China’s Global Impact
The Business Exposures and Economic Implications of a Globalizing China

EXECUTIVE SUMMARY

China’s global influence on markets and economies is significant and growing, spanning most sectors, regions, networks, and industries. Whether or not multinational companies operate there, China factors will inevitably impact their business. Executives need to understand the gamut of potential China exposures, so they can position their companies to exploit associated opportunities and mitigate risks.

“China exposure” is the positive or negative impacts that China-related developments could have on a global business, directly or indirectly. Prospective China exposures are myriad and stratify across three dimensions: likely to plausible; major to minor; and near-term to longer-term. Many business leaders intuitively grasp, and continually assess, their respective business exposures related to market, economic, or political conditions or unfolding events inside China itself. Rarely, it seems, are “China factors” assessed for their global impacts. The events of 2H 2015 related to China’s equity market collapse and “surprise” RMB (renminbi) devaluation alerted us to a critical gap in understanding by global businesses and financial institutions regarding China’s probable and plausible impacts on the global economy and the business environment, both inside and outside China. This summary, the larger report on which it is based, and our ongoing research and engagement program attempt to close that gap and better position multinational companies (MNCs) to be more cognizant about, and more agile and resilient to, China geo-economic exposures.

Global China exposures for national economies, MNCs, and financial institutions are many, and they are intensifying in terms of reach and potential magnitude. These exposures are both unintentional—the inadvertent consequences of changes in China’s economic conditions—and intentional—the result of China’s national and global economic development initiatives and purposeful international exertions.
Consequential and Intentional China Impacts

On the consequential side, China’s economy, the world’s second-largest, is deeply and substantively connected with global trade, investment, production, and financial networks. Changes in China’s economic conditions thus potentially bear significant impact globally. For example:

- Changes in Chinese growth exert material influence on global commodity demand, the economies of commodity-producing countries, and on the workers and investors in affected sectors.
- China’s industrial sector (a major buyer of machinery and equipment) has significant impact on capital good exporting countries: Germany, Japan, Korea and the United States.
- Many major MNCs have material interests in the Chinese domestic market. Any impact on the local economy propagates through MNC bottom lines to home markets and to institutional investors who own their shares on behalf of households and pensioners.
- Global banks and investment funds are substantially active in Chinese financial markets and corporate finance activities. High positive demand diverts financial capital from other destinations; defaults can transmit globally, causing wealth destruction and associated economic drag both inside and outside of China.
- New volatility in China’s currency can unexpectedly change the price of goods and services flowing in and out of the country, impacting revenues and costs on both sides of the Chinese border.
- Chinese hot money flows, recently seen in surging capital flight, can and do impact asset markets worldwide, including city real-estate markets and share prices around the world.

What Is “Geo-Economics”?  

For our purposes, The Conference Board defines geo-economics as the international economic consequences (actions and reactions) of a given set of domestic or geopolitical trends and national exertions, both intentional and unintentional. In plainer English, geo-economics encompasses the way in which a country (or countries) impacts the global economy, either on purpose or through internal factors beyond its control. Thus, the study of China’s economic phenomena and how these exertions and influences affect geopolitics and commercial and financial markets globally can be included in the field of geo-economics.

China has become a major geo-economic actor across many spheres.*


---

1 “Hot money” refers to investment funds that are intended for the highest short-term rate of return.
On the intentional side, China is well underway with, or has recently initiated, an array of ambitious global development projects of significant scale and reach that bear watching for both first- and second-tier impacts on regional economies and businesses. For example:

- The vaunted “One Belt, One Road” (OBOR) initiative could significantly alter supply-chain economics and national competitive dynamics in Asia by either catalyzing a new set of emerging markets in Central Asia, Indochina, and the Indian subcontinent or creating a set of dependency risks across these regions if large-scale projects, once started, fail or if project encumbrances ignite political or social instability.

- Development aid programs in Africa or the Middle East could enhance economic prospects in these regions, or, if governance failures occur, further weaken political and institutional foundations.

- High-speed rail (HSR), nuclear, and civil works exports could provide much-needed infrastructure enablement to boost growth in advance markets, but they could lead to instability if quality standards aren’t met or financing arrangements prove to be commercially unfeasible.

