



FD Combi Circle Fact pack

China: better be prepared

11 September 2019
A.T. Kearney

Fact pack FD Combi Circle – 11 September 2019

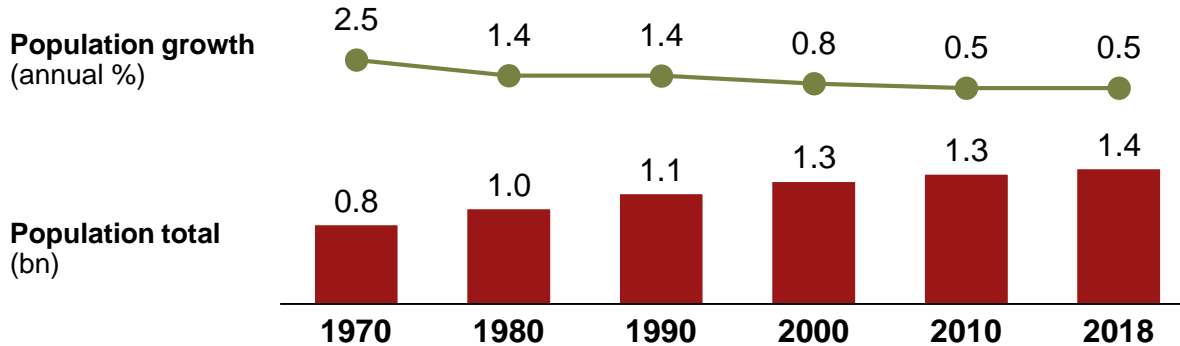
Relevant articles and sources

- Selected facts & figures
 - ▶ pages 3-9 of this document
- Brief history of growth in China
 - ▶ [article World Economic Forum](#)
- Foreign Direct Investment Confidence in China
 - ▶ [A.T. Kearney FDI Confidence Index 2019](#)
- Challenges faced by tech companies in China
 - ▶ [article Harvard Business Review](#)
- US-China trade war
 - ▶ [article FD](#)
- US-China battle for technological supremacy
 - ▶ [Global Business Policy Council](#)
- Hong Kong-China extradition bill
 - ▶ [article FD](#)
- China's territorial claims and business impact
 - ▶ [article NY Times](#)
- China's hidden camps
 - ▶ [report BBC](#)

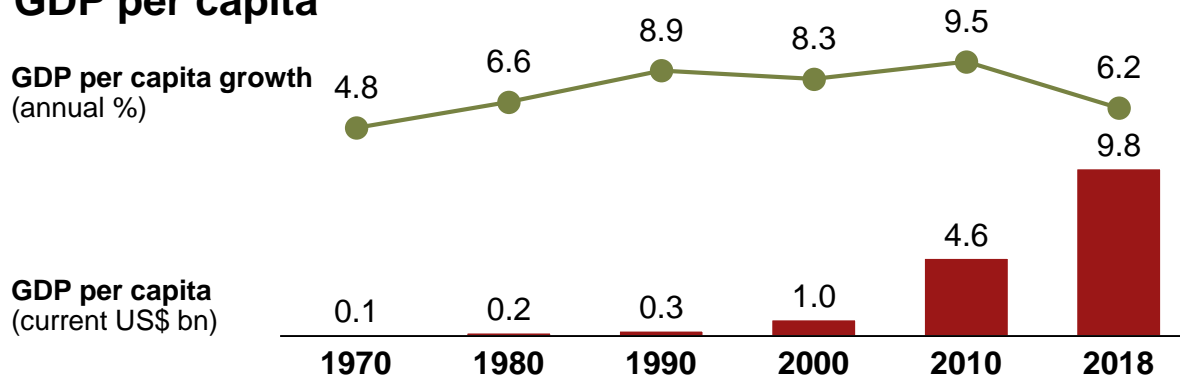
China's population and economy is showing tremendous growth

Growth statistics

Population



GDP per capita



Large Chinese companies

Fortune Magazine's 2019 Global 500, ranking companies by revenue, indicates that Chinese businesses outnumber American companies for the first time.

Companies include:

