

## IN BRIEF

# DIGITAL CHINA

China is already a major player in digital technologies at home and around the world, and it has enormous growth potential. As digital forces shake the status quo and restructure value chains, an even more globally competitive Chinese economy and dynamic firms can emerge.

- China has become a leading global force in the digital economy. The country has 42 percent of global e-commerce, processes 11 times more mobile payments than the United States, and is home to one-third of the world's unicorns.
- Three factors suggest huge upside for China: a large and young Chinese market enabling rapid commercialization of digital business models; a rich digital ecosystem expanding beyond a few giants; and the government allowing space for digital companies to experiment, and being an investor in and consumer of digital technologies.
- The new MGI Industry Digitization Index for China reveals that a large gap vs. counterpart sectors in the United States has been closing rapidly. In 2013, the United States was 4.9 times more digitized than China; in 2016, that figure was 3.7 times.
- Three digital forces—disintermediation, disaggregation, and dematerialization—can potentially shift (and create) 10 to 45 percent of industry revenue pools by 2030. Disintermediation and disaggregation can have the largest impact.
  - **Consumer and retail.** Disintermediation (omnichannel, data-driven business models) is a major force for meeting evolving consumer demand. Disaggregation (sharing economy) and dematerialization (3-D–printed goods) can serve niche demand in specific categories. These forces can impact 13 to 34 percent of the industry revenue pool.
  - **Automotive and mobility.** Disintermediation (omnichannel, connected cars) enables technology suppliers and automakers to reach consumers directly, and disaggregation (shared-mobility solutions) may reduce demand for new car sales. Overall, digital forces can have an impact on 10 to 30 percent of the industry revenue pool.
  - **Health care.** Disintermediation (Internet of Things–and artificial intelligence–enabled solutions) can help to address chronic diseases, while disaggregation (health-care big data) can minimize overtreatment. There could be an impact equivalent to 12 to 45 percent of health-care expenditure.
  - **Freight and logistics.** Disintermediation (real-time matching platforms) can address industry fragmentation while disaggregation (crowdsourcing delivery) can enable flexible capacity. These forces could impact 23 to 33 percent of the revenue pool.
- China's government can enable digitization by continuing to be a major investor in, and consumer of, digital technologies, promoting healthy competition, managing labor markets as the economy transitions to digital, and contributing to the effort to reach consensus in the global debate on issues such as technology standards and digital sovereignty.
- Companies in China need to embrace digital even more than elsewhere because China's rapidly growing and changing economy will magnify gains for winners and risks for losers. They may consider six approaches: adopt bold strategies; use the power of China's vast ecosystem; maximize value from analytics by using China's massive data pools; build an agile organization; digitize operations; and engage with China's policy and regulation.

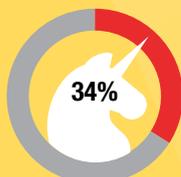


# Digital China

## CHINA IS ALREADY A GLOBAL FORCE IN DIGITAL TECHNOLOGIES



share of global e-commerce transactions

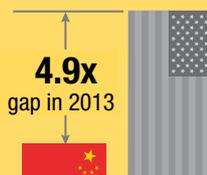


of global unicorns<sup>1</sup>

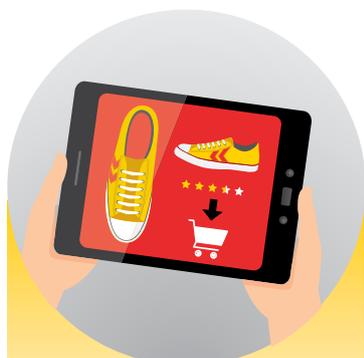


**Top three**  
in the world for venture capital investment in emerging technologies<sup>2</sup>

## IT LAGS BEHIND THE UNITED STATES ON THE DIGITIZATION OF ITS INDUSTRY, BUT IS CATCHING UP QUICKLY



## THREE DIGITAL FORCES CAN SHIFT (OR CREATE) 10–45% OF INDUSTRY REVENUE POOLS BY 2030



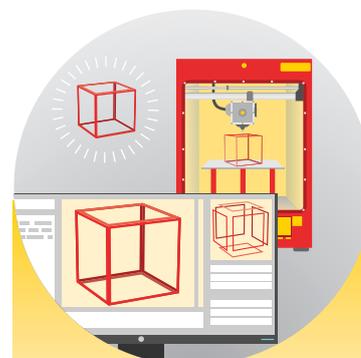
### DISINTERMEDIATION

Using digital to cut out the middle man



### DISAGGREGATION

Breaking up large items (cars, properties) and repackaging as services

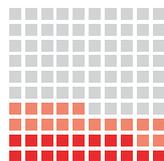


### DEMATERIALIZATION

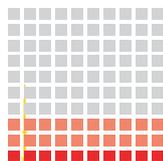
Turning the physical into the virtual (3-D printing, virtual reality)

## THE POTENTIAL IMPACT OF THE THREE FORCES IN FOUR KEY SECTORS IS LARGE

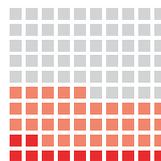
**CONSUMER AND RETAIL**  
13–34%



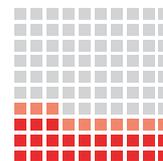
**AUTOMOTIVE AND MOBILITY**  
10–30%



**HEALTH CARE**  
12–45%



**FREIGHT AND LOGISTICS**  
23–33%



### GOVERNMENT CAN:

- Be a major investor in, and consumer of, digital technologies
- Promote healthy and dynamic competition
- Manage labor markets transition during digital disruption
- Reach global consensus on digital governance

### BUSINESS PRIORITIES INCLUDE:

- Adopt bold strategies
- Use China's digital ecosystem
- Maximize value from China's massive data pool
- Build an agile organization
- Digitize operations
- Engage with policy and regulation

<sup>1</sup> Defined as a privately held startup valued at over \$1 billion.

<sup>2</sup> Top three investor in technologies including big data, artificial intelligence and machine learning, wearables, virtual reality, autonomous vehicles, 3-D printing, robotics, and drones.