



2020

Turbulence, Uncertainty and Reform

"Story of Strugglers and Thrivers"

An aerial photograph of a cruise ship's deck, showing a red and white tender boat moving through the water, leaving a white wake. The deck is visible with various seating areas, including yellow umbrellas and tables. The image is partially obscured by a large green diagonal graphic element.

Contents

Turbulence - Foreign Affairs, Trade & Investment

Strugglers – Low tech & U.S. manufacturing

Thrivers – Consumption, Healthcare, Finance & Innovation

Rapid Reform

Looking ahead 2020

/01

**Looking back at
2019**



Foreign Affairs and Trade: China - US Relations



Trade Delegation Phase
I Deal
(Jan/Feb 2020)



Huawei 90 Days License
Expire
(Feb 2020)



US Party Conventions
(Jul/Aug 2020)



G20 Summit
(Oct 2020)



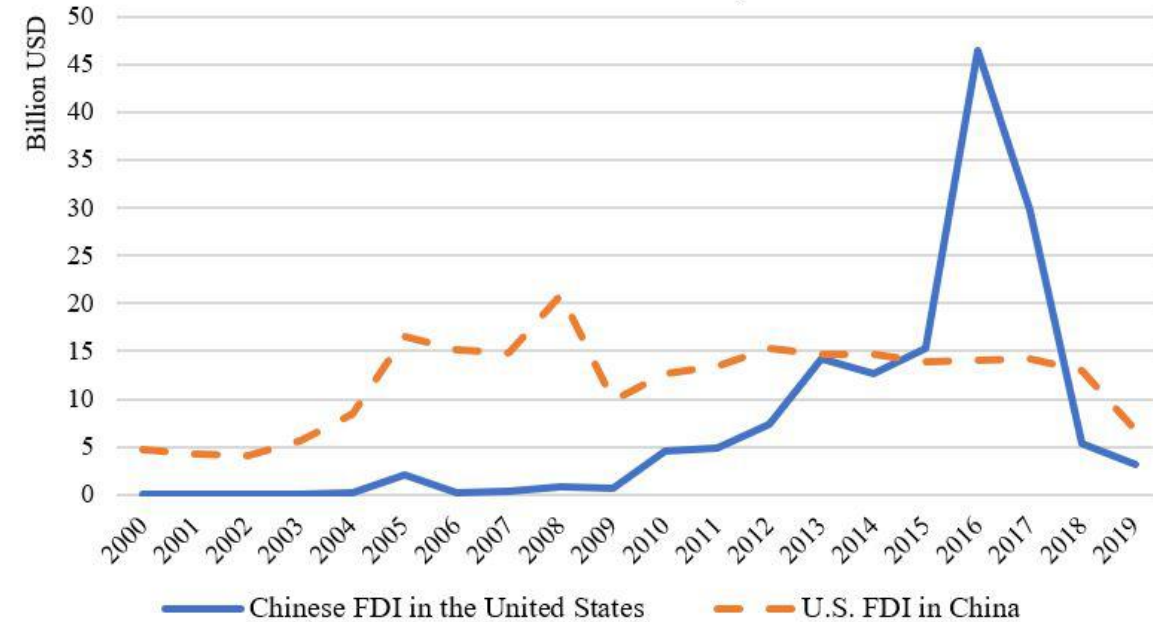
US General Election
(Nov 2020)



ACCELERATED
DECOUPLING

- ▶ + Trade
- ▶ + Systemic
- ▶ + Ideological

Bilateral Direct Investment between
the United States and China, 2000-2019*



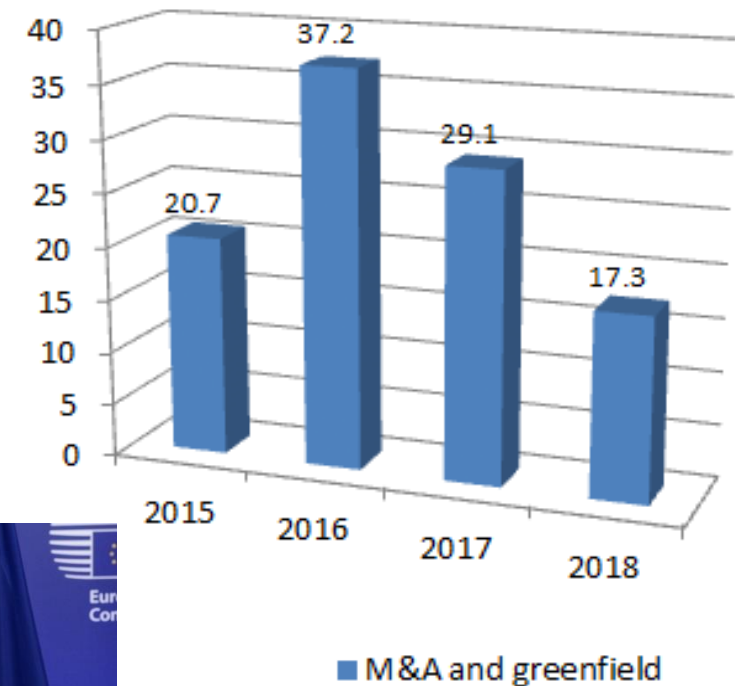
* Through April 2019
Source: Rhodium Group