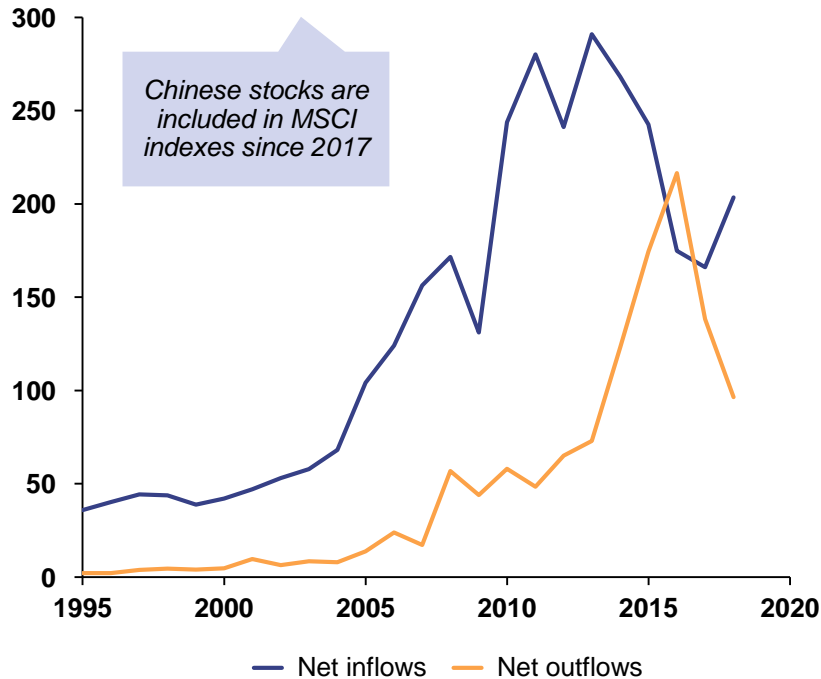


China's wealth is attracting investors and investments

Chinese investment profile

Foreign Direct Investment

(Balance of payments, current US\$ bn)



Investments by China



China's Belt and Road Initiative (BRI)

- China has initiated a program to connect Asia with Africa and Europe via land and maritime networks along six corridors
- The aim is to improve regional integration, increase trade and stimulate economic growth



Investments in Africa

- In addition to connecting Africa with the rest of the world through the BRI, China made significant investments in the continent over the past two decades
- China is now the single largest financier of African infrastructure

China's investments abroad are heavily criticized as new colonialism

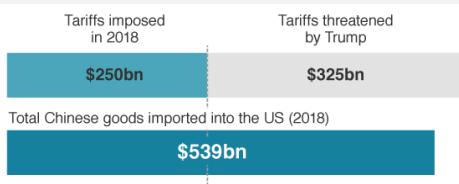
China's moves are carefully watched, and counteractions (trade war led by the US) are increasing

International relations – economy focus

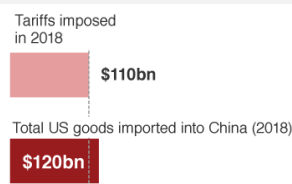
US-China Trade War

- Starting in 2018, the US and China have imposed various penalties on each 'others' imports

US tariffs on China



Chinese tariffs on US

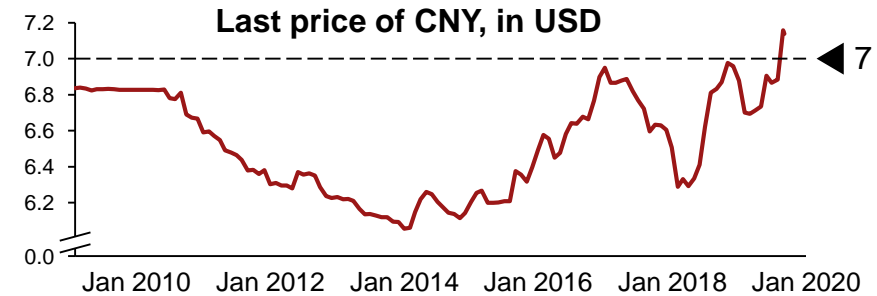


- A series of failed negotiations have taken place, with the next round of talks tentatively scheduled for September

Impact

- While the trade war reduces demand for Chinese exports, experts indicate dampened business investment and an erosion of confidence in the U.S. economy
- According to Bloomberg, trade uncertainty could lower world GDP by 0.6% in 2021 compared to a scenario with no trade war. This translates to a USD 585 billion reduction in the IMF's estimated world GDP of USD 97 trillion for 2021

US-China 'Currency War'



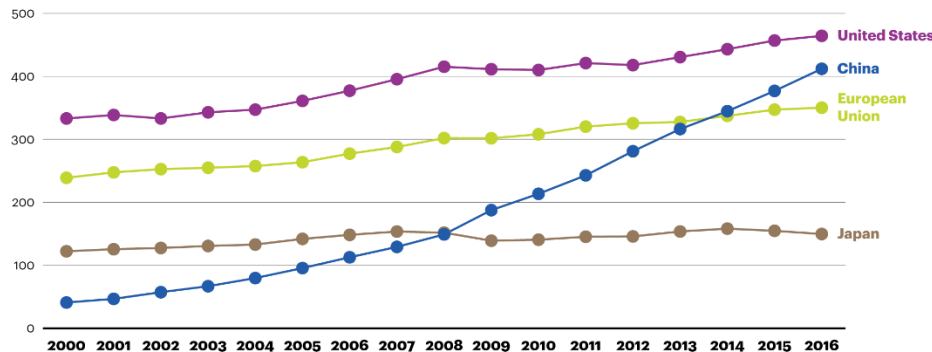
- On August 5, China let the yuan drop to its lowest value since 2008 and below the symbolically significant threshold of 7 yuan for a dollar
- China was immediately accused of being a 'currency manipulator' by the US
- However, China's monetary policy has actually been to increase the yuan's value, while a slowing economy has been putting downward pressure on the currency
- Although a weaker currency could potentially offset some of the tariffs impact (as it makes Chinese exports cheaper), there are many risks to further depreciation (capital outflows, credit markets freezes and tightening domestic financial conditions)

