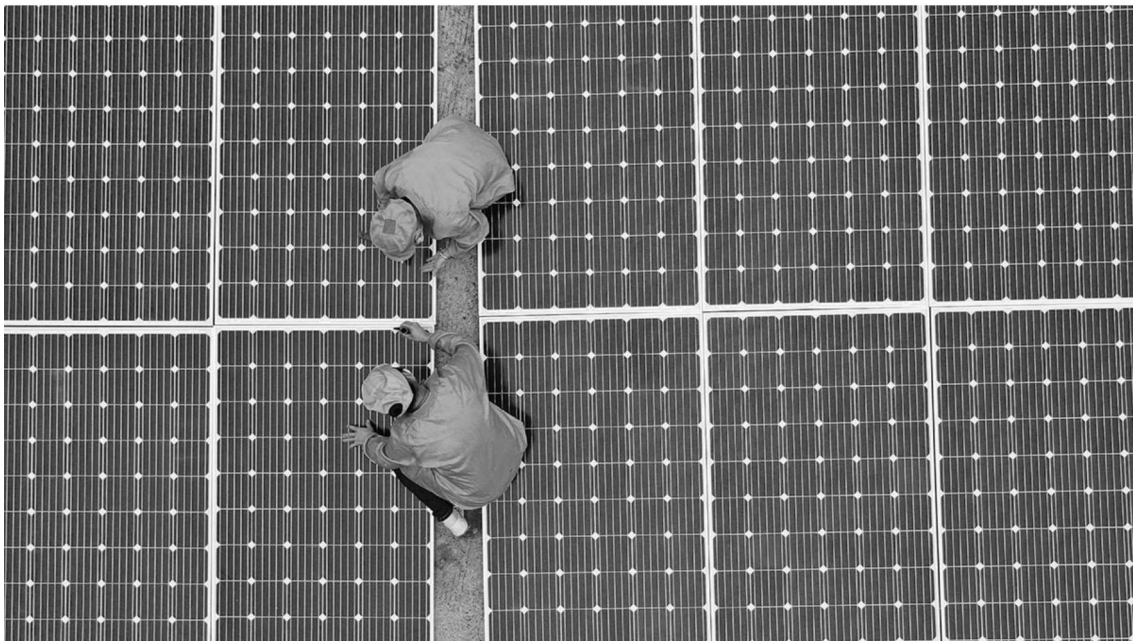


The 4 Key Strengths of China's Economy — and What They Mean for Multinational Companies

by Mitch Presnick and James B. Estes

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Summary. China's hybrid "state capitalist" system, driven by centralized planning and fierce competition, has led to dominance in critical technological fields and emerging markets. Western multinational corporations are advised to adopt a pragmatic approach to... [**more**](#)

In 1978, Deng Xiaoping launched his “Reform and Opening” policy to leverage Western technology and know-how for China’s development. It was a politically risky move: Ideological hardliners in the Communist Party resented the implicit assumption of China’s economic backwardness under socialism — and the superiority of the capitalist West. But Deng recognized that China’s modernization required both pragmatism and humility.

Today, the roles are reversing. Although it’s too early to say whether China’s hybrid “state capitalist” system will outmatch Western models, it has undeniable strengths. China leads in 53 out of 64 critical technological fields, according to the Australian Strategic Policy Institute. This success is built on centralized planning and control, but also features ruthless competition that produces global winners able to compete on price and quality in developed and emerging economies alike. No other country can match China’s market scale, or consumer enthusiasm for the latest tech wizardry.

Leaders of multinational corporations must adopt a certain Deng-like pragmatism and humility to achieve success in China today. Those who do will see profitable global growth and will have a leg up in their home markets, provided they seize opportunities in the four key strengths of the Chinese economy:

1. Its Innovation Ecosystem

China’s innovation ecosystem uniquely combines top-down government–industry coordination with the bottom-up drive of Chinese entrepreneurs. Startups that align with government-picked growth industries of the future can prosper through favorable policies, regulations, and centralized investment in scientific research.

A “whole-of-nation” approach to innovation marshals almost unlimited state resources. From 1995 to 2021, China’s total R&D outlay soared from \$18.2 billion to \$620.1 billion — a 3,299% increase compared to America’s 277%, according to the Netherlands’ Rathenau Institute. China has become a leading global hub for advanced scientific research. According to The Economist, Chinese scientists now lead the world in producing high-impact papers and contributing to famous scientific publications selected after rigorous peer review.