Foreign affairs and trade: China – EU Relations

Chinese FDI in the EU further declined to pre-2015 level

- ▶ EU-China bilateral investment agreement in negotiation
- ▶ Hardening attitude for Chinese inward investment
- ▶ Optimism and opportunities for business
- ▶ Technology imports from Europe + 37.8%

Chinese ODI in the EU



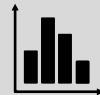
East Asia and the Belt and Road Initiative

**Regional Comprehensive
Economic Partnership (RCEP)**



**Tariff Reductions for
regional supply chains**

Belt and Road Initiative (BRI)



**Diplomacy bias to Belt and
Road Initiative and Asia**

Diplomatic Visits 2019

Xi Jinping

June 7



St. Petersburg International Economic Forum in Russia

June 14



Meeting of the Council of Heads of Member States of the SCO in Kyrgyzstan

June 15



Conference on Interaction and Confidence Building Measures in Asia, Tajikistan

June 28




G20 in Japan


Nov. 14




BRICS Summit in Brazil




意大利




摩纳哥




法国




俄罗斯




吉尔吉斯斯坦




塔吉克斯坦




朝鲜



日本




印度




尼泊尔

合作伙伴关系




希腊



西班牙
(技术经停)

欧洲



巴西

南美洲

March

June

October

November

Li Keqiang

- April, 21st China-EU Summit
- April, 21st China-EU Summit in Brussels, and the 8th China-CEE Summit in Croatia
- Sep 16th, Official visit to Russia between Prime Ministers
- Nov, 18th Meeting of Shanghai Cooperation Organization Council of Heads of Government in Uzbekistan
- Nov, 14th East Asia Summit in Bangkok

Strugglers

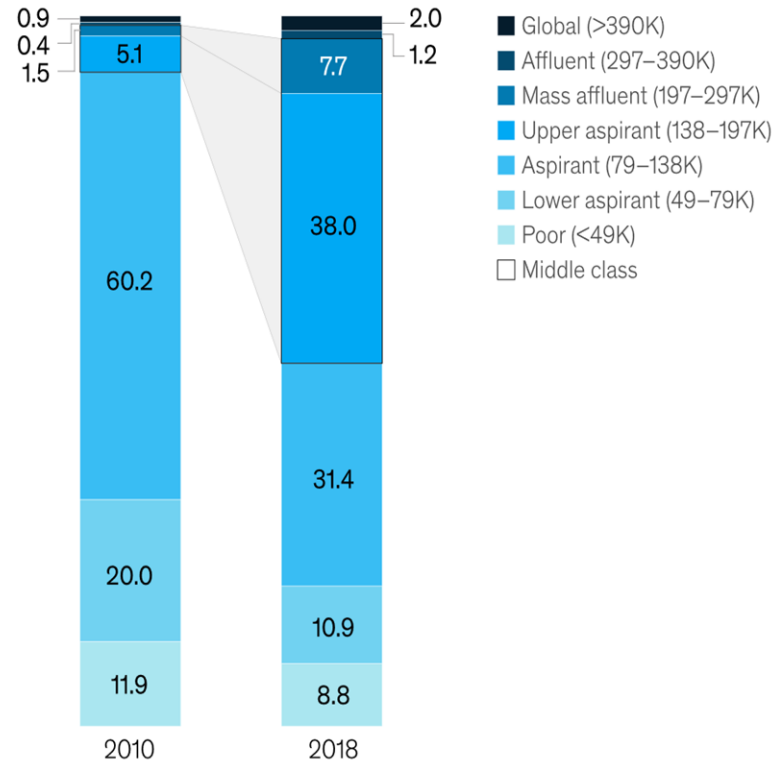
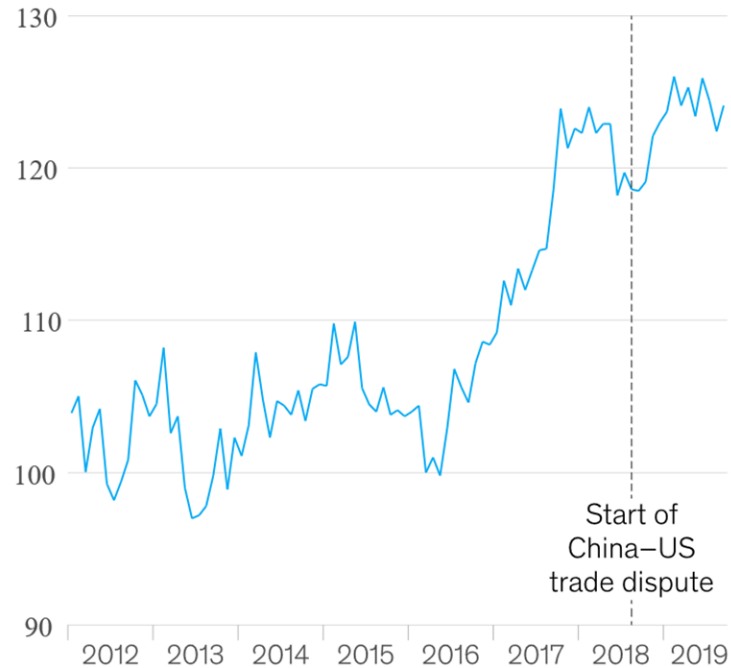


