
The Changing Context for Multinational Companies to Reevaluate their China Strategies

*Presentation by Dr. Edward Tse,
Founder & CEO, Gao Feng Advisory Company*

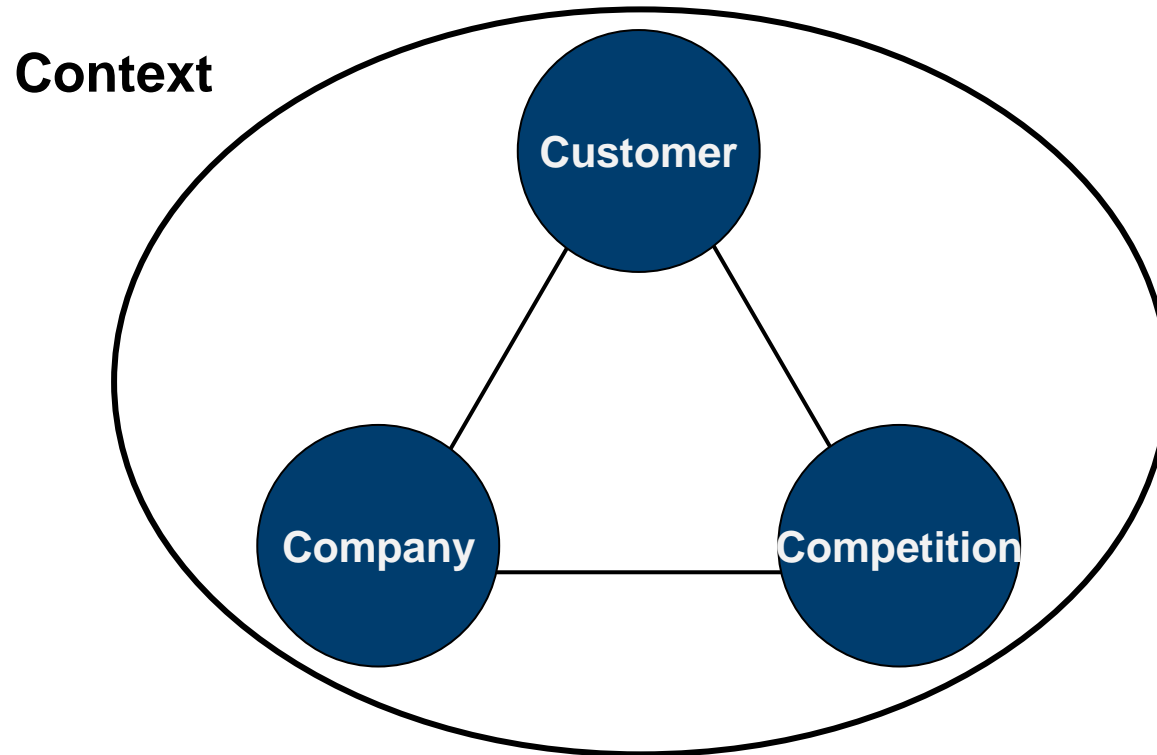
Amcham Shanghai Capstone Conference 2020

