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What can we expect in China in 2019?

By Gordon Orr

The next stages of China's transition away from economic equilibrium with the United States will likely create volatility in market growth and require conservatism in some areas and bold moves in others.

The US–China economic equilibrium of the past 20 years has gone, and as we look into 2019, it is not yet clear when and where a new equilibrium will form. What level of economic separation will develop between the world's two largest economies? How much will businesses need to change in their business model—from the customers they target, the products and services they offer, their overall supply chain, and even their capital structure and ownership? The next stages of this transition will play out over 2019 in ways that cannot be fully anticipated, but without doubt, uncertainties will lead to lower levels of long-term investment by businesses in 2019 and to greater levels of volatility in market growth and in the valuations of many kinds of assets. It will be a year for prudent conservatism in many areas, combined with a readiness to make big, bold bets if and when one-time opportunities arise.

Impact of US–China 'economic' confrontation

The most visible change in US policy toward China is the existing imposition of tariffs and the threat of more to come. Yet this is only one element of many broader changes in the permission granted to Chinese businesses to access US markets, to acquire companies in

the United States, to transfer intellectual property (IP) from the United States to China, or to conduct research in the United States. While there is the possibility that US and Chinese governments negotiate to a permanent status quo on tariffs, there are no plans for a meaningful rollback of the broader changes. Tariffs affect any company exporting from China, regardless of its ownership nationality, but broader changes specifically restrict Chinese companies and Chinese investors.

Tariffs

A long-term structural trend has been under way over the past decade to shift some manufacturing activities out of China. Samsung moved many tens of thousands of jobs to Vietnam from China years ago. Li & Fung's textile supply chains have a center in Bangladesh. Yet China's domestic market size and the [efficiency of its supply chains](#) mean that rarely will all volumes shift. With a declining Chinese currency, increased export-tax rebates, and mix reconfigurations, to date, the pain for exporters arising from US tariffs has been limited.



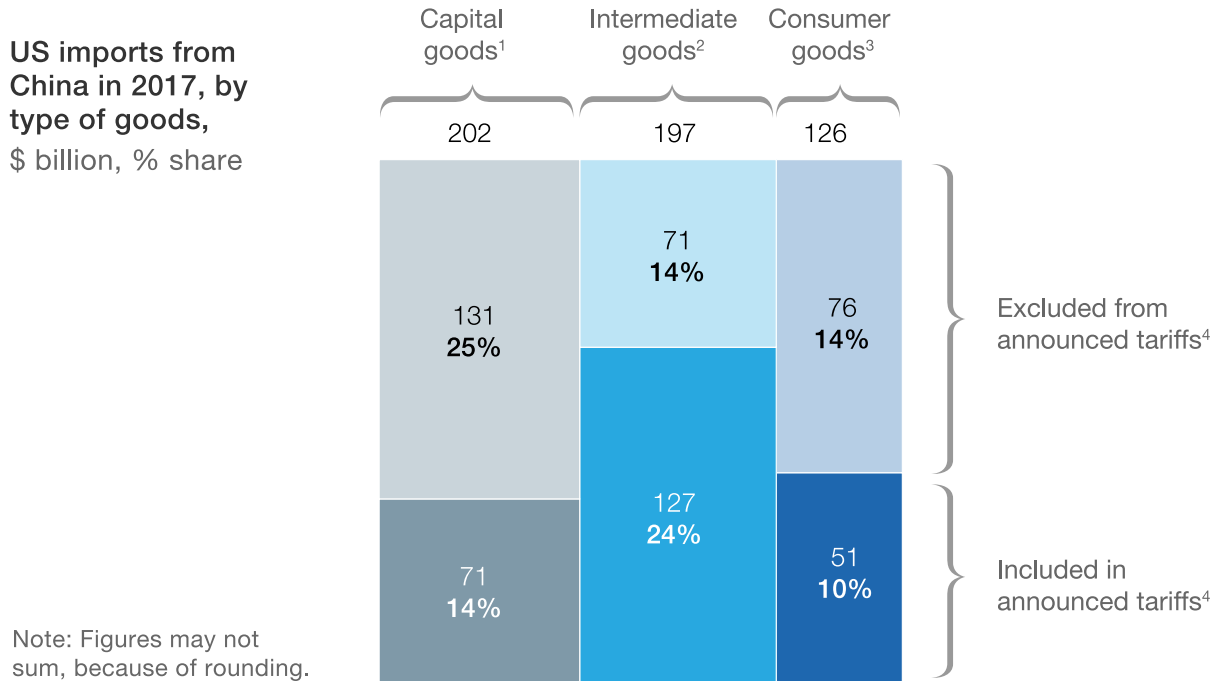
Companies that have already moved some manufacturing from China to plants in Turkey might shield themselves from tariff rate increases.

