

The Future of China's Economy

The Path to 2020 – Opportunities, Challenges and Uncertainties

A Survey and Report by Global Futures and Foresight and Fast Future

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Executive Summary, Table of Contents and Sample Pages



Welcome to the first in a series of GFF guides to the future economic landscape, in which we look at China and its potential impact in the period from now to 2020.

China has been the largest economy on the planet for eighteen of the last twenty centuries and it's back. With the fourth largest economy in the world, China can no longer be described as an emerging nation. Since Deng Xiaoping began the modernization process in 1978 by decollectivising the farms, China has gone on a remarkable and unprecedented program of "urbanisation, marketisation, privatization and globalization" in the words of the University of Michigan's Kenneth Lieberthal.¹

Open any newspaper and you will find daily discussion of China's spiralling economy and global impact. It is now clear that China's political, economic, social and environmental ambitions and challenges will have a global footprint and will impact everything from energy demand to wage rates and food prices around the world.

However, despite its economic strength, China is still seen by many as uncharted territory and part of tomorrow's strategy rather than today's. Furthermore, even amongst those that have China experience or who now at least have it on their radar screens, there is still a lack of clarity about China's future trajectory and its potential future impact on the nations, organisations and citizens of the globe.

Against this backdrop, Fast Future and GFF decided to undertake an online survey on the Future of China's Economy - seeking the views of business, government, academia, futurists and futures research professionals across the world.

David Smith
March 2007



The aim was to assess how much China had permeated their thinking and understand what their attitudes and expectations were of how China might develop both in the near term and out to 2020. The survey deliberately

set out to canvass the views of those with no direct experience of China as well as those living and working in China and those outside China with experience of doing business there. A key group targeted for this survey were futurists and futures researchers whose professional role is to consider the long term forces and factors shaping our world.

The survey asked a series of questions on three key topics:

- The future of China's economy
- China's impact on global business
- Respondents' own organisations' strategies for China

The results are presented on the following pages. A total of 723 responses were received from participants across all continents. Participants were promised total anonymity and so throughout the report respondent's quotes have been used but not attributed. Quotes have been reproduced as faithfully as possible with only minor modifications to ensure clarity and to correct spelling and grammar.

Where external source material has been used, a cross-reference is provided to the list of sources and references at the end of the document.

We welcome your feedback on the report. Please do not hesitate to contact us should you require an in-house briefing on the findings or if you would like to see the more detailed analysis underlying this report.

Rohit Talwar
March 2007

Quoted in 'What could still go wrong with China's economy' - Jonathan R Laing - Barron's 06 August 2006 in The Business Online.com www.thebusinessonline.com



contents

1. Executive Summary	4	6. Survey Section 3 - Strategies for China	44
2. Survey Respondents	6	6.1. Operations in China	45
3. The Chinese Economy in Context	8	6.2. The Corporate Power Base	48
4. Survey Section 1 - The Future of China's Economy	10	6.3. Market Attractors	50
4.1. China's Future Growth Rate	11	6.4. Market Risks	52
4.2. China's Global Ranking	16	7. Perspective Comparisons	54
4.3. Future Exchange Rates	19	7.1. Occupational Comparisons – Multinationals, SME's, Futurists and Professional Services	54
4.4. Drivers of Growth	21	7.2. Geographic Comparisons – North America, Europe, China and India	54
4.5. Barriers to Growth	23	7.3. Industry Comparisons - Financial Services, Marketing, Branding, Advertising & PR (MBAPR), Real Estate and Retail	55
4.6. Key Sectors	27	7.4. Experience Comparisons – Interested in China – no Direct Experience yet, Respondents from/in China and Experienced Respondents outside China	56
5. Survey Section 2 - China's Impact on Global Business	30	References and Sources	57
5.1. Impact on Global Stockmarkets	31	About the Author and Editor	59
5.2. China's Stock Market Capitalisation	33	About GFF and Fast Future	59
5.3. China's Global Ranking	34	Appendix 1 - Detailed Question Responses	60
5.4. Impact of the Chinese Market	36		
5.5. China as an Employer	40		
5.6. Impact of Chinese Business Practices	42		

Executive Summary

The survey tested the opinions of professionals across the world. The findings clearly show that China is no longer an emerging economy – it has arrived and is firmly on the radar screen of business, government and citizens across the planet. The critical messages emerging from the survey are presented on the following pages and summarised below.