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Strategy is about context

The Strategy Quadrangle

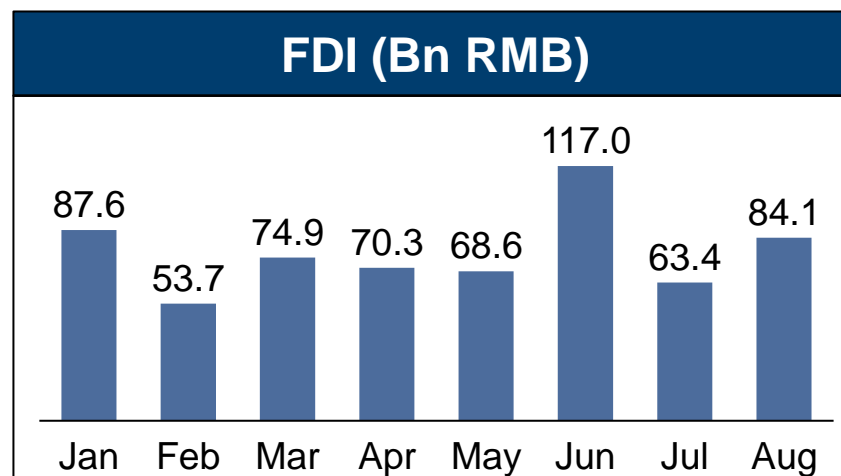
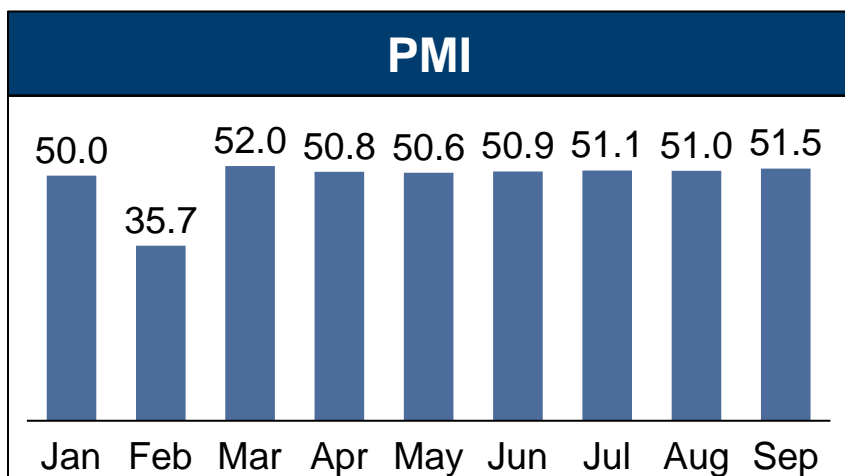
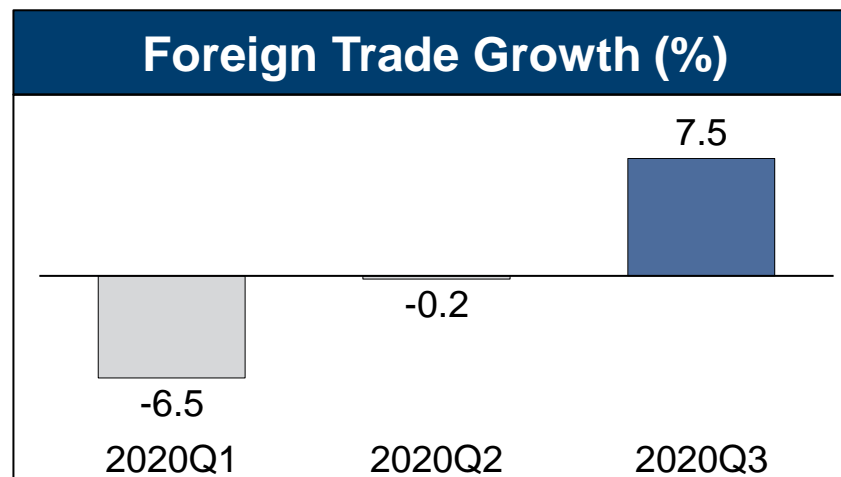
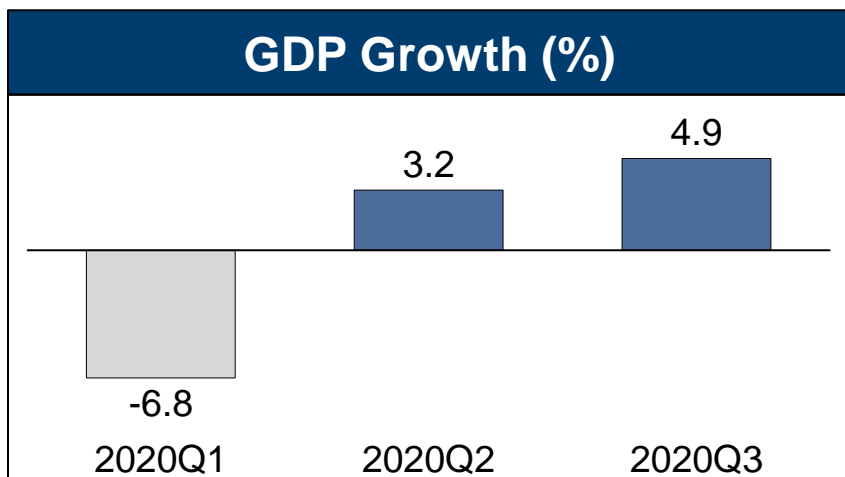


