



BUSINESS at OECD

The OECD and China in the post-COVID scenario. Avoiding decoupling – strengthening resilience.

Presentation to the *OECD Informal Reflection Group on China*
27th of November 2020 | Virtual Meeting

Overview

- I. Economic assessment
- II. China Politics
- III. The Phase 1 Deal and Beyond
- IV. The Connectivity Strategy
- V. Reflection Topics
 - *The Risks Of Decoupling For Information Technology*
 - *A Global Look into the Horizons of Artificial Intelligence*
 - *Chinese SOEs – The long term non-reform*
 - *Supply Chain Resilience*
- VI. Conclusions and next steps



I. ECONOMIC ASSESSMENT



Recap: *Business at OECD* (BIAC) conclusions from June 2019

Strong need for more OECD policy engagement with China

- Big data (Social Credit System, impact on companies)
- Export Credits
- VAT as trade tool
- Monitor BRI impact, including procurement and environmental
- Enlargement of BRI to ICT
- Responsible Business Conduct (e.g. environmental) and Anti Corruption
- Corporate Governance and competitive neutrality

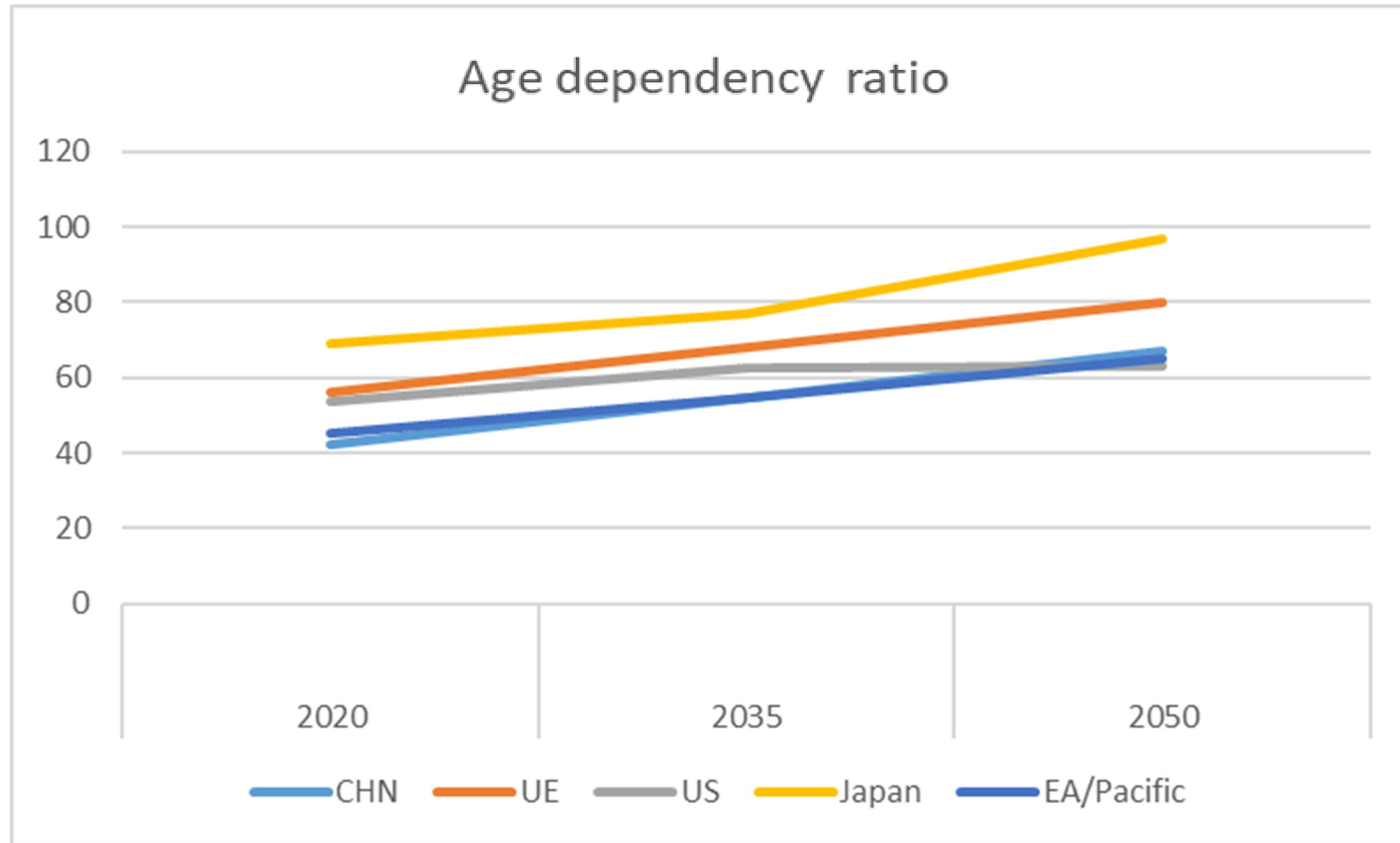


COVID19 and recovery with Chinese characteristics

- COVID19 pandemic has reshaped the world economy models and priority.
- China demographic trend continues to represent the main headache for the Chinese government.
- Despite of the crisis FDI continues to flow into the Chinese economy.
- The country has come out early from the crisis and leads the recovery process.



