

Klaus-Jürgen Gern

China: Opportunity, Challenge, Threat

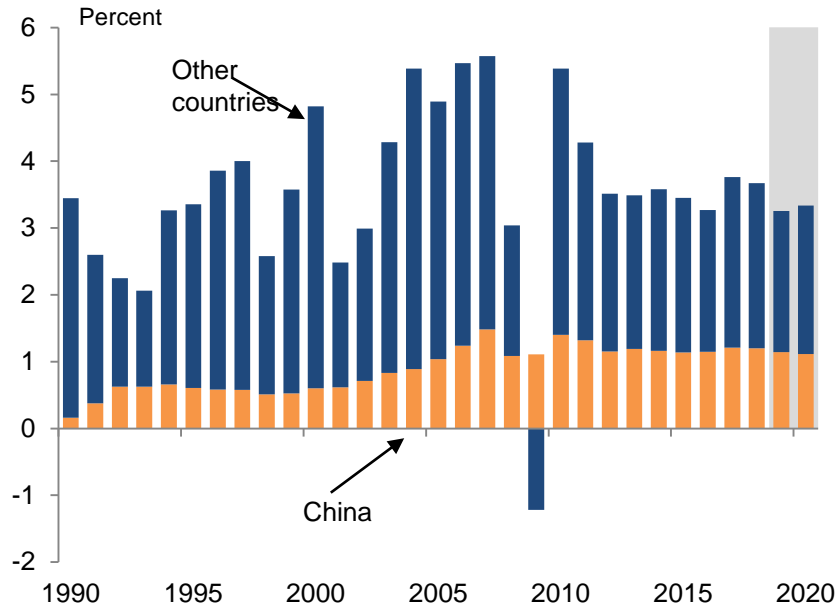
AIECE Working Group on Longer-term Prospects and Structural Change discussion

14. November 2019



Chance: China is still the global growth engine

Contribution of China to Global Growth



- Growth is slowing, but growth contribution remains high
- China is already a massive market (e.g. 60% of semiconductors, car sales 2xEU)
- Large potential: 15% of US GDP per capita (30% ppp)
- But: Changing structure of growth

Yearly data. Growth contribution to world production.
 Source: International Monetary Fund *World Economic Outlook Database*
 October 2019; IfW forecasts; own calculations.

Belt and Road Initiative



- Official aim: build connectivity and co-operation across six main economic corridors in the mutual (even global) interest
- Unofficially: Develop export markets for Chinese production, especially in sectors with overcapacities; secure energy and commodity supply; promote the role of RMB as international currency; increase political influence
- Financial viability for donor countries?
- Relevance, chances and risks for Europe? Experiences in AIECE countries?

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China 2025 – A game changer?

Ten core industries set the basis of Made in China 2025

China has set ambitious targets



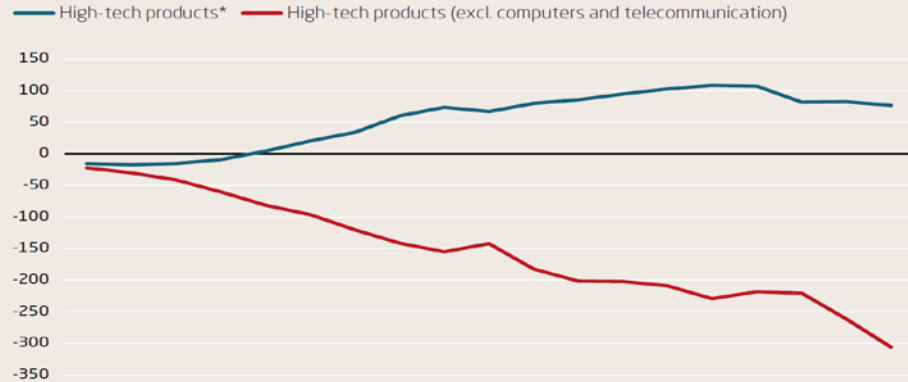
Main steps	Milestones
2025	Major manufacturing power
2035	Global manufacturing power
2049	Leading manufacturing superpower

- Government's 10-year plan to update China's manufacturing base by rapidly developing 10 high-tech industries
- Reduce dependence on foreign technology
- Promote high-value added industries at home and in the global market place
- Catching up and leapfrogging
- Initially specific targets for self-sufficiency in high-tech industries were published; communication has changed amid strong headwinds from abroad

Approaches to close the gap

China's high-tech innovation relies on foreign components

Strong dependence results in negative trade balance (in bn USD)