No segment better illustrates China’s technological prowess than clean tech. China now accounts for over 80% of global production capacity in 11 essential technologies, including solar wafers and lithium-ion battery components. Moreover, China dominates the rare-earth supply chain, accounting for 70% of global rare earth ore extraction and 90% of rare earth ore processing.

Just as Chinese companies once benefited from decades of Western investments in traditional industries like autos and chemicals, U.S. and European companies should now cash in on China’s colossal expenditures on clean tech.

In the solar sector, for example, there’s virtually no point in Western companies trying to compete. China’s investment in large-scale solar panel manufacturing over the past two decades drove down prices by 85% between 2010 and 2020, leading to exponential global growth — and significant climate benefits.

Invenergy, the largest U.S. independent renewable energy developer, has seized the opportunity to benefit from China’s investment in solar. This year, the company opened the biggest solar factory in the U.S. through its newly formed subsidiary Illuminate USA, a 51/49 partnership with LONGi Green Energy Technology, a leading Chinese solar photovoltaic company. As part of the deal, Invenergy acquired LONGi’s advanced solar

technology. The Ohio facility is expected to eventually produce 5 GW of solar panels annually and create more than 1,000 new jobs. As of the end of 2022, the U.S. had only 8 GW/year of module production capacity yet needs to install over 60 GW annually by mid-decade to meet U.S. climate goals. Invenenergy's partnership with LONGi enables it to leverage LONGi's scale, advanced technologies, and supply-chain advantages to help meet that target while achieving sustainable competitiveness in U.S. manufacturing.

Ford is another U.S. company that has recognized that Chinese technology is indispensable to its green ambitions. To make the difficult transition from gas-guzzling SUVs and trucks to electric vehicles (EVs), the Detroit giant has teamed up with CATL, China's dominant EV battery manufacturer. Ford is investing \$3.5 billion into an EV battery factory in Michigan that will use licensed CATL technology to cost effectively produce lithium-ion batteries for Ford's F-150 Lightning trucks and other EVs.

2. Its Investment in the Global South

China's strength in emerging markets is reshaping global business dynamics. Traditionally, Western multinationals have focused on mature markets with highly engineered products at high price points, while China conquered growth markets.

China excels at tailoring affordable, innovative solutions to local needs. For instance, Chinese smartphone companies, led by Transsion Holdings, Xiaomi, and Huawei, captured 76% of the smartphone market in India and more than 60% of the African market by 2021. Similarly, Chinese EV manufacturers dominate Latin America, holding an impressive 86% market share. Moreover, Huawei supplies around 70% of Africa's 4G network infrastructure.

China's dominance in the Global South is supported by its trillion-dollar Belt and Road Initiative (BRI), an infrastructure initiative that has signed up more than 150 countries and 30 international organizations. BRI-driven demand is a huge advantage for Chinese companies, and a large opportunity for Western multinationals willing to partner with those firms.

Cummins Inc, a global leading power solutions provider, recognized early on the value of such tie-ups. While many U.S. companies were hesitant to invest in China due to the then mandatory 50-50 partnership with Chinese-owned entities, Cummins saw this requirement as an opportunity, establishing six joint ventures with leading Chinese truck and construction machinery manufacturers, such as DongFeng, Foton, and LiuGong, between 1995 and 2018. Cummins contributed engine technology and manufacturing know-how, while the Chinese partners shared the investment risk and purchased a significant portion of the output. "We're the engine people. They are the truck people," said Steve Chapman, then Cummins vice president for East Asia and Southeast Asia.

Today, China represents the largest overseas market for Cummins, and Cummins China's partnerships have been pivotal in Cummins' successful journey. "The economy of scale we have developed through our partnerships has allowed Cummins to develop a localized supply chain and build up our engineering capabilities in China. This in turn has helped Cummins develop robust and innovative 'fit-for-market' solutions that are required to compete and win in China," shared Nathan Stoner, Cummins vice president and chairman of Cummins China.

Crucially, the technology innovations pioneered in China have allowed Cummins to expand in other developing markets such as India, South America, and Southeast Asia, where performance, quality, and cost requirements are more similar to China than to

the U.S.- or Europe-designed products. Complementary strengths and collaboration with Cummins contributed to Chinese truck OEM's exporting over 300,000 heavy- and medium-duty trucks in 2023, which is approximately 30% of total domestic production and roughly equivalent to the entire North America heavy duty market size.

3. Its Ultra-Competitive Markets

Companies that survive the life-and-death struggles of China's markets — often described as a “Gladiators Arena” — often emerge as global champions. Think of CATL (batteries), BYD (batteries and electric vehicles), Tongwei (solar), Goldwind (wind), or Huawei (information and communications technology).