Demographic trend in China and advanced economies

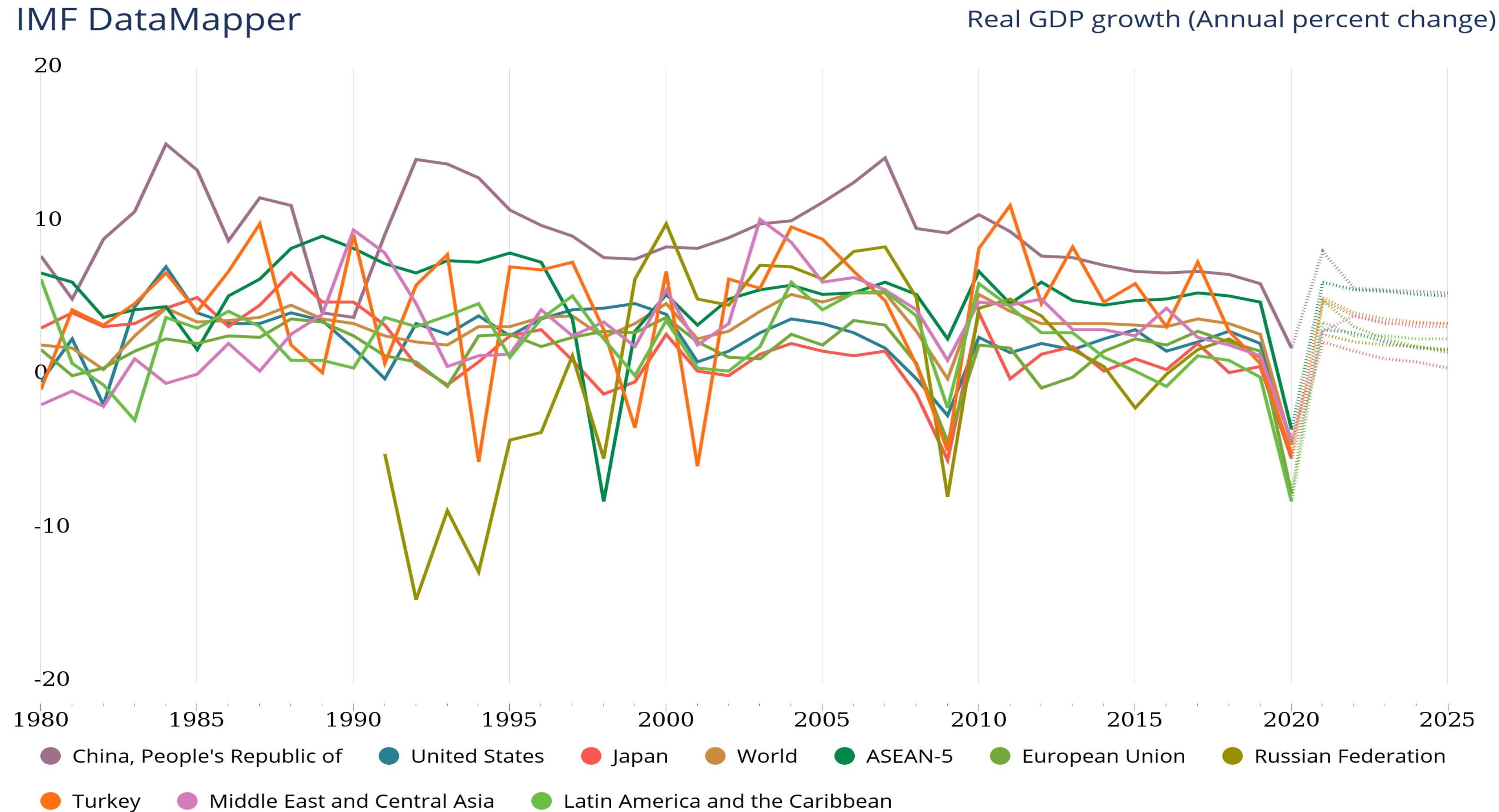


Sources: The World Bank data Bank, Business@OECD Elaboration



China leading the GDP recovery

IMF DataMapper



©IMF, 2020, Source: World Economic Outlook (October 2020)

- China to hit 100 tln Yuan GDP in 2020 despite pandemic
- Pledge toward growth quality vs. quantity
- Projected GDP growth of 5% in the next five years



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II. CHINA POLITICS





Domestic and international: a real challenge for China multilateral dialogues

- Covid19 outbreak narrative
- Confrontation with U.S.
- Hong Kong , Taiwan, Xinjiang, China-India Borders
- Wolf warriors/Sharp Power vs. Mask Diplomacy/Vaccine Diplomacy
- BRI vs. RCEP
- Military Might and South China Sea



The 14th Session of CPC CC formulating the 14th F/Y Plan

- Long Range Outlook (2035)
- Dual Circulation (what implications for the Foreign Business?)
- Self reliance in Research and Technology. Core position of innovation.
- Modernization of industrial chain and supply chain
- Action Plan to strengthen S&T on AI, Quantum Tech, semiconductor, Health, Aerospace, Deep earth and Deep Sea
- Developing strategic emerging industries (Cosmetic policies on MiC2025)
- Interstellar exploration and commercialization of navigation System
- National security and military resilience
- Consolidate and develop the public sector

