



# China What's Next

**MIP**

POLITECNICO DI MILANO  
GRADUATE SCHOOL  
OF BUSINESS



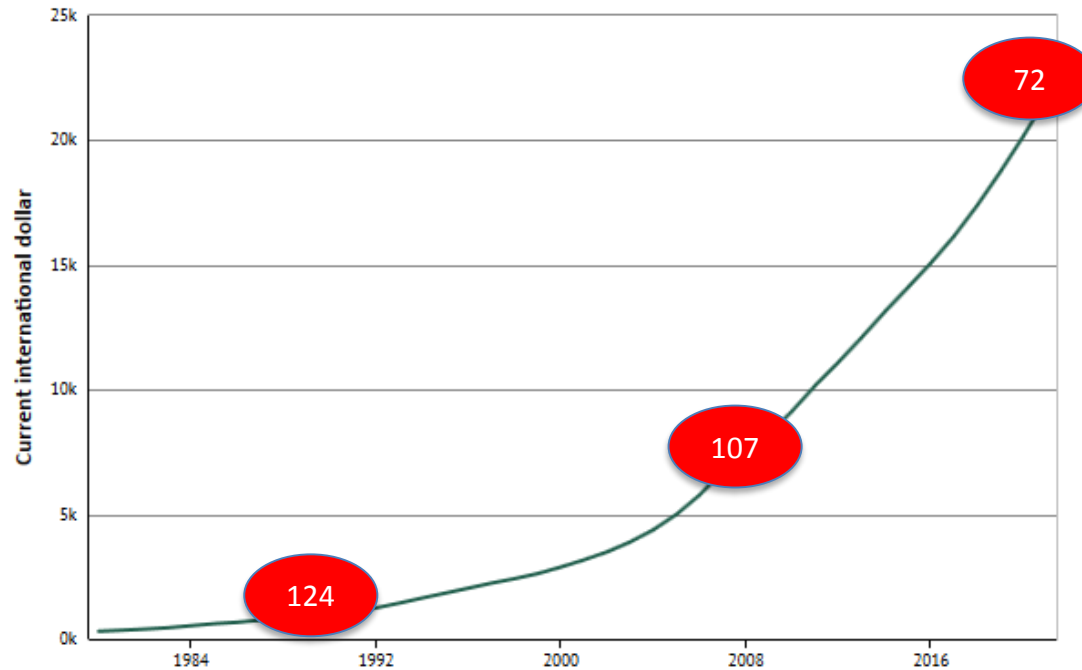
Executive Education  
Ranking 2015



European Business Schools  
Ranking 2015



# China - GDP based on purchasing-power-parity (PPP) per capita



Source: [IMF World Economic Outlook \(WEO\), April 2016](#)

Date	Value	Change, %
2021	21,733	7.64 %
2020	20,190	7.67 %
2019	18,752	7.74 %
2018	17,405	7.62 %
2017	16,172	7.13 %
2016	15,095	7.00 %
2015	14,107	7.44 %
2014	13,131	8.50 %
2013	12,103	8.92 %
2012	11,112	9.14 %
2011	10,181	11.18 %
2010	9,157	

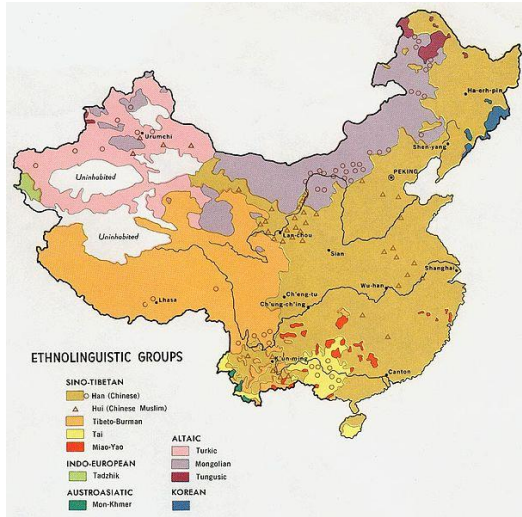
# Which is the real positioning of the Chinese Economy?

2013	Population '000		GDP bn RMBs		GDP Per Capita RMB	GDP Per Capita US\$
Tianjin	14,720	1%	1,444	2%	100,105	16,217
Beijing	21,150	2%	1,980	3%	94,648	15,333
Shanghai	24,150	2%	2,181	3%	90,993	14,741
Jiangsu	79,390	6%	5,975	9%	75,354	12,207
Zhejiang	54,980	4%	3,775	6%	68,805	11,146
Inner Mongolia	24,980	2%	1,691	3%	67,836	10,989
Liaoning	43,900	3%	2,721	4%	61,996	10,043
Guandong	106,440	8%	6,247	10%	58,833	9,531
Fujian	37,740	3%	2,186	3%	58,145	9,419
Shandong	97,330	7%	5,523	9%	56,885	9,215
Jilin	27,510	2%	1,304	2%	47,428	7,683
Chongqing	29,700	2%	1,278	2%	43,223	7,002
Shaanxi	3,764	0%	1,620	3%	43,118	6,985
Hubei	57,990	4%	2,479	4%	42,826	6,938
Ningxia	6,540	0%	257	0%	39,613	6,417
Hebei	73,330	6%	2,844	4%	38,909	6,303
Heilongjian	38,350	3%	1,445	2%	37,697	6,107
Xinjian	22,640	2%	844	1%	37,553	6,084
Hunan	66,910	5%	2,462	4%	36,943	5,985
Qinghai	5,780	0%	212	0%	36,875	5,974
Hainan	8,950	1%	317	0%	35,663	5,777
Shanxi	37,640	3%	1,266	2%	34,984	5,667
Henan	94,130	7%	3,219	5%	34,211	5,542
Sichuan	81,070	6%	2,639	4%	32,617	5,284
Anhui	60,300	5%	1,922	3%	32,001	5,184
Jiangxi	45,220	3%	1,441	2%	31,930	5,173
Guangxi	47,190	4%	1,445	2%	30,741	4,980
Tibet	3,120	0%	81	0%	26,326	4,265
Yunnan	46,870	4%	1,183	2%	25,322	4,102
Gansu	25,820	2%	633	1%	24,539	3,975
Guizhou	35,020	3%	808	1%	23,151	3,750
	<b>1,322,624</b>		<b>63,422</b>			<b>0.162</b>

17,476	Estonia
17,236	Slovak Republic
14,562	Argentina
14,348	Lithuania
11,235	Venezuela
10,653	Malaysia
10,549	Panama
10,490	Turkey
9,721	Mexico
9,194	Suriname
8,936	Mauritius
7,472	Azerbaijan
7,357	Bulgaria
7,154	Botswana
6,857	Dominica
6,798	Turkmenistan
6,252	Dominican Republic
6,159	Timor-Leste
6,075	Namibia
5,846	Thailand
5,665	Ecuador
5,656	Serbia
5,574	Algeria
5,325	Jamaica
5,018	Angola
4,850	Jordan
4,728	FYR Macedonia
4,618	Belize
4,547	Fiji
4,456	Tonga
3,873	Ukraine



# Which China?



Wh

3 ITA 10:40

### Ürümqi

Flurries

-7°

Wednesday	Today	-3	-18			
Now	16	17	17:31	18	18	
	☔	☔	☔	☔	☔	
	-7	-6	-9	Sunset	-8	-1
Thursday		☔		-12	-23	
Friday		☔		-12	-23	
Saturday		☔		-14	-22	
Sunday		☔		-12	-21	
Monday		☔		-11	-19	

3 ITA 10:32

### Beijing

Mostly Cloudy

8°

Wednesday	Today	9	-2			
Now	17:43	18	19	20	21	
	☔	☔	☔	☔	☔	
	8	Sunset	7	3	2	3
Thursday		☔		9	-2	
Friday		☔		12	2	
Saturday		☔		6	-6	
Sunday		☔		4	-7	
Monday		☔		6	-5	

3 ITA 10:32

### Harbin

Partly Cloudy

-3°

Wednesday	Today	1	-6			
Now	18	19	20	21	22	
	☔	☔	☔	☔	☔	
	-3	-2	-4	-2	-1	-3
Thursday		☔		7	2	
Friday		☔		4	-9	
Saturday		☔		-4	-18	
Sunday		☔		-10	-19	
Monday		☔		-7	-17	