- China’s engagement with key international economic institutions—e.g., the IMF, the World Bank, the ADB (Asian Development Bank)—and the promotion of new adjunct institutions it has founded, like the Asia Infrastructure Investment Bank (AIIB) and the China International Payment System (CIPS), could positively impact the current inertia of institutional systems arguably in need of renewal, or it could upend these systems by virtue of China’s different ideological orientations with respect to cornerstone concepts, such as independence, intellectual property, transparency, and rule of law.

- China’s national champions firms, both private and State-owned, are actively acquiring or investing across resource, industrial, and technology sectors, and portend to change the competitive dynamics for previously entrenched MNCs in many market spaces around the world, while significantly impacting valuation metrics and investment planning considerations. On the other hand, overpayment and/or integration or financing challenges raise many business viability questions.

- Chinese outbound direct investment in Western developed economies—as manifested primarily in an explosion of M&A activity in recent years, but also in increasing greenfield developments—radically, if only momentarily, changed sell-side calculations among Western companies seeking buyers and churned up a range of political sensitivities among US and European polities.
Figure 1

The Geo-Economics of China Exposure

China’s Economic Condition

- Growth and scale
- Currency value
- FX reserves
- Fiscal strength
- Financing capability/capacity
- etc.

China’s Geo-Economic Platforms

- One Belt, One Road (OBOR) and “capacity cooperation”
- RMB internationalization
- International loans and equity investments
- New Keystone International Economic Organizations (KIEOs): Asian Infrastructure Investment Bank (AIIB), BRICS bank (NDB)
- State Reserve Bureau market making in commodities
- High-speed railway (HSR), nuclear, civil works’ exports
- International listings, fund raising, State-sponsored M&A and OFDI
- Aid, development grants, Build-Operate-Transfer projects (BOTs)
- FTAs: Regional Comprehensive Economic Partnership (RCEP), Free Trade Area of the Asia-Pacific (FTAAP)
- Security services abroad and PLA expansion
- China International Payment System (CIPS)
- Multilingual outward-facing media propaganda organs

Global Reactions

- Exclusion from next-generation free-trade agreements
- Increasing public and polity distrust in partner countries
- Anti-China populism / nationalism in the West
- Currency and trade wars
- South China Sea — pivots and blocs
- Strengthened US alliances in ASEAN, South Korea, Japan
- Increased military spending in Asia
- Market Economy Status non-designation (WTO)
- No more conditionalities — FTAs, US-China BIT, EU-China, WTO, etc.
- OBOR project skepticism

Transmitters

- Commodity demand / pricing
- Defaults of commodity firms
- Emerging Market currencies
- Global equity market volatility
- Capital flow & trade imbalances
- China creditor defaults?
- etc.

Propagations

Global Business Environment & Financial Market Impacts
Less Visible China Exposures

China’s growth rate has already slowed more substantially than many realize (see Figure 2), and there are many important China exposures that do not register on the dashboards of senior executives even though they (could) exert very real effects on local markets across the world if China continues to decelerate. For example:

**Real estate** Chinese buyers are substantially driving local residential housing markets—from Toronto to Singapore and from Manhattan to Sydney. In addition, many of the largest new residential and commercial developments in cities across the world are Chinese-backed or Chinese-developed. Local economies depend on whether these developments boom or bust.

**Tourism** Chinese tourists took an estimated 122 million trips abroad in 2016, spending an estimated US$109.8 billion.² Cities and local businesses worldwide have come to rely substantively on income from Chinese tourists.

Figure 2

*China’s GDP growth has already dropped significantly*

Official National Bureau of Statistics (NBS) data versus The Conference Board (TCB) alternative estimation

Note: For detailed information and methodology regarding The Conference Board Global Economic Outlook and, specifically, the alternative estimation of GDP for China, see [www.conference-board.org/data/globaloutlook/index.cfm?id=27457](http://www.conference-board.org/data/globaloutlook/index.cfm?id=27457). Responses to frequently asked questions about China calculations can be found at [www.conference-board.org/retrievefile.cfm?filename=FAQ-for-China-GDP-vs4_10nov15.pdf&type=subscription](http://www.conference-board.org/retrievefile.cfm?filename=FAQ-for-China-GDP-vs4_10nov15.pdf&type=subscription).


