م ع ك التقرير الاقتصادي الأسبوعي التخصصي رقم 2025/549

قضايا الاقتصاد العالمي – الاقتصاد الصيني - English

إعداد الأستاذ الدكتور مصطفى العبد الله الكفري

M E A K Weekly Economic Report No. 549,

Global economic issues

prepared by Prof. Dr. Moustafa El-Abdallah Al Kafry

الأحد 26 تشرين الأول، 26 October 2025

موقع المستشار الاقتصادي الإلكتروني للبحوث والدراسات

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التقرير حصيلة متابعة للإعلام الاقتصادي والشبكة العنكبوتية. يتم تقديمه للأكاديميين والاقتصاديين وأصحاب القرار والمتابعين لتسهيل الوصول إلى المعلومة الاقتصادية.

ربما تحتاج بعض المعلومات والبيانات الواردة في التقرير إلى تدقيق من قبل خبير أو مختص، حيث قد لا تكون موثوقة بما يكفي. يُرجى المساعدة في التحقق من هذه المعلومات وذكر المصدر لضمان الموثوقية. يُعفى المؤلف من المسؤولية عن أي معلومة غير صحيحة أو غير دقيقة واردة في التقرير، حيث يكون المصدر المثبت في أسفل كل مادة هو المسؤول.

ملاحظة :يرجى إبلاغي في حالة عدم رغبتك في استمرار تلقي التقرير حتى يتم حذف اسمك من قائمة البريدية. شكراً.

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M E A K Specialized Weekly Economic Report No. 549/2025,
Global Economic Issues
Prepared by Prof. Dr. Moustafa El-Abdallah Al Kafry

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Contents

Once the leader in several markets in China, Samsung has seen its position in the country decimated by local firms, strategic missteps, a fickle regulatory environment, and geopolitical backlash. Its experience shows how FDI intended to help local suppliers can be turned by Chinese competitors and authorities against the foreign investor, and stands as a stark warning for those attempting to navigate relations with the world's second-largest economy.

For years, Apple brought indispensable FDI to China, millions of jobs, tech know-how, and the ultimate symbol of Beijing's mastery over globalization. Now Apple's sales are shrinking, it's losing turf to Chinese rivals, made concession after concession to Beijing, and is squarely in the US-China crossfire. What if China decides it does not need Apple as much as Apple needs it?

China's recent acquisition of "golden shares" in major tech companies has raised concerns among foreign investors about potential government interference in the market. These shares will allow the Chinese government to have a direct say in these businesses, including their content and certain business decisions. Although Beijing has signaled the end of its two-year crackdown on the internet industry, it is still focused on maintaining control over the platform economy.

China's business environment is becoming increasingly complex, with heightened regulations on data, national security, sanctions, and Communist Party influence, alongside massive state support aimed at displacing foreign firms.

Foreign investment has had a disproportionally large impact on the dynamism of the Chinese economy, largely due to the value of foreign ideas that came with FDI and used to drive China's domestic efficiencies and technological advances.

المحتويات

وسوف تتم دعوة الشركات الصينية الخاصة بشكل متزايد إلى إدارة عملياتها بالتنسيق الوثيق مع أهداف وأيديولوجيات السياسة الحكومية بعبارات لا لبس فيها. وينبغي لبقية العالم أن يلاحظ ذلك.

يميل التنافس الجيوسياسي بين الولايات المتحدة والصين نحو صدام كامل بين الأيديولوجيات. تتشابك المعايير المتعلقة بخصوصية البيانات والرقابة وحرية التعبير الآن في كل شيء بدءا من بيع أشباه الموصلات الأمريكية إلى تنزيل تطبيقات الوسائط الاجتماعية الصينية.

ساعد صانعو السيارات الأجانب في دفع الصناعة الصينية إلى الريادة العالمية. والآن هم يتخلفون عن الركب في سوق أصبح حاسما لنجاحهم العالمي.

وهناك عدد قليل من القضايا التجارية الأكثر إلحاحا من إصلاح منظمة التجارة العالمية. ومع استمرار الولايات المتحدة في الانسحاب من دورها التاريخي بوصفها زعيما فعليا لنظام التجارة العالمي، فما هو الدور الذي يمكن أن تلعبه الصين في عملية إصلاح منظمة التجارة العالمية؟

حولت بكين الصين إلى أكبر منتج ومصدر للسيارات في العالم من خلال مزيج من السياسات الصناعية ، والحمائية ، والتغيير التكنولوجي ، والاستعداد للسماح بالتنمية "خارج الخطة".

كانت سامسونج ذات يوم رائدة في العديد من الأسواق في الصين ، وشهدت أن مكانتها في البلاد مدمرة بسبب الشركات المحلية ، والأخطاء الاستراتيجية ، والبيئة التنظيمية المتقلبة ، ورد الفعل الجيوسياسي العنيف. تظهر تجربتها كيف يمكن للمستثمرين والسلطات الصينية أن يحول الاستثمار الأجنبي المباشر الذي يعتزم

مساعدة الموردين المحليين ضد المستثمر الأجنبي ، ويقف بمثابة تحذير صارخ لأولئك الذين يحاولون التنقل في العلاقات مع ثاني أكبر اقتصاد في العالم.

لسنوات ، جلبت شركة Apple الاستثمار الأجنبي المباشر الذي لا غنى عنه إلى الصين ، وملايين الوظائف ، والمعرفة التقنية ، والرمز النهائي لإتقان بكين للعولمة. الآن تتقلص مبيعات Apple ، وتخسر العشب أمام المنافسين الصينيين ، وقدمت تنازلا تلو الآخر لبكين ، وهي مباشرة في مرمى النيران بين الولايات المتحدة والصين. ماذا لو قررت الصين أنها لا تحتاج إلى Apple بقدر ما تحتاجها Apple؟

أثار استحواذ الصين مؤخرا على "الأسهم الذهبية" في شركات التكنولوجيا الكبرى مخاوف بين المستثمرين الأجانب بشأن التدخل الحكومي المحتمل في السوق. ستسمح هذه الأسهم للحكومة الصينية بأن يكون لها رأي مباشر في هذه الأعمال ، بما في ذلك محتواها وبعض القرارات التجارية. على الرغم من أن بكين أشارت إلى نهاية حملتها التي استمرت عامين على صناعة الإنترنت ، إلا أنها لا تزال تركز على الحفاظ على السيطرة على اقتصاد المنصات.

أصبحت بيئة الأعمال في الصين معقدة بشكل متزايد ، مع تشديد اللوائح المتعلقة بالبيانات والأمن القومي والعقوبات ونفوذ الحزب الشيوعي ، إلى جانب دعم الدولة الهائل الذي يهدف إلى إزاحة الشركات الأجنبية.

كان للاستثمار الأجنبي تأثير كبير بشكل غير متناسب على ديناميكية الاقتصاد الصيني، ويرجع ذلك إلى حد كبير إلى قيمة الأفكار الأجنبية التي جاءت مع الاستثمار الأجنبي المباشر واستخدمت لدفع الكفاءات المحلية والتقدم التكنولوجي للصين.

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1 - China is running out of FDI ideas, Trade and geopolitics

Germany's dilemma over strategic recalibration with China



Max Zenglein, Mikko Huotari


Published 13 May 2025

Germany's economic relationship with China has reached an inflection point. Once marked by mutual benefit and industrial complementarity, ties are now strained by growing asymmetries, intensified competition, and geopolitical pressures. German corporates and the incoming government must face a set of strategic choices with long-term consequences and significant trade-offs.

German companies and policymakers alike are being forced to reassess longstanding assumptions as economic engagement faces unprecedented political and structural headwinds.

At the heart of Germany's China dilemma is a convergence of three complications: First, Chinese companies have accelerated their catch-up on the value chain across a broad range of industries, leading to a relative erosion of German firms' global competitiveness. Second, China's broad-based economic slowdown has hurt German economic competitiveness. Third, global geopolitical challenges developments, especially in the transatlantic alliance with the US, pose deep new risks and trade-offs for Germany, Europe's largest and the world's third-largest economy in 2024, and a country deeply invested in multilateralism and the rules-based order. It is the last complication that poses perhaps the most vexing questions for the foundations of Germany's economic engagement with China.

Once marked by mutual benefit and industrial complementarity, Sino-German ties are now strained by growing asymmetries, intensified competition, and geopolitical pressures. The fragmentation of global tech stacks, driven by export controls, investment screening, and supply chain reconfiguration, is forcing German companies to navigate an increasingly bifurcated global economy. Meanwhile, the re-escalation of US-China economic and strategic tensions has revived and intensified the dynamics of economic decoupling.

Download Germany's dilemma over strategic recalibration with China by Max Zenglein and Mikko Huotari:

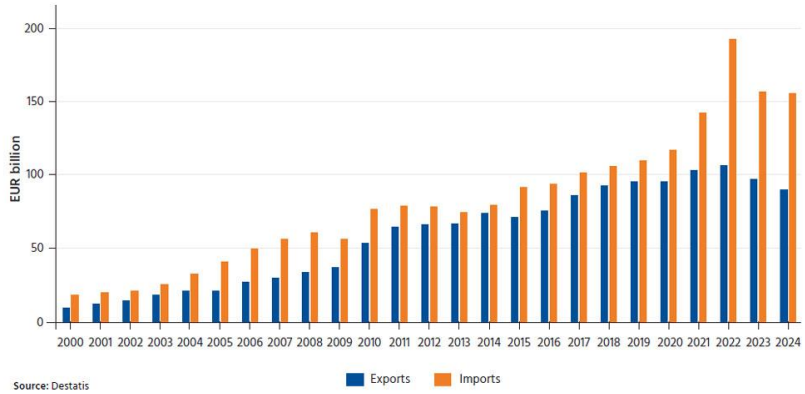
As the US doubles down on its strategic competition with China — likely to be accelerated under the second Trump administration — European firms must make difficult decisions about where and how to position themselves. Against this backdrop, German corporates and the incoming government will face a set of strategic choices with long-term consequences. Navigating them successfully will require not just tactical responses, but a deep understanding of the economic reordering already underway. The old model of engagement is no longer sustainable.

In key sectors such as automotive, machinery, and chemicals — longstanding engines of the German export economy — China is no longer simply a lucrative sales market or low-cost production site. It is an increasingly formidable competitor and driver of innovation. The sense of complementarity that once defined Germany-China economic ties has given way to head-to-head competition, not only within China but in third-country markets worldwide and deepened dependencies.

The evolution of German-China economic ties has far-reaching implications not only for the two countries involved, but for the global economy more broadly. Germany remains China's largest trading partner in the European Union (EU), accounting for over 30% of total EU goods

exports to China. In 2024, trade with China reached €246 billion, trailing only the US after seven consecutive years as Germany's top trading partner. German direct investment in China continue to reach record levels in recent years, driven in part by industrial giants hedging against deglobalization risks by localizing production.

Figure 1 – German trade with China (EUR billion)



But the depth of the relationship also exposes Germany — and by extension, the EU — to concentrated vulnerabilities. As the largest European economy and a key architect of Europe's economic integration, Germany's strategic orientation toward China plays an outsized role in shaping the EU's collective China policy. The traditional model of globalization, built on liberal economic integration and geographic neutrality, is being tested and undermined by both China and the US — and Germany is at the frontline of its consequences.

From engagement to pragmatic balancing

Unlike others that suffered from the "China Shock," Germany's manufacturing sector thrived by supplying China with machinery, chemicals, and automobiles essential to China's industrialization. As China's economy grew, Germany became the main European beneficiary,

accounting for nearly half of the EU's exports to China. In 2020, China overtook the US as Germany's largest export market, helping to power Germany's economic recovery after the 2008–2009 global financial crisis.

Crucially, the economic relationship remained relatively insulated from political turbulence. Unlike Japan, which faced serious fallout from Tokyo's disputes with Beijing, Germany experienced only minor political frictions, such as the suspension of the rule-of-law dialogue in 2007 after Chancellor Angela Merkel met the Dalai Lama — the exiled Tibetan leader whom Beijing describes as a dangerous "splittist" of the Chinese state. This absence of major disputes delayed Germany's recognition of the emerging vulnerabilities in the relationship.

However, starting around 2016, concerns grew as Chinese acquisitions of German high-tech firms raised alarm about the loss of strategic technologies to China. Optimism about endless economic complementarity gave way to a more sober view as China's industrial policies evolved. By 2019, both the European Commission and the Federation of German Industries (BDI) publicly redefined China as not just a partner, but also a "systemic rival," acknowledging the challenge China poses to European and German competitiveness. 'De-risking,' rather than 'decoupling,' became the EU's new China strategy.

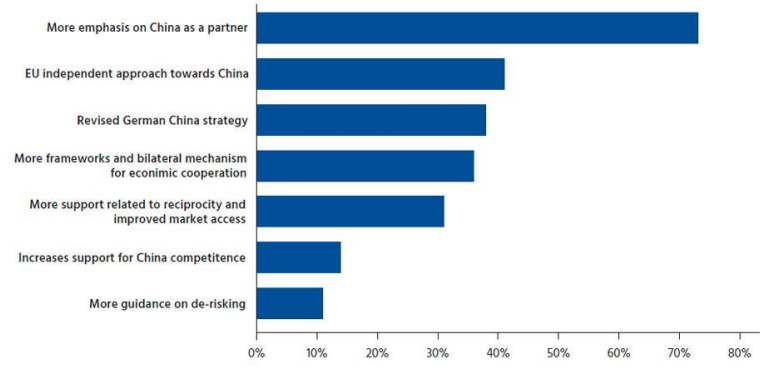
Contested corporate recalibration

This evolving political context is mirrored — and in some cases resisted — by corporate strategies on the ground. From the perspective of many German executives, the new regulatory instruments implemented by the German government and the EU including tighter

investment screening, supply-chain scrutiny, carbon-border adjustment, and anti-foreign subsidy regulations still pose a more immediate threat to German business interests than Beijing's industrial policy ambitions.

In practice, de-risking for many German companies has largely translated into an "in China, for China" strategy. Rather than pulling back, German firms are embedding themselves more deeply into the Chinese economy to shield their operations from external political shocks and potentially benefit from the next wave of globalization of Chinese firms. In the German Chamber of Commerce's 2023/24 annual business confidence survey, over 90% of interviewees indicated they intended to maintain their operations in China, with more than half planning to increase investments over the following two years.

Figure 3 – "What do you expect from the German Governemnt in the future?", share of responses in Business Confidence Survey 2024/5



Source: German Chamber of Commerce in China

The corporate approach indicates a preference for pragmatic engagement over disengagement, highlighting the complexities of balancing economic interests with geopolitical considerations. The turbulent first months of the second Trump administration reinforced this pragmatism. With transatlantic relations strained and protectionist

rhetoric rising, many German firms view China not just as a growth market but increasingly as a predictable and stabilizing partner amid global volatility, overriding any other concerns stemming from China's geopolitical or industrial policy agenda.

