

*MNGT-E2001*

*Doing Business in Emerging Markets*

**Business Environment of the**

**People's Republic of China in the Post-pandemic Era**

**中華人民共和國後疫情時代商業環境**

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07 November 2023

# AGENDA

- 1) Key facts about the Chinese Economy
- 2) The Economic Impact of the COVID-19 Pandemic in China
- 3) How the Pandemic has shaped the Chinese Economy?

# 1) Key facts about the Chinese Economy



**A?** Aalto University  
School of Business



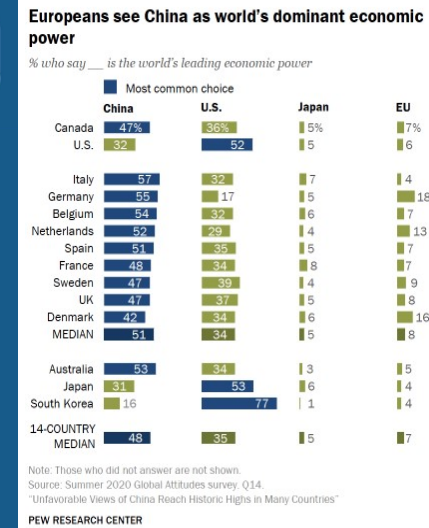
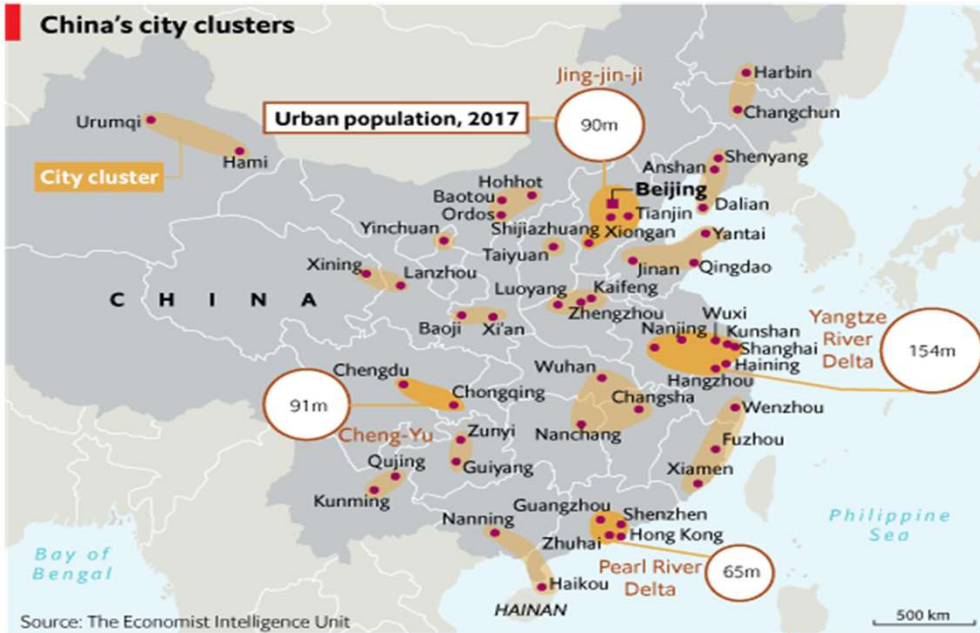
People's Republic of China  
(CHN)  
<https://english.www.gov.cn>



Hong Kong Special Administrative Region  
of the People's Republic of China (HKG)  
<https://www.gov.hk>



Macao Special Administrative Region  
of the People's Republic of China (MAC)  
<https://www.gov.mo>



# 1) Key facts about the Chinese Economy

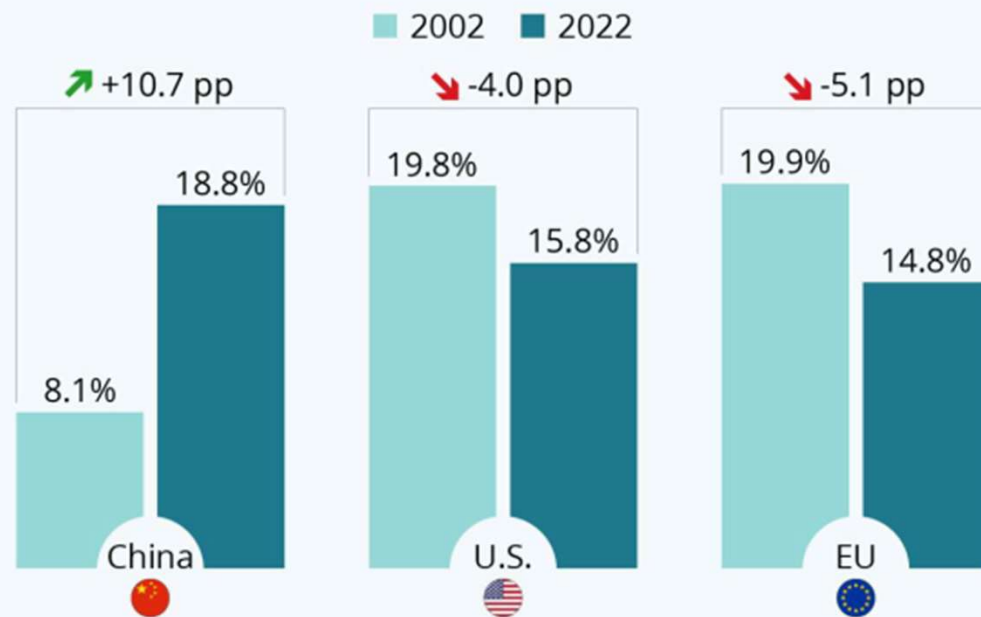
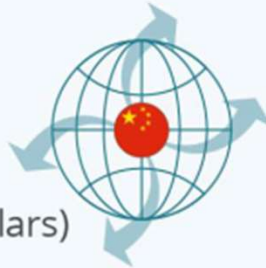
<b>Capital city</b>	Beijing
<b>Largest city by population</b>	Shanghai (26.9 million residents in 2022)
<b>Official languages</b>	Standard Chinese (Mandarin), Mongolian, Zhuang, etc. (* <i>English in Hong Kong SAR and Portuguese in Macao SAR</i> )
<b>Population</b>	1.41 billion (2nd most populous / 18% of the world)
<b>Administrative divisions</b>	23 Provinces + 4 Directly-administered Municipalities (Beijing, Shanghai, Tianjin and Chongqing) + 5 Autonomous Regions + 2 Special Administrative Regions (SARs) of Hong Kong and Macao
<b>Currency</b>	*Renminbi/Chinese Yuan (CNY) [ <i>Hong Kong Dollar (HKD) in Hong Kong SAR and Macanese Pataca (MOP) in Macao SAR</i> ]
<b>Trade organisations</b>	WTO, BRICS, SCO, APEC, RCEP, G20, G77, etc.

# 1) Key facts about the Chinese Economy

<b>GDP (2023 est.)</b>	Nominal: \$19,373 trillion PPP: \$33,014 trillion	(ranked 2nd in the world) (ranked 1st in the world)
<b>GDP per capita (2023 est.)</b>	Nominal: \$13,721 PPP: \$23,382	(ranked 64th in the world) (ranked 73rd in the world)
<b>GDP by sector (2022)</b>	Agriculture: 7.3%      Industry: 39.9%	Services: 52.8%
<b>GDP by component (2022)</b>	Private consumption: 38.37% Gross capital formation: 42.84% Imports of goods and services: 17.43%	Government consumption: 15.92% Exports of goods/services: 20.04% Others: 2.61%
<b>Labour force (2021)</b>	81.2 million      (24% in agriculture; 28% in industry and 47% in services)	
<b>Ease-of-doing-business rank</b>	31st in the world	
<b>Main industries</b>	Mining and ore processing, iron, steel, aluminum, and other metals, coal; machine building; armaments; textiles & apparel; petroleum; cement; chemicals; fertilizer; consumer products (including footwear, toys, and electronics); food processing; transportation equipment (including automobiles, railcars, aircraft, commercial space launch vehicles and satellites).	