Clear and Present Power

There is a very clear understanding of the current scale and future potential of the Chinese economy and the majority of respondents expect it to continue developing at an accelerated pace:

- Over 77% expect China's GDP growth to exceed 8% and 33% expect a rate of 10% or more in the period to 2010
- 34% believe it will also grow at over 8% between 2011-2020 – and 72% believe it will grow at over 6% in that period
- 38% believe China's GDP will have overtaken that of the USA by 2025 and 73% believe it will happen by 2035. Only 8% think it will never happen
- 78% of respondents believe that the Chinese stock markets will overtake the New York Stock Exchange in size - 56% think the milestone will be reached by 2040
- 60% believe that Chinese companies could become the largest grouping amongst the global 500 by 2040.

The Path to Progress

The Chinese domestic economy is expected to continue developing rapidly. Increasing domestic consumption and low cost labour are seen as the biggest drivers of growth to 2010. Bureaucracy and corruption are perceived as the most significant growth barriers. Consumer Electronics and Automotive are identified as potentially the largest growth sectors to 2010, being replaced by Information Technology and Energy in the period from 2011-2020.

Many consider a floating exchange rate essential to continued economic development and 79% believe it will happen by 2020. Only 6% say it will never happen.

Critical concerns have been raised about human rights, the environment, freedom of speech, inequality, internal tensions, stresses on the banking system and the potential for overheating. Against this, there is clear acknowledgement of the progress China has made in developing its economy, taking 400 million out of poverty and laying the foundations for future development.

Influence on Corporate Strategies

China is expected to become a significant influence on the long term strategies of multinational corporations. 89% of all respondents and 78% of those in China think that international companies will see it as essential to list on a Chinese stock market. 33% of all respondents and 39% from multinationals believe it will happen as early as 2015. Among North American respondents 62% believe it will be essential by 2020.

The scale of the market, low cost labour and China's growing capacity for innovation were identified as the top 3 factors attracting people to establish a presence in China or grow their existing one. The three biggest perceived risks to market entry were bureaucracy, corruption and lack of intellectual property protection.

Impact on Management and Operations

Respondents have a clear expectation that the rise of Chinese multinationals and Chinese business practices will influence day to day operations of international businesses both in China and in their domestic markets:

- 55% expect China will increasingly become the launch market for new products and services
- 45% believe Chinese management styles will gradually influence global corporate cultures and business practices
- 48% expect key business decisions to be taken in China
- 70% think it will be considered common for US and European workers to be employed by Chinese owned companies by 2030, and
- 45% believe it will be increasingly difficult for foreign nationals to achieve top positions in Chinese firms.

“China had lost its control over all oceans in 1433 because emperor Xuan De stopped foreign trade and construction of big naval vessels. The result was that China lost its economic, cultural and technological superiority in the world, started to isolate and began a cycle of decay that lasted until 1976 at the end of Mao Zedong's Cultural Revolution. Deng Xiaoping opened the country again and it won't close for a long time. 600 years (or ten entire Chinese long cycles) after 1433, that is in the year 2033, China will have recovered the superiority it had until 1433.”

Still Holding Back

There is a clear intellectual acknowledgment of China's growing economic power and global footprint. Those in Asia appear keen and ready to seize the opportunity. In contrast, the survey highlights reluctance amongst a significant proportion of those in Europe and North America to internalise the implications and reflect them in their strategies and business direction:

- 68% of respondents had no staff in China, 63% receive no revenues from China and 64% receive no profits from there either
- 58% of respondents from the US and 50% from Europe expect to have no staff in China by 2010
- 78% say they could never envisage their company headquarters moving to China
- While 70% of Indian respondents had no staff in China, 43% were already generating revenues from the Chinese market against just 25% from North America and 34% from Europe
- By 2010, 76% of Indian respondents expect revenues and profits from China against 64% from Europe and only 57% from North America
- By 2020, fully 25% of Indian respondents expect to earn over 40% of profits from China – against just 8% of Europeans and 12% of North Americans.

Playing to Win

Based on the quantitative and qualitative responses to the survey, five critical factors are identified that firms need to pay attention to in assessing the market and developing their strategies for China:

1. **Insight** – Do you understand the central and local government policies, market, customer requirements, competition and regulations in your sector?
2. **Strategy** – Do you have a clear sense of the right market entry tactics to adopt, the pace at which you need to move, the potential partners, the right commercial structure and the critical success factors to win in China?
3. **Capability** – Do you understand who should lead your China team and the personal attributes, cultural awareness, language skills and talent required to deliver your China strategy?
4. **Operating Environment** – Are you clear on your business practices, approach to bribery and corruption and your position on human rights and freedom of speech and how they will be reflected in day to day operations?
5. **Intellectual Property (IP)** – Do you have a clear plan for developing and sourcing innovation and ideas in China and protecting your existing IP in the Chinese market?

