



## Resilient China!

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The coronavirus has hit the global economy hard in 2020 with more than half of the world's population living in confinement for the first time in human history. In China, after identifying the first case mid-December 2019, officials proved to be particularly reactive, showing they had learned from mistakes made when managing SARS back in 2003. On 23 January, China entered into national lockdown, only one month after the first case (versus taking five months during 2003 SARS pandemic).

To fight against the virus, the Chinese government spared no effort, mobilizing national resources in record time. Nine new hospitals in Wuhan were built within 15 days to treat patients in the epidemic's center, a highly affected region. The country implemented strict confinement rules, relying on its extensive surveillance network to identify and isolate potential infection cases. Drones were used by the police in streets and residential areas to ensure the confinement was respected. Thermal cameras and robots dispatched to check body temperatures and disinfect high frequency check points, like airports and railways. Thanks to social networks, the Chinese population is now more connected than ever. Citizens are able to follow the evolution of the epidemic and government instructions in real-time, sharing important information around them.

These efforts have been bearing fruits. Two months after the national lockdown, the virus is contained. The Chinese population is now out of confinement while other countries are still in the middle of the lockdown.

The market is expecting 2% to 4% GDP growth in China for 2020, which is 2% to 3% lower than the normalized growth rate. That said, the Chinese economy is still growing and is strong enough to offset the considerable damage caused by the virus. Thanks to digitalization, China is showing impressive resilience, relative to its position pre-crisis and to foreign peers, in many ways.

It is evident that science and technology are key weapons to fight disease. Artificial intelligence is a big help in accelerating virus DNA sequencing in designing a cure. Leveraged by enormous amounts of user data and advanced know how on Big data, large Chinese internet companies are collaborating with Chinese government, providing insight in tracing potential sources of infection. Considering the high risk of getting infected in hospitals, patients are seeking medical diagnosis and drug prescriptions online. The rising health awareness stemming from the COVID-19 implies a positive long term impact on the healthcare sector globally.

From a demand-side prospective, the COVID-19 pandemic is forming new habits amongst consumers. Offline-online migration is accelerating. The fear of getting infected in supermarkets has led people to embrace buying groceries online. Online Grocery sales have more than tripled since the virus outbreak. Yes, the penetration rate is still low (<3%), however, we are likely to see a change in shopping habits over the longer term. We highlight that it was back in 2003 that Alibaba first introduced an e-commerce platform during the SARS period. The fear of going out led consumers to try new things and provided a major boost to online shopping.



We are now 17 years later. China's e-commerce penetration now stands at 25%, meaning that for every four dollars spend in retail, one dollar is spent online. China's penetration rate is more than twice as important as that of US at 11%. During the COVID-19 crisis, online shopping has demonstrated again a clear advantage. National wide express volume was down merely by 10% yoy in February when China was in confinement. Since then, express volume has recovered in a V shape and is now at its normalized rate. While total retail sales (offline + online) declined by 20% in January/February and 16% in March, online sales have managed to increase by 3% and 11% respectively.

Food delivery is another bright spot in the Chinese economy. Benefiting from a major internet platform, during the national lockdown, 20% of online restaurants in China were able to deliver for customers, allowing some small players to survive. "Contactless delivery" and robots were also implemented in some big residential areas to protect riders. 90% of china's restaurants have now reopened. People are lining up in front of premium restaurants to share a hotpot with family and friends that they have not seen for two months.

It's not surprising to see online entertainment peaked along side the epidemic as most of people were stuck at home, allowing more time for streaming, playing video games and connecting with family and friends via the social network. China's mobile game revenue grew by 50% in Q1 2020, the strongest growth since 2016. The top game « The Honor of King » generated 2bn CNY in revenues daily and on the Chinese new year eve reached a record high.

From a supply-side perspective, China's high degree of digitalization has also helped the country weather the effects of the COVID-19 pandemic. Depending on the sectors and geographies, and sometimes to a higher level that what has been witnessed in Western economies, remote working has allowed Chinese corporates to maintain their activity during the crisis. Work-from-home IT solutions, coupled with periodic team meetings, have

proved as efficient as working on site. Chinese software companies played a key role in bringing these solutions with reliable cloud-based solutions, from very basic office apps to more sophisticated ERP applications.