# China's Rise to Economic Superpower

China's share of global GDP (PPP, current dollars) vs. the United States and the EU



Source: IMF



statista

## Global GDP share of China, USA, and EU

- Over the past few decades, China has grown to become the world's manufacturing hub and largest goods exporter

### Catching Up

China's per-capita GDP remains well below US, showcasing growth potential

	China	US
1980	\$307	\$12,553
1990	347	23,848
2000	951	36,313
2010	4,500	48,586
2021	12,359	69,231
	18% of the U.S. per-capita GDP in 2021	32% of the EU per-capita GDP in 2021

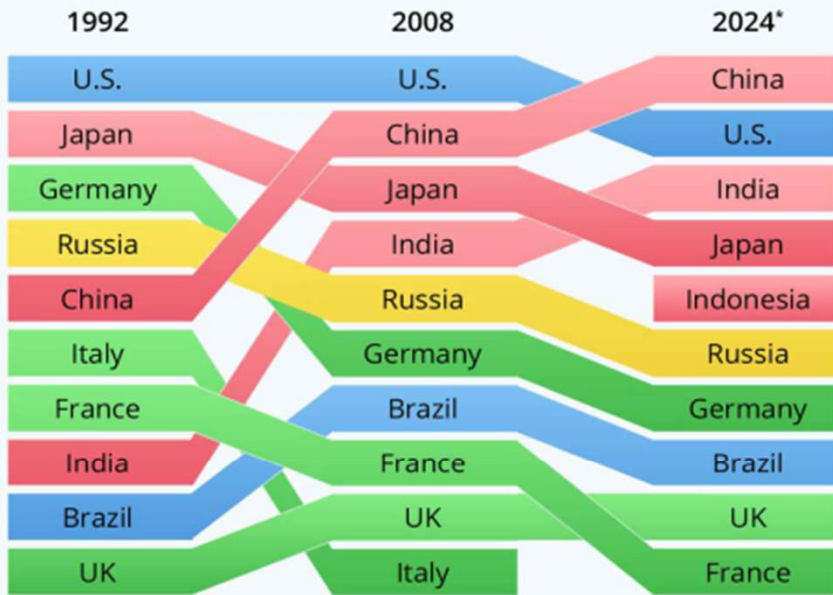
Source: International Monetary Fund World Economic Outlook database April 2022  
Note: per-capita GDP in current-dollar terms.

Bloomberg

# Continental Shift: The World's Biggest Economies Over Time

Countries with the highest GDP on Earth in 1992, 2008 and 2024\*

Asia Europe Americas Russia

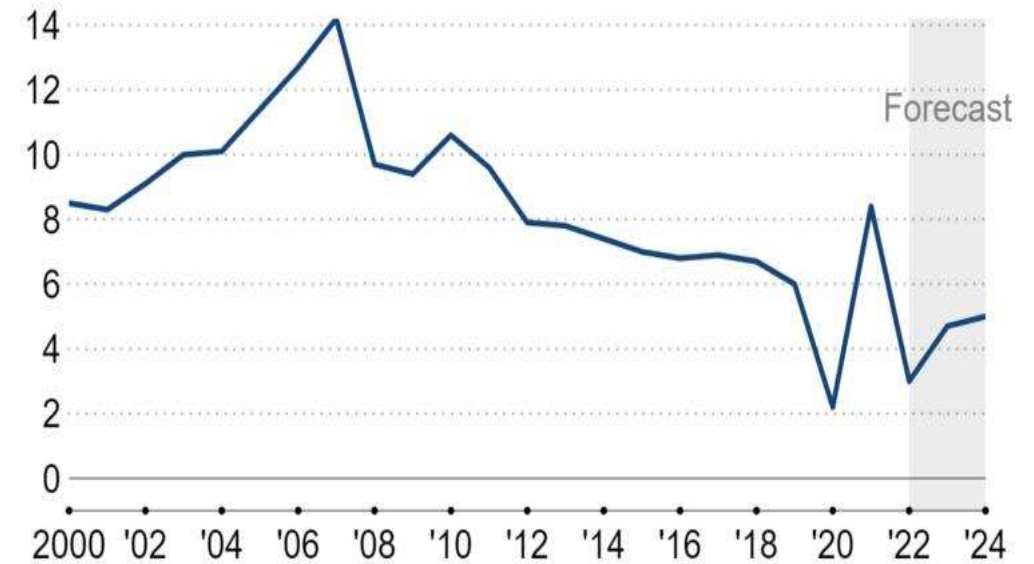


\* projection  
Based on purchasing power parity, intl. dollars  
Source: IMF



statista

## China's annual GDP growth (In percent)



Source: China National Bureau of Statistics, Nikkei Asia, Nikkei Quick News

So,  
why  
China?

- Low-cost local suppliers
  - Inexpensive energy
  - With WTO entry, China is opening up
  - Already industrialized (plants)
  - China is improving infrastructure and regulatory system
  - Early entry costs less
- However, some changes might have already taken place during the pandemic...*



## 2) The Economic Impact of the COVID-19 Pandemic in China



### Covid-19 in China: Lockdowns of Major Cities Continued In 2022

Daily new coronavirus cases in China and biggest cities in lockdown (by number of inhabitants)\*



\* if any

Sources: Our World in Data, Wikipedia, media reports



statista

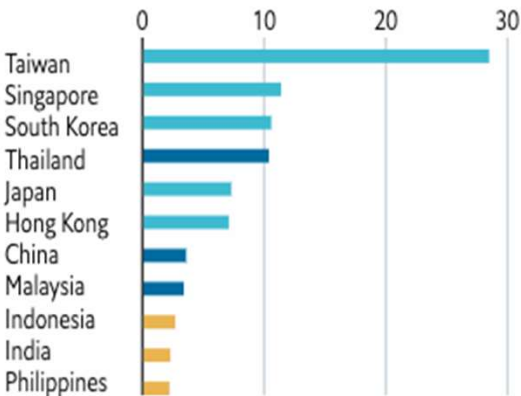
# 2) The Economic Impact of the COVID-19 Pandemic in China

## 2020 Why lockdowns?

**China has relatively low critical care capacity**

(intensive care unit beds, per 100,000 population)

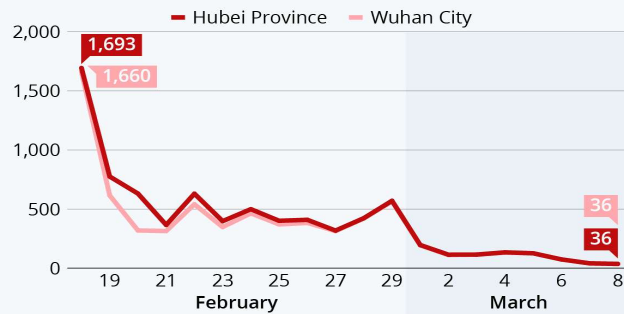
- High-income
- Upper-middle-income
- Low- and lower-middle-income



Sources: Phua et al., 2020; EIU.

## Mass Quarantine Effective Against Coronavirus in China

Daily number of new confirmed cases in the Chinese province of Hubei

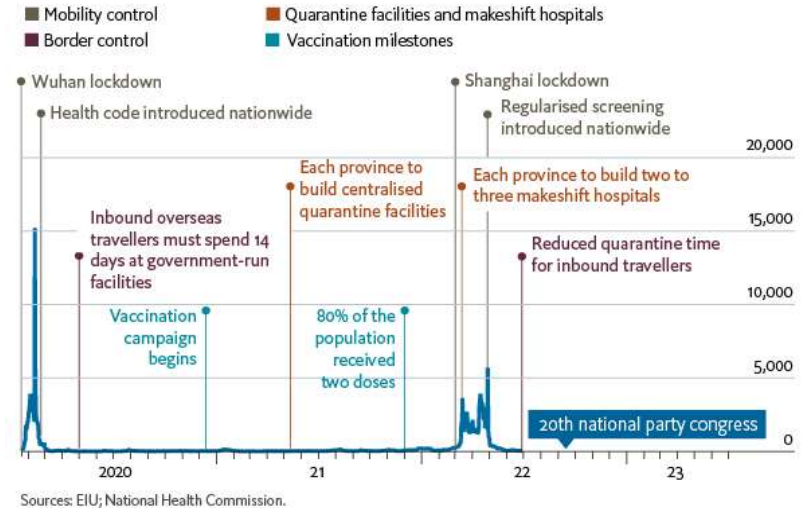


CGTN is a state-run media organization from China  
Sources: CGTN, Health Commission of Hubei Province



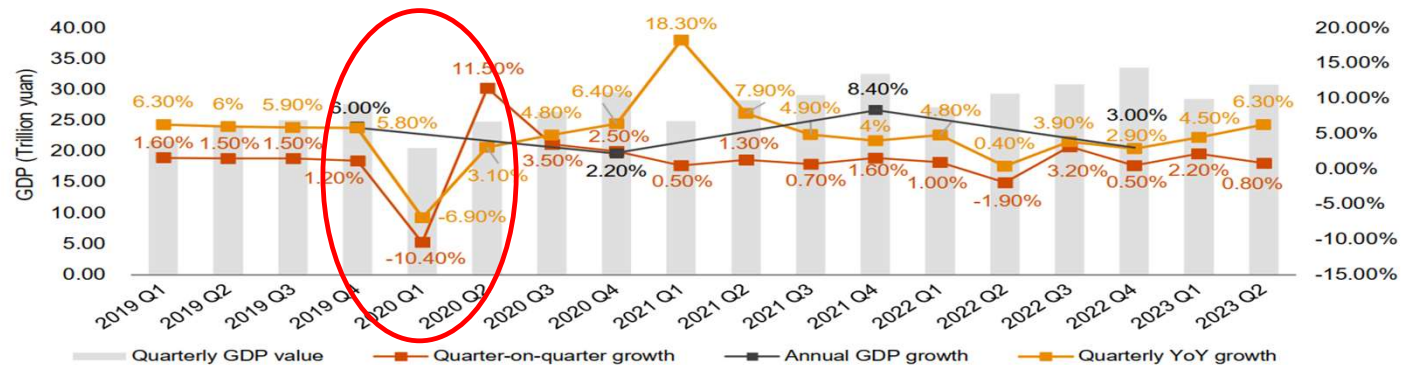
## "Zero-covid" has been adjusted

(daily covid-19 case numbers)



Sources: EIU; National Health Commission.