China is hungry for foreign intellectual property rights

Payments for IPR has increased dramatically

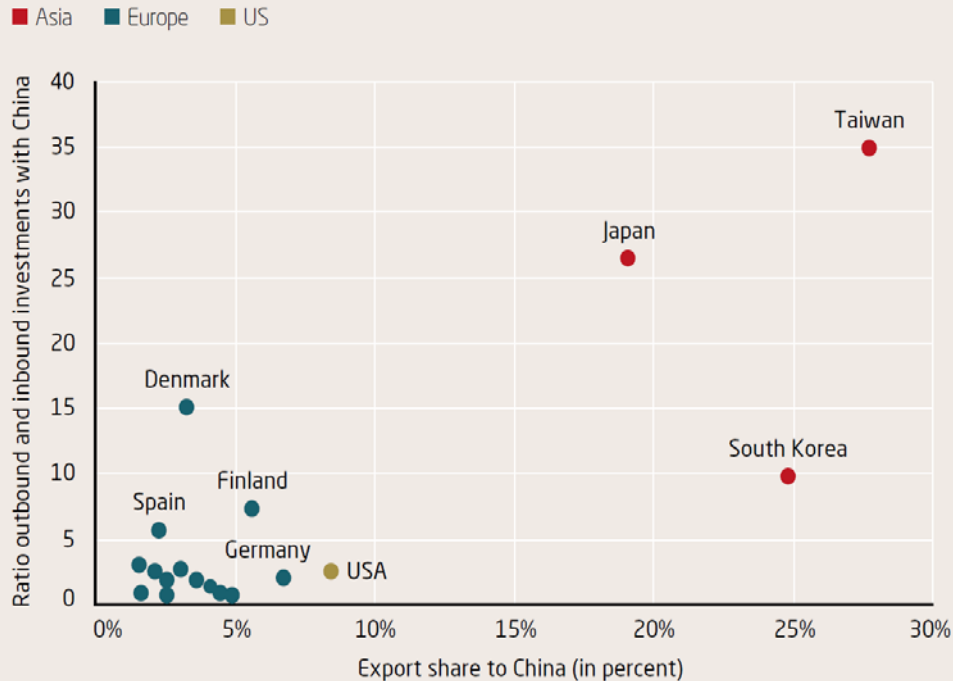


- Massive and co-ordinated government support for targeted industries
- Convince foreign companies to move most sophisticated parts of their value chain to China (R&D centers, high-end manufacturing) by granting special conditions, subsidies, or simply market expectations.
- Acquire foreign high-tech assets: FDI, venture capital investment, licensing intellectual property rights, international cooperation in R&D
- Attack: Hire engineers and research staff from foreign companies or academia; industrial espionage or corporate cyber-attacks.

Risks and policy response

Asia is feeling the heat much more than Europe

Importance of economic relations with China



Source: MERICS based on China's Ministry of Commerce, UN Comtrade, Bureau of Foreign Trade of Taiwan

- Western economies responded by tightening oversight over FDI (US, Australia, Germany), allegedly due to security concerns
- EU has filed complaints against China at the WTO
- US punitive tariffs in response to perceived unfair trade and investment practices
- Example of East Asian IC: economic relations with strong restraints
- Big question: Can China succeed? Important contradictions between central approach (CCP dominance) and market forces. Efficiency of funds? Economic and political sustainability?

Reference: Zenglein/Holzmann (2019), Evolving made in China 2025. Merics papers on China No. 8

Some questions

- What are the experiences in individual countries with Chinese business practices in general and FDI in particular?
- Do you see a unified European approach towards China as appropriate and feasible, given potentially differing interests across countries?
- How should such a European position look like?
- Do you think the Chinese strategy will succeed?
- Do you think Chinese success will come at the expense of Europe?

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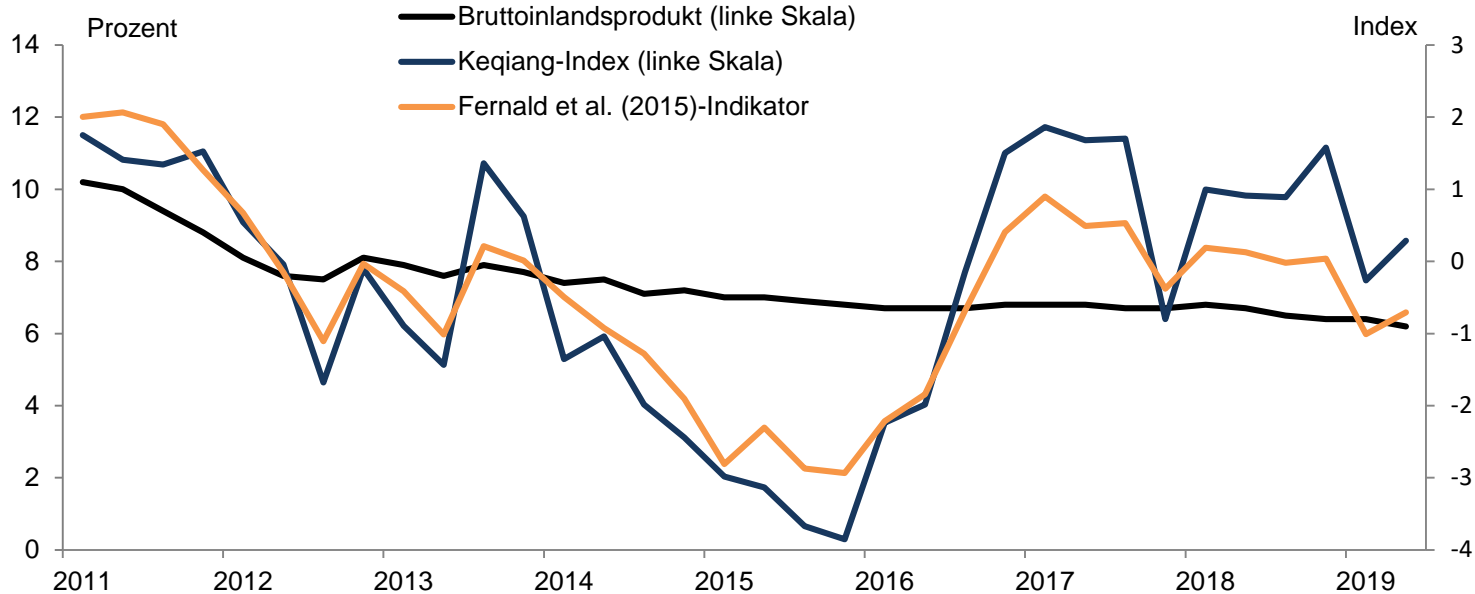
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China: Aktivitätsindikatoren signalisieren keinen Einbruch

China: Bruttoinlandsprodukt und alternative Aktivitätsmaße 2011-2019



Quartalsdaten, Veränderung gegenüber dem Vorjahr