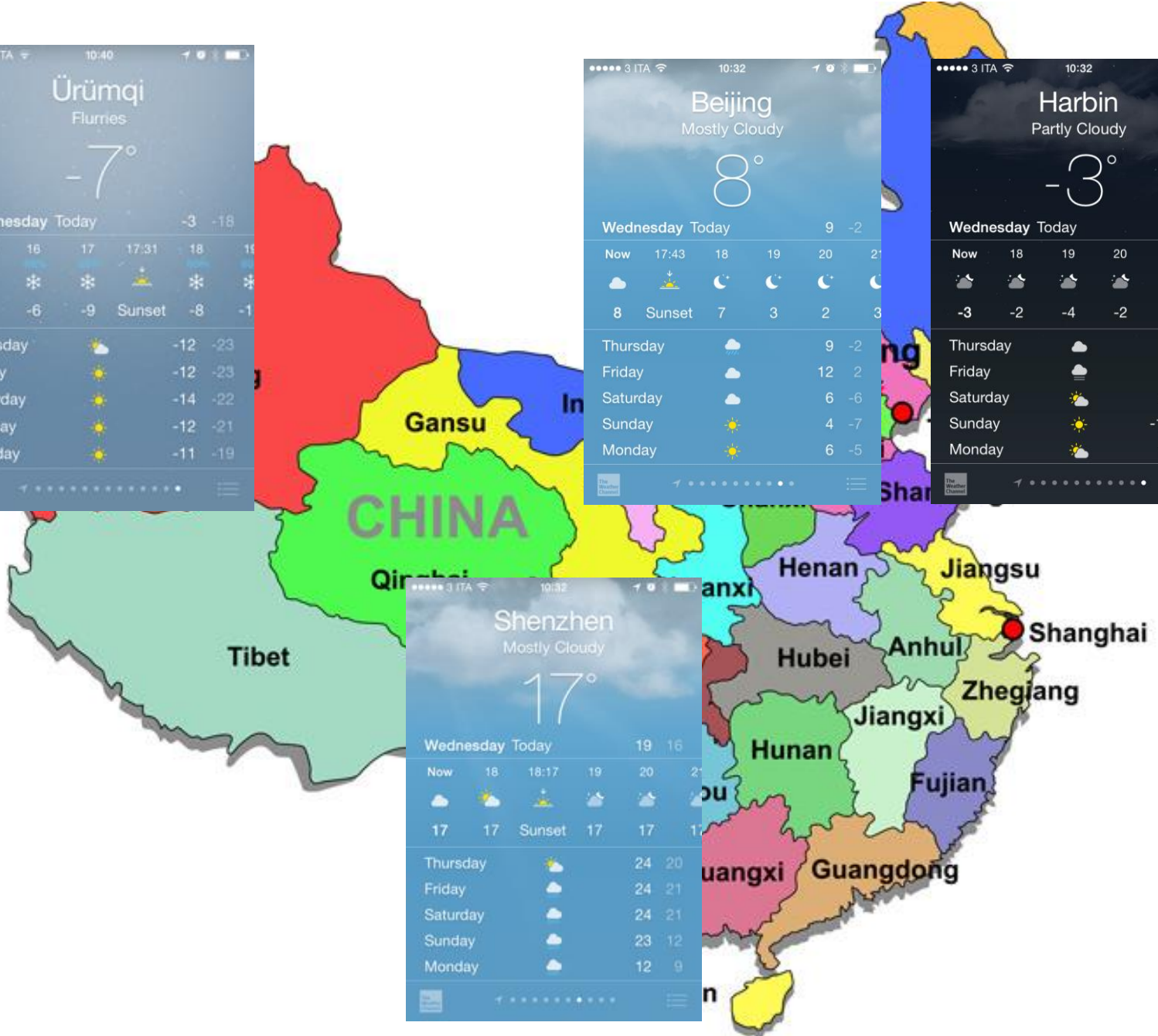
3 ITA 10:32

### Shenzhen

Mostly Cloudy

17°

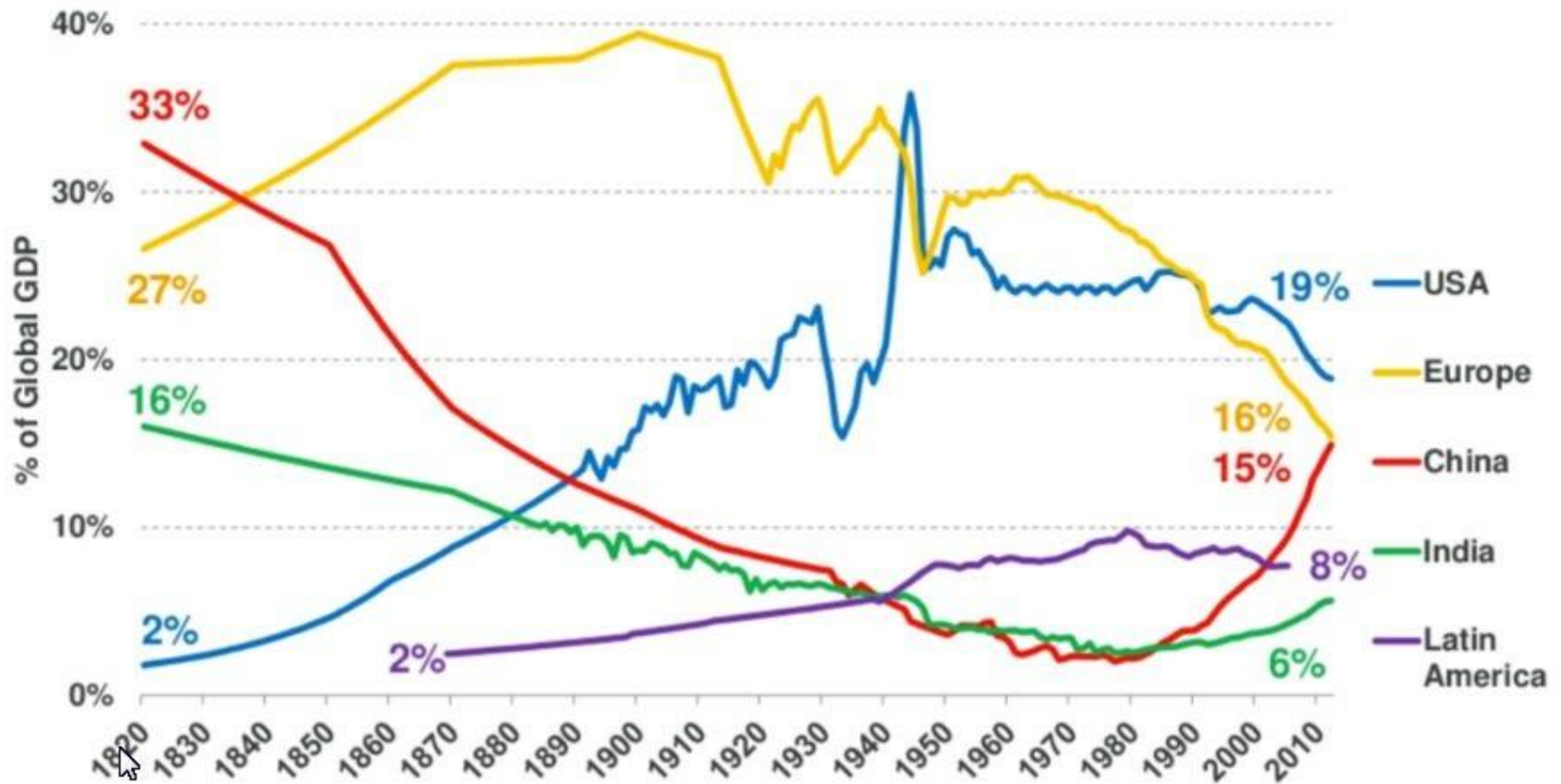
Wednesday	Today	19	16			
Now	18	18:17	19	20	21	
	☔	☔	☔	☔	☔	
	17	17	Sunset	17	17	17
Thursday		☔		24	20	
Friday		☔		24	21	
Saturday		☔		24	21	
Sunday		☔		23	12	
Monday		☔		12	9	





