer consulting and accompany Spanish companies that wish to develop their business abroad.

**CaixaBank
in the world**

- Branches
- Representative offices
- Spanish Desks
- CaixaBank Group



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