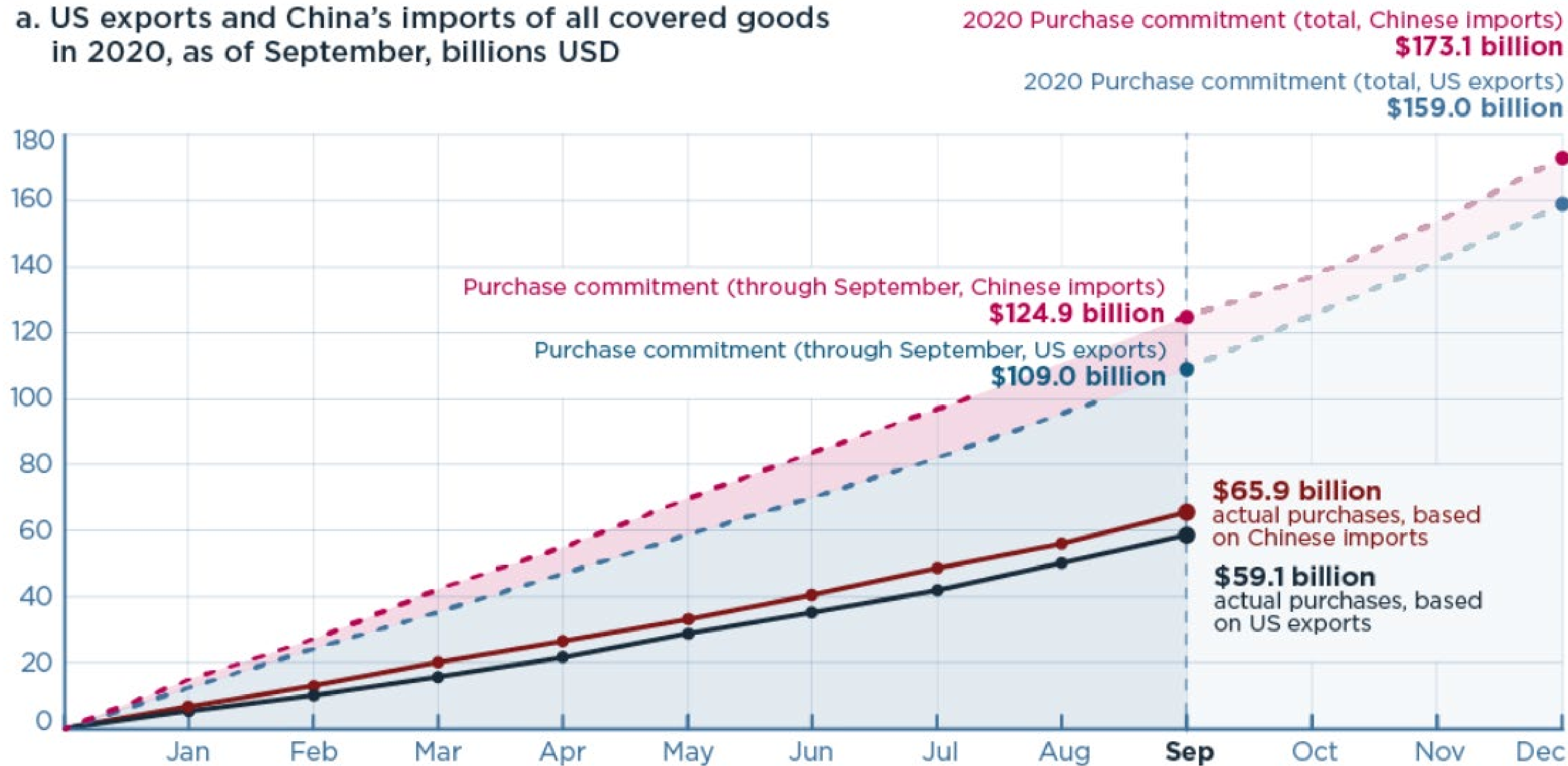


III. THE PHASE 1 DEAL AND BEYOND



On January 15th US and China signed the Phase 1 Trade Agreement

a. US exports and China's imports of all covered goods in 2020, as of September, billions USD



- The actual Chinese Imports from US are far below the commitment China has taken with the signature of the Agreement.
- However this could be justified by the COVID pandemic outbreak as well as explained with raising tensions in a number of topics with the Trump administration.

Source: Peterson Institute for International Economics



Financial and technological decoupling?



Source: Wind, The Economist Elaboration

... and FDI to China are continuously increasing

- FDI in China decreased by 11 percent in the first quarter of 2020 and it grew by 8.4 percent in the second quarter, and 20 percent in the third
- FDI reached \$103 billion in the first nine months of the year, up 2.5 percent from 2019.
- In September, the FDI was \$14 billion, up 25 percent from a year earlier. Growth is ongoing since April 2020.

IV. THE CONNECTIVITY STRATEGY



Update on BRI

- China has carried out a more low profile activity of investments and trade initiatives along the Belt and Road corridors
- Apparently it tries to play down debt trap issues with good will initiatives
- There is no evidence of a decrease of infrastructural projects that are benefitting a consolidated vertical ecosystem of industry segments
- There are indications that China pressures recipient countries to endorse Chinese technological standards instead of make use of existing ones, including in the digital domain
- “Health Belt and Road” could bring competitive advantages to Chinese industries in the Post-COVID19 context



V. REFLECTION TOPICS

Between Scylla and Charybdis?

The Risks Of Decoupling For Information Technology Globally



Decoupling – real option or nightmare?