## Quarterly GDP values and quarterly and annual GDP growth rate



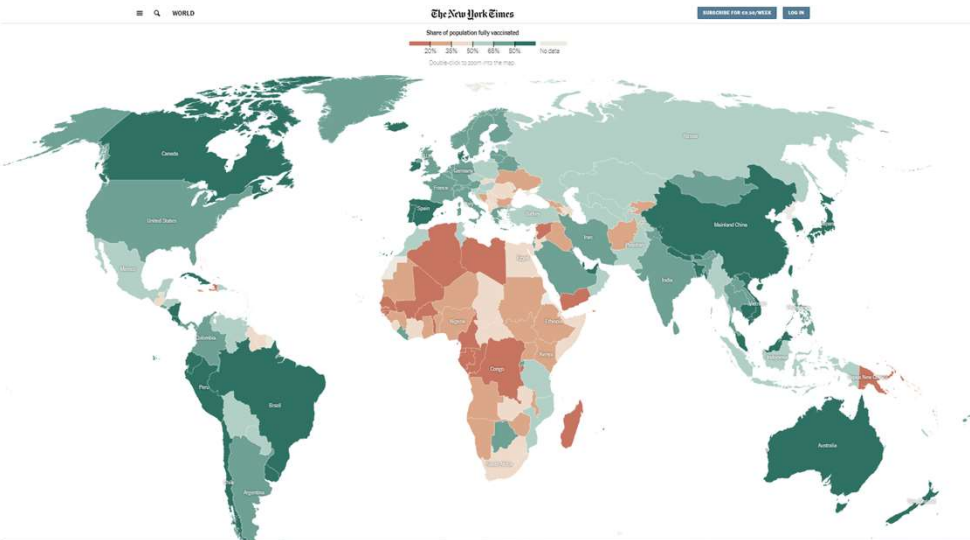
Source of data: Unless otherwise stated, economic data are from the National Bureau of Statistics, Wind and financial data from the People's Bank of China.

## 2) The Economic Impact of the COVID-19 Pandemic in China

### 2021-22 Nationwide vaccination

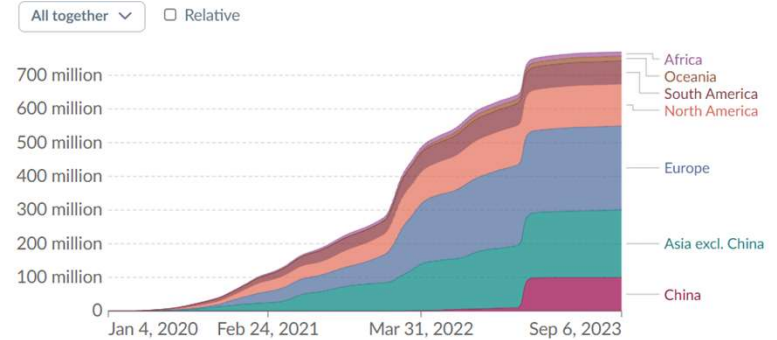
- Stringent public health measures were in place for almost three full years (2020/2021/2022) in China.
- The economic activities of enterprises, especially small and micro enterprises, were severely impacted.
- The costs of continuing this stringent policy were enormous. Over these three years, the tight public health measures and lockdowns have had a large, negative impact on growth in China.

### Share of population fully vaccinated (at least two doses)



Cumulative confirmed COVID-19 cases by world region  
7-day rolling average. Due to limited testing, the number of confirmed cases is lower than the true number of infections.

Our World in Data

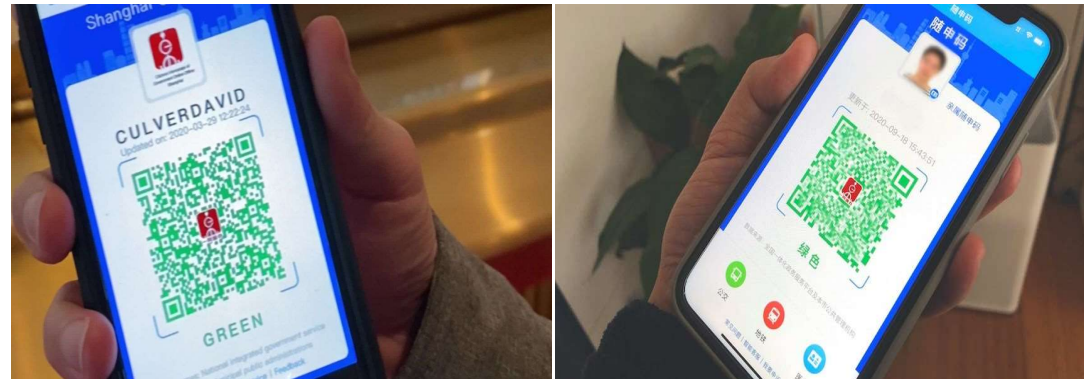


Source: WHO COVID-19 Dashboard

OurWorldInData.org/coronavirus • CC BY

▶ Jan 4, 2020 ◯ Sep 6, 2023

### Health QR Code was used in China during the pandemic



# 2) The Economic Impact of the COVID-19 Pandemic in China

End of 2022/Start of 2023 "Zero-Covid" Exit and Reopening

CHINA ECONOMY

## China is reopening after zero-Covid But there's a long road ahead

PUBLISHED FRI, DEC 23 2022 1:55 AM EST | UPDATED FRI, DEC 23 2022 2:22 AM EST



Evelyn Cheng  
@CHENGEVELYN

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### KEY POINTS

- Subway ridership in major mainland Chinese cities as of Thursday remained well below the normal range, according to Wind Information.
- In a survey of nearly 200 AmCham China members from Dec. 16 to 19, more than 60% of respondents said they expected the impact of the latest Covid outbreak to be over in one to three months.

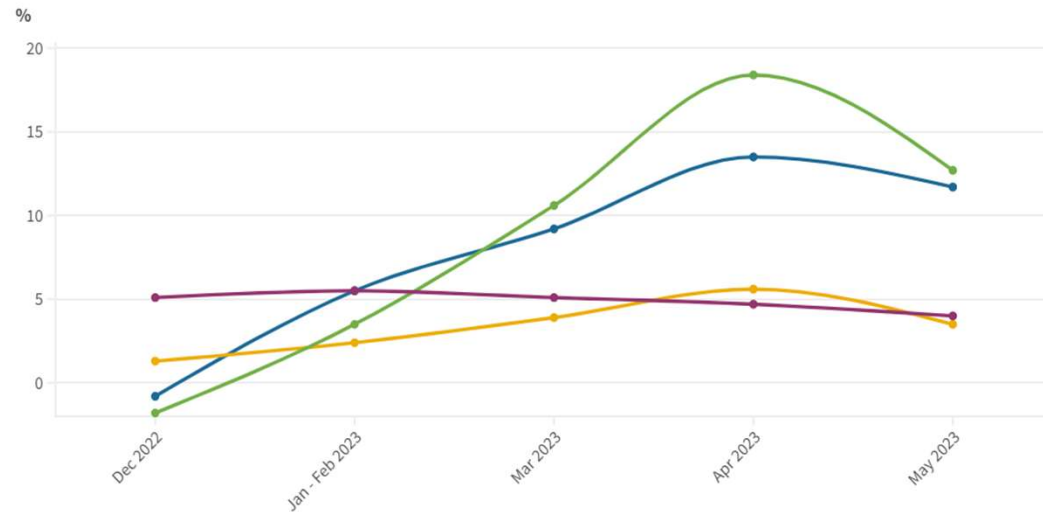


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### Change in Key Economic Indicators Since Reopening

Year-on-year growth

■ Index of services production ■ Industrial value-add\* ■ Sale of consumer goods ■ Fixed asset investment



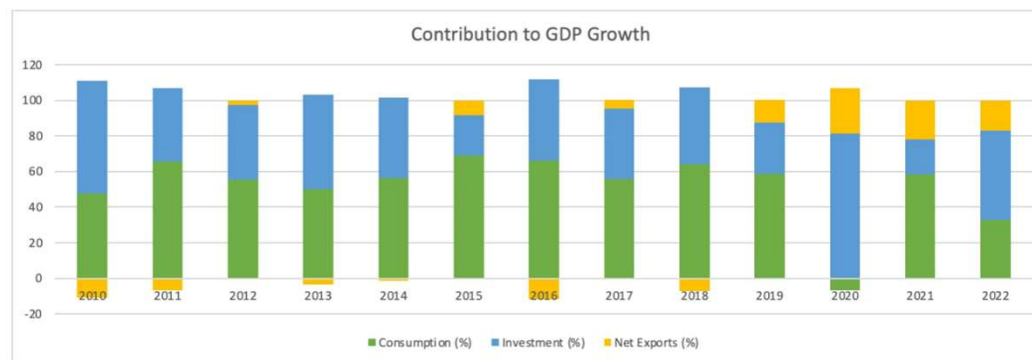
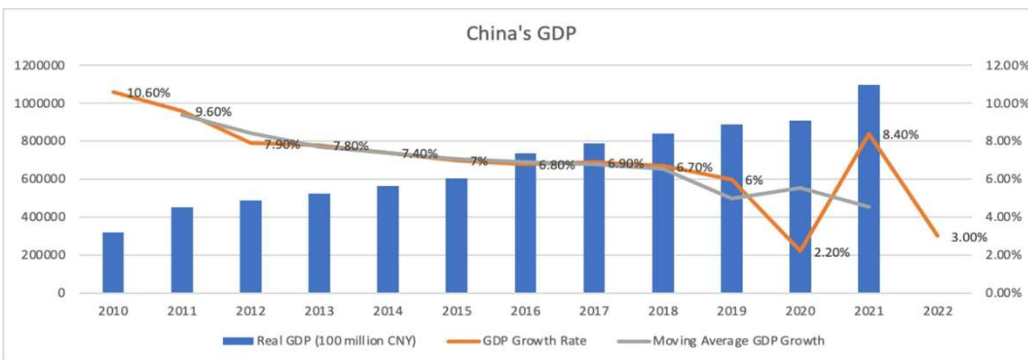
Source: National Bureau of Statistics • \*Industrial companies with a main annual business income of over RMB 20 million.