New structural realities

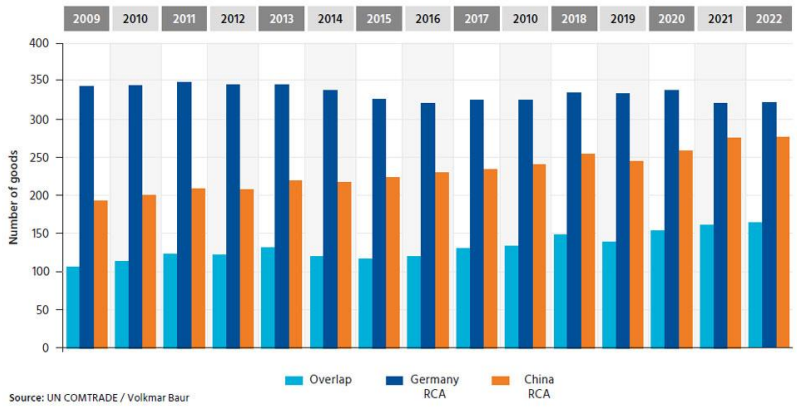
German firms are increasingly positioning themselves not just to compete in China, but to become partners in the globalization of Chinese companies. But this sense of optimism is far from universal. While the German Automobile Association remains largely committed to continued engagement and market access, the German Engineering Federation has warned of risks of losing Germany's dual-use technologies and calls for coordinated strategies on export controls, especially in sectors with security-sensitive applications.

Given the scale and complexity of China's economy, it is unsurprising that German views on future business prospects are diverse. Yet, as economic ties pivot toward innovation-led collaboration, the immediate economic benefits for Germany, and by extension, Europe's industrial base, may become less tangible. A new economic reality is already rapidly unfolding for German companies in China. While German firms and exports have avoided backlashes other industrial countries have encountered earlier on, the tides started to turn around 2020 with key figures beginning to slip.

China's and Germany's revealed comparative advantage, an econometric index of efficient production, is converging, a trend particularly visible in machinery. In 2024, Germany's export share to China declined to 5.8%, its lowest level since 2015 and broadly in line with

levels in the early 2010s. A significant rebound seems unlikely in the near term, if at all. Notably, the current weakness in the Chinese economy is concentrated in the consumer and real estate sectors, while industrial production, the segment most relevant to German exporters, remains relatively strong. This suggests that the drop in German exports is not merely cyclical but indicative of deeper shifts in trade dynamics.

Figure 5 – Revealed Comparative Advantage in machinery sector, by number of goods



Source: UN COMTRADE / Volkmar Baur

A new corporate-policy alignment

The global environment in which German companies operate is undergoing a profound transformation. External risks are compounding a long list of internal weaknesses. In this global environment of systemic uncertainty, German firms will face a far more complex reality: managing fragmentation and risk, rather than simply leveraging globalization for growth. In parallel, German policymakers will have to rethink industrial, technological, and foreign economic strategies to safeguard national competitiveness and resilience.

De-risking cannot succeed as company-by-company improvisation; it requires clear strategic guidance, coordinated investment, and common

standards for risk assessment. Beyond national adaptation, Germany will also need to take a leadership role in shaping the new phase of contested globalization. A passive approach will leave German firms reacting to rules defined by others. As Germany work towards defining its national interest in foreign economic engagement, a much closer alignment between corporate strategies and government policy will be necessary.

Download the full report here.

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2 - Trade and geopolitics, Finding the middle ground: EU-China relations

Frederick Kliem, Published 06 December 2022

Despite criticism from those who believe Germany should limit its engagement with non-democratic partners, Scholz's stopover at China, as well as Singapore and Vietnam in the same month, sends a message to Europe: diversify toward developing new trade ties, especially in the Indo-Pacific region.

Relations between the European Union and China have had better days. Gone is the era when Angela Merkel, former chancellor of the EU's largest state, used to frequently visit Beijing with large business delegations in tow.

These days, skepticism toward China is in fertile ground, spurring increasingly hostile attitudes toward Beijing's policies. Yet the answer to the questions that China is posing to the maintenance of the global trade system lies perhaps counterintuitively in more, not less, globalization. Germany's predominantly materialistic approach toward China has long caused frustration[1] among those in the EU who believe engagement should focus more on issues such as human rights. The outsize role of the Chinese market for European exports and investments as well as imports

including of critical commodities are increasingly causing concern across Europe.[2]

Flying in storm clouds

The recent visit[3] to Beijing by Merkel's successor, Olaf Scholz, again raised eyebrows.[4] Some called it Germany's "lingering love affair with dictatorships."[5] Others warned[6] of Germany's potential overdependence[7] on China.

The visit came at a delicate time. Scholz was the first Western leader to visit China after the Communist Party's 20th Party Congress. Scholz also had just overruled six German ministries to allow Chinese state-owned shipping giant COSCO to acquire a minority share in the operational lease of one terminal in Germany's largest port of Hamburg. Amid and perhaps due to this tense atmosphere, Germany's economy ministry prohibited the pending sale[8] of Germany's Elmos chip manufacturer to Silex, a Swedish subsidiary of China's Sai Microelectronics.

Germany is seeking to renew economic ties with China even as Europe-China relations have been deteriorating for years.

The disputes include EU complaints at the World Trade Organization over Chinese trade policies in intellectual property, technology, and other sectors, Beijing's human rights record, and economic coercion against EU members. China earlier this year sanctioned Lithuania after Vilnius permitted a Taiwan representative office.[9]

China's indirect support for Russia in the invasion of Ukraine, which exposed Europe's dependence on Russian gas, is deepening concerns on the continent over the Middle Kingdom's foreign policy.

Handling an increasingly assertive, totalitarian, and powerful China will therefore likely be the primary question of international relations for the remainder of this decade and beyond.

A missed opportunity

In 2021, the EU enacted sanctions[10] on human rights grounds against China for the first time since Tiananmen, targeting four senior Chinese officials and one entity for human rights violations in China's western region of Xinjiang. Somewhat unexpectedly, Beijing, reciprocated with countersanctions[11] on 10 European individuals and four entities, including European parliamentarians such as the China hawk Reinhard Bütikofer. As a result, the EU-China Comprehensive Agreement on Investment (CAI)[12] was put on indefinite hold by the European Parliament despite having reached an in-principle agreement. In short, unless Beijing lifts its sanctions, which Beijing would only do if the EU lifted its sanctions, the CAI is not going to come into effect.

That is a shame. From China's perspective, the CAI would have increased the hitherto comparatively modest European direct investment into China and worked toward the multipolarity (read: less US-centric world) that China envisions.

For the EU, the CAI would have improved investment conditions in China. Although implementation[13] might have fallen short of expectations, the CAI almost certainly would have helped to level the playing field for EU firms vis-à-vis Chinese state-owned companies. The agreement also prohibits forced technology transfers, removes joint-venture requirements, and lowers equity caps for EU investments. It could

have provided Europeans with a modicum of influence over labor and environmental standards in China.

More, not less, globalization

The deterioration of EU-China relations is coming against a backdrop of setbacks to globalization.

For all its shortcomings[14], since the 1960s, globalization has lifted hundreds of millions, perhaps billions, out of extreme poverty. Tariff reductions, economic openness, and lower transportation and communication costs enabled efficient global supply chains, cheap manufacturing, and dispersed research and development capacity. Globalization improved mutual understanding and forestalled autarkic trade blocs developing during the Cold War. Indeed, many pre-Second World War problems in the global economy of the 1930s derived from the drive to become nationally self-sufficient. Globalization increased people-to-people connectivity and gave states a direct stake in one another's prosperity – an unquestionably pacifying dynamic.

The rising tide of decoupling among the world's largest economies, most visible under slogans such as re-, near-, and friend-shoring[15], is not the answer. Scaling back globalization would incur immense economic costs and very substantial welfare losses. It would further increase inflation and international political polarization. It is in the West's interest to retain a modicum of dialogue, exchange, and influence, especially in times of crises.

The economic imperative for cooperation with China remains as relevant as ever. China is the world's second-largest economy, larger in gross domestic product (GDP) than the EU-27 combined. China is the EU's

second-largest trade partner[16] and Germany's largest[17]. And while still lagging other partners, mutual inbound and outbound foreign direct investment (FDI) is sizable, too.

How can Europeans find a balance between these factors? Somewhat counterintuitively, the answer is more, not less, globalization.

A new agenda for EU-Asia policy

To strike a new balance, China should embrace the responsibilities that come with being a great power. International order, from which the Chinese immensely benefited, requires a pro-active and responsible Beijing. Public opinion and governments in the West are increasingly unwilling to tolerate a China that enjoys the privileges of a globalized world without what they view as commensurate reciprocation.

Furthermore, the Chinese Communist Party should accept that a strict separation of economic and political relationships, and of trade and normative considerations such as human rights, is naïve. The world has no meaningful resources to change China's domestic politics. But Beijing should at the very least accept that trade and engagement in an interconnected world oblige a participant to give up some degree of sovereignty.

For Europe, the key is to diversify toward developing more partners. Scholz's visit sends the right message at the right time, despite the criticism from those who believe Germany should not engage, or at least have limited engagement with, non-democratic partners. The visit signaled both Germany's keen interest, indeed imperative, to have a sound working relationship with Beijing as well as Berlin's keen intent to diversify beyond China. Importantly, in the same month, Scholz visited

Singapore and Vietnam. The theme of his visits was the same: Germany needs and wants to trade with China, but is looking much more actively for new partners in the region.

The case for doubling down on Indo-Pacific engagement could hardly be clearer: the region accounts for 60% of global GDP and is home to four of the EU's top 10 trade partners (China, Japan, South Korea, and India). Together, the EU single market and the Indo-Pacific represent 70% of global trade in goods and services and 60% of FDI; the EU is the biggest investor in the region and in 2019, annual inter-regional trade stood at 1.5 trillion euros. The EU has four bilateral trade agreements in place with the Indo-Pacific (Japan, Vietnam, South Korea, and Singapore) and a range of strategic and connectivity partnerships.

Despite the WTO's problems, plurilateral trade frameworks – smaller groups of negotiating economies within the WTO – are still at work. The EU should work hard to lay the groundwork for deepening trade ties with Indo-Pacific economies such as India, Vietnam, and Indonesia to better position themselves in the EU's supply and value chains.

In the Association of Southeast Asian Nations (ASEAN), the EU has some work to do. Everyone in ASEAN acknowledges the strong European support for the ASEAN economic community. However, the EU's approach can sometimes be inconsistent, moralizing, and even hypocritical. For example, the EU decided to partially withdraw Cambodia's preferential market access rights due to human rights concerns in the country, such as rolling back democracy, banning opposition parties, and holding political prisoners. But, in the same month, the EU signed off on a fully-fledged free-trade agreement with

Vietnam, where such accusations could apply too. The EU-ASEAN Summit in December 2022 is a good opportunity to raise such issues and take aim once again at reviving negotiations for a region-to-region FTA.

Further, the EU should seek accession to the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP) – a fairly open agreement creating a rules-based trade environment. The CPTPP could become the core element of the EU's Indo-Pacific strategy, positioning the single market deep into the regional trade agenda. As a recent European Parliament resolution[18] agreed, CPTPP accession would not only be economically beneficial, but it would also diversify supply and value chains, reduce dependencies, and enhance the EU's capacity to shape standards in the region. This is a daunting task. But the EU already has in place bilateral trade agreements with all CPTPP economies except Brunei.

Lastly, in terms of redressing asymmetric dependencies, relative percentages matter. European economies should never again be as dependent on a third party for 40% or more of their needs of a critical resource, as was the case with Europe's reliance on Russian gas or rare earth imports from China. To prevent this, the European Commission should launch a monitoring system that can issue early warnings to member states. Instead of pressuring companies to then exit certain markets, EU governments should jointly create financial incentives to increase diversity and resilience of value and supply chains across the Indo-Pacific region.

This would pave the way for a broader regional approach rather than obsessions with economies of scale in large markets such as China.

Likewise, the EU should produce critical infrastructure legislation. Instead of making arbitrary case-by-case decisions, legislators should designate certain sectors, such as 5G or public transport infrastructure, as "critical" and prohibit all international third-party (except EU) investments in these sectors.

In short, the idea is to diversify more toward the Indo-Pacific region, by enacting new rules at home and reaching out to new partners abroad. Instead of becoming increasingly isolated, the EU should become independent and engaged.

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3 - Four faulty assumptions when competing in and with China


Allen Morrison 
Stewart Black ,

Published 01 November 2022

The success of Chinese enterprises has benefited from the faulty assumptions of Western business leaders and policy makers. A failure to understand the role of the Chinese state and the country's operating environment gives false hope that somehow China isn't different from the rest of the world.

China's economic success story, complete with the exponential growth of its economy and rising standard of living of its people, has been well documented. Less codified is the rise of China Inc. This gap matters because it's Chinese companies that ultimately drive the economy and are the instruments of world trade. In 2020, China dethroned the United States by number of companies on the Fortune Global 500. In 2021, China extended its lead with 13 more firms on the list than the US (135 vs. 122). Today, China not only has a growing number of giant firms, but its largest firms are growing much faster than its overall economy and much faster than those in the US and Europe. These firms are not only powerhouses in China but are extending their reach globally.

Chinese enterprises certainly deserve credit for their smart strategies and hard work. But they also have benefited from flat-footed and inattentive Western business leaders and policy makers. As we report in our upcoming book, Enterprise China: Adopting a Competitive Strategy

for Business Success, the failure of Western businesses is rooted in significant misperceptions and misplaced assumptions about business in China and Chinese businesses. Here we discuss four key assumptions that Western leaders often get wrong.

Assumption 1: Competing with China is about understanding large, individual enterprises in China.

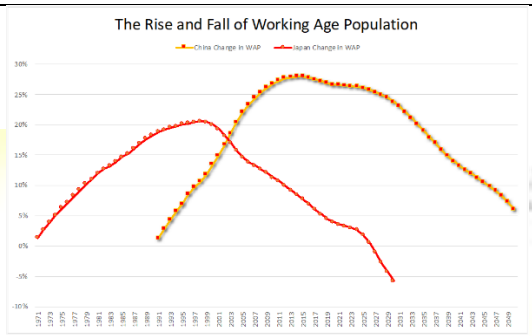
False. Most Western executives, as they are trained to do, analyze the competitive strategies of suppliers, strategic partners, or commercial rivals with the individual company as the unit of analysis. Sadly, this approach is fatally flawed when it comes to China. While Western executives focus on independent, multibillion-dollar enterprises, they miss the multitrillion-dollar monolith that we call Enterprise China in our book. This monolith consists not just of a particular company in focus, but an entire ecosystem of companies tied together by the largest entity on the planet by employment and the second largest by revenues — the Chinese state. It includes over 150,000 state-owned enterprises (SOEs) at the central, provincial, and municipal levels. Collectively, SOEs bring in more than $9.8 trillion in revenue and constitute about half of China's market capitalization. Their economic production is about the same as the nominal GDP of Germany and larger than the economies of India and France.