Figure 3
Envisioning plausible short- and long-term global impacts of a sharp China economic correction
Examples of predictable or plausible impacts and corrective outcomes

<table>
<thead>
<tr>
<th>NEAR-TERM (predictable/plausible impacts)</th>
<th>LONGER-TERM (predictable/plausible corrective outcomes)</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Global financial market volatilities caused by RMB and A-share gyrations, and corporate-earnings’ misses caused by China slowdown—countervailing impacts on QE (quantitative easing) programs in Europe and elsewhere</td>
<td>• Reset and rationalization of energy and mineral prices—return to pre-Chinese demand stability. Material disintermediation of speculative, destabilizing, derivative financing activities</td>
</tr>
<tr>
<td>• Volatilities caused by escalated geo-economic exertions—devaluation, State-supported international investment and M&amp;A, large-scale State industrial investment: Made-in-China 2025, the One Belt, One Road Initiative, etc.</td>
<td>• Positive real-estate market corrections: reduction in irrational Chinese buyers that have made housing unaffordable in many markets worldwide and have knocked-on cost-of-living inflation in those markets</td>
</tr>
<tr>
<td>• Painful structural adjustments associated with China “de-bubbling,” especially:</td>
<td>• Positive re-distribution of global financial, material, and environmental resources</td>
</tr>
<tr>
<td>- On asset pricing and valuations—financial losses, demand reduction impacts of wealth destruction, lower investment</td>
<td>• Intensified reform pressures, sans China windfalls, on countries that coasted on the China boom, especially the most retrograde states</td>
</tr>
<tr>
<td>- On commodity export economies—prolonged low growth and substantial declines in commodity and energy sector investing</td>
<td>• Healthy de-concentration of manufacturing capacity, with more diversified emerging market re-distribution in the future</td>
</tr>
<tr>
<td>- On capital good exporting economies: Korea, Japan, Germany—reduced investment, painful capacity adjustments</td>
<td>• Reduction of the value destruction imposed on MNCs by Chinese IP theft and subsidized competition (and its resultant forced cost-cutting and product commoditization)</td>
</tr>
<tr>
<td>- On adjacent “Greater-China” economies: Hong Kong, Taiwan, Singapore</td>
<td>• Recipient country benefits of healthy Chinese capital outflows and ODI (outward direct investment)</td>
</tr>
<tr>
<td>- On emerging markets globally, if and when major China-backed developments stall or bust</td>
<td>• Recipient country benefits of Chinese talent outflows</td>
</tr>
<tr>
<td>• International impacts of large-scale China corporate debt defaults (China’s non-financial corporate debt stands at a staggering 169% of GDP—or about US$18 trillion*)—depending on where debt is held</td>
<td>• Reduction in Chinese military spending and consequent de-escalation of sovereignty frictions in Asia</td>
</tr>
<tr>
<td>- Foreign equity holders in Chinese banks (e.g. pension funds)</td>
<td>• Reduction in State-backed “Go Out” expeditions and the negative host-country impacts it entrained (government corruption, counterfeit goods, environmental degradation, etc.)</td>
</tr>
<tr>
<td>- Correspondent foreign RMB creditors on USD lending by Chinese banks to Chinese corporates</td>
<td></td>
</tr>
<tr>
<td>- Foreign holders of Chinese fixed-income property and property-collateralized bonds</td>
<td></td>
</tr>
<tr>
<td>• MNC losses from RMB depreciation and/ or repatriation controls—impacts on MNC investment in home/other markets</td>
<td></td>
</tr>
<tr>
<td>• Inflationary and deflationary pressures</td>
<td></td>
</tr>
</tbody>
</table>

* See “China unveils plans to cut corporate debt, to push debt-to-equity swaps,” Reuters, October 10, 2016.

