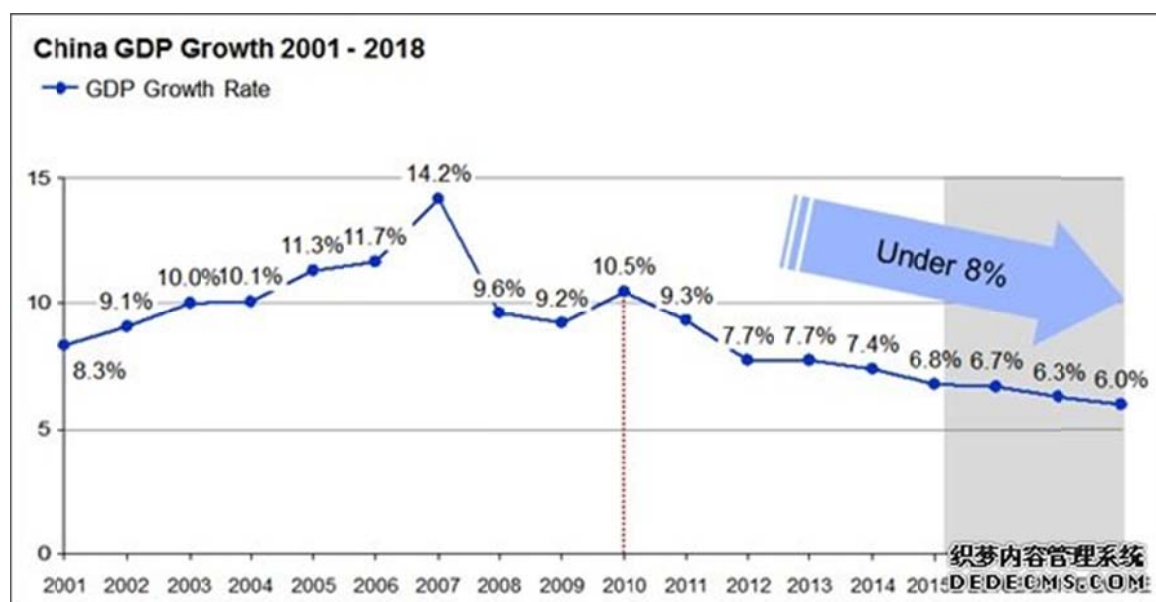


Normalization and Innovation Nation

Not all the talent on Madison Avenue or Hollywood could have done better by applying “New Normal” to the turns in China’s economy, than China’s president, Xi Jinping.

The cliché, coined in the financial crisis of 2008, now aptly describes President Xi’s vision of China’s slower, less than 8% GDP growth in the near, and most likely, long-term.

Europeans, who are struggling with 0.9% GDP, may roll their eyes over their morning espressos wishing that they could enjoy yet half of China’s lower projections of seven to six percent. China’s economy continually grew more than 7% for more than a decade. Dipping down to a projected 6% by 2018, gives cause for carefully sipping one’s tea, and ponder how to not just survive, but thrive, the coming years.



Source: China National Bureau of Statistics 2015, PIM analysis

What does this mean for western companies, operating during the upswing years, or those entering now? Will they still be able to make China market expansion? Will the newcomers still be able to make China market entry? Interviews with several leaders, whose companies having ten or more years of experience in China, have revealed some interesting responses.

Almost all have agreed the “all the tigers and flies” anticorruption campaign has the potential to result in a level playing field to compete for government-funded projects and state owned company supply contracts. Historic gatekeepers may no longer have one hand on the latch, with the other extended for the entry fee.

Slower growth will reduce the size of opportunity pies, fueling competition, raising the bar on demands for quality. This should provide openings for proven western products and, most importantly, indigenous innovation.

Business leaders may need a sharper customer focus in the coming years. Consumer behavior will continually change; wanting higher quality products and services. New players will enter the market. Industries will need their ears closer to customer demands, eyes on the competition, and active gray matter on innovation.

China's trend toward urbanization and growing middle class with more disposable income and higher demands for quality will be key drivers of change. Without adapting to rising consumer expectations, current products are vulnerable to being swept aside, or diluted to insignificance.

It is much the same for industrial goods. With increasing demands for quality, manufacturers must both improve product performance, and reduce costs to remain competitive.

In 2013, Xi Jinping launched the Silk Road Economic Belt and Twenty-First Century Maritime Silk Road initiative. The vision of "One Belt, One Road" (OBOR) will link far and neighboring markets may be an impetus for China's, and regional economic growth. It will ease of flow of goods in and out of China, to and from neighboring countries, the Middle East, Eastern and Central Europe. This advantage will open new markets for all producers of goods in China, domestic and foreign.



The OBOR is not just a concept. China has pledged 40 billion USD to the Silk Road Fund for building the needed logistics infrastructure. This should provide long-term benefits for a population of 4.4 billion covering 26 countries.

More recently, China has announced the "Made in China 2025" initiative to stimulate combining innovation and entrepreneurship. This is an interesting cocktail mix for asserted disciples of Marxist Leninism. Adding an olive of IP protection, would help. The lack of patent protection for Chinese product

developers has stifled innovation, as well as causing brain drain to countries having enforceable IP security. One can bet that with Xi Jinping driving growth through innovation, China may not be far from protecting indigenous innovation. In summary, China is creatively responding to a downturn in its labor-laden exports, developing a slower and more stable economy. The Middle Kingdom is now becoming a major contributor to the prosperity of East Asia and neighboring states.