Once Beijing decides to develop a new industry, regional governments scramble to offer subsidies and other support programs. Hundreds of companies jump in. This necessitates a “lean startup” mindset and fast product iterations where companies use data from real-world experiments to get ahead of competitors. It is a colossally wasteful process, but also devastatingly effective.

Tesla should know. Elon Musk became part of this dog-eat-dog competition after it began selling vehicles in the China market in 2014. In fact, Beijing encouraged Tesla's arrival precisely to trigger such a contest. As Tesla scaled up operations, local manufacturers like NIO, Xpeng, and BYD began producing high-quality EVs at competitive prices, challenging Tesla's market position. Within six years, some 500 Chinese EV companies sprouted up, yet after fierce competition only 100 remained in 2023. Of these, BYD surpassed Tesla as the world's largest EV manufacturer in total number of cars sold in 2023.

Initially, Tesla's premium pricing strategy led to a loss of market share as price-sensitive consumers opted for more affordable alternatives. Tesla responded to the rapidly growing competition by leveraging China's supply-chain opportunities to reduce costs of car parts. Tesla cut its prices four times in 2023. More importantly, Tesla's reduced cost structure turned Tesla's Model Y into the number-one selling car in the world in 2023.

German car manufacturers are on a similar journey in China. Mercedes and other German automakers that once transferred combustion engine know-how to Chinese partners are now learning from Chinese EV makers, reversing the teacher-student relationship. In October 2023, Audi and Chinese automaker FAW announced a joint project to build a \$4.87 billion new energy vehicle production facility in Changchun China. In April of 2024, BMW invested \$2.76 billion to update its Shenyang plant to produce its Neue Klasse series of EVs starting in 2026. In response to Mercedes' billions of dollars of EV investment into China, Ola Kaellenius, chair of the management board, told Reuters: "You have to be here and you have to be part of that innovation cycle."

4. Its 1.4 Billion Consumers

Despite all the talk about companies "de-risking" and "decoupling" from China, the country still offers a market of unmatched scale with sophisticated consumers that push companies to continually improve.

Accounting for almost 17% of global GDP — equal to the economic output of the European Union — China's economic trajectory poses significant implications for global commerce. Should China's GDP ascend at its growth target of 5% — a benchmark it achieved in 2023 — its incremental growth this decade alone would match the combined 2021 GDP of India, Indonesia, and

Japan. Moreover, China already constitutes 25% to 40% of global revenues in key industries such as cars, luxury goods, and industrial equipment.

China's large tech-savvy consumer base, bolstered by an expanding middle class and increasing disposable income, has driven substantial demand for consumer purchases ranging from tech-laden EV cars to the latest luxury products. A report from Bain suggests China is expected grow to as much as 40% of global luxury spending by 2030. In 2022, the Chinese luxury e-commerce market was valued at approximately \$74 billion. Before Covid, which restricted Chinese foreign travel and consumer expenditure, tourists, a majority from China, made up 40% of 2019 spending in Europe's then €89 billion luxury market.

The Perils of Not Being in China

Amazon entered China in 2004 by acquiring Joyo.com, an online retailer, for \$75 million. By 2011, Amazon held a 15% market share in the China e-commerce market. While Amazon's two primary competitors in China at that time, Alibaba and JD.com, rapidly built out extensive courier networks to enable almost-instant delivery and direct relations with local suppliers to provide the lowest pricing possible, Amazon adapted slowly. By 2019, with a market share of less than 1%, Amazon shut down its domestic China marketplace operations.

Meanwhile, the Chinese e-commerce landscape dynamically evolved. Pinduoduo (PDD), with its formula of "super-cheap goods shipped from the factory gates," emerged as a disruptive force, challenging both Alibaba and JD. PDD, having built scale, profitability, and honed strategies in China, aggressively launched their innovative e-commerce model Temu in Amazon's home market. Temu entered the U.S. market in September 2022 and achieved over 90 million unique monthly visitors in less than 12 months, compared to Amazon's 221 million unique monthly

visitors built over nearly three decades. As of October 2023, the total number of Temu app downloads reached almost 235 million, surpassing the Amazon Shopping app. Amazon's withdrawal from China left it vulnerable to competitive threats internationally and domestically.

It is time for multinationals to flip the paradigm. Companies like Tesla, Cummins, Invenenergy, and Ford have all adjusted a worldview shaped by decades of Western technological leadership and understood that China, for all its macro-economic challenges, has essential strengths to be capitalized. Multinationals that fail to understand and follow their lead risk ceding global revenue and strategic opportunities to their Chinese competitors.

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