Context

- “Three-Part Duality”
- Deregulation and Liberalization
- Technology Leapfrog

China is rapidly undergoing economic recovery

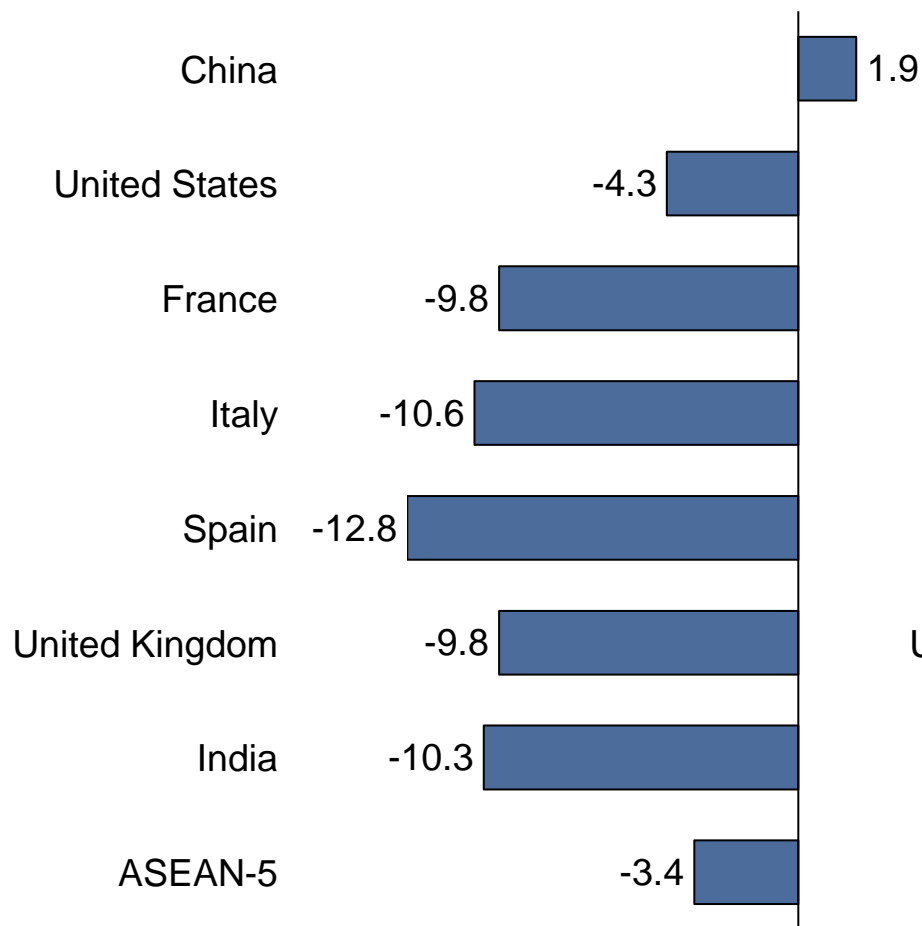
Major Economic Indicators



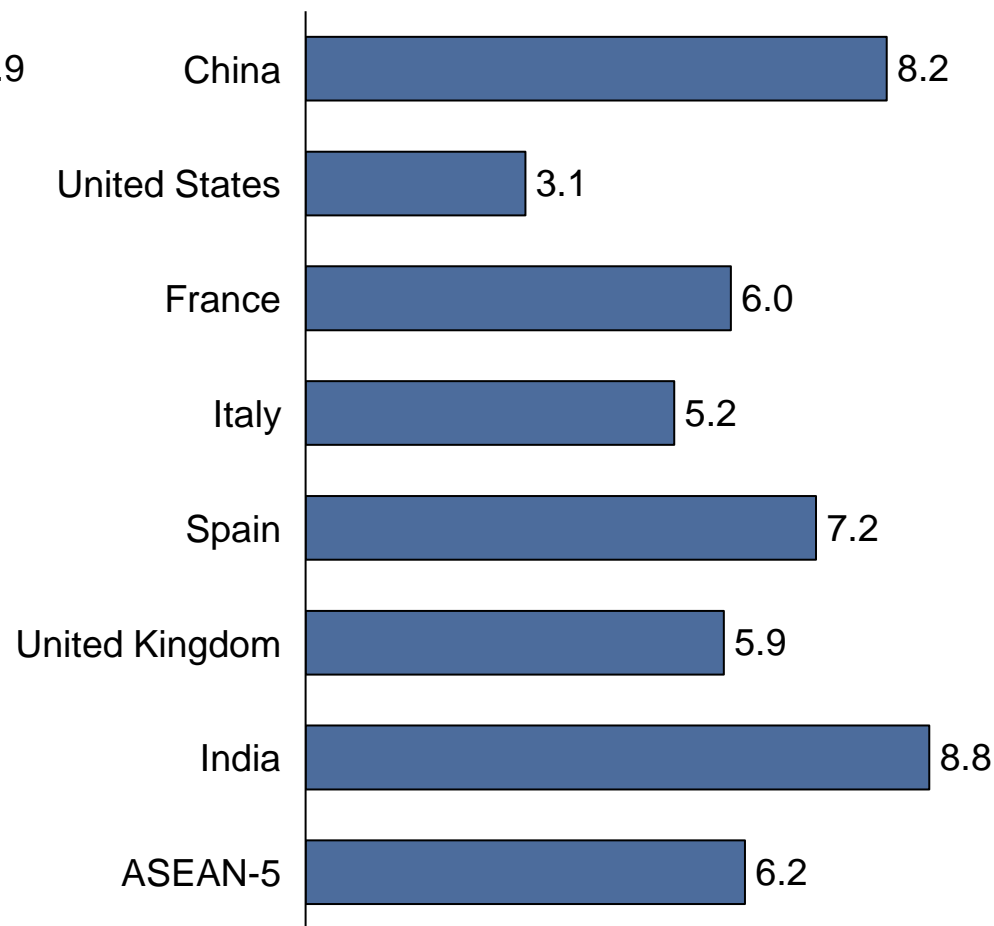
Source: National Bureau of Statistics, Xinhua.net, CNN, Gao Feng analysis

