THE DAILY **tribune**

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QUOTE OF THE DAY

YOU HAVE BRAINS IN YOUR HEAD. YOU HAVE FEET IN YOUR SHOES. YOU CAN STEER YOURSELF, ANY DIRECTION YOU CHOOSE.
DR. SEUSS

American companies need Chinese consumers

Apple's declining sales reveal how important the health of China's consumer market is to the world's economy

A mobile phone shop in Sin Tat Plaza, in Hong Kong.

WEIJIAN SHAN

In a rare bit of bad news for its investors, Apple last week laid the blame for lower than expected revenue on its performance in China. The news sent Apple's stock price plunging, and investors also ditched other companies with significant exposure in China. The scale of the damage, both to Apple's bottom line and to the broader market, underscores how critically important China — and Chinese consumers — have become for American companies.

China accounts for about $52 billion in sales for Apple, and is its third-largest market. Apple is not the only technology company that relies on sales in China. For Qualcomm, a chip maker whose technology is used in many Apple smartphones, the figure is $15 billion, or about 65 per cent of its total sales, according to an estimate by FactSet. Others with big bets on China include Intel (24pc of sales), Micron Technology (51pc) and Texas Instruments (44pc).

These numbers make it very clear that the perception of China as the "factory of the world," flooding global markets with cheap goods, is badly out of date. Exports and capital investments such as buildings and roads are no longer the main engines of China's growth. Exports have dropped from 36pc of China's gross domestic product in 2006 to 20pc in 2018. Going after China's exports with tariffs, as the Trump administration is attempting, is, to a certain extent, fighting yesterday's war.

In recent years, China's economy has shifted to one that is much more dependent on domestic household consumption — ordinary Chinese people buying things for themselves and their families. In China over the last decade, the growth in private consumption has outpaced overall economic growth rate. In 2018, gross domestic product in China grew by 6.5pc, and household consumption accounted for about four-fifths of that growth.

China is now the fastest-growing consumer market in the world, with private consumption amounting to about $5 trillion, more than 10pc of the world's total. Competition for Chinese consumers' hard-earned yuan has become intense.

Consider the smartphone market. As recently as 2016, Apple was China's leading maker of handsets. But by the third quarter of 2018, China's dominant telecommunications company, Huawei, was on top, with 23pc of the market. The Chinese smartphone makers Oppo, Vivo and Xiaomi occupy the next three spots, while Apple ranked fifth, with 9pc. South Korea's Samsung, the global leader in smartphone sales, has all but disappeared

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[redacted]

from China, having failed to recover from the fiasco over its dangerously overheating Galaxy Note 7 batteries.

Even industries where American consumers once reigned supreme are now increasingly shifting toward China. General Motors, for example, sells more cars in China than in North America. For global filmmakers, box office sales in 2018 totaled about $9 billion in China, compared with almost $12 billion for North America in 2018.

My company made a decision more than a decade ago not to invest in China's export sector. Costs for Chinese manufacturers are rising, and prices for their exports are flat or falling. Instead, I feel strongly that there is much greater potential for companies — inside and outside China — that cater to the Chinese consumer market.

Yes, China's economic growth has begun to slow, and there has been a decrease in investments as Beijing has moved to tighten credit. And the threat of a trade war with the United States is real. But my long-term outlook has not changed. The Chinese consumer market will continue to grow, albeit at a slower pace, and it will continue to be a market that any global company must pay serious attention to if it wants to remain competitive.

So where does this leave companies like Apple that find themselves caught in the middle of th trade war? They must hope, fir of all, for a swift conclusion to th latest round of trade negotiatio between China and the Unite States, which began in Beijin on Jan 7.

The best possible outcome is deal that will encourage China t open its economy further, com mit to shrinking its bloated stat owned sector and ease barriers t further foreign investment an trade.

Tariffs were supposed to hu China by hitting its exports t the United States. That hasn happened. Should it persist, th trade war will, of course, hu Chinese companies, just as it ha already hurt so many America companies.

But if the conflict eventuall drags down Chinese consume demand, businesses all over th world will be the losers.

(Weijian Shan is chairman and chi executive of PAG, a private equity fir based in Hong Kong

CIVILIAN'S TRIBUNE

Please don't invite unrest

What the People's Vote faction does not realise is that if parliament decides on a second referendum, those of us who voted to leave the EU will take to the streets to fight for democracy. The revolt will make the opposition to the poll tax look like a tea party.

We voted to return sovereignty to parliament and expect parliamentarians to respect our choice and behave accordingly, not to follow their own self-serving priorities.

The hallmark of British constitutional democracy is the sovereignty of parliament. MPs take upon themselves a duty to protect and advance the interests of the electorate and the country as a whole. The 2016 referendum result does not legally bind parliament; nor would any further referendum.

S Thomas

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