Participants

The survey received a total of 723 responses with almost 65% of the respondents having an interest but no direct experience of China as yet.

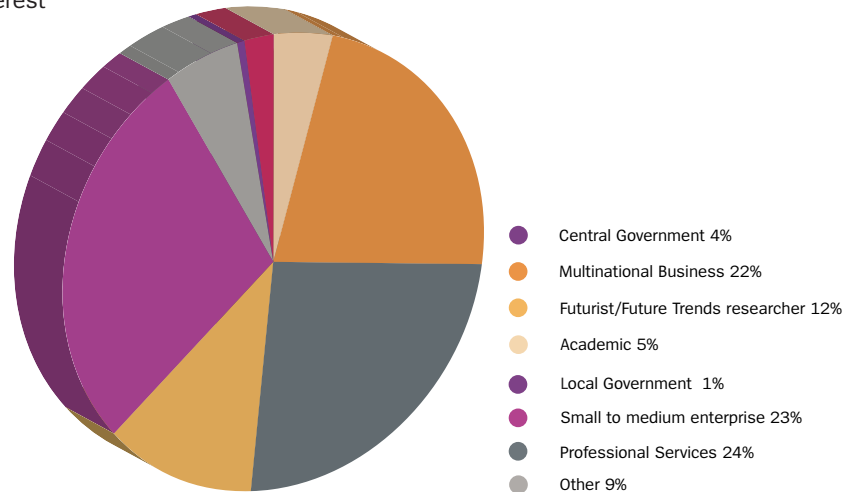
The remaining respondents were either living, working or studying in China, working abroad but with experience of doing business with China or Chinese citizens working or studying abroad.

Respondents' Organisations

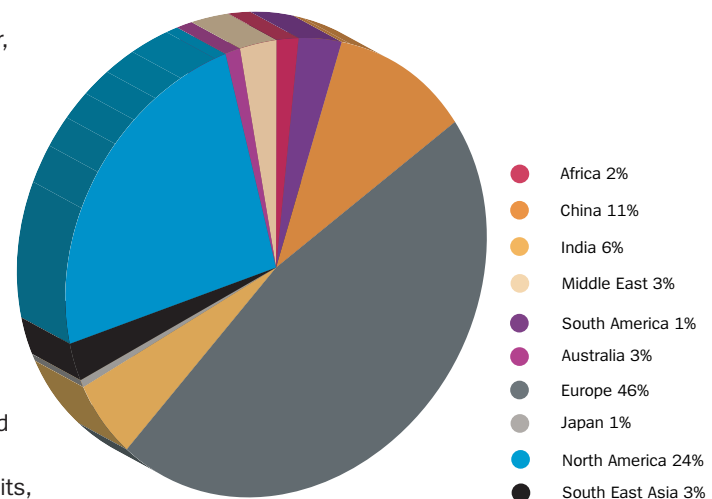
Among the global brand names whose staff participated (in a personal capacity) were:

AIG, Accenture, Adecco, Alstom, Arthur D Little, BAE Systems, Bank of Montreal, BASF, BHP Billiton, BOC, BP, BT, BUPA, CBS, CHEP UK, Colgate Palmolive, Conoco Phillips, Corning, Corona, Coventry City, Dasault, Defra, DTI, EGG, Emerson, Federal Reserve Bank, Filtrona, Foster Wheeler, Fujitsu, Health and Safety Laboratory, Heidrick and Struggles, Home Office, Hong Leong Islamic Bank, ING, Intel, Invest Northern Ireland, Jones Lang LaSalle, Kodak, Logica, Logitech, Macquarie Bank, Mittal, Morse, Motorola, National Trust, Nationwide B.S, Nedbank Group, Nestle, News Corp, Nokia, Nycomed, Ogilvy & Mather, Packard Bell, Pearson, Pfizer, Philips, Postcom, PwC, Ray & Berndtson, Rio Tinto, Rosbank, The Royal Society, SIEMENS, Singapore Airlines, Singapore Armed Forces, Swisscom, Tata, Thales, UK Office of Science and Innovation, UNISYS, United Biscuits, Yell, Visilent and Witwood Foods.