# Forces which are driving the future

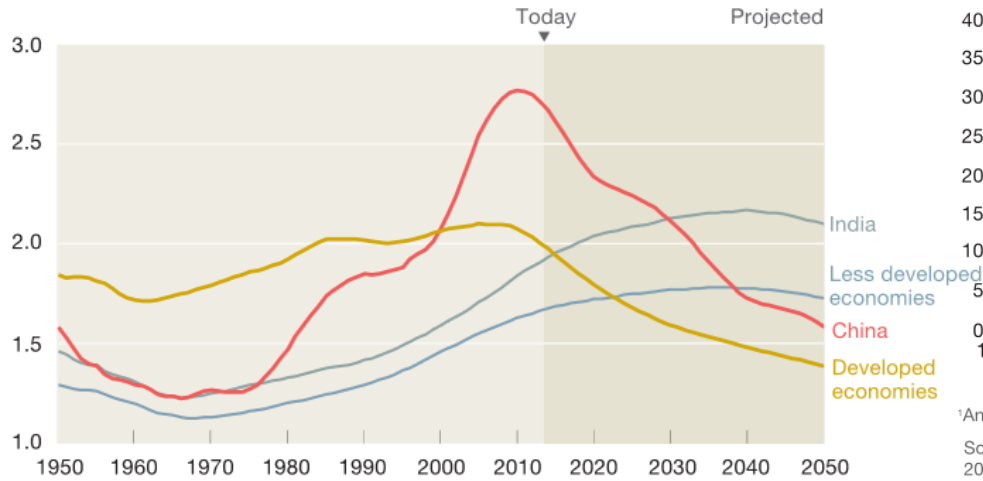
Percent of Global GDP, 1820 – 2012,  
USA vs. Europe vs. China vs. India vs. Latin America



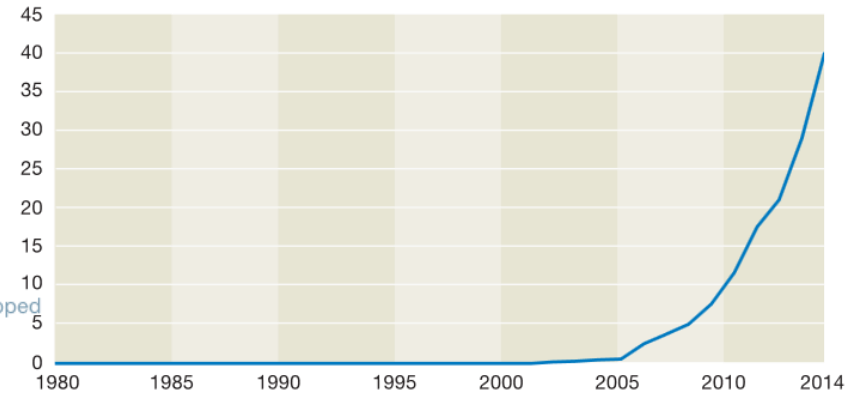
Source: Angus Maddison, University of Groningen, OECD, data post 1980 based on IMF data (GDP adjusted for purchasing power parity).

# Forces which are driving the future

**Number of workers per dependent,**  
ratio of working-age population (aged 15–64) to dependent  
population (aged 0–14 and over 65)



**Annual additions to global business and consumer computing power,**  
exaflops<sup>1</sup>



<sup>1</sup>An exaflop is 1 quintillion (10 to the 18th power) floating-point operations per second.

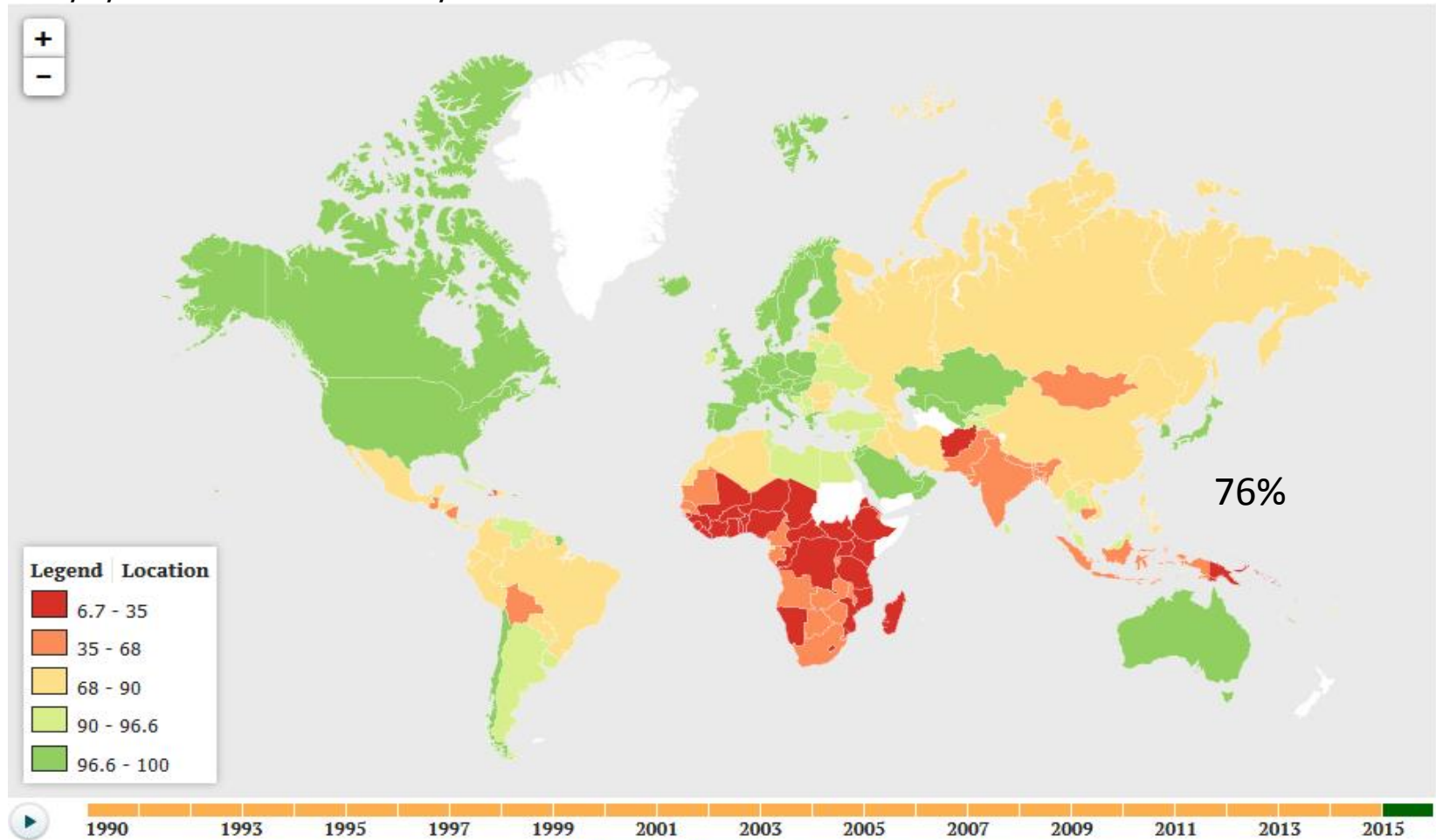
Source: William D. Nordhaus, "Two centuries of progress in computing," *Journal of Economic History*, 2007, Volume 67, Number 1, pp. 128–59; IDC; US Bureau of Economic Analysis; McKinsey analysis