China is leading global economic performance

Projected Real GDP Growth 2020



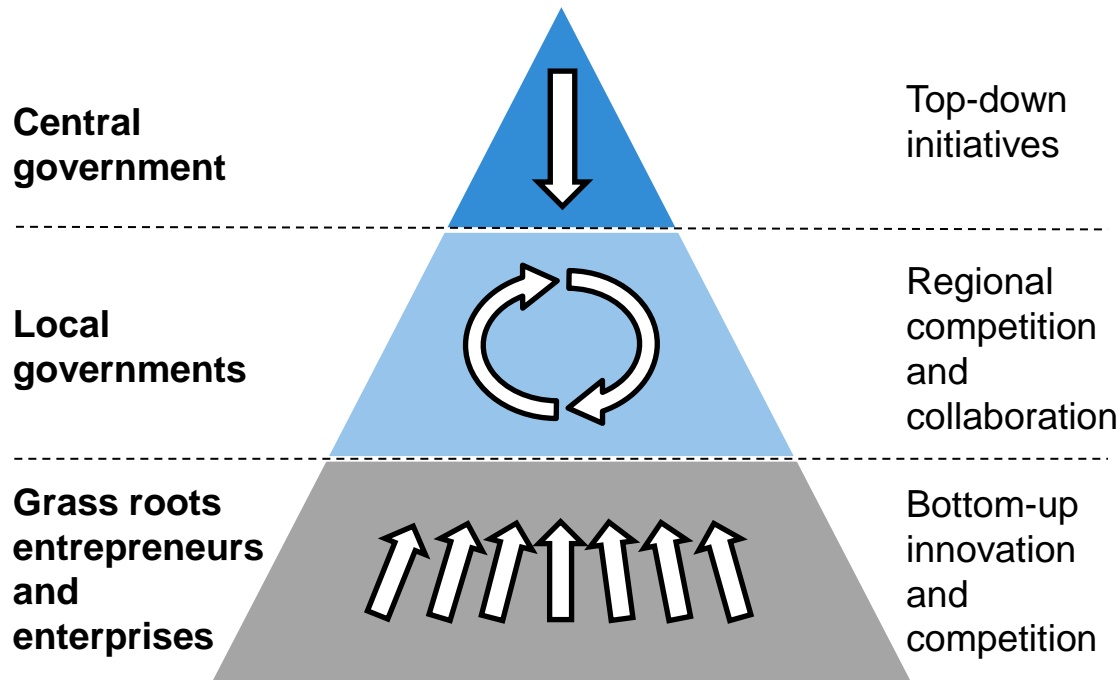
Projected Real GDP Growth 2021



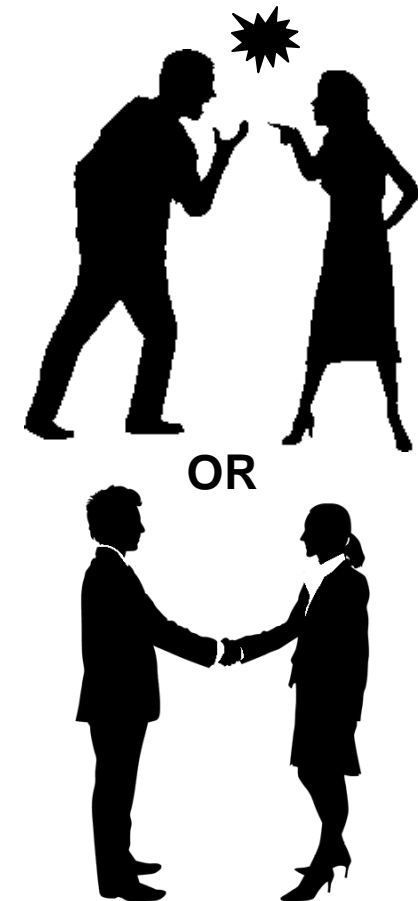
Source: IMF, World Economic Outlook, Gao Feng analysis

China's “three-part duality” approach

China Three-Part Development Model



China's Dual Business Structure (SOEs* vs. POEs*)



*Note: SOE = State-owned Enterprise, POE = Privately-owned Enterprise
Source: Gao Feng Analysis

Significant trust asymmetry exists

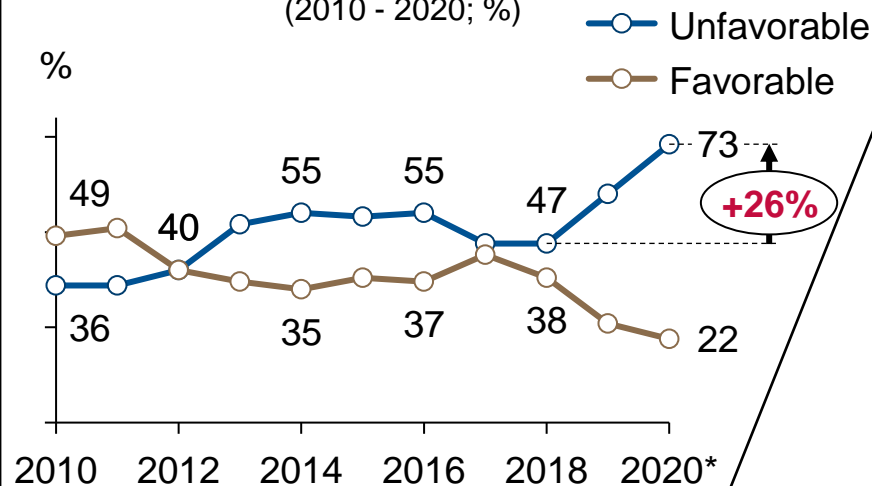
Asymmetric Views on China

West's Mistrust

- Pew Research Institute has reported that **73% of US adults** have an **unfavorable view** of China, up 26% since 2018

Share of Americans' Views on China

(2010 - 2020; %)



Chinese Citizen's Support

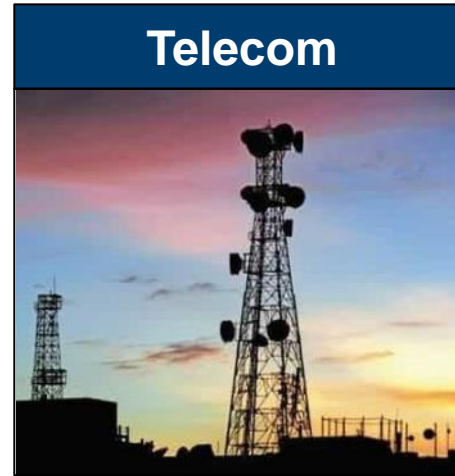
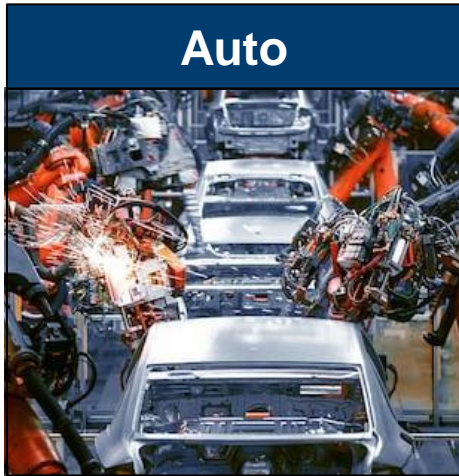
- A survey by Harvard Kennedy School's Ash Center shows that **overall satisfaction** with the Chinese central government reached **93%** in 2016
- Edelman's Trust Barometer showed that citizen trust in the Chinese government was **up 5% to 95%** since January
- In the 2020 Ipsos survey of the state of happiness, **China was ranked No.1** with a score of **93%**, having grown 11% over the last 12 months, against a **global average of 63%**

