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China’s Tech Rush

How the Country’s Latest Campaign is Shaping Industries and Markets

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China’s campaign to advance its technological capabilities has the potential to transform many emerging high-tech industries through an unprecedented level of government support and cooperation with the private sector.

China is in the midst of a dramatic campaign to acquire and develop advanced technologies. The effort is motivated by the government’s desire to move up the economic value chain and reduce dependency on foreign-controlled technology. Reliance on foreign technology is more than a problem of profits – it can be linked to critical issues of national security and economic dependency. Escalating U.S.-China economic conflict has made Chinese policymakers painfully aware of their country’s reliance on foreign suppliers.

The goal of the technology campaign is for Chinese firms to establish leading positions in emerging industries, including new energy vehicles, artificial intelligence, and advanced semiconductors. To support this effort, the Chinese government is directing vast amounts of resources toward encouraging domestic innovation, financing industrial upgrading, and supporting the acquisition of overseas technology. Private capital has also been mobilized to support the campaign, often investing in concert with the government.

Three key policy frameworks have come to define China’s current tech rush: Made in China 2025, the Internet Plus Action Plan, and the Next Generational Artificial Intelligence Development Plan. Together these policies form an overlapping web of strategic industries targeted for government support. At the national, provincial, and city levels, government-linked entities are striving to advance the goals outlined in these plans.

Technology and the power derived from it have loomed large in China’s national psyche for the past two centuries. Since taking power, the Chinese Communist Party has been an ardent promoter of top-down national campaigns to acquire and develop technology, with mixed outcomes. The current technology campaign builds upon initiatives of the past, but the methods being utilized reflect an evolution of the government’s approach to the private sector. Rather than being shut out of the process as in the past, private firms are being actively recruited to support the effort. There are inherent limitations to the ability of government policies and programs to achieve technological breakthroughs and develop advanced industries. Nonetheless, China’s embrace of both public and private forces for the campaign has the potential to be much more effective than previous efforts.

China’s large and dynamic private sector has already produced many innovative and cutting-edge firms. One example is in the realm of financial technology (fintech), where several Chinese companies have emerged as global leaders. Chinese firms like Ant Financial and Tencent have developed massive online payment platforms, transforming the traditional payments industry. The government is now providing support to help these firms apply internet technologies to other industries in China and expand into international markets. Other fields like artificial intelligence are experiencing a flood of new startups, attracted by generous public and private financing.

As China attempts to move up the technological ladder, the industries targeted by its campaign may be fundamentally reshaped. Firms in many industries will be sent into overdrive as resources and support from the campaign pour in. This stimulus may ultimately result in significant amounts of irrational and wasted investment, but it will nonetheless have a major impact on global markets for years to come. During the growth cycle, overseas firms competing with Chinese companies in these industries will face significant pressure. With higher financing and operating costs, these firms may lose significant market share to Chinese competitors. After the bust, the affected industries may return to a more sustainable footing and many of the Chinese firms receiving government support will have failed. There are, however, likely to be at least some surviving Chinese firms that emerge

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through the turmoil as viable competitors. Industries targeted by China's technology campaign can therefore be profoundly transformed, even if many of the Chinese firms involved ultimately do not survive.

If past precedent holds, many industries in China may follow the tumultuous example of the solar industry. In the mid-2000s, the Chinese solar industry was a relatively small share of the global market and was not at the forefront of technological advances. The Chinese government targeted the sector for development, directing support to both private and state-owned enterprises. The industry underwent a tremendous boom that resulted in China becoming the world's largest solar panel producer in less than 10 years. The flood of resources also led to a bust as financial distortions contributed to excessive investment and overproduction. In the process, the entire global solar market was disrupted and many firms, both Chinese and foreign, went bankrupt. When the dust finally settled, China emerged as a leader in the global solar market in terms of production, installation, and increasingly, innovation.

China's technology campaign may lead to the emergence of new and innovative Chinese firms that are capable of reshaping global markets. Firms that fail to take heed of China's tech rush may find their industries disrupted before they can adapt.

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