The same phenomenon is at play in the field of education, a top priority for most Chinese people. To avoid any risks while ensuring continuity in education, authorities required that all 276 million students (equivalent to the population of the United States) resume their studies through online platforms, creating the largest "online movement" ever in the history of education. This movement was made possible thanks to a very dynamic sector of online education platforms.

Finally, in order for services to work properly in such a large country, solutions must be backed by a solid telecom infrastructure. As such, Chinese authorities require high level of capital expenditures from telecom operators to support the increasingly digitalized economy. For example, 5G technology has been available for months now in the larger cities while the first offers are still to be released in the West. Over the next 5 years, CNY 3.5 trillion (~USD 500bn) has been earmarked as investments by telecom operators to finalize the roll-out of 5G across the country. This will enable the next leg of transition towards an even more digitalized economy and thus an even more resilient China.

While the world is working hard to find a cure for the Coronavirus, China is demonstrating that it has found its remedy for a resilient economy in digitalization. Chinese companies have been focused on digital transformation for the past decade, and the Covid-19 is a catalyst to further accelerate this transformation. We are now at a major turning point that will push for deeper integration of digital platforms, impacting further company business model. Already, the digitalization of the Chinese economy is a source of economic resilience, implying even more resilience to come and a source of a deeper digitalization to come. China's Digital Silk Road initiatives will contribute further to its acceleration and expansion.

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## Summary of accelerating digitalization trends in China

### E-commerce

With a current penetration rate of 25%, China's rate is twice as high as that of US at 11%. The coronavirus has had limited impact on company volumes and revenues (**Taobao and TMALL from Alibaba**) and express volume has already witnessed a V share recovery (**ZTO express**, leading express delivery company)

### Online entertainment

Mobile game revenue grew by 50% in Q1 2020, the strongest growth since 2016. Five of the top 10 games are from **Tencent** (flagship game « The Honor of King »). Social advertising plays a key role in linking brands to consumers. **Tencent** reacted by adding more advertising slots per user per day

### Big data

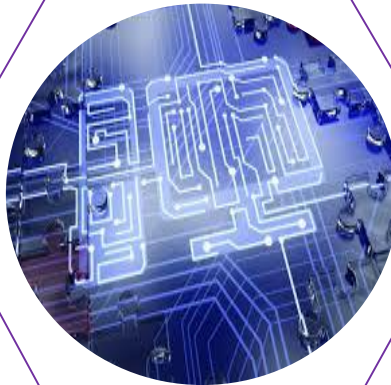
Internet companies (**Tencent and Alibaba**) are working closely with the government to trace the source of infection

### Working remote

Software companies play a key role, providing reliable cloud-based solutions, from office tools to sophisticated ERP applications (**Yonyou**, leading software provider)

### Cloud

Already the biggest cloud computing provider by marketshare, **Alibaba** will invest an additional USD28bn over the next 3 years to support technologies related to operating systems, servers, chips and networks



### Online education

Top priority for Chinese people with 276 million students using online platforms during the virus (**TAL**, leading education and technology company)

### Food delivery

Although restaurants are now open, platforms (**Meituan**, largest food delivery company), have been active delivering food to customers and smaller players have survived. Robots have been used in big residential areas to protect riders

### Offline migration to online

Leading automobile advertising company (**Autohome**, leading automotive portal) to organize an online Auto Show, the 1st in China. CAAM (China Automobile Association Manufacturers) forecasts a -10% volume decline in 2020 (vs -20% globally), demonstrating local sector resilience

### Online grocery

One of the least impacted sectors during the pandemic, more people are embracing buying grocery online (**Sun Art**, leading food retailer), introducing a new long-term trend

### Online medical diagnosis & drug prescription

**Ali Health** (Alibaba's healthcare subsidiary), is an integrated player in the healthcare industry and well positioned to benefit as healthcare becomes more holistic

### Artificial intelligence

Technology is key to accelerate DNA sequencing needed in finding a cure to the virus (**Wuxi Biologics**, R&D biotech outsourcing)

### 5G rollout

No delays have been announced and a big supporting factor for the digitalized economy. 3.5 trillion CNY is to be spent by end 2025. Three major operators have plans to build 600 5G stations in 2020 (**China Tower**, largest telecom tower infrastructure)

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