Background:

Recently increasing bilateral tensions (e.g. US-China on Huawei, but also end-user platforms such as TikTok)

Dependencies in certain ICT market segments beyond 5G become visible (semicon)

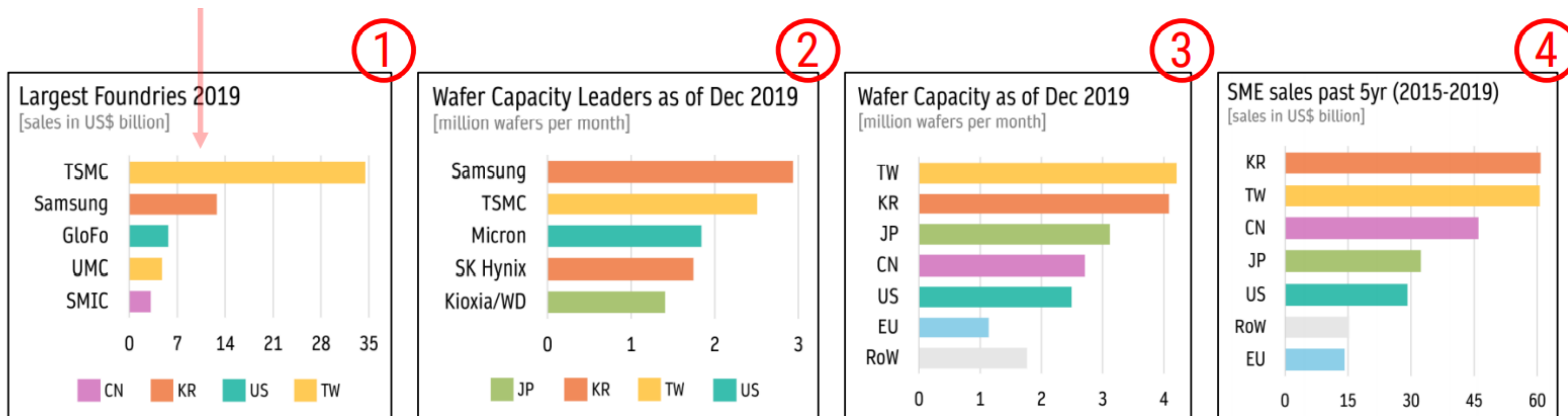
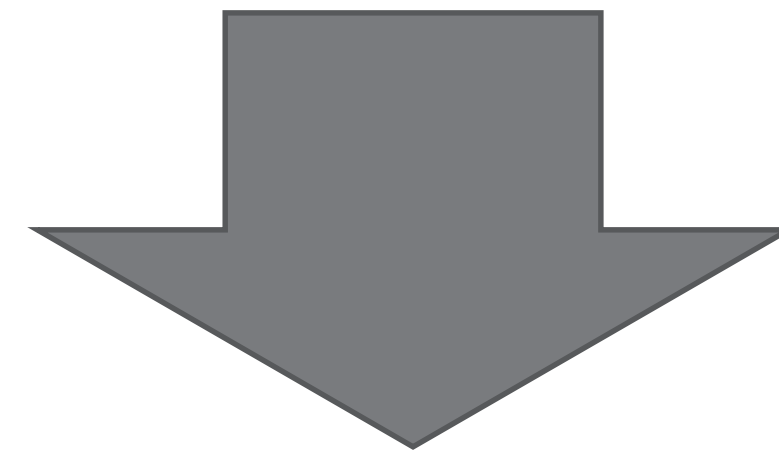


Illustration taken from presentation of J.-P. Kleinhans, SNV, at Bitkom, Nov. 2020



Which impact on ICT?

- Global separation of technology stacks becomes more visible (as predicted by BIAC a decade ago).
- Cost / benefit of separation vs. loss in innovation
- Sectoral policies and security regulation becoming more interwoven (not only in China...). Geopolitics becoming geoeconomics?
- IT business increasingly squeezed between localization requirements, data security and privacy regulation, industrial promotion politics (national preference) and persisting NTBs



- BIAC pledge for more competition, free markets. Long term economic gains vs. short-term national advantages.
- OECD to emphasize Interdependencies not as an obstacle but as opportunity to realize competitive advantages in GVCs.
- More cross-cutting policy dialogue needed: OECD work to increase transparency, and help improve level playing field (localization policies, rules on subsidies, disciplines for state enterprises and government-invested firms, etc.).