Source: The Conference Board
Talent flows Approximately 900,000 Chinese students study abroad these days, and this cohort has become a vital source of revenue for universities in the United States and Europe. Increasingly, Chinese talent is flowing into international labor markets and is a critical channel for high-tech sectors in Asia and North America.

Disruptions in these and many other areas could have material impact on affected cities, their regional economies, and beyond.

It is important to note that, while many of these exposures suggest downside outcomes for global business in the near-term, many upsides are conceivable in the longer-term. Economic corrections in China that might yield volatility for the financial sector in the near-term could very likely yield greater stability longer-term for the real sector in everything from the pricing environment to capital flows and commodity prices. Similarly, while China’s industrial policies can be very disruptive to global cost structures and supply-chain configurations, many winners and losers can be found along the way. China’s super-scaling in the solar panel industry from 2008 to 2013, for example, created supra-profitability for many players, followed by significant wealth destruction from overcapacity effects thereafter. But now, rising from the ashes, there is a booming installation and servicing business around the world that was arguably enabled by new low price-points attributable to “the China factor.”

Planning for China Exposure

How should executives think about all these exposures? We recommend a two-pronged approach:

1 **For consequential exposures**, a deep understanding of China’s economic condition and its likely future evolution is paramount. Dedicated resources, internal and/or external, should be assigned to this task. Furthermore, knowledge about the channels through which domestic events in China can propagate abroad and impact business operations is critical.

2 **For intentional exposures**, Chinese outbound projects should be monitored for potential company-specific business impacts, both direct and indirect. For projects with potentially high impact, progress and feasibilities should be monitored against funding considerations and international receptivity factors. Said another way—MNCs must assess whether project funding from China and its partners is likely to materialize and, if so, whether a given host

---

3 “A Record Number of Chinese Students Abroad in 2015 but Growth Is Slowing,” ICEF Monitor, April 6, 2016.
5 See: China solar industry case study in Anne Stevenson-Yang, *China Alone: The Emergence from and Potential Return to Isolation* (Mexico: J Capital Research Ltd./Universidad Nacional Autonoma de Mexico, December 24, 2013)
country is likely to follow through on the project in question and at what level of vigor and enthusiasm. A host of factors inform the answers to these two questions, and these factors need to be identified and scrutinized continually. It is not a static situation.

For near- and medium-term planning purposes, the consequential exposures we consider highly plausible and most important for the C-suite and strategy functions to consider are:

- A more significant GDP slowdown in China than is currently anticipated and the deflationary impacts this could have globally.
- Defaults of Chinese loans and bonds held by international commercial banks and sovereign central banks.
- Significant deterioration in geopolitical relations between China and its key economic partners.
- Dramatic new volatility in the value of the RMB, or a major retreat in the RMB internationalization program, and the surge in outflows this might encourage that would possibly overwhelm monetary environments in recipient markets.
- Unexpected demand-side shifts in China’s domestic market—in the consumer, industrial, or commodity space—whether positive or negative.

For near- and medium-term planning purposes, the intentional exposures we consider highly plausible and most important for the C-suite and strategy functions are:

- Retaliatory trade and investment policies undertaken by Beijing in the event of more stringent treatment of Chinese international players and exporters by Western capitals.
- Substantial investment projects along the OBOR region and the opportunities/risks that they present—along with the (less likely) long-term changes they may induce—including medium- and high-speed rail (HSR) in Southeast Asia and Africa, port build-outs in South Asia and Africa, the China–Pakistan Economic Corridor, energy infrastructure in Central Asia and Southeast Asia, and general “special economic zone” construction across the entire region.
- Global market disruptions caused by newly competitive and strongly supported Chinese digital industries that ascend in line with the Made in China 2025 plan and portend potential super-scaling impacts like those mentioned above in the solar panel sector.
- Volatility in outbound Chinese capital caused by opaque and unpredictable capital control policy regimes and the strain those same regimes inflict on MNCs’ ability to repatriate cash.
Looking forward, The Conference Board **China Global Impact Program** intends to identify and define—and quantify, when possible—the major exposures to the MNC business environment emanating from China, across both the short and long term, and help top business and financial service executives understand and position their companies for associated opportunities and plan for associated risks.

Please [click here](#) to read the full report from which this summary was extracted.