*Note: Survey of U.S. adults conducted June 16-July 14, 2020

Source: Pew Research Center, Harvard Kennedy School, Edelman, Ipsos, Gao Feng analysis

China is accelerating its market reform and opening

Key Sectors Opening Up



*“China will **continue to deepen reform and opening-up**, and fully deliver on the key policy measures for ensuring stability on six fronts ... and maintaining security in six areas... These initiatives are designed to further improve China's business environment and create new opportunities and prospects for investors from home and abroad”*

- Letter by President Xi to Global CEO Council

Foreign companies are not leaving China and US brands continue to be popular

Shanghai AmCham Study Findings

- American businesses in China remained profitable, with **78.2% of companies** reporting profits in 2019
- **78.6% of companies** reporting no change in their investment allocations while **29% of companies** expected to increase their China investment in 2020
- **71% of businesses** have no plans to leave China despite souring trade relations
- **32.5% of companies** expect their 2020 revenues to be greater than in 2019

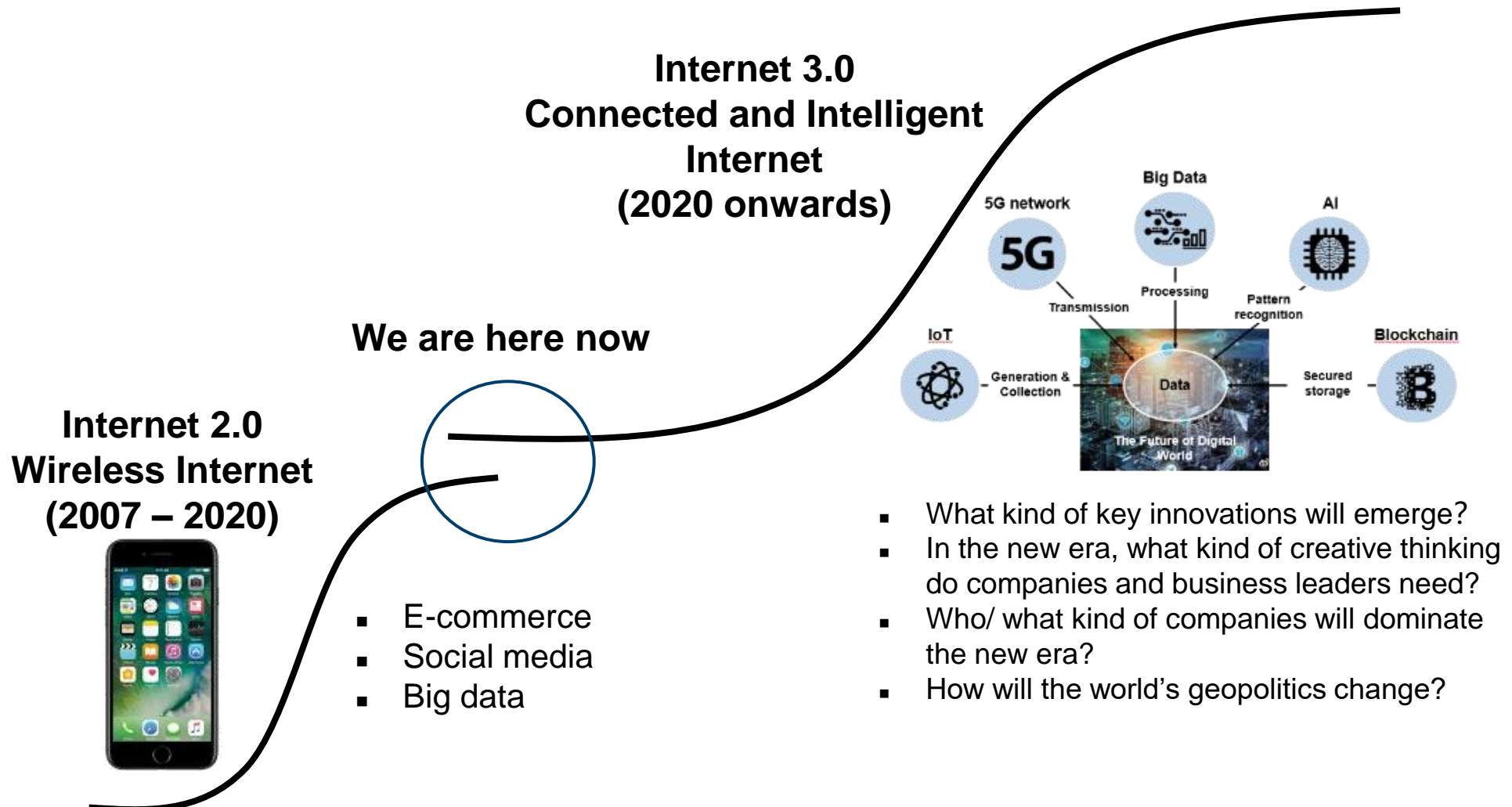
US Brands Popular in China



China is accelerating its R&D and innovations

- In the first seven months of 2020, the amount of equity investment in the **semiconductor** field **exceeded 60Bn RMB**, twice the amount of 2019
- The amount of equity investment in the semiconductor field is expected to exceed **100Bn RMB** by the end of 2020, **triple** the total amount of 2019
- China is leading with **the most declared 5G patents** and has built **more than 600,000** 5G base stations
- In 2019, China spent nearly 324Bn USD in R&D, which has increased by **23.7 times** in the past 20 years
- China's spending in R&D in 2019 hit a record high at **2.2% of the country's GDP**

China is at cusp of entering a new era of tech-enabled innovations



Source: Gao Feng analysis

China's recent major policies/commitments underscore its strategic purpose

Dual-circulation Policies



- China aims to balance emphases on both internationalization (“external circulation”) and self-sufficiency (“internal circulation”)