V. REFLECTION TOPICS

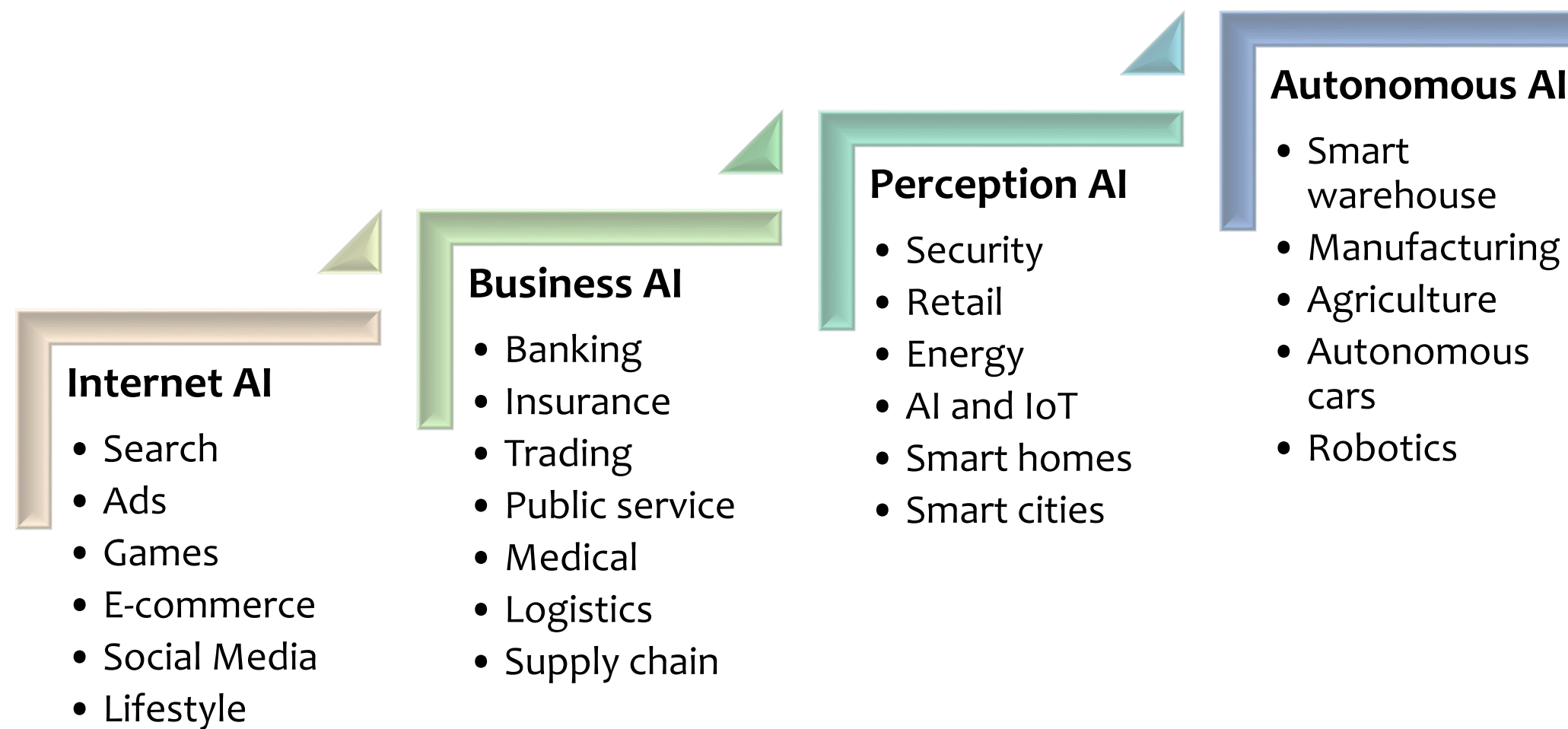
A Global Look into the Horizons of Artificial Intelligence



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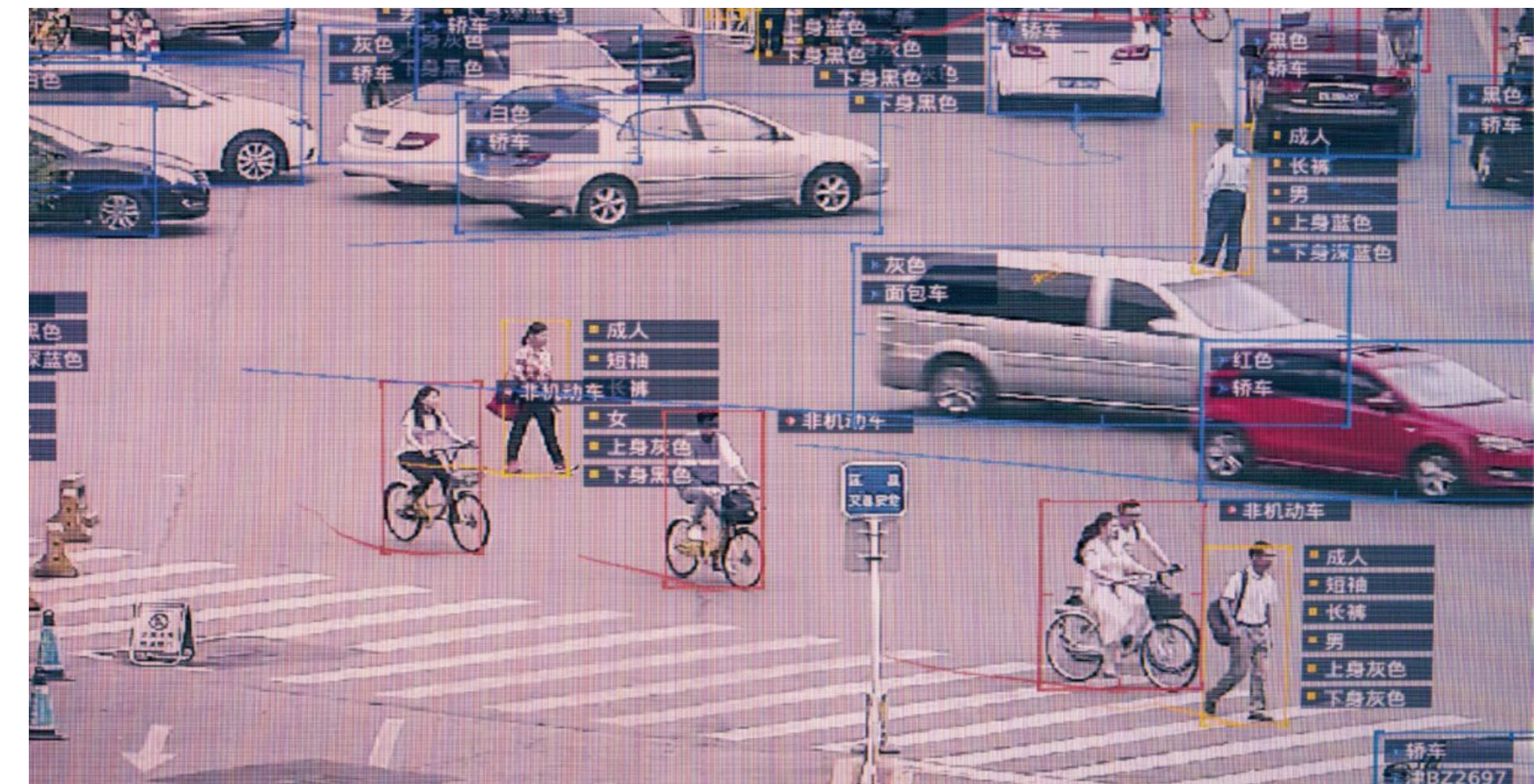
AI REVOLUTION