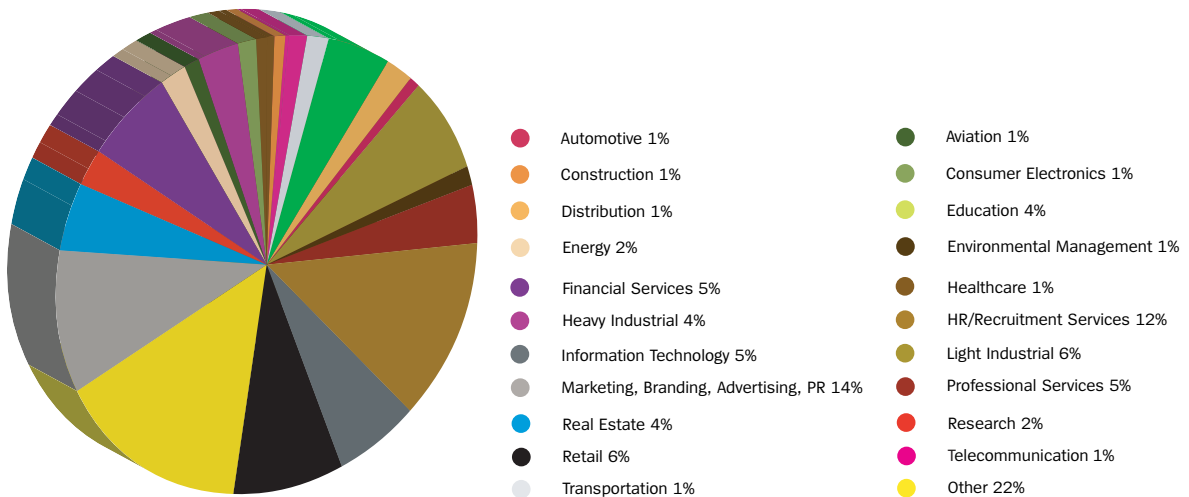
The respondents came from a broad range of occupational types:



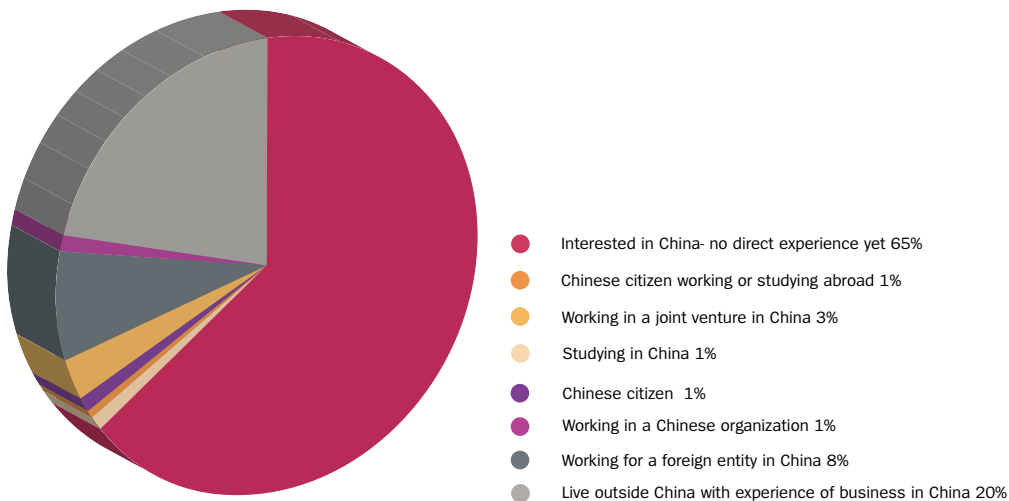
The respondents came from across the world:



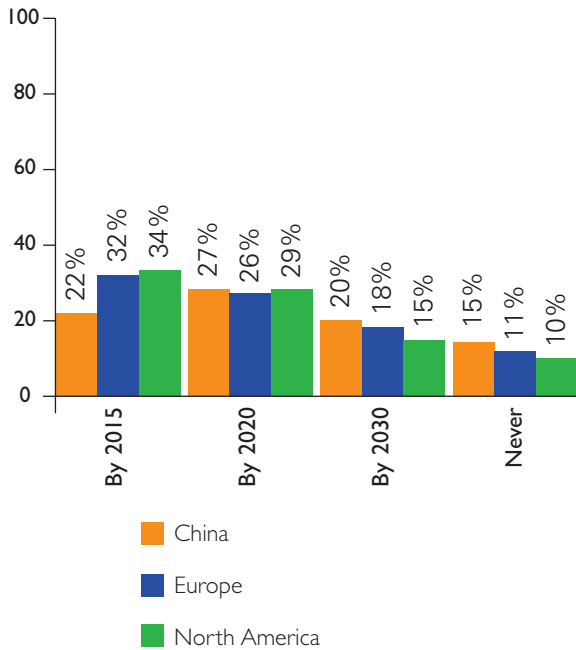
Most industrial sectors were represented:



The survey canvassed the view of those from and in China, those with experience but living outside the country and those with no direct experience to date:



5.1. Impact on Global Stockmarkets – When will Foreign Companies Have to List in China?



- **33%** believe international companies will have to list in China by 2015
- **59%** believe it will happen by 2020 and 76% by 2030
- **49%** in China, 58% of Europeans, 62% of North Americans and 70% of Indians believe it will happen by 2020
- **11%** think it will never happen

Survey Responses

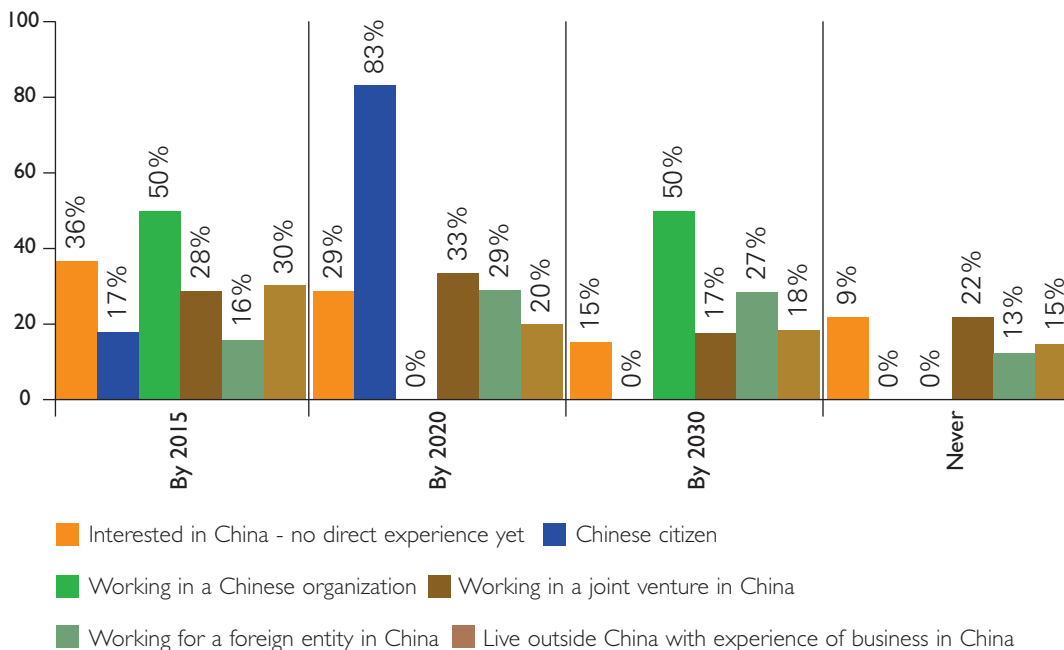
Almost a third (33%) believe that international companies will consider it essential to list on a Chinese stock market by as early as 2015. Around 59% think this will happen by 2020 and 76% think it will happen by 2030. A further 11% think it will never happen.

Those who are the most convinced that it will be essential by 2015 are academia (41%), multinational businesses (39%), respondents from Africa (58%), the Middle East (50%), India (44%), Construction (100%), Energy (64%), Chinese abroad (67%) and those studying in China (60%).

In contrast, those who think it will never be an essential requirement include 16% of futurists and 12% of those in professional services, 67% from Japan 22% from South America, 40% in Consumer electronics and 22% working in joint ventures in China.

83% of Chinese citizens believe it will take until 2020 for foreign firms to feel they must list in China, whilst foreigners working in Chinese organisations are split 50:50 between 2015 and 2030 as the likely timescale. 34% from North America think it will be essential by 2015 and 62% believe it will happen by 2020. This compares to 22% (2015) and 49% (2020) from China, 32% and 58% respectively from Europe and 44% and 70% of Indian respondents.