So



# Chinese Challenges

*% population served with Improved Sanitation*



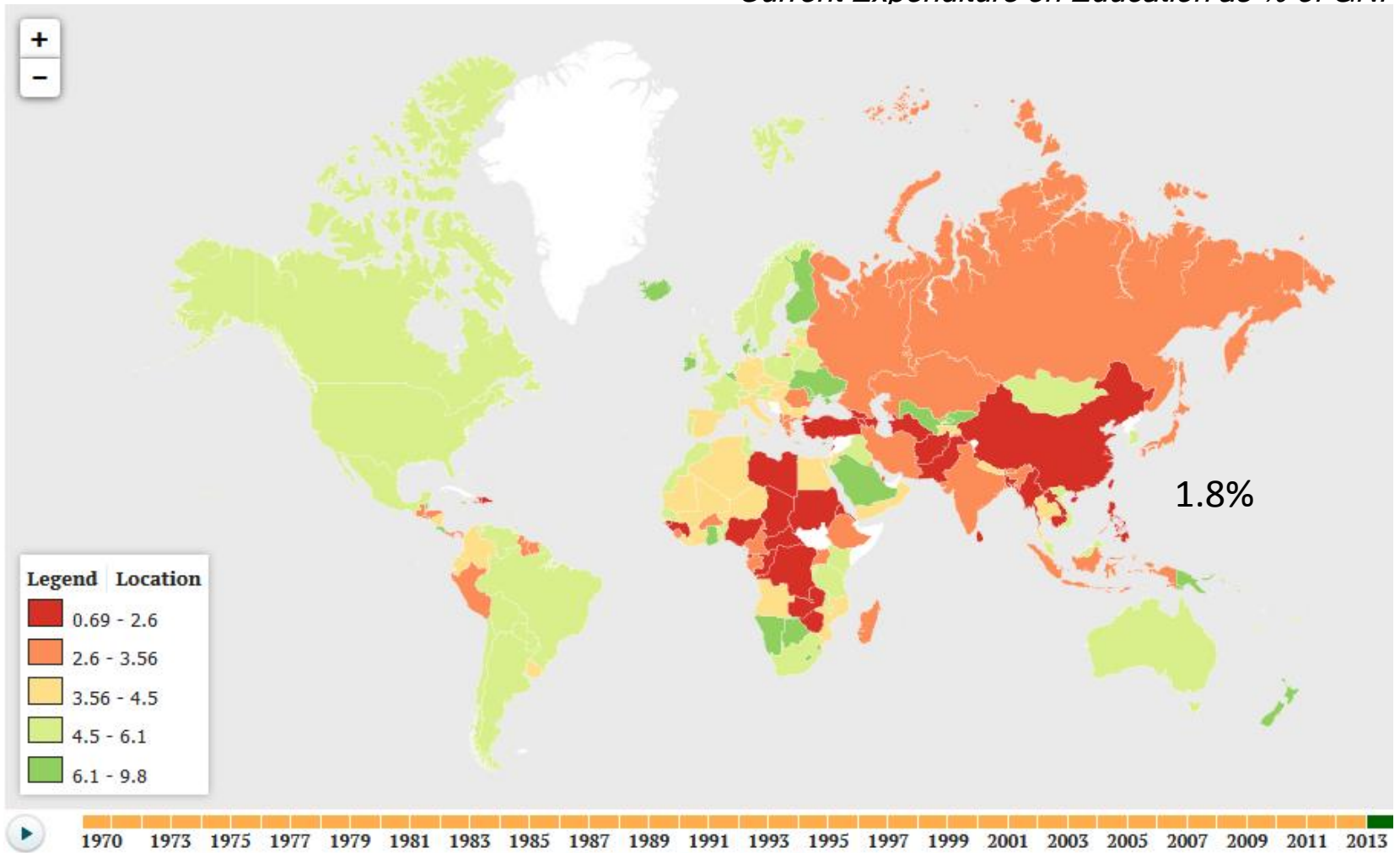
Source: [WHO/UNICEF Water Supply Statistics, 2015](#)

Source: [Knoema](#)