Since emerging from the COVID-19 pandemic in late 2022/early 2023, China has embarked on a steady path toward economic recovery. With the lifting of restrictions at the end of 2022, China has achieved a rebound in economic activity across a variety of sectors, as well as a near-complete recovery in domestic tourism and a modest increase in international travel (with the removal of quarantine for inbound arrivals).

## 2) The Economic Impact of the COVID-19 Pandemic in China

### a). Slow economic growth

- The "China Miracle" between 1978-2012 when the annual GDP growth was on average 9% - 10% continuously
- The GDP growth rate started to drop to around 6% in 2019, and it was exacerbated by the COVID-19 pandemic
- The historic lowest growth rate of 2.2% in 2020, followed by an 8.4% growth in 2021 based on a very low base
- The three-year moving average of the growth rate of the Chinese economy shows a clear downward trend

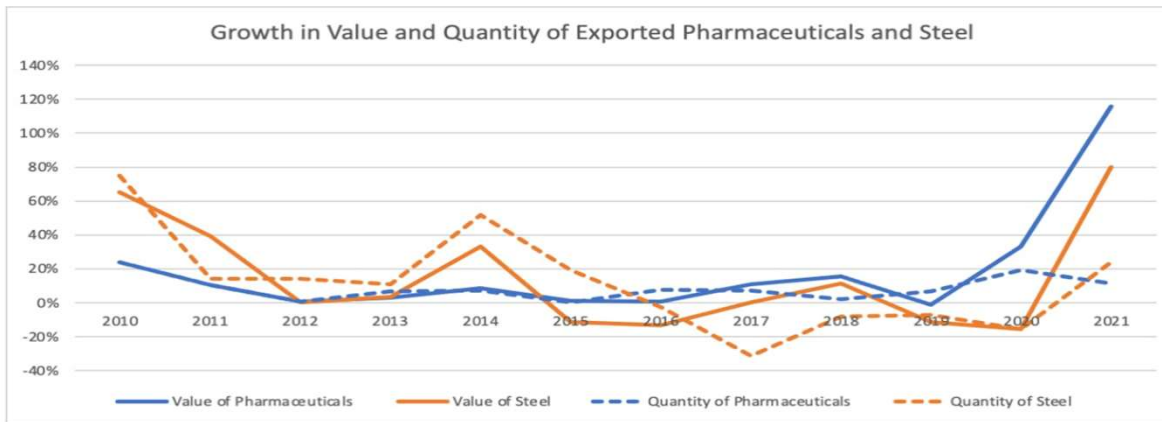


- Negative contribution of consumption to GDP growth in 2020, followed by a rebound but in decline again in 2022
- Growth too dependent on investment (especially government investment), and over-investment could hurt productivity
- Stimulating **domestic consumption** is the key to revive growth, however it remains a challenge during/after the pandemic

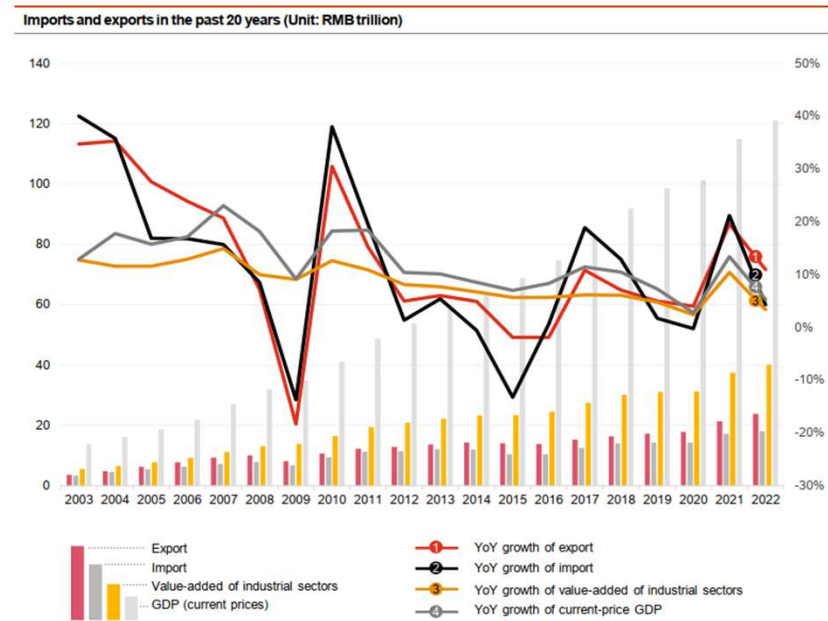
# 2) The Economic Impact of the COVID-19 Pandemic in China

## b). Uncertainties in international trade

- For many decades, China relied on exports, largely labour-intensive products, to drive impressive economic growth
- The outbreak of the pandemic, coupled with the ongoing U.S.-China trade war, created unfavourable trade conditions
- International trade protectionism increasingly geared towards the People's Republic of China
- The USA-EU-PR China Triangle: between decoupling and de-risking (complex global geopolitical & economic dynamics)



Source: National Bureau of Statistics, website: <https://data.stats.gov.cn/easyquery.htm?cn=C01&zb=A0601&sj=2021>



Source: Wind (National Bureau of Statistics, Wind)  
\* YoY growth of current-price GDP is calculated by PwC.

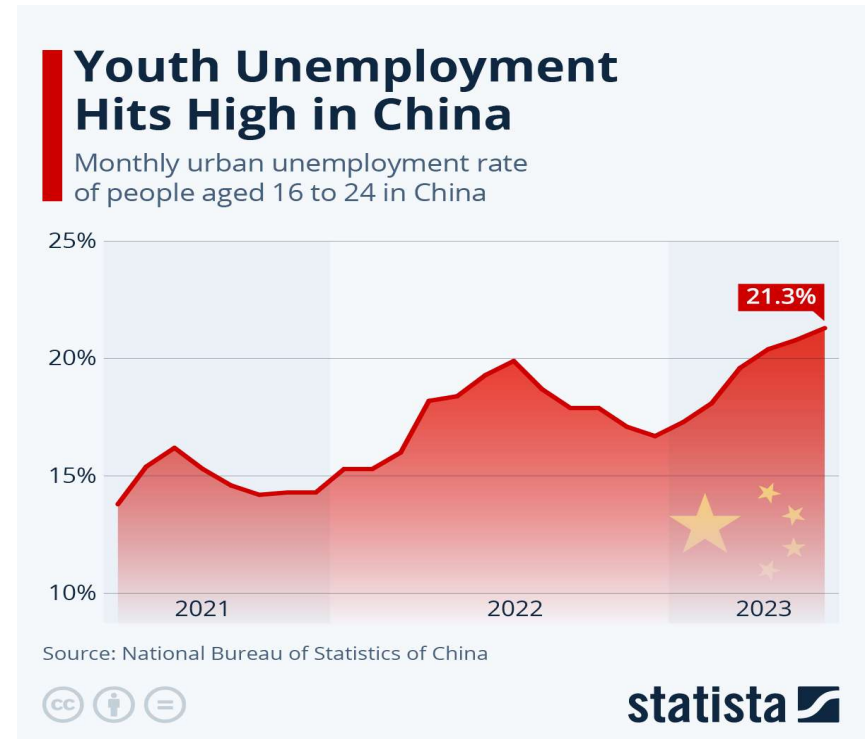
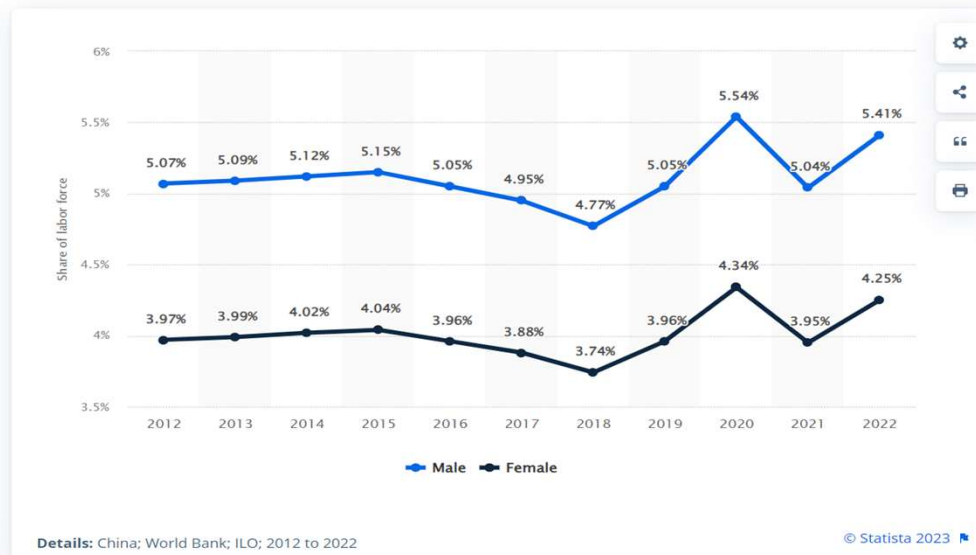