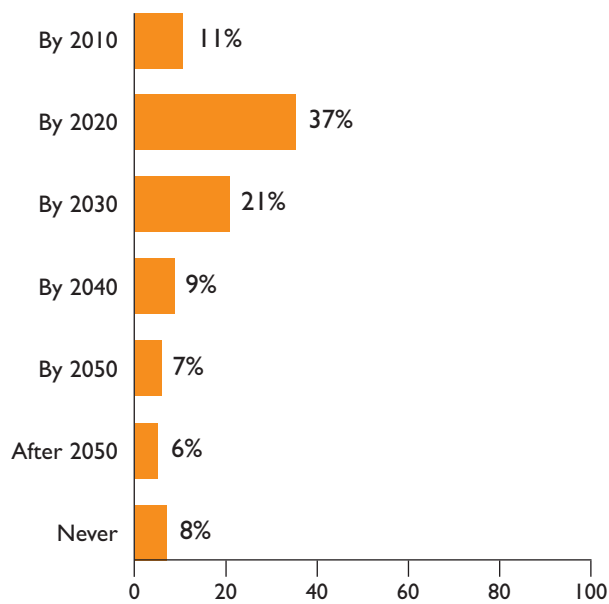
Listing expectation by personal background



16. What impact will the rise of the Chinese marketplace have on the way Western businesses operate?



17. By when will it be considered common for US and European workers to be employed by Chinese-owned companies?



About the Author

Rohit Talwar is a global futurist, researcher and specialist advisor. He spends his time on four key activities:

- Doing in-depth research and writing about global trends – Rohit has a particular interest in China, India and the Middle East
- Travelling the world speaking about the future and engaging with inspiring people, organisations and ideas that could shape the future
- Advising the top teams in global organisations and the CEO's and founders of innovative SME's on how to shape their own destiny and connect with the future in innovative ways
- Taking small equity positions and advisory roles in some of the most innovative businesses he meets on his travels – leveraging his global network to help them grow their businesses.

Rohit is the founder and CEO of Fast Future and a co-founder and joint CEO of Global Futures and Foresight. He has a degree in electronics and computer science and an MBA from London Business School. He has previously worked for GKN, British Telecom, Andersen Consulting and BMS Bossard. He has worked, consulted and spoken in over 20 countries on five continents.

Rohit's clients include ABN Amro, Alliance and Leicester, The BBC, BT, BAT, BAe, Berwin Leighton Paisner, Cargill, Chloride, Citibank, DeutscheBank, Diamond Trading Corporation (De Beers), DHL, EADS, Electrolux, Ernst & Young, GSK, IBM, Intel, Linklaters, Marks and Spencer, Morgan Stanley, Nokia, Nomura, Novartis, Orange, Panasonic, Pfizer, Playtex, PwC, Shell, Thames Water, Yellow Pages and governments departments in the UK, USA, Finland and Singapore.

David Smith

David is a co-founder and joint CEO of Global Futures and Foresight. Previously, he was the chief executive of The Global Future Forum for four years and in that time worked with many global organizations in their quest for understanding of the future and for innovation. He has held senior management positions in large and small organizations alike and been involved in public sector, commercial and financial markets. He has held sales, marketing and general management positions in his 30 year career, advised the UK and EU governments and held the position of Strategic Marketing Director for the Unisys global financial services business. His experience has shown him the powerful impact that glimpses of the future afford business and government alike as they seek to achieve their strategic goals. He is a regular international speaker and passionate believer that we are not victims of what the future might hold if we prepare ourselves in advance.

Global Futures and Foresight (GFF)

GFF is a strategic futures think tank which aims to harness the views of global experts to provide foresight to organizations so that they can be more successful and less exposed to risk by better understanding the opportunities and threats the future has in store for us. GFF draws on a global network of business, academic and future thinkers from across the world committed to helping business and government better prepare for the future. It does this through collaborative projects and through undertaking its own research, gathering thought leaders' views of the future and forming composite ideas of what our future could look like.

GFF's research activity focuses on analysing the future of

- Global economies
- Global trends
- Global challenges
- Global markets
- Global business

GFF undertakes in company projects, multi-client studies and its own programme of research.

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Fast Future

Fast Future is a think tank and consultancy and a strategic partner to GFF, led by Global Futurist Rohit Talwar.

The aim is to help business and government understand the trends, forces and ideas shaping the future and to use those insights to connect to and invent the future in innovative ways. Fast Future specialises in analysing the future development of the high growth economies and helping global corporations develop their strategies for those markets.

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