On the technology front China is quickly advancing and running into resistance

International relations – technology focus

The battle for technological supremacy

R&D spending by region (in mn \$)



- The fourth industrial revolution (4IR) has sparked a battle for technological supremacy
- While the US has long been the dominant player, China has become a top-tier challenger
- China's influence in international standard-setting is increasing in for example 5G (Huawei in 3GPP), AI (SC42), IoT and blockchain (leading international research group)
- Economic returns from technologies becoming standards are substantial; the winner of the 4IR race is expected to have a political, economic, and military edge for years to come

Huawei's alleged espionage and ban

Timeline

- 2012** • US congressional panel warns that, following investigation, Huawei poses a security threat 
- 2013** • Huawei denies claims made by a former CIA chief that it spied for the Chinese government
- 2018** • UK reports "only limited assurance" that Huawei's equipment poses no threat to national security. Huawei later removed from a emergency services system
- Huawei's CFO Meng Wanzhou is arrested relating to fraud charges and breaking of US sanctions with Iran
- 2019** • Reports that US is investigating Huawei for "stealing trade secrets" from American business partners
- US formally charges Meng Wanzhou with fraud and Huawei with circumventing sanctions on trade with Iran
- Huawei organizes full-page adverts in the US stating "Don't believe everything you hear" and sues US govt over ban on federal agencies using its products

Countries that have taken action against Huawei



Doing business in China requires careful maneuvering given its political environment and human right record

International companies in China

Economic incentives of market entry must be balanced with unique challenges involved in China's political atmosphere:

- Intellectual property theft
- Regulatory creep
- Government demands
- Alienating employees

Case studies



Google entered China in 2006 with a **censored** search engine but ceded operations after it was revealed that Human Rights activists' Gmail accounts were hacked



Apple conceded to **privacy & data security** regulations in 2017, building a data center in Guizhou, partnering with a Chinese cloud service provider and yielding to demands to be able to examine private company data



Facebook has made repeated attempts to enter China, but faced a high level of public outcry and difficulty. Chief executive Mark Zuckerberg has expressed a lack of overlap between **company principles and Chinese law**



Various brands including Gap and Swarovski have faced political and social backlash in China after not reflecting China's national sovereignty claims over areas like Hong Kong, Macau and Taiwan

Human rights record

China faces challenges from various Human Rights organizations due to its record with:

- Freedom of expression
- State surveillance
- Freedom of religion
- Due process



'Re-education' camps

- Increasing evidence indicates China's use of 're-education' camps, which have been condemned as internment camps by international governments and NGOs
- It is estimated that over a million ethnic Uighurs, Kazakhs, and Hui have been forced into camps

Hong Kong: 'One country, two systems'

- There has been long-standing unrest in Hong Kong, with reports of China increasingly asserting itself over the once British colony
- After several weeks of pro-democracy protests, the unrest shows no sign of abating
- Demonstrations have paralyzed transport hubs, postponed stock exchange listings (e.g. Alibaba), and reduced overall trade, investment and growth in the region

Where the Western world is becoming more isolationist, China is taking a more global outlook...

Global politics

Western isolationism

The US and UK have recently undergone large changes in policy, increasingly secluding themselves from the world:



Trump's 'America First' policy

- Trump's stance on foreign policy emphasizes US nationalism and unilateralism
- The White House has increasingly withdrawn from global affairs such as climate discussions
- The 'America First' phrase first gained prominence in the interwar period with similar ideals emphasizing non-interventionism



Brexit

- After a public referendum in 2016, the UK voted 51.9% to leave the European Union; and is planned to leave the EU at the end of October 2019
- Brexit has caused market volatility and reduced confidence for consumers and businesses alike as a deal is negotiated

China's globalization

Beyond opening up its borders to foreign investment, China has taken a leading role in global politics:



Paris climate agreement

- Despite historical reluctance to label climate change as a security issue, China signed the Paris Agreement
- China has subsequently taken the lead in several environmental forums in the UN, whereas the US has withdrawn from the Paris agreement



Davos, 2016

- Chinese President Xi Jinping made his first visit to the 2017 WEF delivering a keynote speech defending globalization and dissuading trade wars
- *"We must remain committed to developing global free trade and investment, promote trade and investment liberalization... and say no to protectionism... Pursuing protectionism is like locking oneself in a dark room."*

... and increasing its influence through existing and newly established institutions

Underrepresented in traditional institutions



G7: China is not represented despite being the second largest economy of the world



UN: China is underrepresented with respect to the EU and US, but growing more outspoken



IMF: China's quota is 6.41% of the total, whereas the quota of the US is 16.52%



World Bank: China is underrepresented in all five divisions

Establishing new institutions



Through the '**16+1 format**' - comprising of 11 EU countries and five non-EU members: Albania, Bosnia and Herzegovina, Macedonia, Montenegro and Serbia – China increases its influence in the Balkan



Belt and Road Initiative (BRI) (see page 5)



The BRICS countries founded the **New Development Bank** in 2014



China initiated the **Asian Infrastructure Investment Bank (AIIB)**, founded in 2016 as an alternative to the World Bank and the IMF

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