But contrary to the image in the minds of most foreign executives, the Chinese state is not working behind closed doors in smoke-filled rooms, whispering its desires to commercial entities hoping that they will listen. No, the state operates in the open. It has publicly declared its competitive strategy and guides the 30% to 40% of the economy it directly owns and

controls, while influencing the actions of the important commercial enterprises it doesn't directly own and control. Our book refers to these entities as state-influenced enterprises (SIEs). We only need to look at how Beijing forced the recent delisting of Didi for evidence of the level to which the state calls the shots.

Assumption 2: China is destined to be the number one economy and take over the world.

False. China's economic growth trajectory, together with the growth of giant Chinese enterprises, has convinced some that the country will soon become the largest economy on the planet by nominal GDP, and that its firms will dominate world markets. However, several factors could easily derail China. First, internal political conflicts may emerge that further slow or reverse the country's decades-long growth trajectory. Second, the United Nations estimates that China's working population will go into steady decline over the next 30 years, and nothing will reverse this course because its birth rate has been dropping for more than 50 years and shows no signs of ameliorating. While coming several decades later, China's decline in population seems to mirror that of Japan. Like Japan, China soon will (a) not have enough workers at the bottom, and (b) not generate enough productivity to offset the negative effects of its shrinking workforce. This will increasingly undermine the global competitiveness of Chinese enterprises and could easily stall economic growth, as happened in Japan for the last 20 years since its working population peaked and started its decline.



Source: UN Population Project

In theory, China could compensate for its shrinking working population by ratcheting up its labor productivity. 2015 saw China's peak in working population numbers. During the 20 years prior, China's annual productivity gains averaged an impressive 13.8% (slightly higher than Japan's 13.0%). However, a more granular examination reveals that in the last four years, China's productivity growth averaged just 5.7%. In other words, its productivity growth rate was slowing just as it needed to accelerate.

Reviving China's productivity growth won't be easy. Unlike the 1980s when new equipment could dramatically increase productivity for the entire economy, China's enormous size makes similar productivity gains now unlikely. Furthermore, the gains in productivity China reaped from nearly 300 million rural residents migrating to urban areas, loaded with modern machinery and technology, seem to have run their course.

Assumption 3: What happens in China stays in China.

False. Many analysts are fond of the notion that China is on the path to decoupling from the West and forming a separate economic system for itself and its satellites across the planet. Following this theory, many companies believe that they can insulate themselves with an "in China for China" strategy, tailoring their domestic output to mainland markets. This

strategy is difficult for two fundamental reasons. First, the level of investment and management attention necessary for a foreign firm to be considered an "insider" in China is tremendous. One only needs look to Honeywell for an example of the level of investment, adaptation, and length of commitment to see what is required. Consider that the former head of Honeywell in China, Shane Tedjarati, spent nearly 20 years there, learned to speak Chinese fluently, and the company invested billions in creating products that were only sold in China.

Even with these levels of commitment to being "in China for China," the impact of a firm's actions and reputation cannot be confined within national borders in today's interconnected world. As we report in Enterprise China, foreign firms' actions in China can affect their reputations outside China in two ways: cross-cultural misunderstandings and excessive integration with the Chinese state.

Because China is so culturally different from the West, embarrassing missteps are easy to make. In 2018 Dolce & Gabbana produced a promotional video attempting to show the challenge of eating spaghetti with chopsticks. It was a reputational disaster, news of which spread quickly around the world. Likewise, when a McDonald's franchise in China's southern Guangdong Province displayed a sign saying that "black people are not allowed to enter," what happened in China did not stay there. The reputational damage was impossible for McDonald's to contain.

Likewise, Western companies that are perceived as too cozy with the Chinese state risk damaging their global reputations. To comply with the state, a wide range of companies with important operations in China,

including Coach, Marriott, Swarovski, Medtronic, Audi, Calvin Klein, McDonald's, Delta Airlines, and the National Basketball Association, have felt it necessary to publicly apologize to China for "inappropriately" referring to Taiwan or Hong Kong as countries in their ads or other marketing materials they have produced. However, these apologies to China did not stay in China. They were viewed by many outside China with disdain, thus undermining those company's global reputations.

Beyond appeasing the Chinese state, Western companies face an even larger challenge: responding to rules and regulations that are inconsistent with their home country's values and norms. Many of these rules govern the collection and sharing of sensitive data with the Chinese state. In 2021, Apple opened a data storage center in the southwestern city of Guiyang to house the personal information of its Chinese customers. However, as part of Apple's grand bargain with the Chinese, the plant's operations were largely turned over to an SOE that was given access to the digital keys that controlled its encryption algorithms. This was contrary to privacy protection policies and norms in the US to many observers, it appeared that Apple had one set of rules for China and another for the rest of the world.

Western companies also face very real direct competitive challenges when they fail to accept that what happens in China rarely stays in China. Consider the case of Kawasaki Heavy Industries. In 2003, China began to pursue a long-term plan to create an internationally competitive high-speed railway system. Phase one involved creating 74,500 miles of new high-speed track designed to link major population and industrial centers in China. To achieve its goals, the country gave foreign companies access

to China, contingent upon their forming joint ventures with Chinese firms and agreeing to share their technology with Chinese producers. Kawasaki Heavy Industries, as well other global companies, warmly responded and agreed to assist China in creating a family of rail technologies. Over time, restrictions on Kawasaki and other foreign companies increased as China's local manufacturers moved up the learning curve and value stack, from freight trains to light rail and then passenger trains. The Chinese state then orchestrated the merger of two state-owned rail companies to create CRRC Corp., giving the rolling-stock maker monopolistic control of the domestic market. Through forced joint ventures, in 2007, the country introduced its first high-speed rail line based on "borrowed" Western technologies including those sourced from, among others, Kawasaki Heavy Industries, a key developer and producer of Japan's Shinkansen bullet trains. To support its ambitions, in 2016 the state committed a whopping $549 billion to upgrade and expand the country's rail network, with most of the investment targeting high-speed trains. The country then moved to effectively shut foreign firms out of key Chinese markets and segments. The final phase of China's plan involved globalizing Chinese rail technologies and equipment. By accessing state funding, CRRC has been able to underbid foreign competitors by 20% to 30% on equipment sales opportunities in the United States and Europe. In 2019, China exported $37.3 billion in rail equipment — greater than the total sales of any global competitor. Kawasaki has seen its global market share plummet because it mistakenly assumed that what happens in China stays in China.

Assumption 4: Being the best will win the day in China.

False. According to conventional thinking in the West, the biggest rewards follow those who are the best at what they do. Better technologies produce lower costs, more innovative products, improved customer responsiveness, and so on. Sadly, this is not often the case in China. At least not in the long run.

Consider the case of Fresenius Medical Care, based in Germany. It is a top 10 medical device maker globally, but its products sit in the crosshairs of Beijing's strategic "Made in China (MIC) 2025" goal to wean itself from foreign technology. Consequently, and irrespective of the high quality of its offerings, Fresenius has fallen victim to China's national champion, Mindray. Mindray is more than twice as large as its closest domestic competitor, and it is growing faster in China than any of its major foreign rivals, including Fresenius. This growth is spurred largely by national and provincial government officials directing Chinese hospitals to increase their purchases of domestically sourced medical devices to 70% of such expenditures, in line with the strategic objective of reducing external dependencies through local content and import substitution as directed by MIC 2025. Fresenius' survival in China at a comparatively small scale, when national champions such as Mindray are looking to dominate domestically, will require from Fresenius unassailable product superiority, discounted pricing, and superior distribution. While they may be among the best globally, the forces in China driving domestic domination and self-sufficiency make the long-term success of the likes of Fresenius look dim.

China really is different

Chinese enterprises deserve significant credit for their inroads in global trade and competitiveness. However, they have also benefited from the faulty assumptions of Western business leaders and policy makers. We have highlighted four key assumptions that these leaders often get wrong. There are many more. Accepting false assumptions gives a false hope that somehow China isn't really different from the rest of the world. This in turn has caused foreign executives to mis-calibrate the risks and opportunities, and consequently miscalculate their strategy and actions in China.

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4 - US-China trade

Are private Chinese companies really private?

Stephen Olson, Published 02 October 2020 | 10 minute read

Private Chinese companies will be increasingly called upon to conduct their operations in tight coordination with governmental policy objectives and ideologies in no uncertain terms. The rest of the world should take note.

Article originally published in The Diplomat.

China has often been criticized for a lack of transparency, especially with regard to its economic and trade policies. While in many cases these criticisms are valid, it belies that fact that in other instances, China is remarkably open and transparent about its intentions and ambitions.

Such is the case with China's "Opinion on Strengthening the United Front Work of the Private Economy in the New Era", recently released by the Central Committee of the Chinese Communist Party (and further elaborated on by President Xi himself). This document tells us in no uncertain terms that Chinese private companies will be increasingly called upon to conduct their operations in tight coordination with governmental policy objectives and ideologies. The rest of the world should take note.

A different vision of "private" business

The 5000 word "opinion" aims to ratchet-up the role and influence of the CCP within the private sector in order "to better focus the wisdom and strength of the private businesspeople on the goal and mission to realize the great rejuvenation of the Chinese nation." The objective is to establish a "united front" between business and government and facilitate the "enhancement of the party's leadership over the private economy..." According to the plan, "...private economic figures are to be more closely united around the party", thereby achieving "a high degree of consistency with the Party Central Committee on political stand, political direction, political principles, and political roads..."

All of this stands in stark contrast to long-accepted concepts of how private companies function in a free market. The overriding purpose of business, according to these traditional precepts, is to earn profits through the provision of value-added products and services, in response to marketplace signals and under the constraint of basic economic realities. Government ideology plays no role in that equation.

But China has a very different vision. Government officials and government ideologies are directly infused into business operations and private sector employees are "educated" on government policies and ideologies, with the expectation that this "enlightenment" will help inform their business decisions. This government-business symbiosis is further cemented by the provision of massive government subsidies (estimated to be about 3% of China's GDP) to Chinese companies.

To be clear, China – like any other sovereign nation – is entirely free to define the nature of the relationship between the Chinese state and the Chinese private sector, and craft its own economic development

philosophies. So there can be no complaint with China for exercising its sovereignty.

Complaints are justified however when these unique features of China's economic system impinge on the ability of China's partners to compete fairly with Chinese companies. In those cases, remedial actions can be pursued, in theory at least, through various channels in the global trade system.

Existing trade rules inadequate

Unfortunately however, these rules – first laid out in the GATT and then its successor organization, the WTO – were predicated on the assumption that there is a clear and immutable dividing line between government and business. The smooth and effective functioning of those rules is contingent upon maintaining the integrity of that demarcation. But China's state-directed system has blurred the line, and its new "opinion" binds business and government together even more closely, further muddying the waters – and complicating trade governance.

On issues ranging from industrial subsidies to intellectual property, current trade rules either fail to address, or fail to adequately address, the damaging distortions which are introduced into the trade system as a result of the "hand in glove" partnership between business and government in China. Unwritten "understandings" between business and government can steer purchases away from foreign competitors and towards domestic Chinese companies. Informal policies that are rarely codified can result in proprietary foreign technologies being "shared" amongst Chinese companies, SOEs, and government agencies. And preferential arrangements between Chinese companies which exclude

foreign companies are made financially viable as a result of tacit government support.

What then is the best way to forward?

In an ideal world, the best approach would be straightforward. The 164 members of the WTO would agree to a new set of trade rules which explicitly acknowledge the deep systemic differences between China and market driven economies which operate with truly "private" private sectors. Although it would be pointless to try to strong-arm changes to China's governing or economic philosophies, the new rules would need to capture and discipline the full range of ways China's government-business fusion disadvantages foreign private companies – and perhaps more importantly – provide China's partners with prompt and effective redress. This would likely entail reform of the dispute settlement system which often moves too slowly to be relevant, and in some cases (especially subsidies) places unduly high evidentiary burdens on the complainant.

Related Article

China would then be free to either absorb the costs associated with the remedial measures or adjust its policies to remove the distortions. In either case, trade relationships could continue on a basis that is voluntary, mutually acceptable and therefore sustainable.

Unfortunately, such a scenario has virtually no chance of materializing, at least in the near term. The WTO membership is simply too fractious, and the issues are too complex to even imagine consensus agreement on a comprehensive set of new trade rules anytime in the foreseeable future.

Where does that leave us? The road will inevitably lead back to the US and China sitting across from each other at the negotiating table. Like-minded partners such as the EU could potentially be brought into the mix, but the more viewpoints around the table, the lower the prospects for success. US and EU views are similar but not identical, and China is skillful at exploiting any such fissures.

The impending US presidential election has of course put everything on hold, but as soon as is practical, the two countries need to begin the hard work of hammering out accommodations which recognize and mitigate (at least to the extent possible) the distortions which result from China's "united front" on business and government. As has happened so frequently in previous bilateral or plurilateral negotiations, the WTO could then subsequently absorb any ground-breaking new provisions agreed to by the US and China on a basis and at a pace of its own choosing.

The West has often been guilty of not listening to China. But China has communicated with great clarity that its definition of "private" business diverges in fundamental ways from the assumptions which underpin our existing global trade rules. It is not in anyone's best interests to ignore or minimize this glaring and expanding fault line. Pretending that a private Chinese company is essentially the same as a private Australian, Chilean, or American company is simply delusional. If we wish the global trade system to continue to be sustainable, we need to recognize and address this reality head on. A more sustainable trade system will benefit everyone – including China.

conclusions and recommendations expressed in this publication are the sole responsibility of the author(s).


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5 - Trade and geopolitics

A global backlash against China Inc.


Alex Capri, Published 09 August 2020 | 10 minute read

The US-China geopolitical rivalry is tilting toward a full-blown clash of ideologies. Standards regarding data privacy, censorship and freedom of speech are now intertwined in everything from the sale of US semiconductors to the downloading of Chinese social media apps.

Article originally published in Forbes.

Two recent executive orders signed by US President Donald Trump provide a microcosm of this new techno-nationalist reality. Both orders

effectively ban American companies from dealing with TikTok, the video streaming app, and, WeChat, the social messaging app. TikTok is owned by Beijing-based ByteDance — which is currently in talks with Microsoft, which might purchase some or all of TikTok —while WeChat is owned by Shenzhen-based Tencent.

The actions taken against both companies highlight widespread fears of data privacy breaches linked to the browsing, search and location functions inherent to digital platforms.

Barriers and backlash await Chinese companies

Chinese companies looking to expand internationally are now in an existential crisis. One problem facing TikTok and WeChat involves the same issue for all Chinese companies: Beijing's National Intelligence Law and its Cybersecurity Law, which, essentially, require Chinese entities to turn over data, encryption codes and any other requested information to the Communist Party.

Download "Strategic US-China decoupling in the tech sector" by Alex Capri

These laws reduce Chinese digital platform companies to de facto proxies of China Inc. Short of being fully taken over by a Microsoft or

another US buyer, TikTok, for example, faces the impossible task of convincing Washington that they would not provide Beijing's state apparatus with personal, proprietary and security-related data.