## 2) The Economic Impact of the COVID-19 Pandemic in China

### c). Rising unemployment rate in an increasingly tough job market

- Stringent lockdowns and tight restrictions accelerated the closing of massive privately-held firms and foreign-invested firms (E.g., Toshiba, Nikon, Canon and Samsung)
- Official statistics from the Chinese National Bureau of Statistics show that more foreign companies exited the Chinese market than those that entered the country between 2020-2021
- Staggering increase in youth unemployment rate (21.3% in 2023Q2)

Unemployment rate in China from 2012 to 2022, by gender

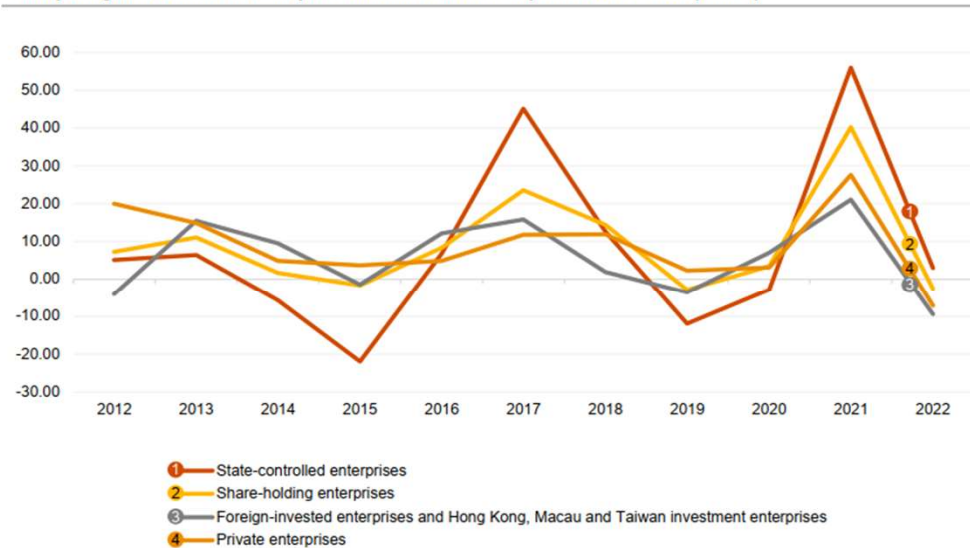


## 2) The Economic Impact of the COVID-19 Pandemic in China

### d). New challenges in human capital management (HCM)

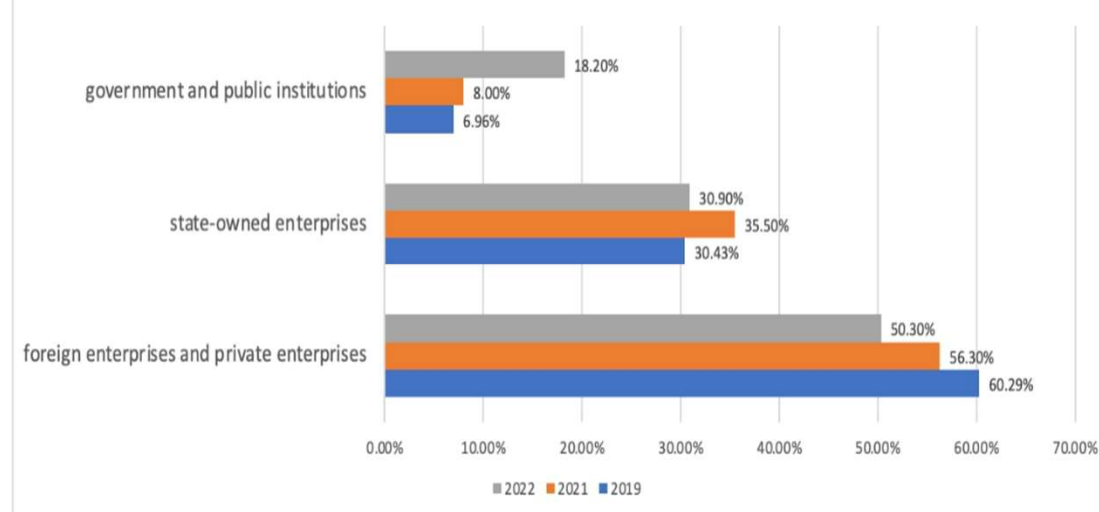
- Changing mindset: Younger generations are more risk-averse who prefer safe jobs with less uncertainties and more stability
- Surveys show more and more young Chinese plan to work in government and state-owned sectors, and less are willing to work in private and foreign enterprises.
- Wide-spread school closures during the pandemic significantly affected the quality of education, and hence the human capital accumulation and innovation.

Total profit growth of industrial enterprises with different ownerships from 2017 to 2022 (Unit: %)



Source: Wind (National Bureau of Statistics)  
\* Annual data refers to the cumulative figure for the December of each year.

Sector Distribution of the Placement for New College Graduates



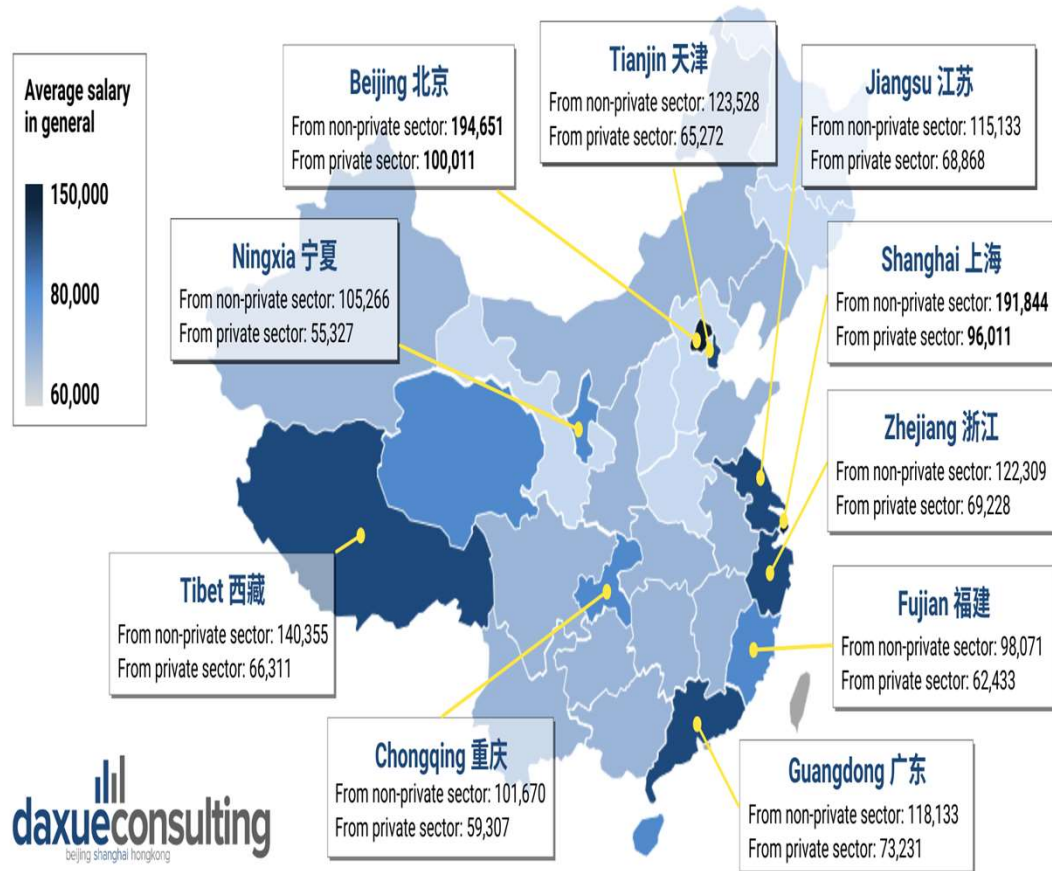
Source: Zhaopin, website: <https://mp.weixin.qq.com/s/dzsPJGYAfGqVf4fgzNoyYQ>