# Chinese Challenges

*Current Expenditure on Education as % of GNI*

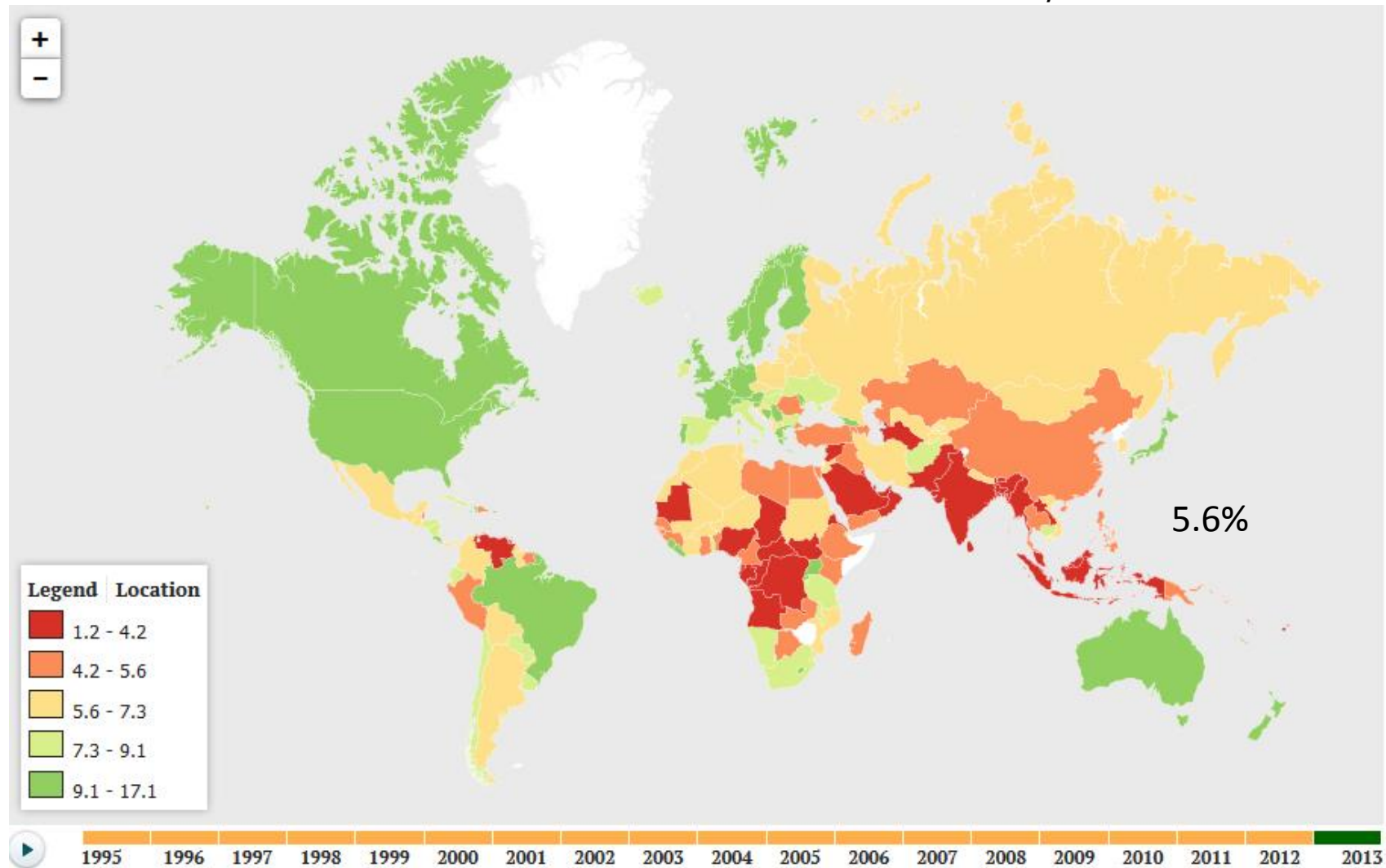


Source: World Development Indicators (WDI), February 2016

Source: Knoema

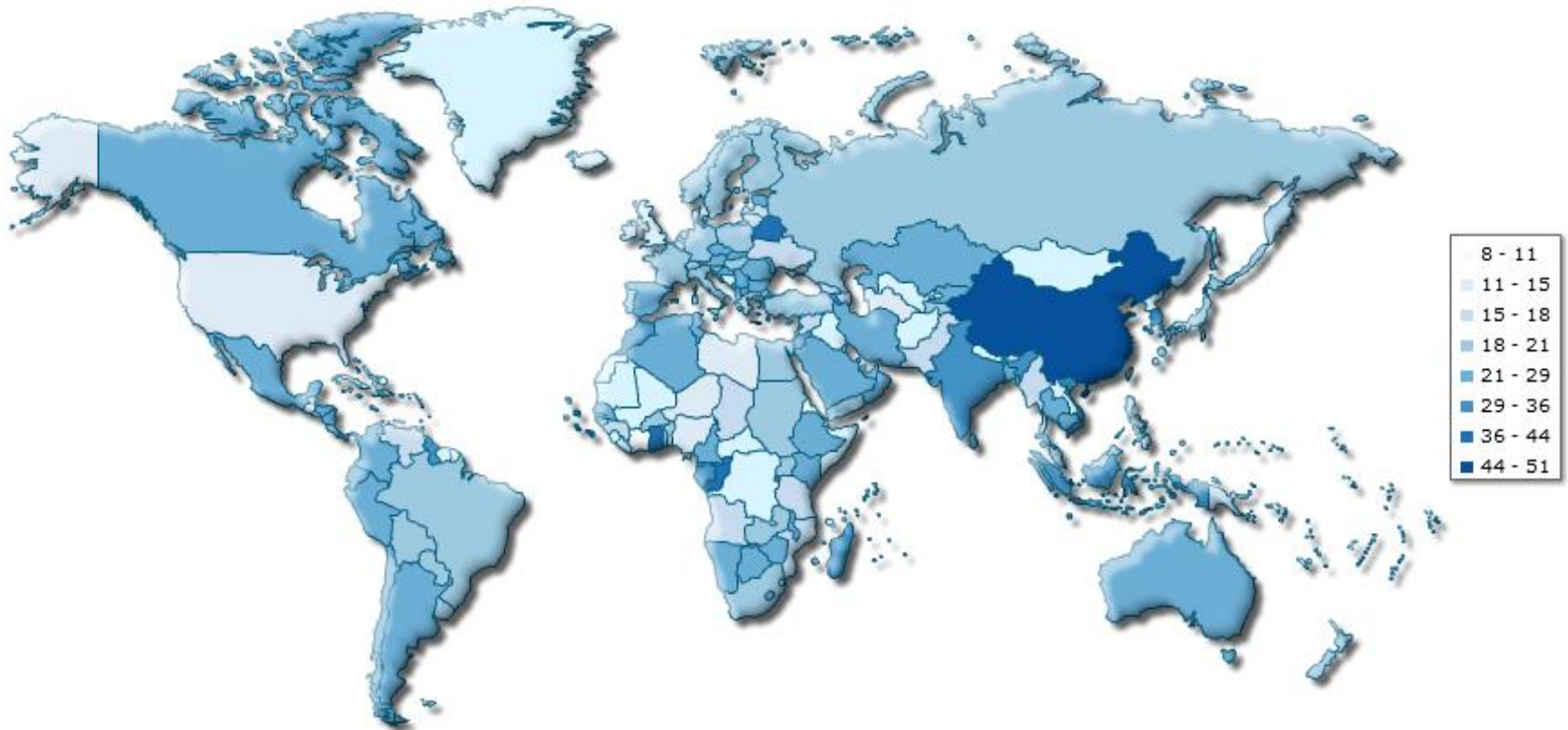
# Chinese Challenges

*Health Expenditure as % of GDP*



Source: National Health Accounts, 1995-2013

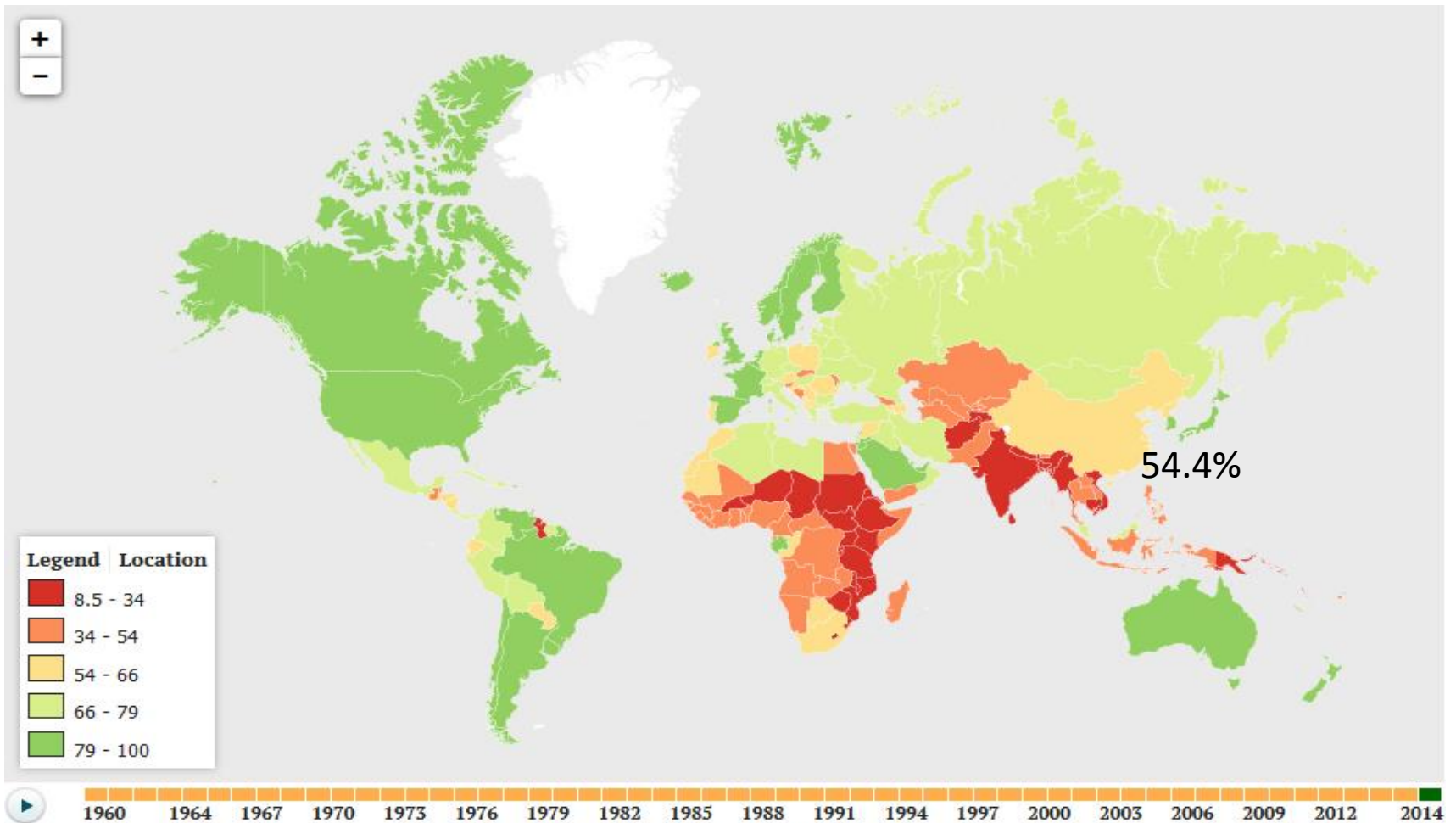