Another problem facing Chinese companies is their perceived linkage to Beijing's official political narrative. Washington has named TikTok and WeChat, for example, as complicit in Beijing's censorship of alleged human rights violations against the Uyghur and other Muslim populations in China's far Western province of Xinjiang. Additional allegations have been made about TikTok's complicity in the spread of fake news, and WeChat's collection of data on the activities of overseas Chinese citizens.

Even without these allegations, Chinese digital companies are facing an intense backlash as they venture outside of the protected confines of China's digital landscape, which has been, and still remains closed to most foreign competitors.

Three techno-ideological trends

For the business sector, three trends must be understood and managed.

First, Washington will expand the weaponization of supply chains to include data flows and apps, in addition to enforcing restrictions on hard technologies. Second, the polarization and fragmentation of markets will become increasingly tethered to ideology. Third, the dynamics of the first two trends will produce a flurry of corporate reshuffling, restructuring, ring-fencing and strategic decoupling.

Data and digital platforms: the new strategic goods

Washington's move to ban Chinese social apps and other digital platforms broadens the weaponization of "deep" technology supply chains, for example, by going beyond the blocking of semiconductors and other "strategic" dual-use technology to blacklisted Chinese companies. Data, and the digital platforms and apps associated with data, are now also fair game.

Washington's recent success in crippling Huawei, the telecoms equipment manufacturer—by choking off U.S. technology access to its microchip suppliers such as TSMC — is testimony to what could be in store for Tencent. Tencent could find itself in a similar position to Huawei, if Washington restricted access to US server microchips, which are critical to its digital platforms.

A full ban on Tencent would also affect Apple, which hosts WeChat and its sister app, Weixin, on its iPhones. Tencent has a stake in a number of American companies such as Warner Music, Reddit, Lyft, Snap and a host of American gaming apps. All might have to decouple from Tencent.

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JANUARY 2020

Semiconductors at the Heart of the US-China Tech War

How a New Era of Techno-Nationalism is Shaking up Semiconductor Value Chains

BY ALEX CAPRI
RESEARCH FELLOW, HINRICH FOUNDATION

Trump's executive orders are both broad and vague, thus, extensive decoupling scenarios are possible. This uncertainty was reflected in Chinese tech stocks, which lost US$75 billion in value after the executive orders were released.

Fragmentation of markets along ideological lines

India provides a precursor of how techno-nationalism will fragment and polarize markets around ideological values. With a population of more than 1 billion people, India is the world's largest democracy. Recently, the Indian government banned WeChat, TikTok and 57 other Chinese apps in retaliation to a deadly border clash on June 15, 2020, between Indian and Chinese troops.

Indian public opinion, however, had already become hostile to Chinese technology brands, primarily because of concerns over privacy, censorship and links to an autocratic state with values anathema to India's

political system. In fact, Trump's executive orders cite India's ban of TikTok as further justification for US action.

Digital platform companies such as Facebook have quickly capitalized on new market opportunities in India by emphasizing their democratic credentials.

China's imposition of its national security law in Hong Kong provides another example of how conflicting ideologies spill over into not only the technology sector, but the commercial sector, in general.

The US responded to Beijing's national security law in Hong Kong by passing a retaliatory law called the Hong Kong Autonomy Act, which enforces sanctions on individuals and entities within the government of China that "undermine the rights of the people of Hong Kong".

More importantly, the legislation targets any bank that would be seen as aiding and abetting violators. This makes any financial institution doing business with Chinese entities potentially a target of US sanctions.

Restructuring, re-shuffling and ring-fencing

If Microsoft does purchase TikTok from ByteDance, the challenge will be how it can ring-fence TikTok's' existing digital infrastructure and technology. There will be doubts about cybersecurity. And if the purchase includes TikTok's China-based platform, Microsoft could face a backlash in the US for acquiescing to China's censorship and cyber laws.

All of this marks the beginning of a period of accelerated corporate restructuring, re-shuffling and ring-fencing and, if no other safe alternative is available, decoupling.

conclusions and recommendations expressed in this publication are the sole responsibility of the author(s).


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6 - Foreign direct investment

Foreign auto firms in China: Is there a future?


Michael Enright, Published 06 May 2025

Foreign automakers helped propel the Chinese industry to world leadership. Now they are falling behind in a market that has become critical to their global success. Their experiences show the challenges of dealing with vastly improved Chinese competitors and competing with China's brand of state-sponsored industrialization. Recent developments have led analysts to question the future of Volkswagen, GM, and Tesla in the world's largest auto market.

An industry transformed

Once small and backward, China's auto industry became the world's largest in 2009 and never looked back.1 In 2024, China produced more autos than the next four leading countries combined. The policy of allowing the entry of foreign companies through forced joint ventures with local producers started in the 1980s and extremely high tariff and non-tariff barriers helped power this growth. China's auto production went from around 500,000 units annually in the early 1990s to 2 million in 2000, 5 million in 2005, 13 million in 2010, and 31 million in 2024.2

Sino-foreign JVs accounted for 85%-90% of the market in the early 1990s and 64% as late as 2020 before falling to 35% in 2024 and 31% in the first two months of 2025.3 This fall coincided with the growth of electrical vehicles (EVs), nearly all Chinese-made, from 6% of the market in 2020 to 47% in 2024 and 45% in the first two months of 2025,4 spurred by government support, discriminatory subsidies, and slower EV development by foreign companies. Recent developments have led analysts to question the future of companies like Volkswagen (VW), General Motors (GM), and Tesla in China.

Volkswagen

Volkswagen entered China through joint ventures with Shanghai Automotive Industry Company (SAIC) in 1984 (SVW) and First Automotive Works (FAW) in 1991 (FAW-VW). VW opened a third joint venture with JAC Motors (JAC-VW) to meet China's EV mandates in 2017. VW supplied models considered outdated in the West in the 1980s and 1990s, shifted to models current elsewhere in the 2000s, and is now introducing models specifically designed in China for the China market.

VW unit sales in China were around 100,000 in 1990, 1 million in 2003, peaked at 4.2 million in 2018, and fell to 2.9 million in 2024. VW brands accounted for over 50% of the China market in the 1990s, 37% in 2003, 15% in 2023, and 12% in 2024, the first year it lost its position as market share leader since its entry. Its operating profit in China reached €5.2 billion (US$5.9 billion) in 2015, €4.7 billion (US$5.4 billion) in 2017, but only €2.6 billion (US$3 billion) in 2023 and €1.7 billion (US$1.9 billion) in 2024. China represented 40% of VW Group's global auto sales and 25% of operating profits in 2017 but only a third of auto sales and 8% of operating profit in 2024.5

VW's relative decline in China is linked to the shift to EVs. Industry analysts say that VW has not been able to keep pace with Chinese EV producers,6 while VW executives point out that subsidies and local bank financing allowed Chinese EV producers to sell at prices far below the cost of production, a game VW is apparently not willing to play.7 The fall in China profits has caused a global reassessment for VW. By 2024, VW was planning to close German factories for the first time in its history.8

In China, VW has undertaken a €15 billion (US$17 billion) electrification plan, an "in China for China" development strategy, and the purchase of a 5% stake in Chinese EV company XPeng for US$700 million.9VW plans to introduce 11 new EV models in China in 2025 and up to 40 from 2025 to 2027.10 Analysts say that VW's success will depend on its ability to introduce AI and advanced driver assistance systems (ADAS) and become a leader in connected smart vehicles in China.11 However, the first quarter of 2025 saw a 7% drop in VW sales, including a 37% fall in EV sales.12 In addition, VW's exports of EVs from

China to Europe have been hindered by the European Union's 20.7% tariff on VW EVs from China over and above the usual 10% duties.13

General Motors

General Motors entered China with joint ventures with SAIC in 1997 (SAIC-GM) and with SAIC and Wuling Automobile Company in 2002 (SGMW). SAIC-GM produces GM's major brands, while SGMW produces mini and affordable vehicles.

GM's JVs sold approximately 20,000 vehicles in China in 1999, 500,000 in 2004, 3.5 million in 2014, 4 million in 2017, but only 1.8 million in 2024 (including 1.3 million locally branded SGMW vehicles). The GM JVs' China market share reached 10% in 2004 and 14% in 2017, before falling to 9.8% in 2022 and 6.9% in 2024. China accounted for 42% of GM's global unit sales in 2017 and 31% in 2024. The decline in China unit sales equaled 61% of the decline in GM's global unit sales in the period. GM posted China profits of over US$2 billion per year in the mid-2010s and US$446 million in 2023, but a loss of US$4.4 billion in 2024 on write-downs involving plant closings and impairments.14

Analysts have suggested write-downs could reach 88% of the prior value of GM's China operations15 and some have predicted the company might exit the China market.16 GM itself expects to return to profitability in China in 2025 and its current China strategy includes plant closures, reduced inventories, and optimizing its EV lineup.17 GM notes its China EV sales were 50% higher in 2024 than 2023. SGMW's EV sales in the first quarter of 2025 were 71% higher than in the first quarter of 2024 while SAIC-GM sales continued to slide,18 suggesting GM's future in China will depend more on locally-branded SGMW than GM-branded SAIC-GM. US-

China trade wars are not expected to have a major impact on GM's China operations as its trade of autos in both directions has been minimal. The EU imposed 35.3% tariffs (over and above the usual 10% duty) on SAIC-GM and SGMW imports of EVs from China in 2024 as a precautionary measure, as the two companies had not been exporting EVs to the EU.19

Tesla

Tesla began importing autos into China in 2013. It opened its Shanghai Gigafactory in 2019 as the first 100% foreign-owned auto factory in China since the 1940s and opened a second plant in 2024. In 2021, Bloomberg claimed, "Again and again, it [Tesla] has extracted perks other international companies have struggled to obtain, including tax breaks, cheap loans, permission to wholly own its domestic operations, and assistance constructing a vast facility at astonishing speed."20 In return, Tesla has built world-class facilities, localized sourcing, and exported a substantial portion of its Chinese production, providing a huge boost to the Chinese EV supply chain and EV industry.21

Tesla sold 137,000 vehicles in China in 2020, 440,000 in 2022, 658,000 in 2024, and 175,000 in Q1 2025. It exported 344,000 vehicles from China in 2023 and 260,000 in 2024. In 2024, Tesla was the 10th-largest seller of autos in China with a 3% market share and the fourth-largest seller of EVs, with an EV market share of 6% (BYD's was 34%). China represented 37% of Tesla's unit sales and 51% of its production in 2024.22 Although Tesla does not break out profits by region, analysts estimated that China accounted for half of Tesla's profits in 2022,23 with sales in China accounting for 25%-30% and exports from China the remainder. That would suggest China-related profits (China sales and

exports) of around US$7.5 billion in 2023 and US$3.5 billion in 2024.24 However, some estimates claim price cuts may have wiped out the operating profits of Tesla's 2024 China sales.25

Tesla has been credited with tailoring the autos it sells in China to local taste, including in-car streaming and digital services. Tesla registered record sales in China in 2024 but remained well behind the leading Chinese companies in market share. It discounted and provided attractive financing options to attract customers in both 2023 and 2024. Tesla's share of China EV sales fell to 4.1% in the first two months of 2025,26 as buyers waited for the introduction of the company's new models but bounced back to 7.5% after the new models were introduced in March.27 Tesla's China-made exports to Europe have been hit by EU tariffs on China-produced EVs, though the 7.8% tariff on Teslas (over and above the usual 10% duty) was lower than on other vehicles.28 Tesla stopped China orders for the US-sourced Models S and X in the midst of the tariff wars in April 2025. The impact was expected to be minor as the imports represented a very small portion of its China sales.29

Facing the future

Foreign firms like VW and GM helped build China's auto industry and for years China represented their largest and most profitable market. As late as 2020, after Tesla's entry, foreign brands accounted for 64% of the China market. By the first quarter of 2025, this share had fallen to 31%, as EVs have come to account for nearly half the Chinese market. At the same time, profitability in the China market collapsed due to aggressive price competition and direct and indirect state subsidies to Chinese companies.

Declining sales and profits have had an important impact on foreign companies used to China providing substantial portions of global profits.

According to the Center for Strategic and International Studies, Chinese government support for EVs totaled US$231 billion from 2009 to 2023. The output capacity of Chinese EV producers, numbering more than 200, vastly outstrips Chinese demand, resulting in price wars, an industry in which few Chinese companies are profitable, and pressure to export. Chinese companies have also invested heavily in R&D, producing high-quality autos, and have become far more effective global competitors. Fears that Chinese EVs will flood global markets caused the US to impose 100% tariffs on imports of Chinese EVs and 25% on EV batteries under the Biden administration (subsequently raised as part of the Trump administration's tariffs) and the EU to impose tariffs of 7.8% to 35.3% (over and above the usual 10% duty) on Chinese-made EVs in 2024.30

The foreign auto firms have realized their position in China has deteriorated. China will no longer be the cash cow for them that it once was. Chinese companies will become even more capable, the advantages of foreign firms in internal combustion engines do not apply in EVs, and developing products at home and transferring them to China is a thing of the past. Their responses have included downsizing obsolete capacity, accelerating in-China-for-China development, introducing new EV models tailored to the local market, aggressive price cuts, partnering with Chinese EV companies, and using China as an export base for EVs.

They appear to have realized that China, not their home country, must be the touchstone for the China market and perhaps the global market. It remains to be seen whether these foreign firms have responded quickly

enough to recapture lost ground in China and to forestall losses elsewhere. This will depend on whether they are successful in implementing their strategies, whether trade tensions result in backlash against foreign firms in China, whether China's government and banks continue to prop up money-losing Chinese firms, and whether foreign governments choose to block potentially destabilizing exports from China. A report by the Rhodium Group, for example, showed that half the world's markets have restricted imports of EVs from China.31 It is yet to be seen if such moves will allow the foreign firms time to catch up and whether Chinese firms will invest overseas as Japanese firms did starting in the 1980s. In any case, competition among companies and among governments is likely to shape this critical industry for decades.

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7 - WTO, WTO reform: Will China be part of the solution?


Stephen Olson

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Few issues in trade are more urgent than WTO reform. As the US continues to withdraw from its historical role as de facto leader of the global trade system, what role can – and should – China play in the WTO reform process?

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China recently convened a "mini-ministerial" meeting of about 30 World Trade Organization (WTO) members on the fringes of a massive import fair in Shanghai.

On the surface, the purpose of the meeting was clear and entirely constructive: to discuss the international trading system and WTO reform. The hope was to lay the groundwork for a productive outcome from

the 12th WTO Ministerial Conference, to be held in Kazakhstan in June 2020.

The international trading system continues to teeter, and few issues in trade are more urgent than undertaking the necessary WTO reforms. The continued relevance of the institution is at stake, and any useful dialogue that could be conducted in Shanghai under Chinese leadership would be welcome.

There is however a powerful subtext to the mini-ministerial, which, over the longer term, might prove to be of equal if not greater importance than the ostensible purpose of the meeting. As the United States continues to withdraw from its historical role as de facto leader of the global trade system, China is in the process of defining the nature and the parameters of the role that it intends to play.

There are, therefore, two separate but closely related stories unfolding: 1) the ongoing efforts of ministers from key trading countries to attempt to work out much-needed WTO reforms, and 2) the gradual redefinition of China's place and role in global trade governance.