Contingency plans have been prepared should tariff rates rise to 25 percent across more categories in March, after the current 90-day discussion period expires. How disruptive the change required will be will depend very much on how global the exporter is today. For a globalized consumer-goods company, the United States may represent less than 20 percent of output from China, and the company may already have a footprint of manufacturing plants around the world. Putting spare capacity in these plants to work and, for example, swapping production between a plant in Turkey and China—so that the Turkish plant can produce for the United States—would incur additional operating costs but not capital investment. If additional capacity is required, putting it alongside existing facilities is preferred. Eastern Europe, Turkey, and even India and the Philippines are destinations seen to have the capacity to provide workers and supply-chain infrastructure. Vietnam is seen by many to be at capacity, and producing in Mexico is stymied for some by high local value-added requirements contained in the United States–Mexico–Canada Agreement. But net uncertainties mean that capital investment anywhere in production capacity is being held back.

On the receiving end in the United States, the bulk of the direct pain will be felt by businesses (Exhibit 1). Close to three-quarters of Chinese exports to the United States are intermediary goods, not direct-to-consumer goods. Consumers will feel price increases largely to the extent that US producers choose to pass through their higher costs.

Exhibit 1

US companies are likely to be affected by trade tensions given that the majority of imports from China are capital and intermediate goods.



¹Durable goods that are used for the production of other goods in the United States.
²Goods that are used as inputs for further processing to produce final goods in the United States.
³Goods that are bought and used by consumers.
⁴As of October 2018.

McKinsey&Company | **Source:** Peterson Institute for International Economics; McKinsey Global Trade Database

The narrow short-term GDP impact on China of the tariffs alone is modest, on the order of 0.5 to 0.8 percent of GDP. But if tariffs lead to job losses in China, and then a decline in consumer confidence, the medium-term impact will be much, much greater. Then, in combination with the broader set of economic barriers to US–China economic interaction, the impetus for companies to change their core business operations and capital structures is high.

Investment

Chinese investment levels into the United States have fallen by more than 70 percent this year and will likely fall further in 2019. No Chinese company wants to be caught up for months in a review process with the Committee on Foreign Investment in the United States (CFIUS), with the high risk of the transaction being turned down. US sellers do not want this uncertainty, either. As a result, many Chinese strategic investors are simply self-censoring and not taking opportunities to make acquisitions in the United States, or they are turning to smaller amounts of organic investment. In the US start-up space, this means the loss of investment funds from China that offered enhanced access to the China market in return for investment and also a valuation of up to four to five times what domestic investors offered. In some parts of the US start-up world, valuations could fall substantially as Chinese capital withdraws.

Over the past few years, when many Chinese investments were made in the United States, only a small proportion reported themselves to CFIUS—the cross-ministry committee within the US government tasked with overseeing and clearing international investments into US companies—and received a formal OK. At the time, no one really seemed to mind; the responsibility was with the company to report, and CFIUS lacked the resources to go out and track down nonreporters proactively. But in this new era, it is entirely possible that in 2019, we will see CFIUS move beyond reviewing new transactions. It might also investigate unreported transactions that closed several years ago and impose remedies on them if it finds them noncompliant to new criteria (for example, involving sensitive sectors and technologies or access to US citizen personal data). While such action could potentially be litigated by the company, it could take years to resolve. There will be some quiet divestments of US assets by Chinese companies in 2019 that see this issue coming their way.

Where might Chinese money flow instead? Wang Qishan's recent visit to Israel highlighted the importance of Israel as a source of investable start-up opportunities, from artificial intelligence to agritech, for Chinese companies. The UK start-up community continues to receive Chinese investment in fintech and healthtech, alongside investment in more mature industrial sectors. Italy's new government has proactively reached out to China seeking further investment in many areas. And Chinese companies continue to explore acquisition targets, from luxury goods to tech, quietly in Japan.

Market access

With much less visibility, Chinese companies are also facing increasing market-access challenges in the United States, especially in B2B markets. While the banning of Huawei Technologies and ZTE from much of the telecom-infrastructure market was announced, more quietly, the federal government is not only restricting its own purchases of goods and services from Chinese companies but also discouraging its core vendors from buying from Chinese companies. The United States has also sought to persuade the European Union and others not to buy from Huawei Technologies. Tech, healthcare, and financial services are all in the line of fire. After the “Supermicro bug” article,^[1] an even broader range of companies now see a perception of risk in buying from Chinese suppliers and are making the conservative choice to go with a non-Chinese brand name, even if the product might be produced in the same factory in China or Mexico as the Chinese brand product they rejected.