# Chinese Challenges





# Chinese Opportunities

*Urban Population as % of Total*

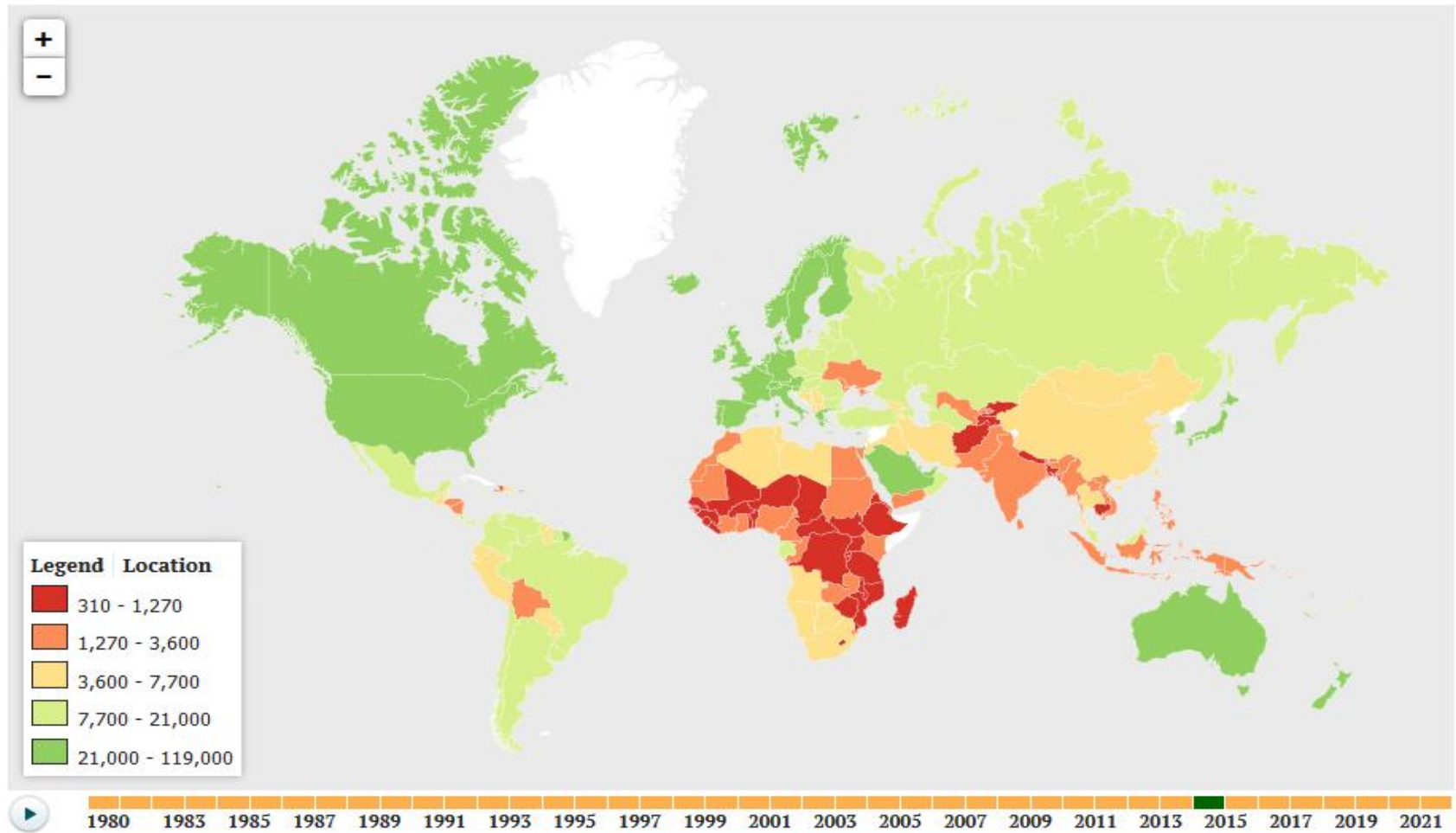


Source: [World Development Indicators \(WDI\)](#), February 2016

[Source: Knoema](#)

# Chinese Opportunities

*GDP per capita*

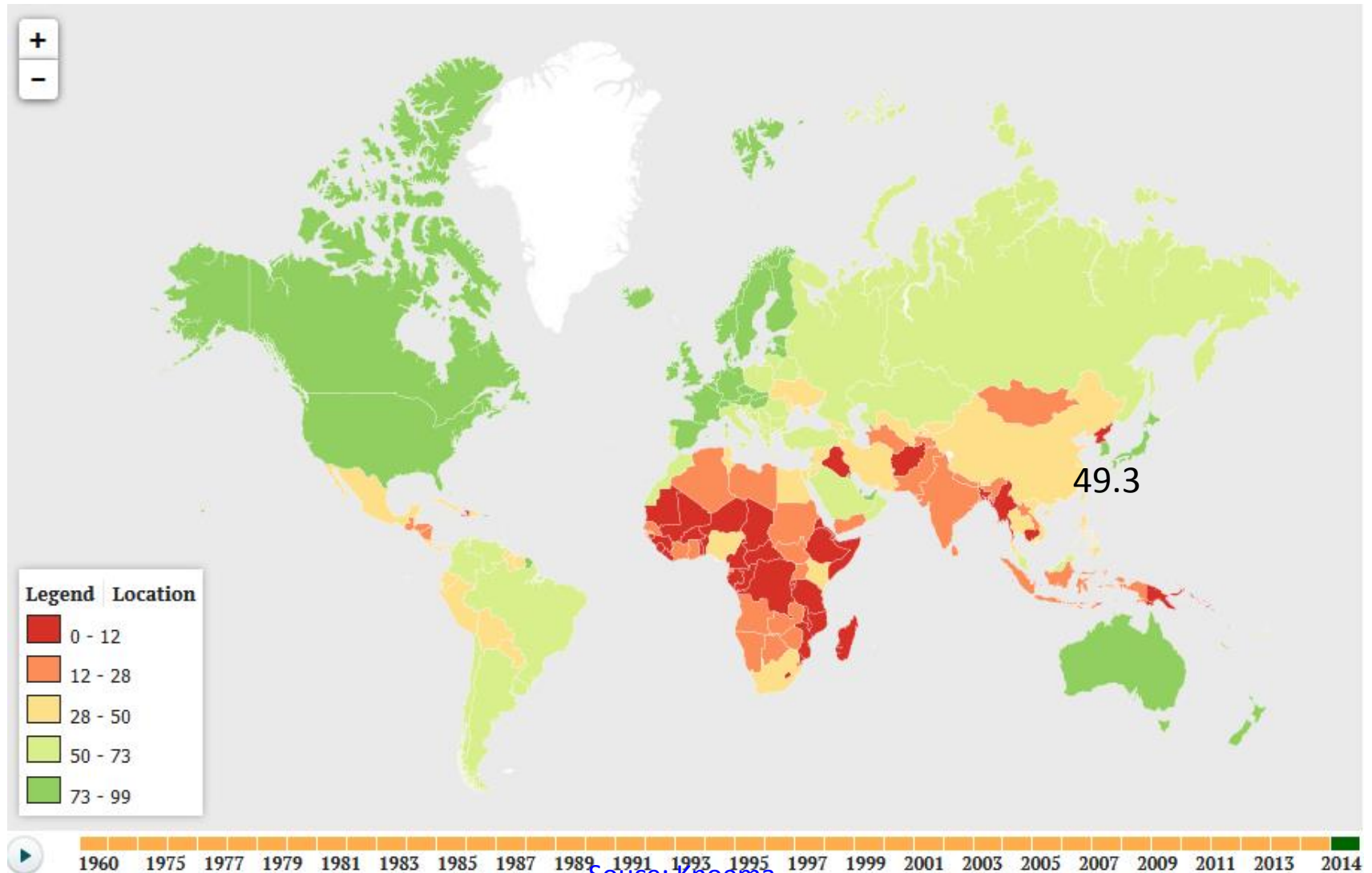


Source: [IMF World Economic Outlook \(WEO\), April 2016](#)

[Source: Knoema](#)