- The AI revolution will happen in a series of **four waves**.¹
- The later the wave, the more impact and risk into our lives.



AI SUPERPOWERS

- AI success is all about data at first:
China: the #1 producer of data: spans both quantity and quality
- By 2030, China would become the global leader in AI.¹
- China's AI policy puts emphasis on international cooperation.²
- Top 10 Chinese AI startups have already received ~ \$10 billion funding.³



¹ AI Superpowers: China, Silicon Valley, and the New World Order by Kai-Fu Lee
² Artificial Intelligence Industry Alliance (AIIA) and Linking Artificial Intelligence Principles (LAIP)
³ Crunchbase



A Global Look into the Horizons of Artificial Intelligence

AI METRICS¹

Metric	China	EU	US
Firms adopting AI	32%	18%	22%
Firms piloting AI	53%	26%	29%

Metric	China	EU	US
Number of AI Researchers	18,232	43,064	28,536
Number of AI Researchers per 1M workers	23.2	172.9	173.1

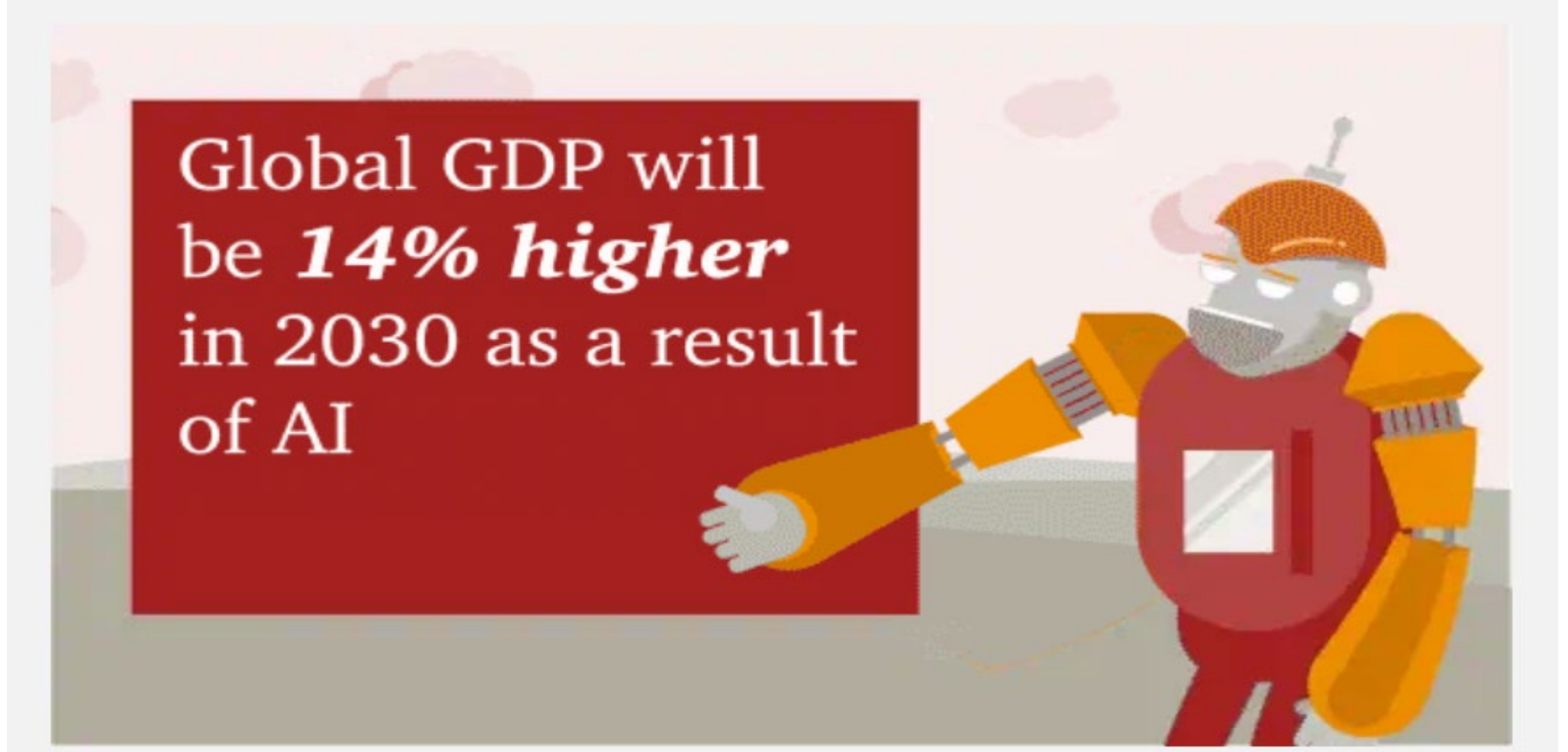
Metric	China	EU	US
Number of AI Papers	15,199	14,776	10,287
Number of AI Papers per 1M workers	19.2	59.2	62.6