Developments on each track are closely linked and mutually reinforcing: To the extent China can play a constructive role in galvanizing useful WTO reforms, it will burnish its credentials as a primary guardian of the global trade system. By the same token, if China is increasingly looked upon as a champion of the trade system, it will enhance its ability to shape the WTO reform process.

This leads to an obvious but critical question:

What role can – and should – China play in the WTO reform process?

When the foundations of the modern global trade system were established in the late 1940s, China – which was then isolated, agrarian, and poor — did not have a seat at the table. The United States, on the other hand, accounted for 50 percent of global GDP, and its philosophical principles (market-driven economics, open trade and investment regimes, privatization, and strong property rights – the so-called Washington Consensus principles) were ascendant.

By virtue of U.S. preeminence, the post-war trade architecture (first under the auspices of the GATT and subsequently the WTO) was predicated on the Washington Consensus principles, and the assumption that all major trading countries would inevitably subscribe to them. This was certainly the assumption made at the time of China's accession to the WTO in 2001.

Today, thanks largely to its WTO membership, China is the leading trading nation in the world, and possesses a technologically sophisticated $14 trillion economy. Its success has been built on the back of a centrally-managed economic system that challenges many of the prevailing precepts of Western capitalism, and the foundational principles upon which the rules-based trade system was built. Contrary to expectations, China's state-directed capitalism system is more entrenched than ever.

Incompatibilities between China's economic system and WTO rules need to be resolved

As China's economic might continues to grow, the incompatibilities between its system and the assumptions about how trade would be conducted under a WTO rules-based system are coming into sharper relief.

Massive state-owned enterprises, enjoying direct and indirect forms of government support, are engaging in a lopsided competition against private companies that are constrained by marketplace realities. Unwritten rules and informal "understandings" between business and government can block market access in China for foreign competitors who were led to believe the door would be open. Central and provincial governments can use their oftentimes preponderant position in the market to "encourage" foreign technology transfers that otherwise would never have happened. And Chinese regulators frequently render critical decisions based not on the objective facts, but rather on the basis of China's economic priorities.

WTO rules – at least as currently constituted – have proven incapable of satisfactorily adjudicating these systemic frictions and incompatibilities.

At the same time – and entirely separate from the challenges raised by China's economic system – the WTO is struggling with a potentially "life threatening" degree of operational dysfunction. The impasse over the appointment of new Appellate Body judges is the most urgent example, but it is by no means the only issue. The institution's failure to conclude a single, comprehensive round of negotiations (one of the WTO's core functions) since its inception in 1995 is causing members to consider whether the current governance structure can adequately serve such a large, diverse – and frequently fractious – membership.

Collective leadership failure undermines WTO

The substantial challenges currently facing the WTO have varied and long-simmering origins, and responsibility for the dire straits the

organization finds itself in today certainly cannot be laid at the doorstep of a single country. Rather, it reflects a collective leadership failure on the part of all major trading nations.

As we head toward what could be the most fundamental overhaul of the global trade architecture in more than seven decades, China will most certainly be at the table, in a position that reflects its status as a major economic and trade power.

Although the challenge is broader then reconciling China's trade system to global trade rules, the WTO reform process cannot succeed unless all involved parties explicitly acknowledge and address the systemic tensions that have been brought to the forefront as a result of China's economic rise. Much of the trade dysfunction we are witnessing today – especially between the United States and China – is the consequence of the poor job we've done in developing rules and protocols to manage the acute points of philosophical and systemic divergence.

A path to mutually acceptable compromise on at least some of these points of systemic friction should be possible. But it is also likely that some differences will simply be irreconcilable. It's hard to imagine, for instance, that China would ever entirely dismantle its state supported and directed industrial policies.

On those points, the challenge will be to find a mutually acceptable way to accommodate these differences without permitting unacceptable levels of damage to be inflicted upon other members of the system. Most would agree that the sovereign right of individual nations to make their own policy choices needs to be respected. But when those choices violate foundational principles that have underpinned the immense success of

the international trading system, and unduly tip the scales of economic competition, other nations cannot be expected to bear the brunt of the resulting dislocations.

In order for a voluntarily-acceded-to set of global trade rules to survive and function, no country can be permitted to massively and artificially boost exports through government direction and support. No country can be permitted to contravene expected market access through hidden restrictions or discrimination. And no country can be permitted to achieve technological supremacy through dubious means of technology acquisition.

There is no easy solution for reconciling China's economic system with the norms of the existing international trading system. Refraining from policies such as those described above would be an ideal but highly unlikely remedy. Assuming such restraint is not forthcoming, any practical solution would likely need to include an explicit recognition by China that when its predatory practices inflict commercial harm on its trade partners, those partners would be within their rights to withdraw a commensurate level of commercial benefits accorded to China. China would then be free to determine if it was in its interests to maintain those policies or not.

As the United States continues to recede from its longstanding trade leadership role, Chinese officials have aggressively staked out the rhetorical high-ground in support of the WTO rules-based international trading system. Foreign officials and foreign businesses attempting to conduct business in China, however, are increasingly pointing out the wide gap between the rhetoric and the reality of China's policies and practices.

True trade leadership requires more than just platitudes. It requires a commitment to ensuring the long-term sustainability of the system, even when (or especially when) sustainability entails a certain amount of short-term self-sacrifice.

China has benefited enormously from a range of policies and practices that, strictly speaking, it should never have been allowed to get away with in the first place. That's the history. Will it continue to pursue and defend these policies — without greater consideration for their deleterious impact on partner countries — as we move forward?

If trade rules fail to adequately manage predation or inequities that arise when differing economic systems occupy the same playing field, we should expect to see the rules ignored, and unsanctioned unilateral actions taken with increasing impunity. Neither the United States nor China — nor any other member of the WTO — would benefit from such a Hobbesian scenario.

As reform efforts gather steam in the run-up to the WTO Ministerial meeting next year in Kazakhstan, China has a decision to make. Does it wish to be part of the problem or part of the solution?

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8 - Foreign direct investment

China's auto policies: Playing the long game

Michael Enright, Published 08 April 2025

Beijing turned China into the world's largest auto producer and exporter by a decades-long concoction of industrial policies, protectionism, technological change, and a willingness to allow "off-plan" development. While foreign firms were vital to the industry's rise, many are now falling behind as Chinese firms rose. International investors will have to tread carefully in dealing with the challenges of China's long game of state-backed industrialization.

The auto industry has long been a focus of China's industrial policy. It was the subject of China's first specific national development plan after its economic opening in the 1980s and continues to receive close attention and protection from Beijing. Government ownership, absorbing foreign technology and know-how, industry concentration, protectionism, favoritism for local companies, and massive state support have all been used to support the industry. The goal from the start has been to develop

strong Chinese auto producers able to succeed on the domestic and international markets.

Government ownership has been a hallmark of China's auto sector since the 1950s. The central government founded First Auto Works (FAW) in 1953 and Second Auto Works (Dongfeng) in 1969. Guangzhou Automobile Group (GAC, 1955), Shanghai Automotive Industry Corporation (SAIC, 1955), Nanjing Automobile Corporation (NAC, 1947), and Beijing Automotive Industry Corporation (BAIC, 1958) were formed later through takeovers and mergers of private companies by local governments.1 FAW, Dongfeng, SAIC (which absorbed NAC), GAC, and BAIC are still among China's leading car companies.

China has continually sought to acquire technology and expertise from foreign auto companies. FAW initially sourced technology, designs, and equipment from the Soviet Union and other Eastern Bloc countries. In the 1960s and 1970s, Chinese firms received support from Eastern European, Western European, and Japanese firms to develop commercial vehicles. In the 1980s and 1990s, as China started opening its economy, China sought to trade market access for technology and expertise. Selected foreign companies were allowed at most two joint ventures in which they could own a maximum of 50%.2 They were told where they could set up; which local companies would be their partners; and that they would have to transfer technology, train Chinese workers, engineers, and managers, and ramp up local content. The first of dozens of Sino-foreign joint ventures were BAIC-American Motors (1983), SAIC-Volkswagen (1984), and GAC-Peugeot (1985). By 1991, an internal Chinese report indicated that the foreign presence had already moved China's auto

industry ahead by 30 years and had transformed China's machinery, chemical, electrical, and instrument industries.3

Chinese auto policies in the 1990s and 2000s called for concentration of the industry into two or three leading companies that would achieve large scale by 2000 and international competitiveness by 2010. They were to be supplemented by six to seven other significant automakers and numerous competitive parts makers.4 Despite the focus on the joint ventures of government-owned enterprises, private companies like Great Wall (founded in 1984), Geely (1986), and BYD (1995) were able to leverage financing from local banks and from Chinese, Hong Kong, or US stock exchanges to develop outside the original plans. As of 2009, there were roughly 145 auto producers in China, most operating below efficient scale according to Chinese officials.5

Tariffs, local content rules, and other restrictions have protected the Chinese industry. Average tariffs on finished autos exceeded 200% in the 1980s and early 1990s. Tariffs were revised to 110% to 150% in 1994, lowered after China's WTO entry in 2001 to reach 25% in 2006, and then further reduced to 15% in 2018. Beyond these averages, imported large autos and sport utility vehicles (SUVs) have faced total taxes of over 100% since 2008.6 To build a local parts industry, China set tariffs on auto parts higher than 100% in the 1980s and 1990s and imposed strict local content rules on Sino-foreign joint ventures. After China entered the World Trade Organization, tariffs on auto parts were brought down to 10% in 2006 and then further reduced to 6% in 2018.7

China's auto policies, the expansion of roads and highways, the increasing affluence of Chinese consumers, and the investments of local

and foreign firms resulted in a dramatic rise in China's auto output. The number of passenger cars produced in China went from 5,200 in 1985 to around 40,000 in 1990, 604,677 in 2000, 13.9 million 2010, 21 million in 2015, and over 31 million in 2024.8 In that last year, China's 32% share of global unit production was higher than those of the US, Japan, India, and South Korea, the next leading producers, combined.9

Despite explosive industry growth, China's goal of developing local companies that could succeed at home and abroad with indigenous designed and branded vehicles remained elusive. In 2004, only 2% of the cars produced by SAIC or its joint ventures were developed in China as 98% were GM or Volkswagen models. As late as 2019, despite great progress in engineering, manufacturing, and marketing, industry analysts claimed that the major state-owned auto companies had yet to develop their own competitive brands.10

The situation has changed dramatically with the emergence of electric vehicles. EVs were listed as a priority project in the 10th Five Year Plan in 2001. In 2007, Wan Gang, an engineer who had once been employed at Volkswagen-Audi, became China's Minister of Science and Technology. He reportedly convinced China's leaders that China was unlikely to catch up with the major global players in internal combustion engine-powered autos but could lead in EVs.11 Central and local government support for EVs soon involved strategic planning, subsidies, emissions standards, EV infrastructure, limiting new ventures to EVs, access to foreign technology, and state-backed protectionism.12 Tesla, one of the world's most advanced EV companies, was allowed the first 100% foreign-owned auto company in China in 2018, after promising to become a driver of

technology in the Chinese EV supply chain and to export a large portion of Tesla's Chinese product. By 2022, China accounted for 56% of Tesla's global output and about 40% of China-made Teslas were exported.13

Central-government subsidies for EVs in China have been estimated at US$231 billion from 2009 to 2023, including R&D subsidies, direct subsidies for buyers (62% of total subsidies from 2009 to 2017), exemptions from the 10% sales tax, subsidies for EV makers (including capital injections for money-losing players) and battery suppliers, preferential government procurement, and subsidies for EV infrastructure.14 Average subsidies to EV buyers from the central government went from US$14,000 in 2018 to US$12,000 in 2020, US$6,600 in 2022, and US$4,800 in 2023 before being phased out. Some local governments added subsidies of their own. Subsidy programs favored Chinese auto companies and companies using Chinese EV batteries, giving them a strong advantage over foreign firms. A "credit system" on emissions standards was used to force auto companies to invest in EVs.15 EV sales in China went from 3.2% of the market in 2017 to 5.4% in 2020 and 41% in 2024, a year in which China accounted for nearly 70% of global EV sales.16

China's EV policies have supported China's local and private firms as well as government-owned enterprises. One such firm, BYD, received international attention when Warren Buffett's Berkshire Hathaway invested US$232 million in 2008 to help supercharge EV development. By 2024, BYD accounted for 34% of China's EV sales. They were followed in EV share by Geely (8%), SAIC (7%), Tesla (6%), and Changan (6%). Tesla, which opened the first 100% foreign-owned auto

venture in China in 2019, was the only foreign brand in the top 10. BYD accounted for 16% of total China auto sales (EV and ICE) in 2024. Other leading brands in the total market included Volkswagen (12%), Geely (8%), Toyota (7%), Changan (6%), and Chery (6%).17

As EV sales grew, the share of foreign brands in the China market nosedived, from 64% in 2020 to 59% in 2021, 44% in 2023, and 35% in 2024. In 2024 alone, sales of German brands in China fell 13.3%, Japanese brands 17.7%, and US brands 23.1%.18 Volkswagen and GM, traditionally the two most successful foreign auto companies in China, have been hit particularly hard.19 While analysts have criticized the foreign firms for underestimating the Chinese companies and EV technology in general, their inability to benefit from Chinese government programs and subsidies clouded the case for early investment in China EV development. The dramatic increase in the Chinese EV market also took place during the pandemic period when foreign executives could not visit their Chinese ventures. More recently, foreign firms have been playing catchup, with some investing in Chinese EV makers to gain access to EV technology.20

Increases in EV capacity and the decline in ICE car sales in China have left a sizable overhang of capacity, part of which is already being exported. 78% of China's 4.9 million car exports (overall vehicle exports were 5.9 million) in 2024 were ICE autos.21 The leading export brands were Chery, SAIC, Changan, Geely, Great Wall, BYD, BAIC, Tesla, JAC, and Dongfeng – all Chinese brands except Tesla.22 Some fear that the capacity overhang and expected increases in EV capacity could lead to China undercutting and dominating the world auto market.23

China's auto sector benefited from long-term government policies, company strategies backed by the government or at least state-run finance, and favoritism toward Chinese firms. It was helped by technology and know-how from foreign companies. It also benefited from "off-plan" development, as many local and private auto producers only became part of national plans after achieving a measure of success in local markets. The combination of Chinese policies, China's market size, foreign investment, and policy flexibility made China the world's leading ICE auto producer by 2009. Even so, local Chinese companies had not achieved the international competitiveness with their own brands and designs that China's leaders had long desired. It was only with the advent of a new technology, EVs, where the initial lead of foreign companies was not so large as in ICE vehicles, that major industrial policy programs, including massive subsidies, combined with aggressive firm strategies, consumer demand, and the capabilities acquired through the previous 70 years, came to the fore.