Carbon-neutral by 2060



- China aims to have CO2 emissions peak before 2030 and achieve carbon neutrality before 2060

Joining COVAX



- China officially joined COVAX on Oct. 8th 2020
- China's 4 new coronavirus vaccines have entered phase III clinical trials

New Era of Reform and Opening

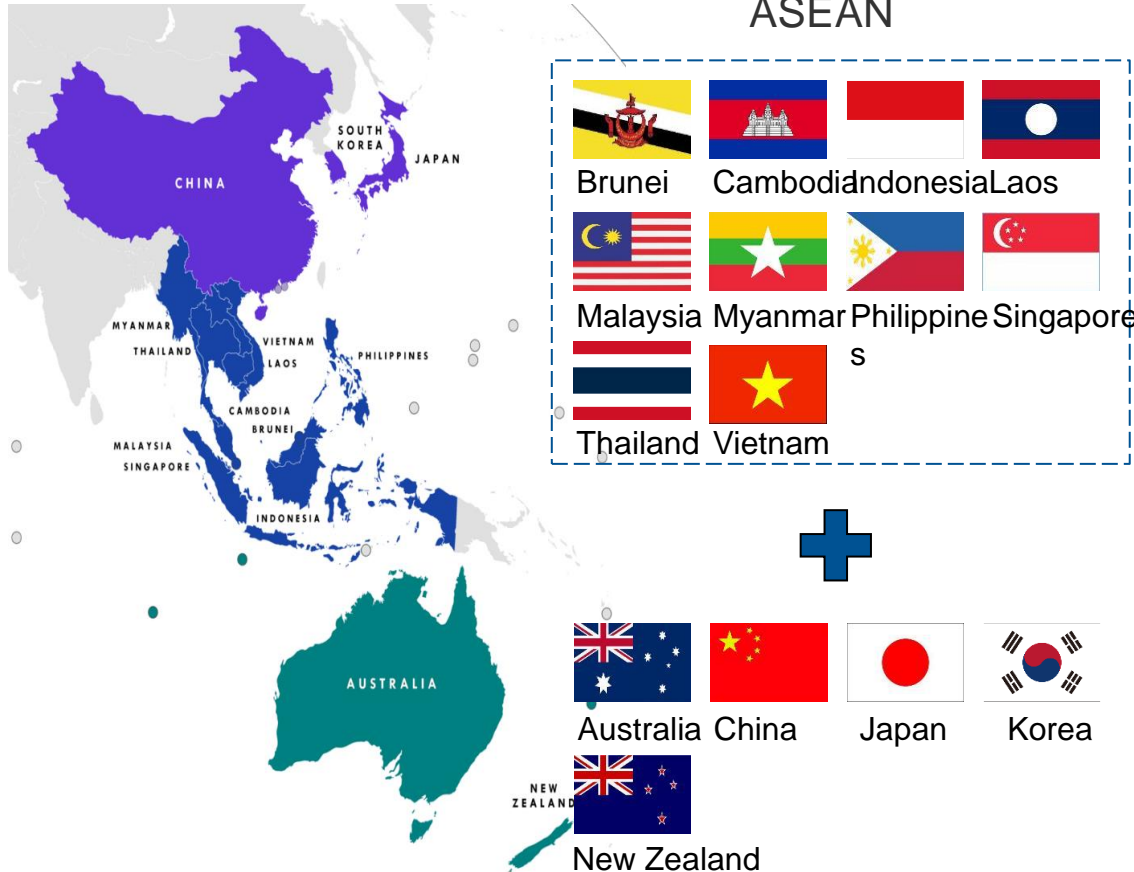


- China pledged to deepen the reform and opening up for its economic and social development signified by Shenzhen's 40th anniversary of reform