## 2) The Economic Impact

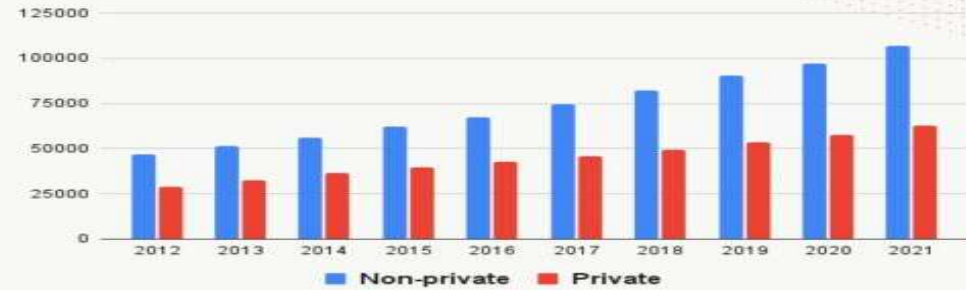
### d). New challenges in human capital management (HCM)

### Top 10 average salaries in China by province (in yuan)



### AVERAGE ANNUAL WAGE: NON-PRIVATE VS. PRIVATE UNITS

The gap between urban employees' average annual wage in the non-private sector versus in the private sector has been growing since 2014.



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Opinion · Last update: 31. March 2023, 0:16 Uhr

### Civil servant, the new dream job

Our China Perspective column is written by authors from the People's Republic who wish to remain anonymous.

What is the best job that most Chinese parents wish for their children? The answer is civil service. Although Chinese parents can't choose their children's career path on their behalf, the old generation's opinion still carries considerable weight.

A government job's advantages include stability, no worries of lay-off; good benefits and high social status, the parents would say. Some may even add: If you are lucky, you may one day climb to a high position in the government and become someone powerful.

Until five years ago, many young people would still dismiss the advice lightly. The conservative culture and strict hierarchy in the government were suffocating, they would argue. The dream jobs for most of them at that time were in the IT giants such as Alibaba and Tencent, which offered irresistible remuneration packages and also represented the future. Simply put, rich and cool.

However, the government's heavy crackdown on the private sector during the past few years has not only made these companies less attractive, but also led to their downsizing and much fewer new open positions. Moreover, an economic slowdown due to the country's harsh Covid measures has made competition for any decent job very fierce.

As a result, the popularity of government jobs soared. Many young people who used to scoff at moms' obsession with these jobs have come around.



# 3) How the Pandemic has shaped the Chinese Economy?

## a). Digitisation

- China had already been a global front-runner in terms of the digital economy before the pandemic
- Digitisation is not only accelerating in the traditional business-to-consumer (B2C) applications and channels
- It is also gaining traction in the traditionally less digitised part of the economy (e.g., business-to-business (B2B) processes)

**B2C interactions:** Companies with established digital solutions were able to take advantage of the shift to digital channels, and outperformed peers.

Examples: Nike, Lululemon and various automakers

**B2B sectors:** Various real estate companies launched virtual showrooms and online consultations through a WeChat mini program. Traditional face-to-face medical consultations were also digitised.

Examples: Beike and Ping An Good Doctor

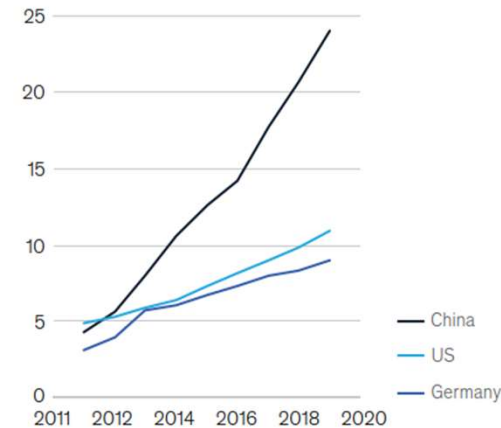
**Business processes:** The increased use of remote working applications have fundamentally changed industry dynamics.

Examples: DingTalk and China Life Insurance

## Digitization

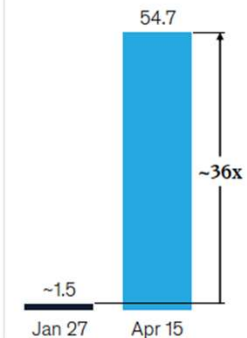
China has long been a global leader in the digital economy

E-commerce as share of total retail value, %

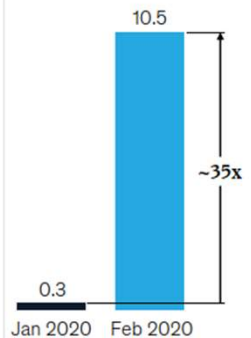


Consumers and businesses have accelerated their use of digital since COVID-19

**Online medical consultations,**  
WeDoctor number of registered doctors on their free consultation platform (in K)



**Virtual property "showrooms",**  
Beike VR virtual property showing sessions between agents and prospective buyers (in Mn)



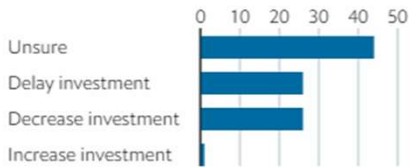
# 3) How the Pandemic has shaped the Chinese Economy?

## b). Declining global exposure

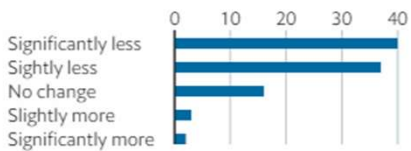
- Due to changes in the international context and domestic politics, the major driver of China's economic expansion is no longer trade and foreign investment. Domestic consumption is viewed as the most important source for further growth.
- China is becoming more localised (or more Chinese) and the Chinese government has promoted policies designed to reduce technological reliance on the rest of the world.
- Changing sentiment among U.S. companies/consumers
- Western firms: Risk-diversification and increased incentives to relocate and reshore supply chains.

**China's latest outbreaks have damaged foreign business confidence**  
(% of respondents\*)

**Future investment plans**  
(AmCham China)

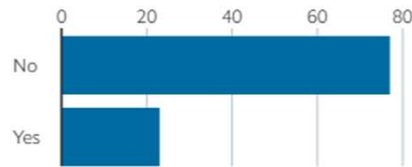


**China's attractiveness as an investment destination**  
(EUCC)

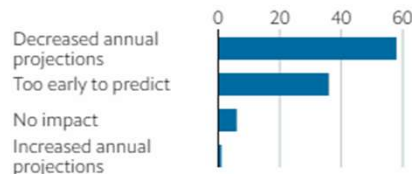


Sources: Flash surveys; European Chamber of Commerce in China; American Chamber of Commerce in China.

**Plans to shift investment**  
(EUCC)



**Annual revenue projections**  
(AmCham China)

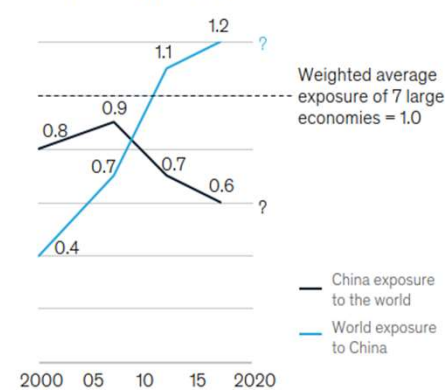


\*Survey results as at May 2022.

## Declining global exposure

**China has been reducing its relative exposure to the world**

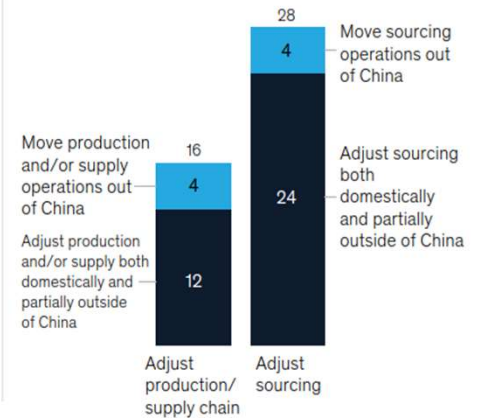
**MGI China-World Exposure Index**  
(trade, technology, and capital)



Source: McKinsey Global Institute; American Chamber of Commerce survey

**Diversification strategy is likely to remain important post-COVID-19**

**AmCham China survey respondents, April 2020, %**



## b). Declining global exposure

Beijing aims to decrease dependencies for growth and advanced technology

Comparing the great international circulation strategy and the dual circulation strategy

— External circulation — Internal circulation ● Relative importance to China's economic development

### Great international circulation strategy

The original model (1990-2010)



Key feature of Chinese economy: Labor advantage, investment and export-led growth

### Dual circulation strategy

China's aspiration (2020 onwards)