For major international auto companies, the question now is how to try to regain position in the Chinese market and how to safeguard their position in their home and third markets. Some have invested in Chinese companies as a form of "reverse technology transfer" and have started exporting from China. Another question is whether they will stick with their Chinese joint venture partners when existing agreements come up for renewal. Most have done so, though with some buying or selling controlling stakes. For foreign governments, the question is how to deal with a potential flood of Chinese vehicles onto world markets. Some have taken a page out of China's playbook, using variations of protectionism,

forced technology transfers, subsidies, and efforts to shift the market to favored vehicles. However, this may prove challenging for economies traditionally focused on protecting consumers rather than producers. Even so, the European Union, where imports from China account for around 25% of EV sales, has placed tariffs of between 8% to 35% on EVs imported from China, while the US slapped a 100% tariff on China-made EVs. It is yet to be seen whether "reciprocal tariffs" under the Trump administration will reflect China's present auto tariffs or the rates that were in place when the industry emerged as a world leader.

Though China's auto industry has not developed as China's leaders planned, it shows that long-term policy commitment, technological change, massive state resources, and the influence of the Chinese Communist Party-state have an enormous impact. The story suggests one cannot dismiss the potential that other Chinese initiatives, such as the Belt and Road Initiative and Made in China 2025, will reshape the global economy, even if these grand plans may be behind schedule today. Major international companies will have to tread carefully, and governments outside of China will have to deal with state-backed industrialization in the world's second-largest economy as well as their "home companies" whose allegiance may be more complex than one might hope. Companies and governments with shorter time horizons than China's will find responding to China's development strategy particularly challenging.

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How China plays the long game in the global auto industry | Article | Hinrich Foundation

9 - Foreign direct investment, Samsung in China: How the mighty have fallen

Michael Enright, Published 18 March 2025

Once the leader in several markets in China, Samsung has seen its position in the country decimated by local firms, strategic missteps, a fickle regulatory environment, and geopolitical backlash. Its experience shows how FDI intended to help local suppliers can be turned by Chinese competitors and authorities against the foreign investor, and stands as a stark warning for those attempting to navigate relations with the world's second-largest economy.

China is becoming increasingly challenging for foreign firms. Under Xi Jinping, Communist Party and government influence on business is rising, government support for Chinese companies is growing, more stringent regulations have been imposed, Chinese competitors are improving, and foreign companies have faced China's ire for their actions, or for those of their home governments. While some foreign companies continue to prosper in China, others are starting to fall by the wayside.1

One company that has experienced the ups and downs of the Chinese market is Samsung Electronics. An early leader in China, Samsung has

seen its share of key China markets fall rapidly and now faces increasing competition from Chinese firms in global markets.

Samsung Electronics is one of the world's leading companies, with 2024 sales of KRW 301 trillion (US$205 billion) and net profits of KRW 34.5 trillion (US$23.5 billion). The company is active in semiconductors, semiconductor design and foundry services, displays, mobile and network devices, and digital appliances.2 Samsung has been the world's leading supplier of semiconductors, TV sets, and smartphone displays; the second-largest semiconductor foundry; and depending on the year either the world's leading or second-biggest smartphone brand.

Samsung Electronics is best known as a leading supplier of smartphones. In the last 10 years, Samsung trailed only Apple as global leaders in smartphone shipments. In the fourth quarter of 2024, Apple had a 23.2% share of global shipments and Samsung 15.6%, followed by the Chinese companies Xiaomi (12.9%), Transsion (8.2%), and Vivo (8.2%).3 Chinese companies as a group accounted for approximately 50% of global smartphone shipments in that year.4 Samsung was the world's largest producer of Android smartphones, competing against leading Chinese makers that also use Google's widely licensed operating system.

Samsung began producing low- to medium-priced products for export in China in 1992. In 1994, it invested nearly US$1 billion to create an electronics and electronic parts factory in Tianjin and followed with factories for home appliances in Suzhou (opened in 2003) and semiconductors in Xi'an (starting in 2012). Samsung was among the largest foreign investors in China in the early 2010s, with a vertically integrated structure including research and development, design,

component production, assembly of finished goods, and extensive local sales and export activities. It was the market leader in unit sales in China in mobile phones, smartphones, and televisions, including an estimated 30% of China's smartphone market in 2011 compared to Apple's 10%.5 Samsung had nearly duplicated its Korean base in China, which accounted for a quarter, or over 60,000 people, of its global employment at its peak.6

Samsung produced mobile phones, communications equipment, computers, home electronics, and appliances; LCDs, LEDs, screens and monitors, semiconductors, and opto-electronic components (electronic devices to detect and control light) in China. It differed from many other foreign firms by bringing its best technology to China rather than older generations. Samsung attracted scores of local and foreign suppliers to locate near its facilities and ran programs to help local suppliers to become Samsung partners, significantly adding to the capabilities of the electronics supply chain in China.7

But Samsung Electronics' early success in China could not be sustained. It announced closures of its last remaining smartphone factory in China in 2019,8 its last personal computer (PC) factory in China in 2020,9 and its last TV factory in China in 2020.10 It shifted production in to Vietnam, India, and elsewhere, and reportedly has invested over US$22 billion in Vietnam alone.11 The company's only remaining facilities in China are those for home appliances in Suzhou and semiconductors in Suzhou and Xi'an. Samsung was the leading smartphone brand in the world in the early 2020s, but had less than 1% market share in China.12 Its once dominant share in China's TV manufacturing industry had fallen to

6% of the installed base by August 2024, while Chinese firms accounted for roughly 85%.13 Samsung's employment in China peaked at 63,316 in 2013, fell to under 20,000 by 2022, and is expected to fall further under a restructuring announced in September 2024.14

Samsung's decline in China's smartphone market coincided with the development of Android phones by Chinese companies Xiaomi, Huawei, Oppo, Vivo, and others, several of which leveraged supply chains and distribution channels Samsung had helped create. Samsung did not have a proprietary operating system to protect it from direct competitors and its vulnerability was multiplied by a series of strategic mistakes. It failed to develop its own China app store after Google's 2010 exit from China took Google's app store away from Samsung's China-made smartphones. It was slow to recognize the growth potential of China's second-, third-, and fourth-tier cities. Samsung's C-series smartphones designed for the Chinese market flopped, leading Samsung to stop releasing models in the series from 2017 to 2024, and the company missed out on introducing the range of features Chinese competitors offered and Chinese consumers came to demand. The company's reputation hit a nadir in 2017 when its Galaxy 7 phone batteries began catching fire. Samsung issued a global recall that initially excluded China on the premise that there was a different battery supplier for the China phones. When batteries began to catch fire in China as well, the company was forced to extend the recall under withering criticism from Chinese state media and consumers. These issues, plus the closure or sales of its China facilities, caused consumers to lose faith in the company.15

Geopolitics also hit Samsung at a vulnerable time. The deployment of a US Terminal High Altitude Area Defense (THAAD) anti-missile system in South Korea in 2017 elicited an aggressive response from China. While billed as a measure to protect South Korea from North Korea, China viewed the deployment as targeted at China and destabilizing to regional security. China cancelled multiple entertainment and arts events involving Korean performers, de facto banned South Korean online video games, and ordered Chinese travel agents not to sell travel packages to South Korea. Regulators banned sales of a variety of Korean consumer products and Chinese consumers boycotted Korean goods. Korean conglomerate Lotte, which gave land to the Korean government for the THAAD system, had most of its China retail outlets closed by Chinese regulators and the company was essentially forced out of the country.16 Samsung, like many other Korean firms, wound down much of their China operations.17 By 2022, it was estimated that less than 25% of Samsung smartphone production was outsourced to contract manufacturers in China, and more than 75% of smartphone manufacturing had been moved to Vietnam and other countries.18

Geopolitics also has affected Samsung's semiconductor business in China. The company stopped selling used semiconductor manufacturing equipment to China in 2024 under pressure from the Biden administration.19 The Biden administration initially gave Samsung an exemption on sales of high bandwidth memory (HDM) chips necessary for advanced AI applications, an industry where Samsung held a 48% market share, to China, which accounted for 20% of Samsung's HDM sales. Just a week before leaving office, however, the administration

issued new export controls targeting HDM sales to China, a move analysts say would hit the company hard.20

Samsung's semiconductor and display businesses have also had intellectual property (IP) issues with China. In 2018, nine individuals were charged with selling Samsung display technology to Chinese interests and in 2023 seven former employees were convicted of selling semiconductor IP to other Chinese interests.21 In September 2024, two former Samsung Electronics executives were arrested on suspicion they had stolen technology worth KRW 4.3 trillion (US$4.3 billion) to help Chinese officials develop a semiconductor facility. This was just one of 10 reported major thefts of Korean technology involving China in the first half of 2024 and represented what researchers from the Korea Institute for Industrial Economics and Trade called the tip of the iceberg.22

Samsung announced a new attempt to gain share in the higher end of the Chinese smartphone market in 2024. However, the market and competition had changed dramatically from the company's heyday in China. According to Nikkei Asia, "Chinese consumers strongly prefer domestic products, and even when they opt for foreign products, they believe local options can always replace these. Samsung's re-entry into the Galaxy market is significant but unlikely to yield substantial results."23

With growing tensions between China and Korea's allies, increasing emphasis on Chinese technological self-sufficiency, much more capable Chinese competitors, and Chinese consumers now far more nationalistic than they once were, whether Samsung will succeed in once again becoming a major player in key Chinese markets remains an open question. This is particularly true given the roughly 50% share of Chinese

firms in recent global smartphone shipments and the inroads that Chinese firms have made in traditional Samsung strongholds, like India, where Samsung fell to third in smartphone shipments in the third quarter of 2024, behind Chinese firms Vivo and Xiaomi, though ahead of Chinese firms Oppo and Realme.24

Samsung Electronics' experiences in China show that even a world-leading company, one that had been an early leader in China, can see its position evaporate in the face of increasing competition from Chinese firms, changing tastes of Chinese consumers, and a changing Chinese regulatory environment. It shows that even leading firms can be disrupted by geopolitical conflicts over which they have little control. It shows that failure to adjust to market conditions in China and missteps that offend Chinese officials and consumers can be fatal to a company's ambitions. It shows that investments necessary to help develop local suppliers can be leveraged by competitors. And finally, it shows that competition with Chinese firms in China can be a prelude to competition with Chinese firms globally.

Thus, Samsung's China story should serve as a warning to foreign companies operating in China as well as to companies operating globally.

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How the mighty fall: Samsung in China | Article | Hinrich Foundation

10 - Foreign direct investment, Apple and China: Untying the knot?

 Michael Enright, Published 25 February 2025

For years, Apple brought indispensable FDI to China, millions of jobs, tech know-how, and the ultimate symbol of Beijing's mastery over globalization. Now Apple's sales are shrinking, it's losing turf to Chinese rivals, made concession after concession to Beijing, and is squarely in the US-China crossfire. What if China decides it does not need Apple as much as Apple needs it?

Apple has been enormously successful in China. China has been Apple's second-largest market and the production base for up to 95% of

the products it sells worldwide. But concerns over Chinese competitors, supply chain resilience, and geopolitical tensions raise questions of whether Apple will be able to leverage its position in China to the same extent in the future.

The environment for foreign firms in China is becoming increasingly complex. China has adopted more stringent regulations on data acquisition, storage, and use. The Chinese Communist party-state's influence on the economy is increasing. Industrial policies embodied in a series of major initiatives and enshrined in the 14th Five-Year Plan (2021-2025) involve massive state support aimed at enhancing China's position in a range of high-technology industries. Geopolitical and economic tensions between China and the West have been rising. Competition is increasing and consumer preferences are evolving rapidly. The result is that many foreign firms are rethinking their strategies in China.1

Apple has been enormously successful in China. China has been Apple's second-largest market and the production base for up to 95% of the products it sells worldwide. But concerns over Chinese competitors, supply chain resilience, and geopolitical tensions raise questions of whether Apple will be able to leverage its position in China to the same extent in the future.

Apple's history is the stuff of legend. Founded by Steve Jobs and Steve Wozniak in 1976, Apple's market capitalization hit US$1 trillion in 2018, US$2 trillion in 2020, US$3 trillion in 2023, and US$3.5 trillion in 2024. Its businesses now include smartphones, personal computers, tablets, wearables, electronic accessories, technical support, cloud services, digital content, and payment services. Half of Apple's fiscal year 2024 sales of

US$391 billion came from iPhones (51%); a quarter from services (24%); and a range of wearables, home products, accessories (9%), and iPads (7%). It is striking that personal computers, the device that began its legend, now accounts for a mere 8%.2 Apple's net income that year was US$94 billion.

By the end of 2024, Apple was still the world leader in smartphone shipments (23.2% share as of the last calendar quarter), followed by Samsung (15.6%), and the Chinese companies Xiaomi (12.9%), Transsion (8.2%), and Vivo (8.2%). As a group, Chinese companies accounted for roughly 50% of global shipments.3

Apple entered the China market selling PCs through third parties in 1993 and began developing relationships with Chinese universities, software developers, and officials. The first Apple Store in China, opened in Beijing in July 2008, just before China's historic Summer Olympics enshrined the nation's arrival as a global power, soon became the highest-grossing Apple store in the world. The number of Apple stores in China grew to six in 2012 to 44 in 2022 then to 58 in January 2025.4 Apple products are also sold through a large network of approved third-party retailers; e-commerce platforms like JD.com, Tmall, and Pinduoduo; and many unlicensed retailers.

Apple's Greater China (including the Chinese mainland, Hong Kong, Taiwan, and Macau) sales took off with the introduction of the iPhone to China in 2009, going from US$2 billion in 2010 to US$58.7 billion in 2015, before falling to US$40 billion in 2020 in the midst of Covid disruptions and reaching US$74 billion in 2024. These represented 8%, 25%, 15%,

and 20% of the company's global net sales respectively, showing the importance of the China market to the company.5

China is even more important to Apple as a production base than a sales market. Apple turned to foreign outsourcing starting in the 2000s, with China as the centerpiece due to low costs, an extensive electronics supply chain, superior availability of production engineers, and a vast pool of assembly workers recruitable at short notice that could ramp up production faster and more effectively than anywhere else in the world.6 Apple's Chief Executive Officer Tim Cook said in October 2023 that 95% of Apple products were manufactured in the Chinese mainland.7 The impact of Apple's production system on China has been profound, as a driver of technological capabilities and with millions of people employed directly or indirectly throughout the country.