# Chinese Opportunities

*Internet users for 100 inhabits*



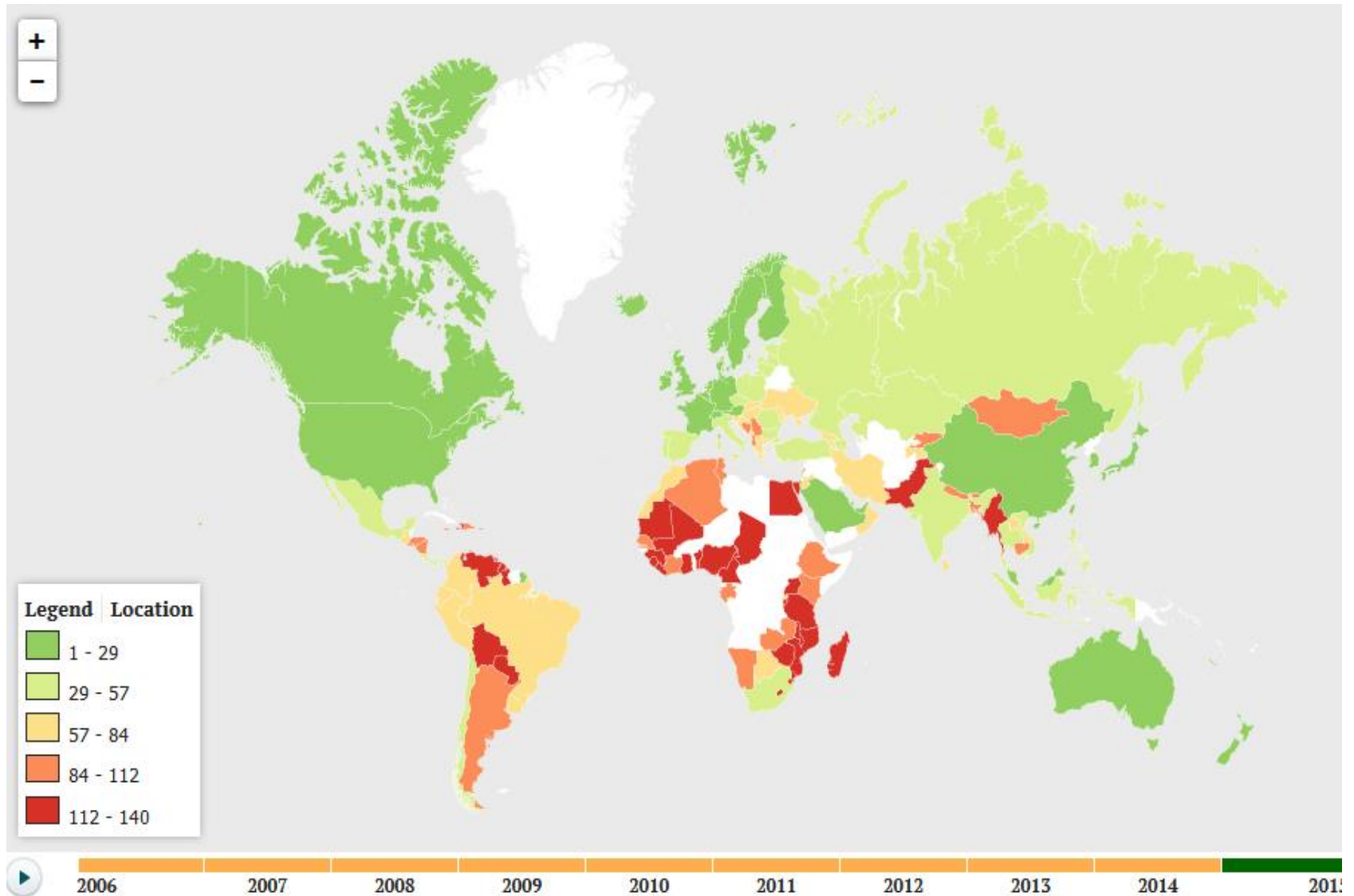
Source: Knoema

Source: World Development Indicators (WDI), February 2016

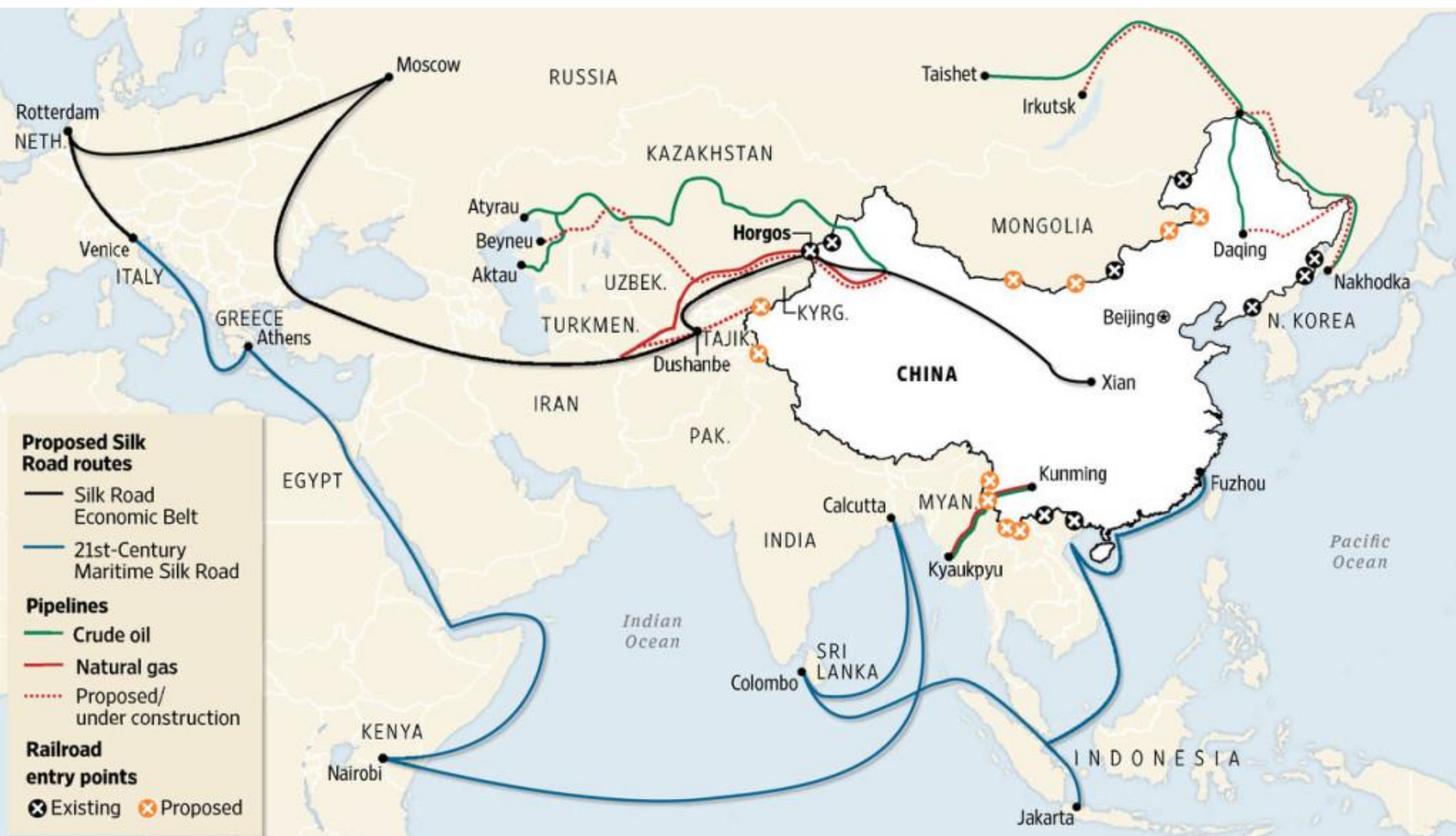


# Chinese Opportunities

*Global Competitiveness Rank*



# The New Silk Road



Sources: Xinhua (Silk Road routes); U.S. Department of Defense, Gazprom, Transneft (pipelines); United Nations (rail entry points)

The Wall Street Journal

# A country of paradoxes looking for its own *normality*



*"China's development is in a period of strategic importance. We should consolidate confidence to adapt to the new normal state featuring the characteristics of the current development phase of the Chinese economy, and keep calm while making strategies."*

[http://www.chinadaily.com.cn/opinion/2014-10/10/content\\_18716671.htm](http://www.chinadaily.com.cn/opinion/2014-10/10/content_18716671.htm)