### Related Publications from The Conference Board China Center

- **China Center Chart Dive: If China trade sneezes, where are Asian countries vulnerable to catching a cold?**  
  July 13, 2017
- **China Center Chart Dive: New data reveal less severe trade imbalance between the US and China**  
  March 15, 2017
- **China Center Quick Note: The Belt and Road—Globalization with Chinese Characteristics**  
  June 12, 2017
- **China Center Chart Dive: RMB Internationalization—No Pain, No Gain**  
  January 20, 2017
- **China Center Chart Dive: US-China trade relations—who needs who more? A global value chain & GDP exposure view**  
  April 22, 2017
- **China Center Quick Note: The RMB’s Rise—IMF SDR Inclusion**  
  October 25, 2016
- **Deep Dive Exchange Series: China’s New Capital Controls—Prognosis and Response**  
  April 1, 2017
- **China Center Quick Note: China’s New “Going Out”**  
  August 5, 2016
- **China Center Quick Note: China & Brexit**  
  July 7, 2016

For CHINA CENTER membership information, please email Ethan Cramer-Flood at ethan.cramerflood@conferenceboard.org, call +1 212 339 0286, or visit us online at www.conferenceboard.org/chinacenter.

For inquiries in China, please email Jude Blanchette at jude.blanchette@conferenceboard.org or call +86 (10) 8532 4688.
About the Authors

David R. Hoffman is senior vice president, Asia, and managing director of The Conference Board China Center for Economics and Business. Based in Beijing, Hoffman is responsible for the center’s strategy, research agenda, research program delivery, partner relationships with Chinese government organizations, and value delivery to members of both the China Center and The Conference Board. He leads numerous research projects and outreach activities, oversees a team of researchers in both China and New York, and coordinates the network of eminent advisors and scholars from The Conference Board who undertake China Center programs. Hoffman is also an independent, nonexecutive director of Eastern Broadcasting Corporation in Taiwan.

Prior to joining The Conference Board, Hoffman led the Technology-InfoComms-Entertainment Advisory practice of PricewaterhouseCoopers in China (“TICE Advisory”) for 20 years, where he served the senior-most executives of technology companies, telecommunications operators, information service providers, and traditional and new media companies. He also provided extensive advice to regulators and service providers on sector development strategy, regulatory policy, regulatory risk management, and compliance.

Ethan Cramer-Flood is the associate director of The Conference Board China Center for Economics and Business. Based in New York City, he helps direct the Beijing-based China Center and supports The Conference Board’s Asia-based operations in Hong Kong and Singapore. Cramer-Flood is responsible for building and driving the China Center’s expertise and thought leadership on China’s position in the international political economy and for engaging The Conference Board member companies and the media on the topics of geopolitical risk and international affairs with regard to China and Asia.

Previously, Cramer-Flood served as a professor of International Relations at China Foreign Affairs University in Beijing, where he specialized in international relations theory and US foreign policy and conducted research on US-China relations. He has been published numerous times in academic and scholarly journals focusing on international affairs, and has appeared in media in China and the United States, both on-screen and in print. Cramer-Flood holds an MS in global affairs from NYU, where his research focused on China’s engagement with Africa, Chinese foreign policy in general, and global scenario-based planning, and earned his BA in history from Haverford College.

Erik Lundh is a senior economist in China geo-economics at The Conference Board China Center for Economics and Business. Based in New York, he is responsible for much of our work on the implications of China’s global economic integration and works closely with both the global economics team and our researchers in Beijing.

Lundh joined The Conference Board from ISI Group, a leading sell-side research brokerage, where he spent five years generating top-down research on China for institutional investors. His research focus included macroeconomic indicators, capital markets, commodities (hard, soft, and energy), and fiscal and monetary policies. He also spent time examining China’s bilateral economic relationships and various Chinese industries.

Earlier in his career, Lundh was an economic analyst at the US-China Economic & Security Review Commission and spent several years working at the Overseas Private Investment Corporation and the US-Taiwan Business Council. He earned his BA in Economics and International Relations at the University of California, San Diego, and his MBA from Thunderbird School of Global Management.