Taiwanese-headquartered Foxconn, already a leading contract manufacturer, started assembling Apple PCs in 2000 and became the dominant producer of iPhones, managing supply chains, manufacturing, and logistics, and allowing Apple to focus on product development, design, software, and marketing and sales.8 Foxconn, now the largest private-sector employer in China, developed several component and assembly sites around China, including massive complexes in Shenzhen and later Zhengzhou that have employed 300,000 to 400,000 people at their peaks. The Zhengzhou facility reportedly was able to hire 50,000 workers in a single month in preparation for the launch of the iPhone 16 last year.9

Apple has had to deal with the Chinese Communist party, the Chinese state, and Chinese state-owned enterprises since it entered China. The

three powerful state-owned telecom companies control mobile services in China. Apple's negotiations with China Mobile began in November 2007 and ended unsuccessfully in early 2009. Apple then reached a three-year exclusive deal with China Unicom and official iPhone sales in China started in late 2009. Apple went on to sign additional distribution agreements with China Telecom in December 2012 and China Mobile in December 2013, finally reaching distribution through all three firms six years after its first attempt.10

Apple has adjusted its China activities to comply with telecommunications, data, and services regulations. The introduction of the iPhone into China was delayed and its internet functionality initially removed to satisfy regulators. In 2024, iPhone sales in China were hurt as Apple had not achieved a solution on AI functionality that could pass muster with Chinese regulators.11 Apple began storing China data at facilities owned by state-owned China Telecom in 2014 and after the enactment of China's 2017 cybersecurity law shifted all the data for its China iCloud customers to data centers run by a company owned by the Guizhou provincial government.12 Apple shut its online book and movie services in China in 2016 in response to new regulations limiting online content provision.13

Apple has repeatedly had to make major concessions to defend its business in China. In December 2021, The Information reported that Apple CEO Tim Cook had signed a secret five-year agreement with Chinese officials in 2016 in which Apple agreed to support Chinese initiatives in advanced manufacturing and software, increase training of Chinese engineers, increase mainland Chinese companies' share in Apple

components and assembly, invest in Chinese technology companies, and cooperate with Chinese universities on new technologies. The agreement involved commitments in the order of US$275 billion, more than Apple's sales of US$248 billion in China in the period.14 Apple also agreed to store personal data from Chinese users on servers operated by Chinese state-owned enterprises, censor tens of thousands of apps, and in other ways cooperate with China's data security apparatus.15 In return, Apple was reportedly able to reverse negative views of the company among China's leaders; was allowed to operate iCloud, Apple Pay, and its App Store; and was exempted from several rules other foreign companies had to follow.16

US-China trade tensions in 2018-2019 and the disruptions from Covid-19 in 2020-2022 led Apple to seek to reduce the potential vulnerability of its reliance on China.17 As of 2022, Apple was reportedly planning to move 40% to 45% of iPhone production to India and the assembly of a portion of other products to Vietnam.18 By January 2024, analysts at the investment firm TD Cowen estimated that Apple's suppliers, including Foxconn, had invested US$16 billion since 2018 on production capabilities outside of China. Analysts predicted it would be feasible to migrate a significant portion of personal computer production, but more difficult to migrate the bulk of smartphone production in the next few years.19 The Economic Times of India reported that US$14 billion worth of iPhones was assembled in India in the 12 months ending June 2024, representing 14% of global iPhone production.20

China has signaled its displeasure with this diversification, opening tax and land-use investigations of Foxconn in October 2023 that analysts

have linked to Apple's efforts to diversify its production base.21 New Chinese restrictions on the export of dual-use products, technologies, and services applied as of 1 December 2024 have made the export of equipment, materials, and technology Apple wishes to send to other places subject to new and lengthy inspections and delays.22 These moves signaled that Apple has to tread carefully with its plans to reduce dependence on China, as it cannot decentralize overnight and its China activities remain subject to retaliation.

Apple has found itself in the middle of trade tensions as well. It was one of the most vocal opponents of the tariffs the US administration imposed on China in 2018 and 2019, though it managed to secure exemptions for its own products after a meeting between Tim Cook and President Donald Trump. In 2023, in response to Biden administration attempts to limit China's tech industry, the Chinese government announced that iPhones and other foreign-branded devices would be banned for workers in central government agencies.23 Apple shares fell 3% after Trump announced 10% tariffs on all goods from China in early February 2025.24

Apple has on occasion received backlash in the US and elsewhere for its operations in China. Apple was criticized for working conditions at its factories that precipitated large-scale protests at Foxconn's iPhone facility in Zhengzhou in 2022.25 It has been accused of supporting censorship in China.26 Analysts claim that concessions to Chinese authorities on data protocols may compromise data privacy and security for customers. According to the New York Times, some 55,000 apps available in other

countries disappeared from Apple's China Apps Store between 2017 and 2021.27

Looking ahead, Apple also faces a major challenge from Chinese competitors. Apple's share of smartphone shipments in China went from 7.5% in 2012 to 12% in 2021 to 17% in 2022 and 2023 and to 15% in 2024, with Chinese firms accounting for the rest of the market. While Apple had seen ups and downs in sales before, its 17% fall in China shipments for 2024 was its worst ever. Meanwhile, local rivals Vivo and Huawei saw full-year shipments rise 11% and 23% respectively.28 Of particular concern is that Chinese competitors made inroads in high- and low-end segments in 2024. Huawei's resurgence came as it used local semiconductors developed through massive Chinese state support to get around sanctions that limited its access to US technology. Other Chinese companies introduced new high-end foldables. Apple's 2024 China shipments were also hurt by a lack of AI functionality as ChatGPT is not available in China and Apple has yet to incorporate a local alternative.29 Chinese companies are also expanding globally, accounting for roughly half of global smartphone shipments in 2024.

Apple has arguably been the most successful foreign company in China. China is its second-largest market and its dominant production base. The combination has allowed Apple to become the most valuable company in the world. In return, Apple has been responsible for millions of jobs in China, supported Chinese universities and research institutes, created a vast supplier network, raised the level of Chinese technological capabilities, supported Chinese government initiatives, agreed to data controls, deleted thousands of apps from its app store, and invested in

Chinese companies. Apple has also been a vocal opponent of trade and investment restrictions on China. The relationship has been symbiotic, with Apple and China both benefiting enormously. And Apple has played the politics of being an extremely prominent US company, with an extremely prominent position in China, exceedingly well.

But even Apple is not immune to new challenges. Chinese smartphone competitors are getting much better and already account for roughly 50% of smartphone shipments worldwide. Apple's reliance on a hyper-efficient production system in China helped make the company what it is today but is proving problematic in the aftermath of the pandemic and in the face of East-West tensions. As these tensions mount, Apple runs the risk of angering one or both sides. And one wonders whether at some point China will decide it does not need Apple as much as it has to date.

While Apple seeks to reduce its reliance on China, China appears to be seeking to reduce its reliance on Apple. For both, untying the knot may prove difficult. Apple's China challenges are only likely to grow.

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Will Apple and China untie the knot? | Article | Hinrich Foundation

11 - Trade and technology, How China's Tech Crackdown Impacts Foreign Investment

Association of Foreign Press Correspondents in the United States


Alex Capri, Published 11 April 2023

China's recent acquisition of "golden shares" in major tech companies has raised concerns among foreign investors about potential government interference in the market. These shares will allow the Chinese government to have a direct say in these businesses, including their content and certain business decisions. Although Beijing has signaled the end of its two-year crackdown on the internet industry, it is still focused on maintaining control over the platform economy. Alex Capri, Research

Fellow at the Hinrich Foundation, shares his thoughts with the Association of Foreign Press Correspondents.

The return to the use of "golden shares" marks a shift in Beijing's approach to regulating the tech industry. While China needs the private sector to boost jobs and growth, the government is not willing to relinquish control over these firms. This could present a "nightmare" scenario for foreign investors, according to Alex Capri, a research fellow at the Hinrich Foundation. The US administration's executive orders that limit securities investments in Chinese entities suspected of aiding China's military could also add to foreign investors' difficulty in performing due diligence in China's opaque system. As a result, the acquisition of "golden shares" remains a key concern for foreign investors.

Capri's insights, shared with the Association of Foreign Press Correspondents (AFPC-USA), sheds light on the motivations behind Beijing's initiatives. This critical issue is likely to impact the investment decisions of many foreign investors in China, and Capri's analysis will help inform their decisions going forward.

How did the Chinese government embark on its crackdown on technology companies? What precipitated it?

China's crackdown on the tech sector, especially the platform economy, is part of a wider and deeper shift toward authoritarianism and "socialism with Chinese characteristics." The spectacular growth of companies such as Alibaba, Tencent, and Didi, ultimately, was detrimental to the Chinese Communist Party's (CCP) hold on power. A tipping point occurred with the blocking of Ant Financial's IPO in 2020, after Jack Ma,

Alibaba's co-founder and CEO made disparaging comments about China's regulatory agencies.

The blocking of Ant Financial's IPO, which was worth just under $40 billion, reflected three important factors that would spark a much wider CCP crackdown on big tech.

First, the sheer size and wealth of these platform companies was causing systemic risk to China's economy and spooking China's central bank. The amount of micro-lending, micro-investment and market speculation taking place via hundreds of millions of investors in the platform economy was a legitimate stability risk and needed to be fixed.

Secondly, it became clear that the CCP would not tolerate any company or celebrity executives garnering too much public acclaim or admiration. On the flip-side, huge wealth disparities had become apparent, as tech founders had become fabulously wealthy, and this flew in the face of the party's "harmonious society" idea. While this concept goes all the way back to Deng Xiaopeng, Jiang Zemin and Hu Jintao, the predecessors to Xi Jinping, under Xi, harmonious society means, unequivocally, total and absolute control of the party across China's economy and society.

Thirdly, the crackdown is about the growing strategic value of data. Large tech platforms are a treasure trove of data and a source of techno-authoritarian power—for surveillance, censorship, narrative wars and just plain old tradecraft. Geopolitics has hugely influenced the need to protect and to hoard strategic data. We're seeing this play out with the Congressional TikTok hearings in Washington. Please see my quotes, throughout, in a CNN Business article dated March 23.

Why have Chinese regulators shifted their focus and largely ended their crackdown on tech giants?

To be clear, Chinese regulators have not ended their assault on big tech, especially when it comes to social media, gaming and the sharing-economy. What they have done is shifted away from the blunt instrument of penalties, delistings, revocations of business licenses and other punitive measures. The new approach is preemptive rather than reactive. The CCP is looking to influence and steer companies and sectors by placing the party apparatus deeper inside an organization.

How has the Chinese government used "golden shares" to further state control over tech companies and internet content?

Owning a portion of a company provides access to the inner workings of an organization and provides influential links to the C-Suite and the boardroom.

How do these "shares" complicate or disincentivize foreign investment?

Foreign investors, especially within the G7 countries (including the entire EU as a non-enumerated member) are facing an increasing number of outbound investment controls that will make due-diligence regarding Chinese investments a nightmare. The issue for large institutional investors like BlackRock—or even a corporate investor pursuing a local "in-China-for-China" strategy—is how can they prove that a local investment in China isn't somehow linked to the Chinese military (the PLA). Because of ubiquitous civil-military fusion initiatives linking the CCP to the PLA, "golden shares" could become a show-stopper for large swathes of American and Western investment—assuming the Biden

administration and other governments choose to seriously enforce outbound investment restriction.

How does China intend to grow the private sector as its economy has reopened and how does the country expect to meet its growth targets?

China's most recent 5-year plan is highly techno-nationalist. It's looking to develop self-sufficiency in key strategic sectors including semiconductors, AI and fintech, massive digital infrastructure and connectivity initiatives, electric vehicles and the like. Beijing is looking to promote more national champions, while gladly accepting technology transfer from foreign entities in areas where it still lacks requisite expertise. The Dual-Circulation approach remains key, as does the idea of prioritizing the growth of the domestic economy. Defense spending has increased, and it's focused on tech.

How could the end of China's "zero Covid" approach continue to impact the government's initiatives and affect its economic outlook for 2023?

Foreign investors are piling back into China, post "zero Covid". Beijing's goal of 5% growth this year, therefore, shouldn't be ruled out, as I posed in my recent Forbes column, "Is China-Decoupling A Myth?"

The answer to the above question involves a wicked paradox. For now, a generation of Western executives that have built their careers off-shoring to China, continue to be driven by a strong case of China FOMO (fear-of-missing-out), despite a clear paradigm shift toward re-globalization, and eventually, towards more localization— for lots of reasons including climate change and the next pandemic. For now,

however, trade volumes, overall, have actually increased between the US and China over the past two years.

But this is all very misleading since strategic decoupling in key technologies such as semiconductors, AI, quantum computing, the Internet of Things, EVs, Biotech and other areas is indeed occurring. The problem is there's a massive "grey zone" of dual-use" technologies that will eventually fall prey to export controls, sanctions and blacklisting. This will continue to shrink the playing field in China for foreign corps. Thus, to answer the question, this will also affect Beijing's post-COVID growth plans, in the longer term.

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How China's Ongoing Crackdown on the Tech Sector Impacts Foreign Investment | Article | Hinrich Foundation

12 - Rising challenges for foreign firms in China

Michael Enright, Published 10 September 2024

China's business environment is becoming increasingly complex, with heightened regulations on data, national security, sanctions, and Communist Party influence, alongside massive state support aimed at displacing foreign firms. The evolving Chinese policies, economic headwinds, and geopolitical tensions demand a deep rethink by foreign companies of their China strategy.

China remains critical for multinational firms. It is the world's second-largest economy and its largest manufacturing location and trading nation. China is also among the world's greatest beneficiaries of foreign direct investment (FDI). As of the mid-2010s, approximately a third of China's GDP could be traced to foreign-invested enterprises (FIEs), their supply chains, and the consumer spending of related employees. However, the evolution of Chinese policies, slower economic growth, changing consumer behavior, and geopolitical tensions require a rethinking of China strategy for many foreign companies.

The policy environment

Foreign firms have always found China's policy environment challenging.1 China reserves a substantial portion of its economy for the state or state-owned enterprises (SOEs) through a Negative List for Market Access.2 China further restricts access to foreign companies

through its Special Administrative Measures (Negative List) for Foreign Investment Access, while the financial sector has its own restrictions.3 While the number of sectors from which foreign firms are excluded has been substantially reduced over time, China is still among the most restrictive of the world's large economies.

China's industrial policies increasingly aim to shift the balance in favor of Chinese firms. The "Made in China 2025" (MIC25) program announced in 2015 included targets for Chinese firms to displace foreign firms in domestic and international markets across 10 key technology areas.4 Further support in these areas is embedded in China's 14th Five-Year Plan (2021-2025). They enhance longstanding industrial policy including subsidies for Chinese companies in R&D, training, specialized industrial parks, foreign asset acquisitions, as well as preferential access to finance and government procurement. The policies reinforce signals to the banking sector, investors, entrepreneurs, and others as to which sectors they should support. Meanwhile, China continues to force foreign firms to share technology to access the China market.5 The lack of IP protection in China has cost foreign companies hundreds of billions of dollars in lost revenues, and Chinese theft of IP may have cost trillions more.6 The stronger local capabilities and increasing assertiveness of these policies make them more of a concern for foreign investors than ever before.

While many aspects of China's Cybersecurity Law, Personal Information Protection Law, and Data Security Law are similar to those found in other countries, limits on cross-border data transfers and related requirements on source codes, rights for government access, and for

companies to keep data within servers located in China have been described as "paradigm-shifting"7 and "unprecedented."8 China's expansion of its National Security Law and raids on foreign consulting companies have raised fears that even normal business analysis could be subject to arbitrary enforcement.9 The Anti-Foreign Sanctions Law passed in June 2021, a week after the Biden administration banned investment in 59 Chinese companies for aiding China's military and security forces, allows China to seize assets from companies that comply with foreign sanctions on China and to take action against senior managers of such firms – and their family members.10

China requires firms over a certain size to have Chinese Communist Party cells. By 2018, an estimated 73% of private companies in China had set up such cells, including more than 100,000 such cells in foreign-invested companies. The extension of control by China's party-state over all aspects of the Chinese nation has been a hallmark of the Xi administration. In 2016, President Xi Jinping called for the Party to integrate Party leadership "into all aspects of corporate governance."11 This includes the private economy, both domestic and foreign companies.12

Recent developments have combined to worsen the pressure and uncertainty faced by foreign firms operating in China.