RCEP: a major undertaking with regional and global implementation

RCEP Countries*

ASEAN



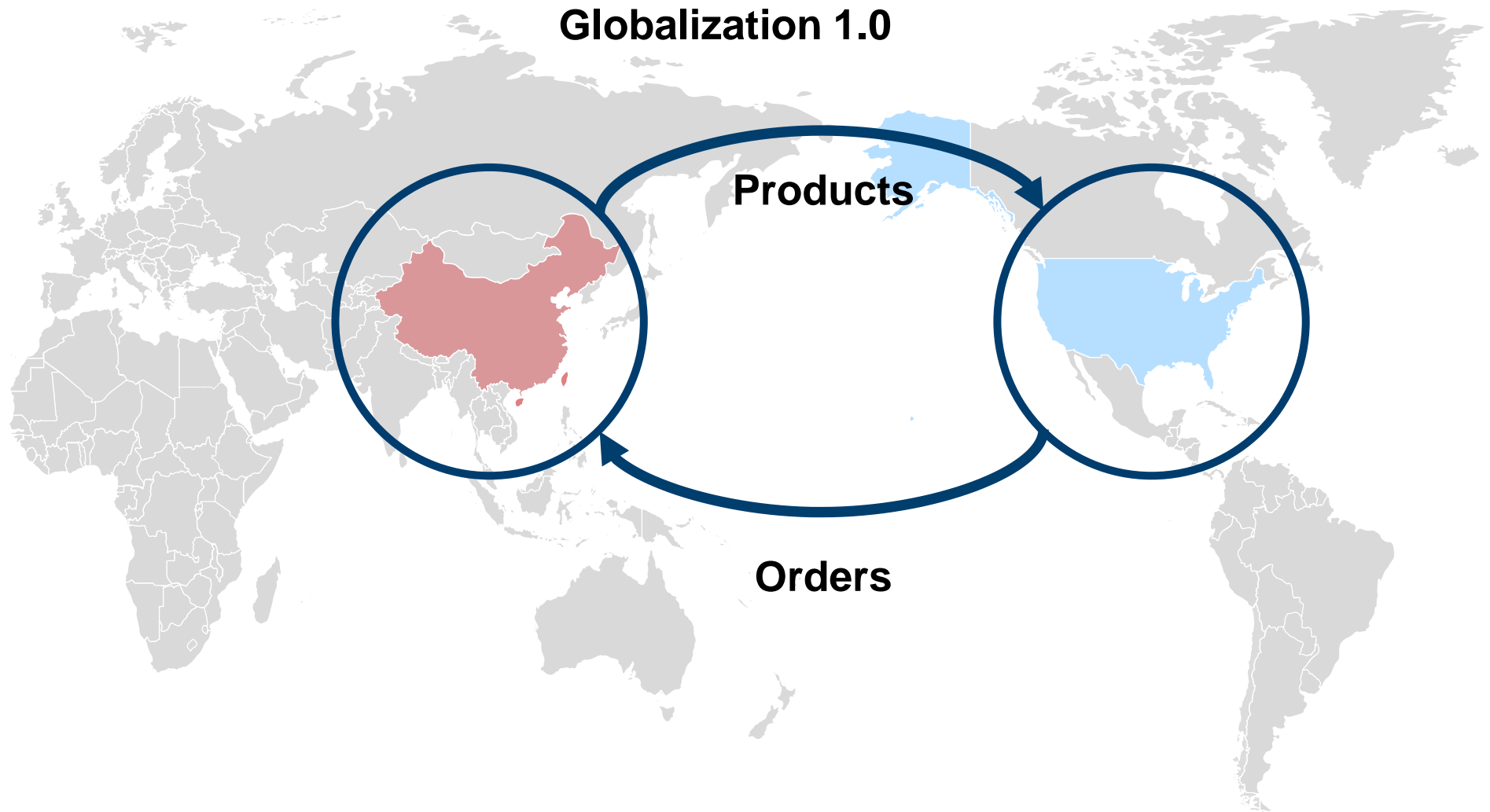
Key Elements of RCEP

- **29%** global GDP in 2019
- Expected to achieve more than **50%** global GDP in 2030
- **30%** global population in 2019
- **30%** global trade volume in 2019

Notes: India chose to opt-out of the RCEP as a number of key concerns were not addressed
Source: BBC, HSBC, Gao Feng analysis

“Dual Circulation” – manifestation of “Globalization 2.0” (1/2)