Thrivers: China's Consumers

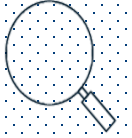
Middle class population is rising in China

% of urban households in China, by annual household disposable income

China Consumer Confidence Index



*Source: McKinsey China consumer report 2020



**Most are savvy,,
discerning about
spending**



**Young consumers
are growth engine**



**Growing appeal for
Chinese high-end
brands**



**Health conscious
movement here to
stay**



**More sophisticated
travelers**

Thrivers: Financial Services & Healthcare



Open up in securities, fund management, futures, banking and insurance

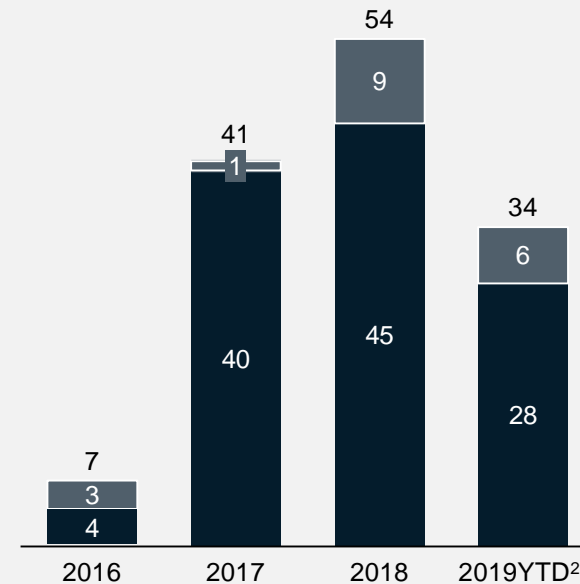


FinTech regulatory plans

- ▶ Repositioning China as Tier 1 healthcare innovation market
- ▶ Golden era

of innovative drug approved¹

■ Local ■ MNC



Selected brands approved in 2019



1. Including both innovative chemical drugs and biologics. | 2. As of October 25, 2019.

Source: CDE; EvaluatePharma; GBI; McKinsey analysis

Thrivers: Innovation Sectors

- ▶ • Decoupling between China and the US is well underway
- ▶ • Government and SOEs encouraged to buy technology without US content