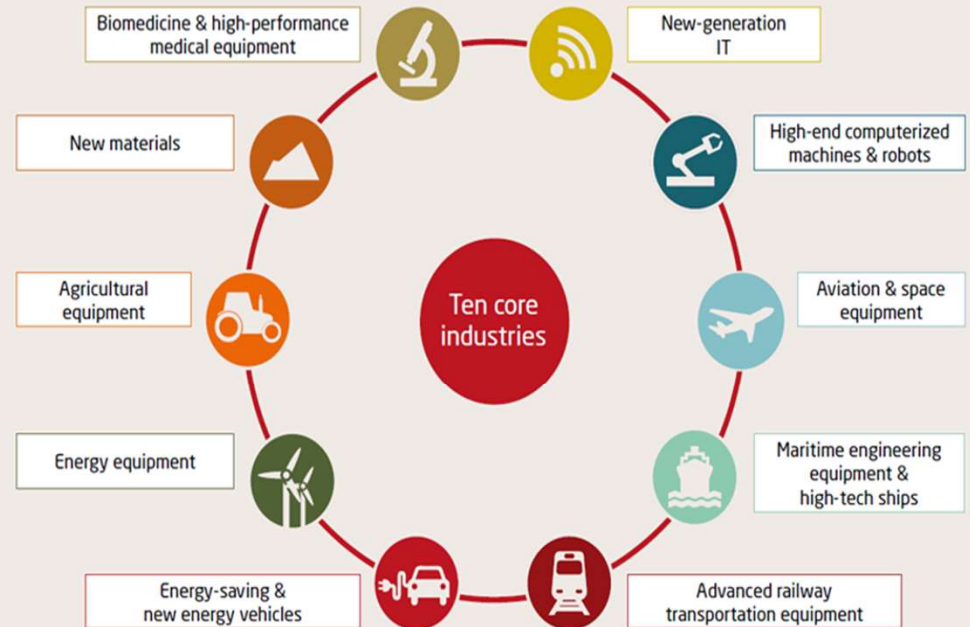


Key feature of Chinese economy: Domestic consumption and innovation-led growth



### 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

# 3) How the Pandemic has shaped the Chinese Economy?

## c). Rising competitive intensity

- In China, the top decile of companies capture about 90% of total profit in the economy (70% for the rest of the world)
- The leading cohort outperforms the rest of the market by a large margin together with a long tail of underperformers
- Key characteristics of strong performers post-pandemic: robust digital capabilities, agility & high labour productivity.

### *Agility and resilience improve customer relationships and sales*

E.g., SF Express and Foxconn

### *Tech savvy companies continue to grow well*

E.g., ByteDance and Alibaba's Freshippo

### *Cashflow troubles for weaker companies (SMEs)*

### *The divergent performance across sectors / type of firms (next page)*

## Rising competitive intensity

In China, top performing firms tend to capture a large share of economic profit

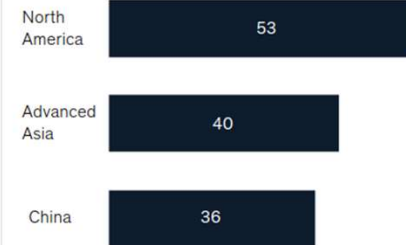
Economic profits generated by each decile company group in China, Cumulative basis, 2015-17 \$ Bn<sup>1</sup>



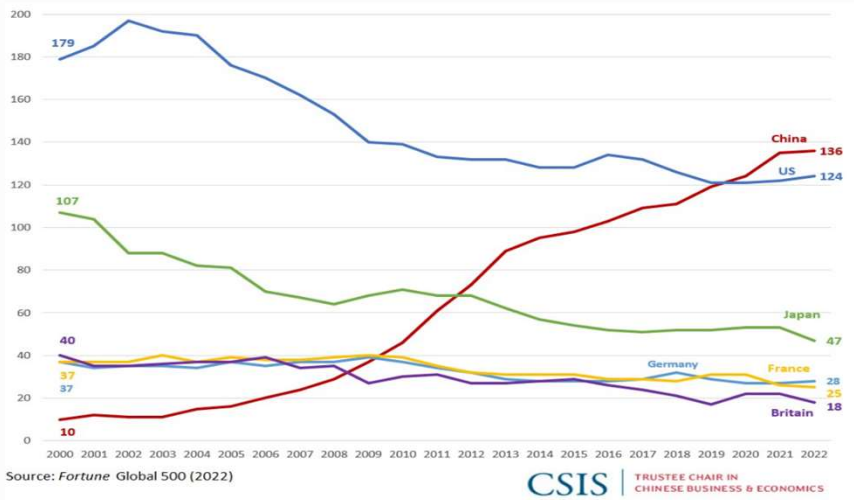
<sup>1</sup>Analysis of global top 5,000 companies based on revenue size  
<sup>2</sup>Economic profit measures a company's profit after subtracting the cost of capital  
Source: McKinsey Corporate Performance Analytics; McKinsey Global Institute analysis

Leadership is highly contested in China

Likelihood of staying at the top quintile over a decade<sup>1</sup>, %



### Fortune Global 500 Companies, 2000-2020

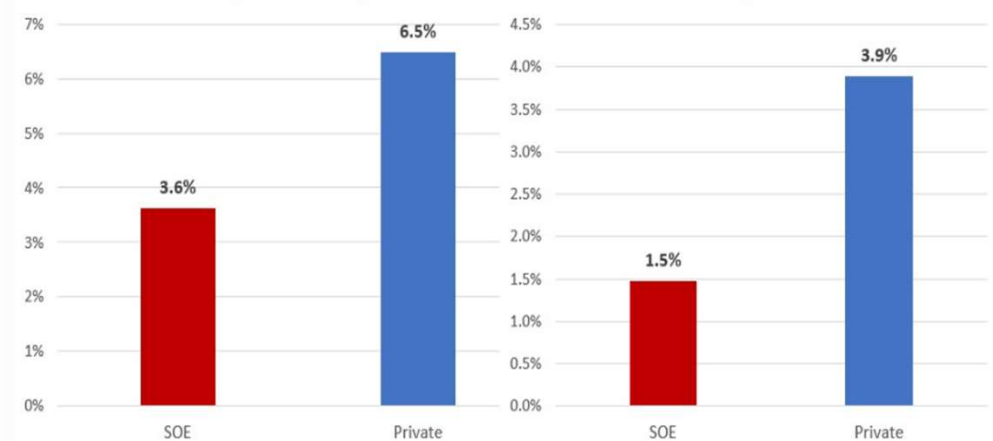


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### Average Profit Margins and Return on Assets for Chinese Firms (2022)

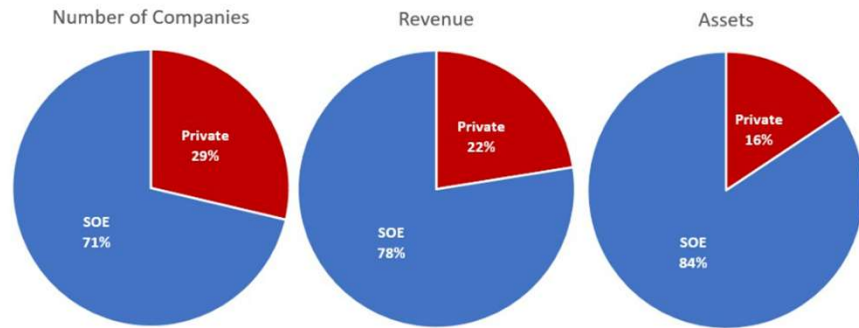
Average Profit Margin

Average ROA



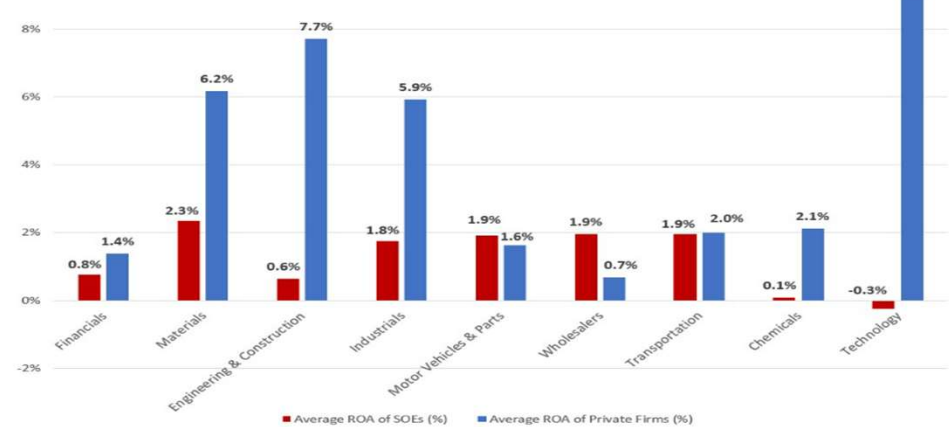
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### Chinese Companies by Ownership (2022)



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### Average Return on Assets Comparison by Sector (2022)



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# 3) How the Pandemic has shaped the Chinese Economy?