ILLUSTRATIVE

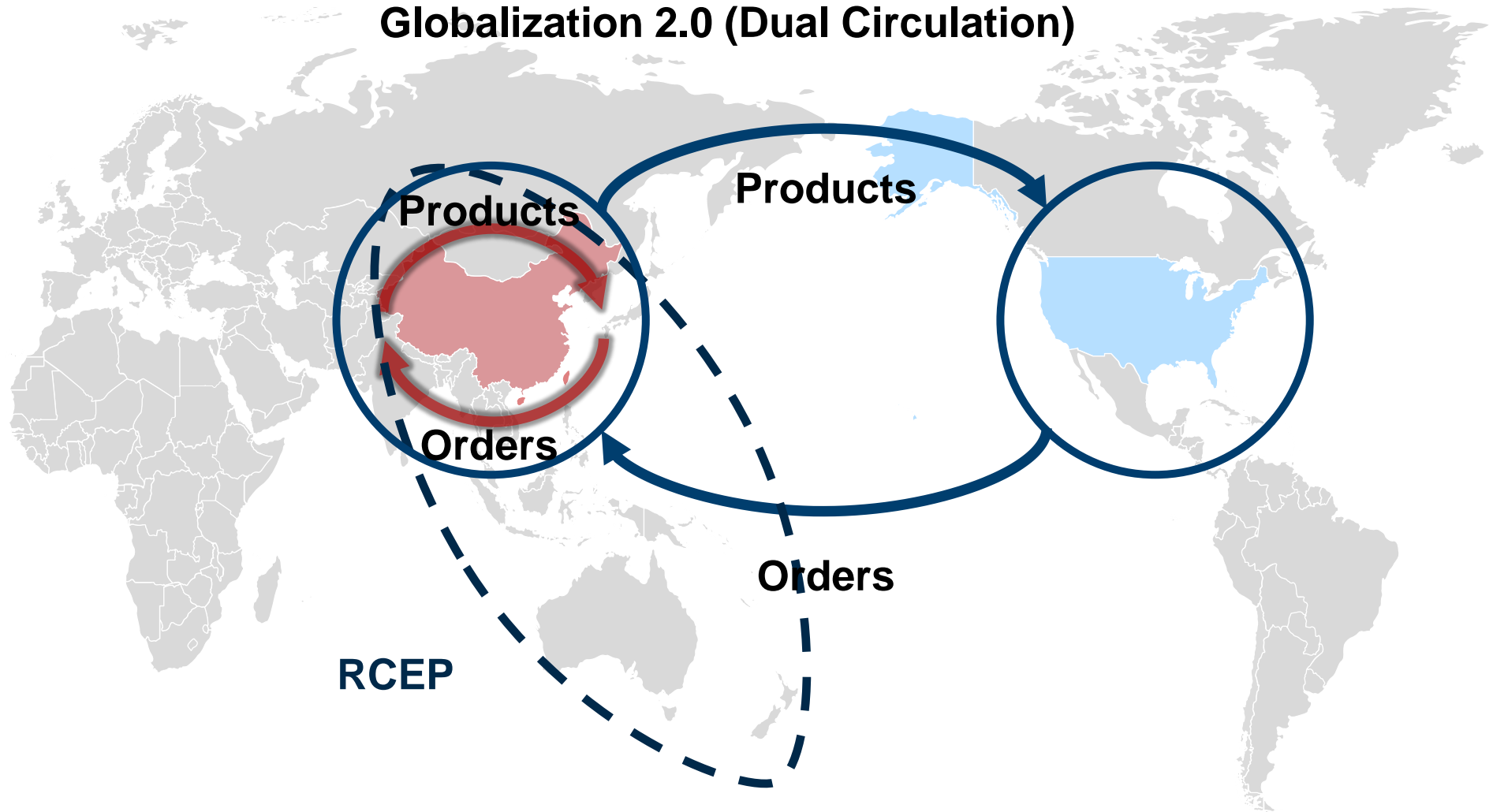


Source: Xinhua.net, Gao Feng analysis

“Dual Circulation” – manifestation of “Globalization 2.0” (2/2)

ILLUSTRATIVE

Globalization 2.0 (Dual Circulation)



Source: Xinhua.net, Gao Feng analysis

Setting the agenda for the future

Highlights of China's 14th Five-Year Plan



- The fifth plenum of the Chinese Communist Party's 19th Central Committee held in Beijing on October 29 **finalized the blueprint for the 14th Five-Year Plan**, which **will set China's economic and social policy vision for the period from 2021-2025**
- The final version of the plan won't be passed until the National People's Congress meets in **early 2021**

Institutional Innovation

- **No specific target for GDP growth**
- Reduce the earnings gaps between rural and urban residents
- Construct a "high-standard market system" where market forces determine the allocation of resources

Technology Innovation

- Make **major breakthroughs** in key core technologies
- Achieve "**new industrialization**, informatization, urbanization, and agricultural modernization."
- Technology goals **are for 2035, not 2025**

Dual-circulation Policies

- The "domestic cycle" (meaning internal production and consumption) will be the main focus
- "international cycle" (foreign trade and investment)
- Implement a high level of international openness

Source: Global Times, Reuters, the Diplomat, Gao Feng analysis

US-China relationship: three future scenarios

Scenario 1: Regionalized Isolation

- Chinese companies forced out of the US market
- Chinese government virtually **blocking US investments**
- Chinese consumers shifting to **local products**

Scenario 2: “One World, Two Systems”

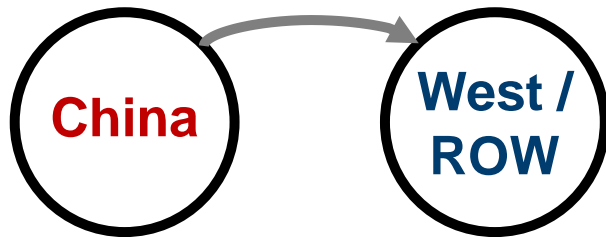
- The US and China remaining **geopolitical rivals** with **intense competition** in high-tech area
- China **extending its market access with** stringent **data sovereignty and governance** rules
- Chinese consumers gravitating towards brands, **regardless of whether Chinese or the US**

Scenario 3: “Co-opetition”

- The US and China remaining **geopolitical rivals** while **collaborating** in certain areas, especially in high-tech area
- China **extending its market access** while **global data governance** being worked out
- Chinese consumers gravitating towards brands, **regardless of whether Chinese or the US**

Implications for manufacturers and supply chain players

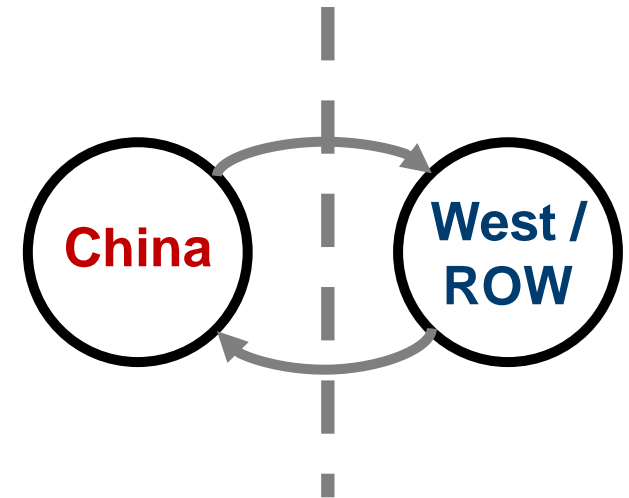
**Scenario 1:
Regionalized Isolation**



**Scenario 2:
“One World, Two
Systems”**



**Scenario 3:
“Co-opetition”**



Contact us

Please find below the contact details for our office locations in Beijing, Shanghai, and Hong Kong or contact us at info@gaofengadv.com

Beijing:

Gao Feng Advisory Company
Suite 1307, Guangming Building, No.42 Liangmaqiao Road, Chaoyang District, Beijing 100125, P.R. China
Tel +86 10 8441 8422
Fax +86 10 8441 8423

Shanghai:

Gao Feng Advisory Company
Suite 502, 119 Madang Road, Huangpu District, Shanghai 200021, P.R. China
Tel +86 21 6333 9611
Fax +86 21 6326 7808

Hong Kong:

Gao Feng Advisory Company
Suite 923, Level 9, Lee Garden One, 33 Hysan Avenue, Causeway Bay, Hong Kong
Tel +852 3959 8856
Fax +852 3959 8800

Or visit our website: www.gaofengadv.com



Edward Tse's account:
edtsehk