The economic and business environment

The size and growth of the China market has long been the main attraction for foreign companies. However, slower economic growth, a graying demographic, and an imploding property sector have changed the "China story." China's 14th Five-Year Plan (2021-2025) claimed the goal

of overcoming abject poverty and providing a middle-income standard of living had been achieved and relegated headline economic growth in favor of development of key technologies, self-sufficiency, and national security. Given these forces, many analysts believe China's growth will decline from historical rates of around 7% to 3%-4% per year.13

The competitive environment has also changed. While foreign companies were once technology and quality leaders in China, this is often no longer the case. China has become an innovation leader in artificial intelligence, high-speed rail, e-commerce, and e-marketing. Chinese companies have become a global force in electric vehicles, consumer electronics, telecommunications equipment, solar panels, and many other industries, competing not only in the low end, but increasingly in premium segments and industries as well.14 Localization and Chinese cultural branding are becoming more important, particularly to younger Chinese, and Chinese consumers have taken to e-marketing and e-commerce to a greater extent than anywhere else in the world.

The slower domestic growth and increased competitive pressures have made the China investment story less compelling.

The political environment

Foreign companies in China are finding themselves caught up in global geopolitics to a greater extent than ever before. Several Korean companies found themselves frozen out of the Chinese market after the deployment of the US Terminal High-Altitude Area Defense, or THAAD, anti-missile system in 2017. Lotte, which once had extensive operations in China, has essentially exited.15 Samsung Electronics, once one of the largest investors in China, closed its last smartphone factory in China in

201916 and its last personal computer and television factories in 2020.17 In a classic case of Beijing's selective deployment of non-tariff barriers in service of its foreign policy, Norwegian firms and products were barred from China after the 2010 award of the Nobel Peace Prize to dissident author Liu Xiaobo. It took six years and a written apology from Oslo to normalize trade relations.18 Australia found itself in a similar position in 2020 after criticizing China for refusing to share more information tracing the outbreak of Covid-19. H&M had retail leases and online access blocked after the company said it wouldn't source cotton from Xinjiang.19 An Australian Strategic Policy Institute (ASPI) report cited 152 times China used what ASPI called "coercive diplomacy" against foreign companies or governments between the years of 2010 and 2020, an era that largely corresponds to Xi's ascendancy.20

Despite press commentary, it was China that initiated "decoupling" around 2005.21 China's "dual circulation" strategy, Xi's formalization of longstanding trade dogma, aims to reduce China's dependence on the rest of the world while making the rest of the world more dependent on China. This appears to have succeeded: McKinsey reported that the rest of the world's exposure to China tripled from 2000 to 2017 while China's exposure to the rest of the world decreased by a quarter.22 China's Belt and Road Initiative (BRI) is designed to "decouple" BRI countries from the West and Western institutions and couple them with China. The China International Payments System (CIPS), Beidou geolocation system, and "Digital Silk Road" are designed to do the same. It was the MIC25 program that galvanized a bipartisan and bicameral American answer, elevating an

economic conflict that coalesced in kind around the Trump, and later Biden, administrations' policy responses.23

These growing geopolitical tensions, and China's increased willingness to sanction companies officially or unofficially for acts or statements made anywhere in the world, further complicate matters for foreign firms. They dramatically increase the chances that companies will be caught in the tangle of public sentiment and political interests between China and their home countries.

Navigating the terrain

China is therefore increasingly complex for foreign firms. While restrictions on foreign investment have long been a fact of life in China, laws and regulations on data and cybersecurity, national security, sanctions, and Communist Party cells are new, have been expanded, or are being enforced to an unprecedented extent. China has always had aggressive industrial policies, but the scope, level of support, and attempts to displace foreign firms through massive state support are unprecedented in scale and scope.

Coupled with a Five-Year Plan that emphasizes self-sufficiency over headline economic growth, the rapidly developing capabilities of Chinese firms, and the emergence of a consumer market that increasingly favors local companies and brands, these factors represent a challenge of enormous proportions for foreign firms. This is particularly true as China's economy slows, the market opportunity for some firms diminishes, and the potential to get caught up in geopolitical tensions grows.

While some foreign firms have exited China, most have stayed. In 2024, European companies were most concerned with China's slowing

economy, with an historically low percentage looking to expand in China.24 On the other hand, East-West tensions represented the leading concern among American companies operating in China.25 The situation is challenging, but China remains the world's second-largest economy, contributes to a substantial portion of global growth, and is home to competitors and customers that may change the nature of industries globally, giving companies a strategic reason to face them in China.

For firms that continue to invest in China, it has become clear that they must think a lot harder about a lot more questions: Is their sector open or closed to FDI? Is it of strategic importance to China? Is it targeted by industrial policy? Are they a known leader by productive capability? Are they able and willing to transfer technology and expertise? Are they willing to support China's key priorities? The nationality of the company matters. As a result, in addition to their traditional market, competitor, and consumer analysis, foreign companies now must assess the changing policy, business, economic, and geopolitical environment in China. They must ask how much of a role China plays in their global strategies. And ultimately, they must ask themselves what their appetite is for competing – and perhaps failing – in one of the world's most important and challenging economies.

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China's deteriorating FDI environment for foreign firms | Article | Hinrich Foundation

13 - US-China trade, China is running out of FDI ideas

Stewart Paterson, Published 07 May 2024

Foreign investment has had a disproportionally large impact on the dynamism of the Chinese economy, largely due to the value of foreign ideas that came with FDI and used to drive China's domestic efficiencies and technological advances. As Beijing tries to stop the rot in its economy but foreign companies will not return, the government's worst – but perhaps likeliest – response would be to further isolate China from the global market.

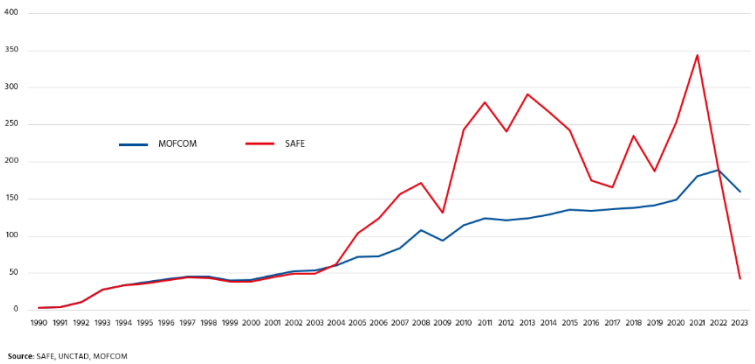
The collapse of inbound foreign direct investment (FDI) to China has attracted much attention. In the third quarter of 2023, according to data released by China's State Administration for Foreign Exchange (SAFE), foreign companies actually pulled more money out of China than they put into it: inbound FDI was negative for the first time on modern record. For the whole of 2023, the number was positive to the tune of US$43 billion,

equivalent to just 0.2% of China's gross domestic product (GDP) and down 77% year-on-year.1

China produces two sets of official FDI statistics based on different methodologies. The SAFE number is produced on a net basis, i.e., it takes account of foreign firms pulling capital out of China; includes some inflows such as regulatory purchases of bonds required by financial companies to comply with capital requirements; venture capital and private equity investments where these lead to a substantial change in foreign ownership; and money raised in offshore capital markets by China- related firms.2 China's Ministry of Commerce (MOFCOM) also publishes FDI data but uses a gross figure that does not include the categories listed above. There is also a timing lag between the two sets of data in the accounting of retained profits, which further set them apart.

The MOFCOM data on China's inbound FDI was not as dire as the SAFE data for 2023 as it did not capture outflows by foreign-funded companies divesting from China. Equally, as the chart below shows, it was never as high as the SAFE data in recent years because it does not capture regulatory inflows nor the private equity and offshore listing inflows. Nevertheless, the MOFCOM data shows gross FDI falling in 2023 to about US$160 billion after a prolonged period of relative stagnation even in nominal terms.

Figure 1 – China FDI: MOFCOM vs. SAFE data



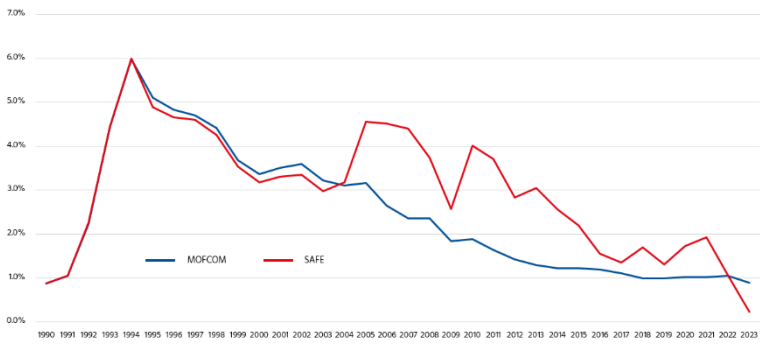
Source: SAFE, UNCTAD, MOFCOM

China's 2023 FDI data needs to be put in context. 2023 is the first year in which SAFE posted inbound FDI data at a level below MOFCOM data, demonstrating that the foreign firms exiting China has been a more influential factor than inflows that have historically augmented the SAFE number. It seems likely that about US$100 billion of foreign FDI left China in 2023.

In addition, as the chart below shows, net inbound FDI relative to China's GDP has been in a continual downtrend since 1994 when it was almost 6% of GDP. In a country where investment comprises over 40% of GDP, the foreign component is small when measured in purely quantitative terms. This, combined with the fact that China has consistently saves more than it invests, and is therefore not constrained by a lack of foreign capital, has led some commentators to dismiss the fall in FDI as being economically irrelevant.

It is not irrelevant.

Figure 2 – China FDI as a % of GDP: MOFCOM vs. SAFE data



Source: SAFE, UNCTAD, MOFCOM, World Bank

So what?

The fall in FDI has been attributed to several factors. Increased geopolitical tensions have created an atmosphere in which corporates are more circumspect on the risks that the geographic location of their facilities carries. The pandemic highlighted the vulnerabilities that excessive concentration of supply can bring. China's falling growth rate has additionally tarnished the appeal of investing there, based purely on future expected returns. And there is a perception that the business environment in China has become trickier to manage in the light of new security-related laws.

However, perhaps the real cause for concern is that FDI has had a disproportionally large impact on the dynamism of China's economy. While it may be true that a change of perceptions on China's future growth prospects has reduced China's appeal as an investment destination. It could also be the case that reduced FDI has dimmed the growth prospects for China: the causation runs both ways.

Consider for example the fact that, between 1996 and 2010, foreign companies accounted for more than 50% of China's exports by value. This

share has been in structural decline but remains significant at just below one-third now. In addition, foreign companies enjoy profit margins about 15% higher than their Chinese counterparts, implying greater capital efficiency. For example, in 2022, foreign-invested enterprises (FIEs) accounted for 20.7% of industrial enterprises' business revenue but 23.8% of profits. That compares to 2005 when FIEs accounted for 31.6% of revenue but 28% of profits. From a fiscal standpoint, FIEs are also very important, accounting for 17.6% of national tax revenue in 2022.3

Two trends stand out: Foreign participation in China's economy is more efficient and creates more value than its domestic counterparts, but is also in relative decline. The total stock of foreign investment remains substantial, which implies that its continued decline will exert a long-term drag on China's overall growth.

As things currently stand, using SAFE's international investment position data, China's stock of inbound FDI grew at a compounded annual growth rate (CAGR) of 16% in the ten years through to 2016. But by 2023, that ten-year CAGR had dropped to just 4%. This is an important but overlooked driver of China's structural slowdown.

Furthermore, if the trend continues – It's perhaps too soon to say they definitely will –China runs the risk of being increasingly divorced from growth in foreign supply chains. This may seem an odd thing to suggest when it is currently still so central to global supply chains, but China's centrality occurred relatively quickly. The reverse could happen just as quickly if China becomes effectively isolated from the foreign ideas that drive its domestic technological advances and other spillover impacts of FDI on domestic efficiencies.

Innovation is not just driven by foreign companies, but by Chinese ones too. Chinese firms looking to maximize profit would seek to reduce costs and stay connected to foreign customers, suppliers, and related ecosystems by moving offshore. This would compound the flight of FDI – and the power of ideas that economic growth requires – from China.

When looking at China's net inbound FDI relative to its net outbound FDI, it is interesting to note that, in both 2022 and 2023, outbound flows exceeded inbound flows. This has happened only once before – in 2016 – when it was accompanied by a brutal round of centrally-directed tightening of capital controls to head off a systemic economic collapse by preventing capital from leaving China. As China tries to stop the rot in its economy but foreign companies will not come back to China, Beijing's worst – but perhaps likeliest – response might be to stop Chinese companies from joining global supply chains overseas.

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Author: Stewart Paterson

China is running out of FDI ideas | Article | Hinrich Foundation

انتهى التقرير

The report ended

Raport się zakończył

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M E A K–Weekly Economic Report	م ع ك التقرير الاقتصادي الأسبوعي
Prof. Dr. Moustafa El–Abdallah Al Kafry	الأستاذ الدكتور مصطفى العبد الله الكفري

تحية طيبة،

أرسل لكم م ع ك التقرير الاقتصادي الأسبوعي التخصصي رقم 2025/549،

قضايا الاقتصاد العالمي – الاقتصاد الصيني - English

إعداد الأستاذ الدكتور مصطفى العبد الله الكفري

الأحد 26 تشرين الأول، 26 October 2025

هذا التقرير حصيلة متابعة للإعلام الاقتصادي والشبكة العنكبوتية. يتم تقديمه للأكاديميين والاقتصاديين وأصحاب القرار والمتابعين لتسهيل الوصول إلى المعلومة الاقتصادية.

تحتاج بعض المعلومات والبيانات الواردة في التقرير إلى تدقيق من قبل خبير أو مختص، حيث قد لا تكون موثوقة بما يكفي. يُرجى المساعدة في التحقق من هذه المعلومات وذكر المصدر لضمان الموثوقية. يُعفى المؤلف من المسؤولية عن أي معلومة غير صحيحة أو غير دقيقة واردة في التقرير، حيث يكون المصدر المثبت في أسفل كل مادة هو المسؤول.

ملاحظة :يرجى إبلاغي في حالة عدم رغبتك في استمرار تلقي التقرير حتى يتم حذف اسمك من قائمة البريدية. شكراً.

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M E A K Specialized Weekly Economic Report No. 000/2025,

Global Economic Issues

Prepared by Prof. Dr. Moustafa El-Abdallah Al Kafry

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