Metric	China	EU	US
Number of AI Firms	6,400	5,120	9,000
Number of AI Start-ups	383	726	1393
AI Venture Capital and Private Equity Funding (Billion \$)	\$13.5	\$2.8	\$16.9
AI Venture Capital and Private Equity Funding per Worker (\$)	\$17.2	\$11.2	\$102.4

AI ECONOMIES

PwC estimates by 2030 AI deployment will add²:

- \$15.7 trillion to global GDP
- China with \$7 trillion of that, nearly double of North America's \$3.7 trillion.
- 26% boost in GDP for local economies



¹ European Parliament - Opportunities of AI – A study provided by the Policy Department for Economic, Scientific and Quality of Life Policies at the request of the committee on Industry, Research and Energy (ITRE).

² PwC's Global Artificial Intelligence Study: Exploiting the AI Revolution



A Global Look into the Horizons of Artificial Intelligence

AI NATIONALISM

Germany

- Jun 2020 - passed a law to review and even block the investments or takeovers for non-EU based AI companies

Japan

- Aug 2019 - passed a law that requires foreign AI investors to report to the government and undergo inspection.

UK

- Jun 2020 - expanded its powers to intervene in mergers on public interest grounds under the Enterprise Act 2002.

USA

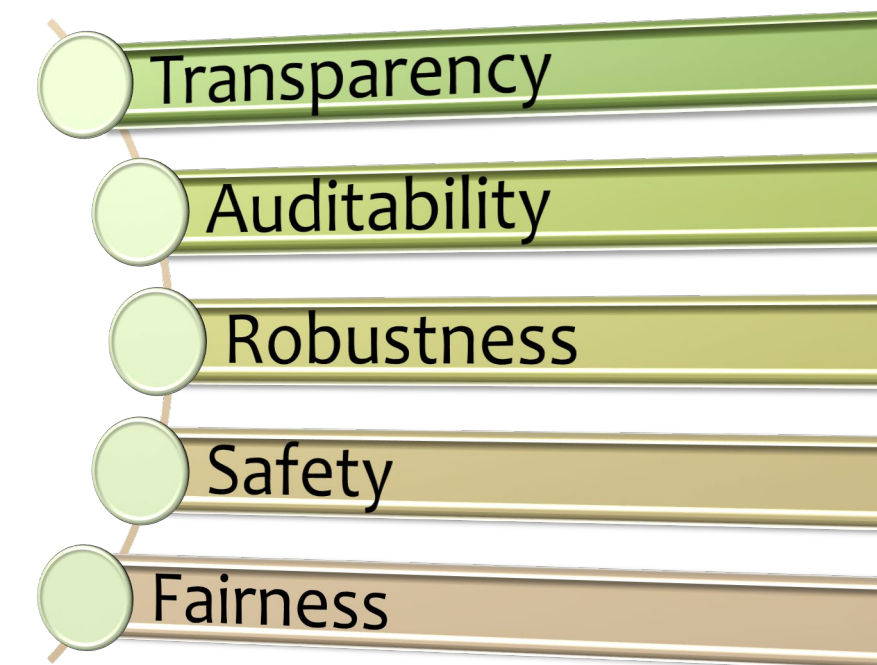
- Federal budget for non-defense AI R&D is increasing for the overall growth, sustainability, and prosperity of the nation.¹

AI PRINCIPLES

- OECD Actions:
 - May 2019 - released its AI Principles
 - Jun 2019 - the G20 adopted and derived from the OECD AI Principles.
 - Feb 2020 - launched its AI Policy Observatory

- Business at OECD helps the OECD Experts on AI (ONE AI), and OECD puts emphasis on AI across its Committees.