China's "Secure and Control" Initiative



\$20bn Chinese self reliance funds for manufacturing & \$20bn for semiconductors



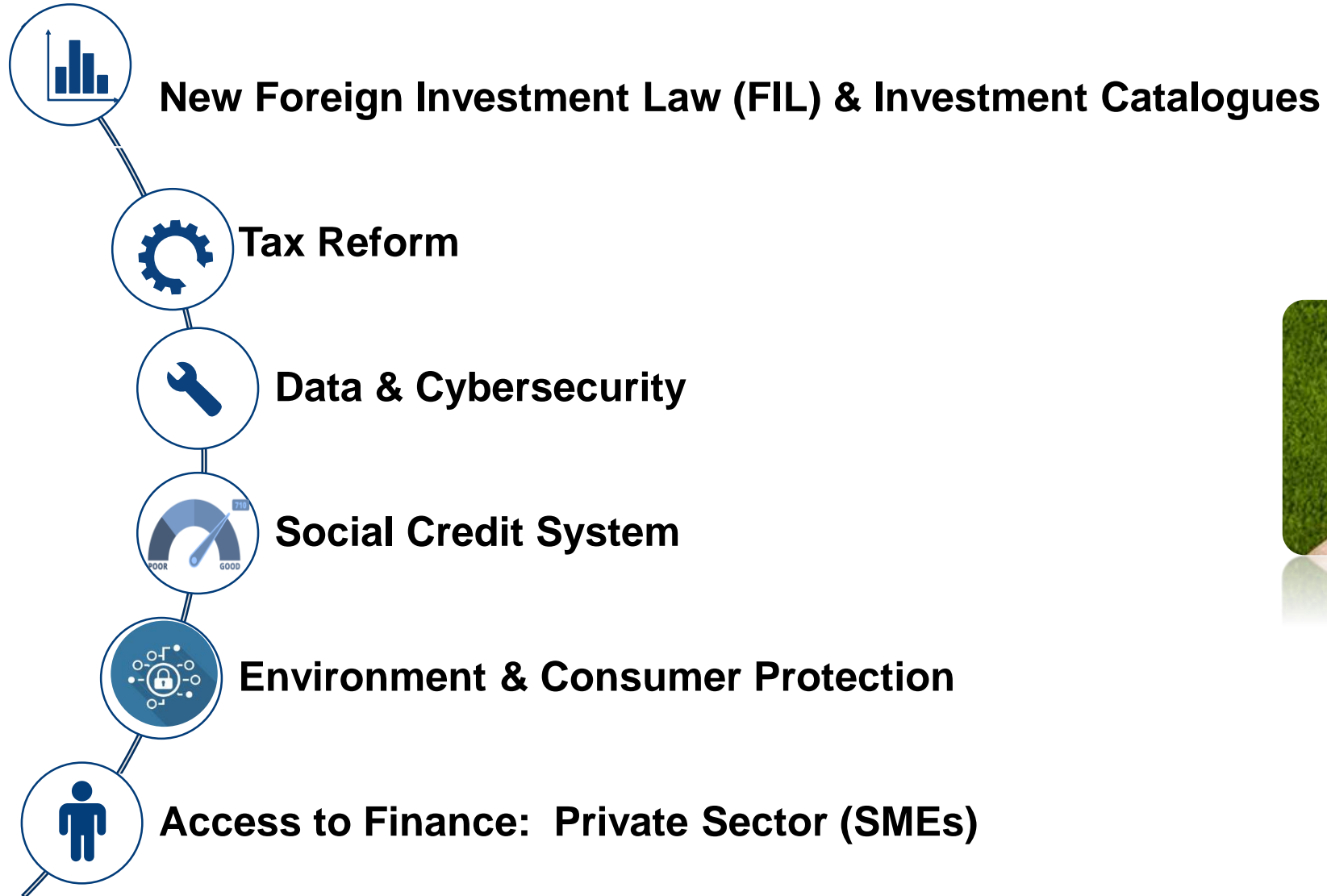
4th plenum referred to breakthroughs in core technologies, such as 5G – and IoT, AI and close regulation of blockchain



Taiwanese semiconductors will become a bigger point of friction for the US and China in 2020.

Chinese firms' market share	2012	2018
Servers and storage (in China market)	30%	70-80%
Smartphones (in China market)	-	85%

Reform: Fast Pace and breadth



An aerial photograph of a cruise ship's deck, showing a tender boat moving through the water, leaving a white wake. The deck is visible with various seating areas, including yellow umbrellas and tables. The image is partially obscured by a large green diagonal graphic element.

/02

Looking ahead: 2020

Continuity of 2019

► 5th year of the 13th Five Year Plan



Growth target returns



Poverty alleviation



Establishment of 6 new free trade zones & 24 e-commerce cross-border trade zones



Free Trade Agreements along China's Belt and Road Initiative



Cybersecurity Law



Anti-unfair Competition Law



New Foreign Investment Law



Negative List for Market Access (2019 Edition)



Regulations on Optimizing the Business Environment



Guidelines for Mixed-ownership Reform



New e-Commerce law and cross-border regulations

Trends to watch

NEVs and autos

The Chinese electric vehicles market is expected to grow 33% from 2019-2024.



Healthcare

Health tech prioritized in 13th Five-Year Plan (2016-2020) and the Healthy China 2030 strategy.



Private Education

Market set to grow at 9% year-on-year until 2020, reaching \$330 bn.



Social credit

By 2020, government to standardize economic and social reputation assessment of businesses and citizens.



Data Protection

Greater regulatory emphasis on digital privacy and personal information.



AI, IoT, Blockchain

China plans to achieve global AI leadership by 2030.



Restructuring of US Companies and JVs in China

Last, but not Least: 14th Five Year Plan

- “To shore up the **economy**, improve **people’s well-being**, guard against and **resolve risks**, among others, major policies should be in place” - Li
- Additional progress in streamlining administration and **optimizing government services**,
- Creating a **market-oriented business** environment
- Key projects initiated to **mobilize private sectors** and the public, strengthen **infrastructure**, foster industrial **competitiveness through innovation**, and build a better **ecological environment**.





Thank you

Questions ?