## d). Consumers come of age

- Chinese consumers have long been a major driver of global consumption, especially the affluent younger generation
- The pandemic has changed this trend as consumers think about spending, borrowing and trade-offs in purchasing behaviours
- The accelerating maturity of Chinese consumers is reflected in four areas

1. *Young consumers accounted for a third of China's consumer credit before the pandemic, however their intention to save more has never been stronger and they become more cautious.*

2. *Even more prudent personal financial management*

(high savings rate and safe investment options)

3. *More health-conscious purchase decisions and behaviours*

(safe, healthy and eco-friendly products)

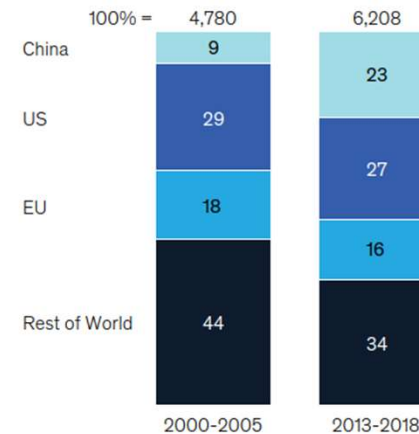
4. *Purchasing trade-offs amid a flight to quality*

(live frugally and seek value-for-money with better quality)

## Consumers come of age

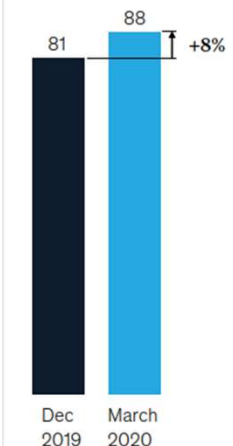
China's consumption power has grown significantly

Global household consumption growth by region, % billion 2010 US\$

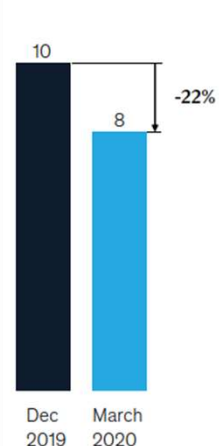


Consumers have become more prudent with personal finances since COVID-19

China household deposit balance, RMB Tn



China consumption loan/consumer credit balance, RMB Tn



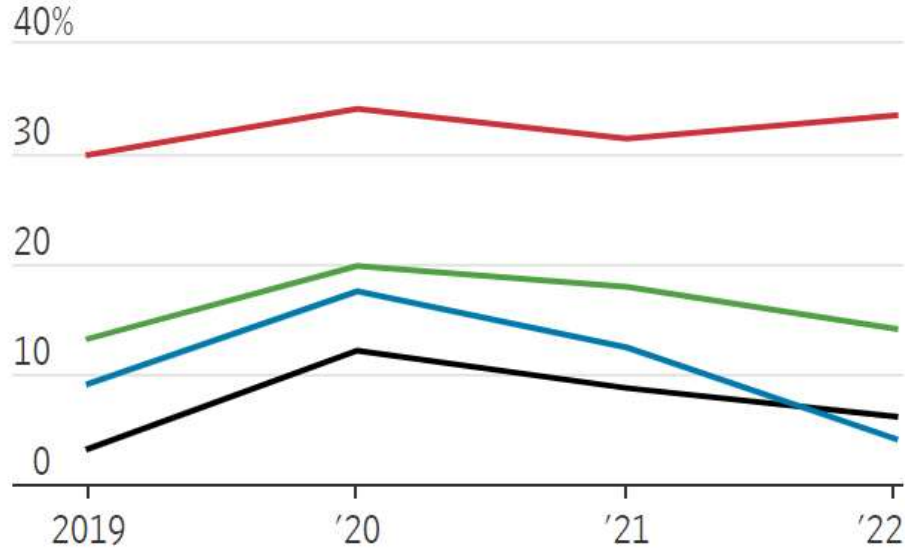
**China's savings rate has been particularly high – even higher after the pandemic! (also with a lower birth rate)**

**Saving Up**

China's household saving rate gained during the pandemic.

**Saving rates**

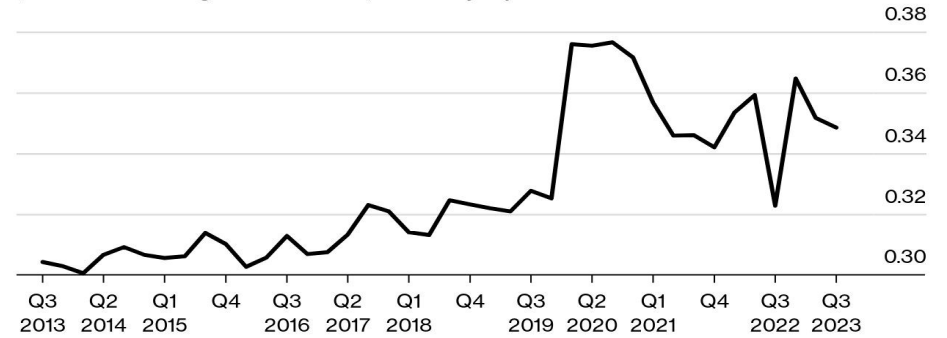
- European Union
- U.S.
- Japan
- China



**Chinese Households Are More Cautious**

Household savings rate remains above pre-pandemic levels

Household savings to income ratio, seasonally adjusted

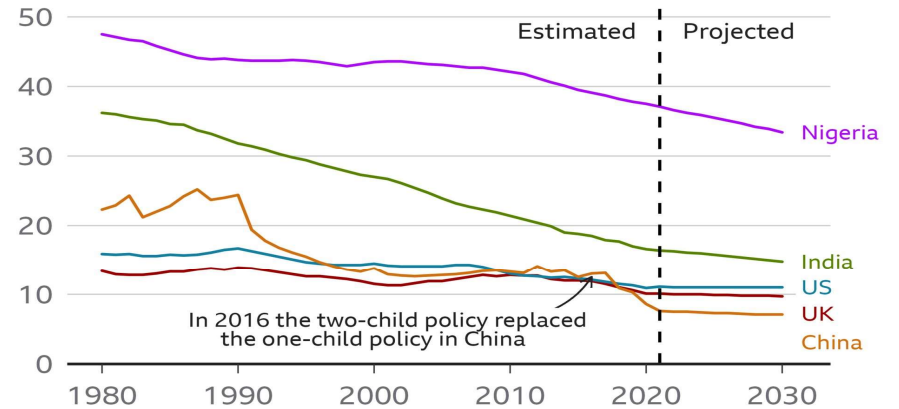


Source: China National Bureau of Statistics; Bloomberg

Bloomberg

**China's birthrate falls below other countries**

Birth estimates per 1,000 population



Source: United Nations Population Division

BBC



# 3) How the Pandemic has shaped the Chinese Economy?

## e). Private and social sectors step up

- While SOEs played a critical role in response to the pandemic in China, the private sector, especially leading technology companies, also made notable contributions to relief and recovery efforts (way more than during the 2003 SARS outbreak).

- *Private sector actors aid the national recovery with technology and resources*

E.g., Alibaba's QR Code scheme

- *Policy announcement to strengthen the role of the market*

(more flexibility in the use of land and the loosening of the household registration *hukou* system)

- *Rising influence of social institutions*

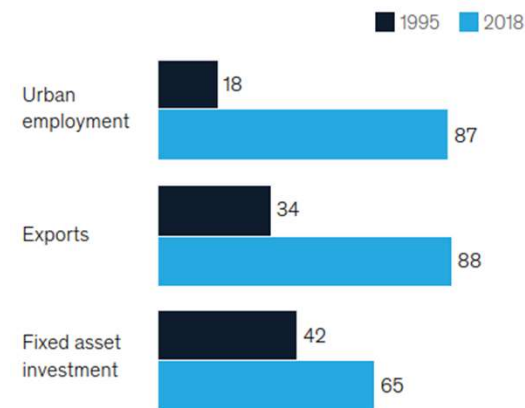
(foundations and other charities are more influential)

***A rather powerful new group of social institutions have contributed significantly toward the response to the pandemic, and are expected to play an elevated role in the Chinese economy going forward.***

## Private and social sectors step up

Private sector has become China's main economic driver<sup>1</sup>

Private sector's contribution to total economy<sup>1</sup>, %

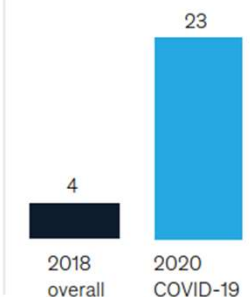


Their influence on the socioeconomic landscape remains important

Personal QR code IDs, # of users of "Suishenma" health codes in Shanghai, powered by Alipay (in thousands)



Information technology sector's donations as share of total corporate donations<sup>2</sup>, % of total



<sup>1</sup>Private enterprises defined as private enterprises and foreign enterprises

<sup>2</sup>2018 data is from "Giving China 2018" report, where 2020 COVID-19 data is based on announced donation information (up to 24 Feb 2020) from collated online literature. Corporate donations include donations from state-owned enterprises, privately-owned enterprises, and foreign enterprises  
Source: CEIC; Giving China 2018; literature search

**Kiitos paljon!**

**Tack så mycket!**

**Tusen takk!**

**Thank you!**

**A” 謝謝您的聆聽!**

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