Common focus in the principles of China, EU and US



A topic cloud² of AI Principles in the
World in the shape of a Chinese
character 和
"Optimizing Symbiosis"

¹ The Centre for Strategy & Evaluation Services (CSES) secondary research (2020)

2 Linking Artificial Intelligence Principles (LAIP)

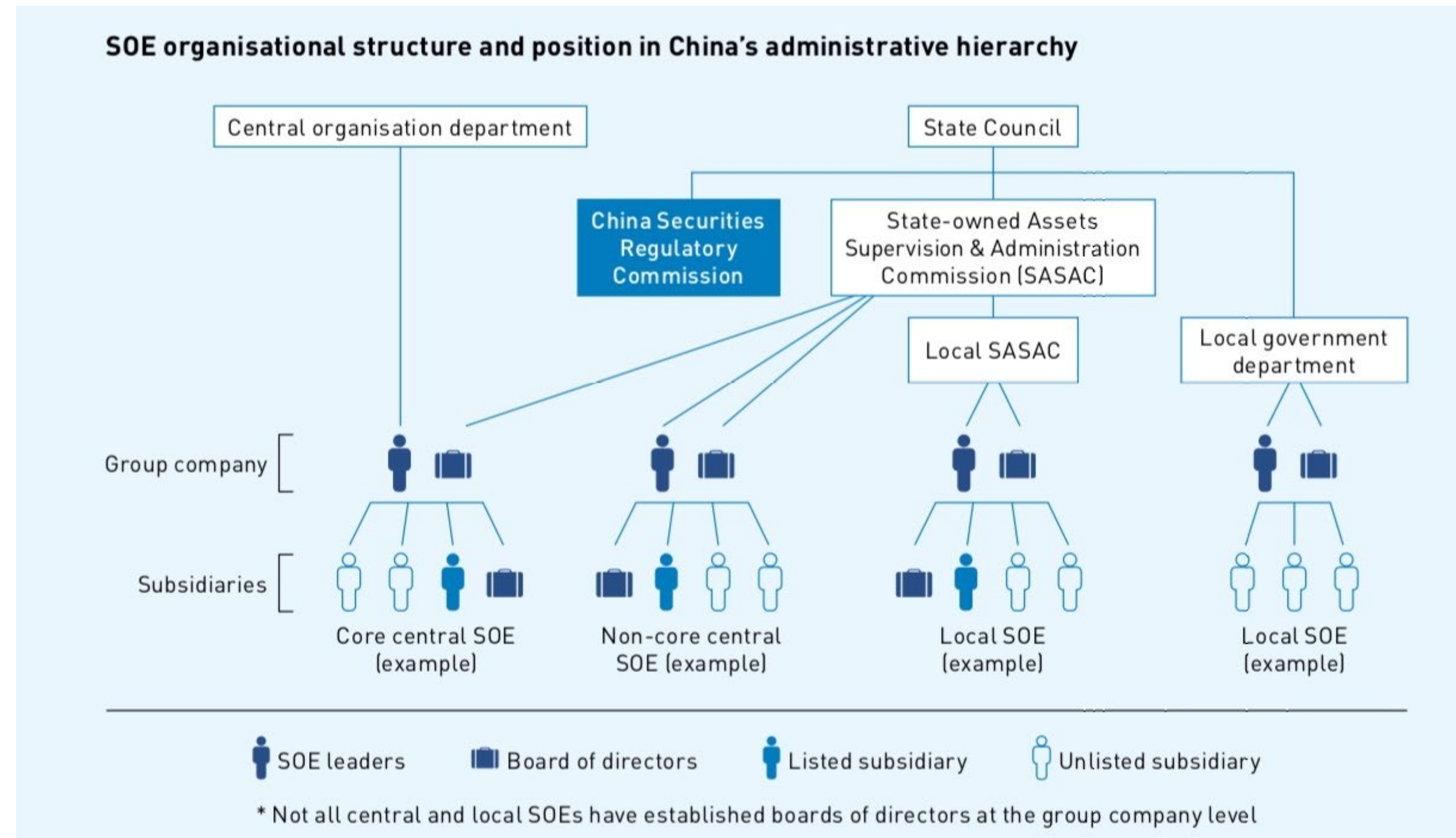
V. REFLECTION TOPICS

Chinese SOEs – The long term non-reform



Chinese SOEs – The long term non-reform

- SOEs «to become stronger, do better, and grow bigger»
- Mixed ownership reform? Party Cells role.
- SOE Action Plan 2020-2022 as answer to decoupling risks
- SASAC referee and player
- Managers swap
- The vertical model strategy



Source: Asia Society, Business Europe Elaboration

V. REFLECTION TOPICS

Supply Chain Resilience



Supply Chain Resilience – Global Picture

The impact of the pandemic was severe

- Covid-19 caused significant economic fallout
- Brought into focus: the need to strengthen supply chain resilience

Global business priorities

- Predictable regulatory, trade and investment policy environment
- Coordinated, coherent and cooperative international approaches

What not to do

- Reshoring global value chains
- Localizing production
- Decoupling our economies



Supply Chain Resilience – China Relations

For Global Value Chains Business Needs:

- Reduction of heterogeneity of technical standards and unnecessary non-tariff measures
- Narrowly focused national security exceptions based on well-defined criteria
- Promotion of digitalization, digital trade and e-commerce

Global reliance on China

- China is significantly integrated in the supply chains of the global economy
- Overreliance on China caused vulnerabilities in global supply chains – diversification is necessary
- Decoupling (supply chains, technological, financial etc.) would have significant impacts



VI. CONCLUSIONS AND NEXT STEPS



On what should OECD explore ways to engage China?

- **Standards (liberalisation of capital movements, export credits, state-owned enterprises, anti-bribery and responsible business conduct, mutual acceptance of chemicals data, etc.)**
- Along sectorial topics engage China on her non-sustainable vertical strategy model approach → Competitive Neutrality
- Sustainability and Carbon Neutrality
- Health Connectivity
- S&T Innovation
- Clarification of dual circulation



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THANK YOU!

For more information please contact the
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