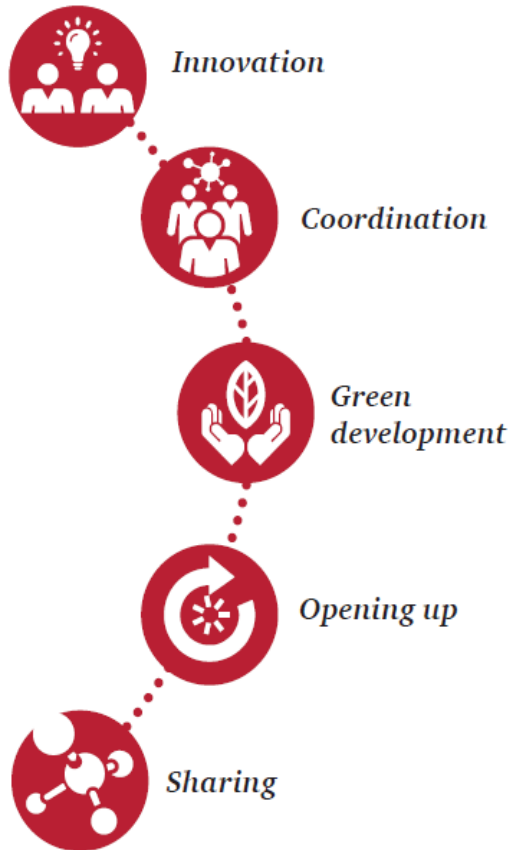


# How China Works: Leadership and Blueprint

	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
President				Jiang Zemin 1				Jiang Zemin 2					Hu Jintao 1						Hu Jintao 2					Xi Jinping						
Vice President				Rong Yiren				Hu Jintao					Zeng Qinghong						Xi Jinping					Ki Yuanchao						
CCPC			14th				15th					16th					17th						18th							
																							First Plenum							
																							Second Plenum							
																							Third Plenum							
FYP's			8th				9th					10th											12th							13th
												Rapid Growth											Inclusive Growth							

- The **National Congress of the Communist Party of China** is a party congress that is held about once every five years
- A Plenum is a meeting of the Communist Party's Central Committee.
- Each Party Congress lasts for 5 years, and with the exception of the first year there is usually one Plenum held per year.
- The Politburo, comprised of 25 members, meets more regularly, and the Standing Committee, made up of 7 members, meets even more frequently.
- The First Plenum introduces the new leadership
- The Second Plenum tends to be personnel- and Party construction-focused
- The Third Plenums are seen as important because it is usually seen as the first plenary session at which the new leadership has basically consolidated power and can introduce a broader economic and political blueprint: the Five Years Plan
- **China's five-year plans** are a series of social and economic development initiatives. The party plays a leading role in establishing the foundations and principles of Chinese socialism, mapping strategies for economic development, setting growth targets, and launching reforms.

# Guiding Principles of the 13<sup>th</sup> FYP



## **On it China aims to:**

- Achieve more balance, inclusive and sustainable development by coordinating a range of economic indicators
- Maintain medium-high economic growth
- Plan better allocation of resources
- Raise the efficiency of investment and companies
- Promote advanced manufacturing and agricultural modernization
- Become an innovation-driven nation
- Keep encouraging mass entrepreneurship
- Continue raising the service sector's contribution to GDP
- Further increase consumption's contribution to economic growth
- Increase the pace of urbanization
- Narrow the income gap, eliminate poverty and improve people's livelihood through expanded public services on employment, education, culture, social security and healthcare
- Further open up its economy
- Vigorously promote environmental protection and low carbon growth

[Source: PWC](#)

# Top 10 Sectors with market potential in Chinese Government Work Report

*E-commerce in rural areas*



*Green vehicles*



*Green Construction*



*Environmental Protection*



*Entrepreneurship-boosting industry*



*Deep-processing agricultural prds*



*Railway construction*



*Tourism*



*New Energy*



*Internet*



[Source: China Daily](http://www.chinadaily.com.cn)

# More in general....

## New Consumer:


- Techno-oriented
- Environmental Conscious
- Proactively involved
- With more time
- More difficult to segment

## New Business Models:

- Disintermediated •
- Digitalized •
- More oriented to consumer experience •
- Leveraging disruptive technologies •



# Where to look at?

1. Circular and Sharing Economies
  2. *Smarter* Cities
  3. Internet of Things
  4. Reconfiguration of the SCM (ie 3D printing, ..)
  5. Healthcare
  6. Edutainment
- 

# How companies should navigate the emerging China?

- Most companies aren't moving quickly enough
  1. Rise of domestic competitors will happen faster than expected
  2. Number of sites, which has a dramatic implications in organizational structure, distribution infrastructure and of course capital needed
  3. Extraordinary growth in volumes
  4. Different consumers needs
  5. Adoption rate is higher and therefore competitive landscape will be settled quickly
  6. Competing here it doesn't mean to compete just in China
  7. The power of western governments to impose their will on the Chinese is diminishing rapidly

***How to compete in this environment? Which are the KSFs?***

# Key Elements in Doing Business in China

- There are some strategic implications for companies competing in this market

1. Parity does matter
2. Time to market
3. Geographical Dispersion
4. Magnitude of the market
5. Product Adaptation

The cost structure of any product has to remain still consistent with the GDP per capita of an emerging economy

Production Efficiency and Effectiveness

Economies of scale AND economies of scope

***FOR A COMPANY TO WIN IN CHINA MEANS ALSO TO BE COMPETITIVE IN MOST OF THE OTHER EMERGING ECONOMIES... AND IN MOST OF THE CASES WHO WIN IN CHINA IS CHINESE***

Not only made in China but also designed in China for China. The upstream vertical integration is not completed yet

# Opportunity #1: Build in Asia a 2<sup>nd</sup> home market

- Some of the companies who are already here, should be able to leverage their actual market position to grow locally despite of the mother company.
- Some of the issues are:
  - How to finance the growth
  - Centralized vs decentralized governance
  - Asymmetrical ownership
- It is therefore time for SMEs to learn from big companies





# Opportunity #2: No frills product strategy

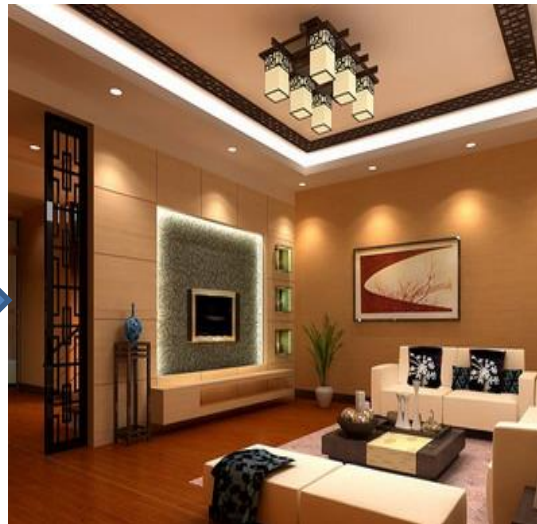
- Everywhere in the world a good operation strategy is designed to serve customers according their own needs.
- The market requirements are always a trade-off among the following 5 key performance indicators:
  - Quality -> being RIGHT
  - Speed -> being FAST
  - Dependability -> being ON TIME
  - Flexibility -> being ABLE TO CHANGE
  - Cost -> being PRODUCTIVE
- In China they could be weighted differently from other markets
- Therefore a correct product strategy can be inspired to the typical no frill strategy of the budget airlines: essential, focus to key functionalities, with a price/performance ratio consistent with the market expectations

# Opportunity #3: Made-in-China-for-China

- After a phase of strong converging toward a pure western model – driven by economic power – it seems a major trend the rediscovery of traditions and roots and the mix and match of the best of breeds.
- What is happening is a process of adoption and adaptation of products and services.
- Given our talent in embedding cultural aspects in daily life, we could play a central role in developing a Chinese proposition with Italian flavor



Roberto Dona' - Italian Scholars in China



April 22nd, 2016




Bright Food, one of China's largest food groups, is diversifying into the wine sector by acquiring a 70% stake in Diva Bordeaux for an undisclosed sum.

[www.fdbusiness.com/tag/bright-food](http://www.fdbusiness.com/tag/bright-food) ▼

## Moët Hennessy toasts launch of Yunnan winery

Updated: 2013-05-11 07:56

By Zhou Siyu in Deqin, Yunnan ( China Daily)

 Comments

 Print

 Mail

 Large Medium Small



French luxury brand Moët Hennessy sees China as its largest market in terms of revenue this year.

(Photo/China Daily)

# Which strategy?