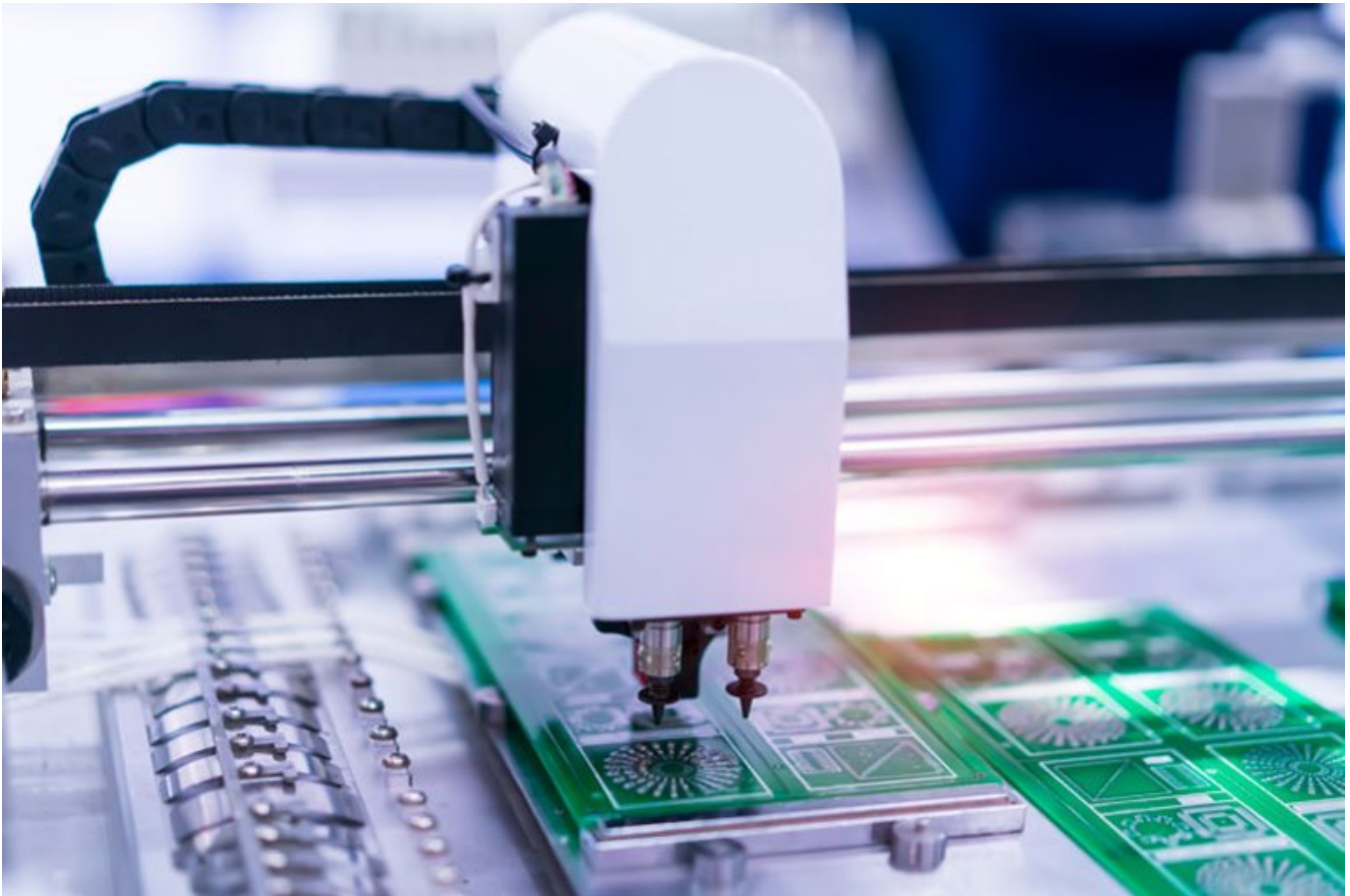
Talent

Opportunities for Chinese researchers to work at leading facilities in the United States are being restricted, highlighted by Johns Hopkins University briefly halting its visiting-scientist program in October to revise its application requirements. Where visas are issued to researchers, they are for shorter periods, leaving researchers uncertain if they will be able to complete their projects. Fewer researchers and students are likely to go the United States; they will head to other countries, although the capacity to take more Chinese students at top universities in other parts of the world is limited—universities in the United Kingdom and Australia in particular are likely to see greater demand. Fewer Chinese megadonors will give funds to build new world-class research facilities on US campuses.

If Chinese researchers are unable to spend time in world-class research teams internationally, the Chinese government will doubtless seek to attract world-class research institutions to set up operation in China. The Oxford Suzhou Centre for Advanced Research—jointly established by the University of Oxford and Suzhou Industrial Park, with a focus on medical research, where the University of Oxford is ranked number one globally—will be followed by many more.

Beyond visas for researchers, Chinese business people have noted that their green-card-to-passport application process has ground to a complete halt.

IP transfer to China



The US government has moved away from exporting semiconductor-production equipment to China.

The US government's announcement of a ban on the export of US semiconductor-production equipment to Fujian Jin Hua Integrated Circuit in October was a very visible example of limitations on the flow of technology from the United States to China, whether through a commercial deal or intracompany transfer. Transfer of IP, either as a virtual good or embedded in a product or solution, is being subject to deeper US government scrutiny—whether the transfer is as a commercial sale to a third party, to a joint-venture partner, or even to the Chinese branch of an international company's operations. During 2019 we may well see international companies needing to defend themselves from US government criticism over their investment levels in China. The

impact of this could extend to Hong Kong. Also, in November, the US–China Economic and Security Review Commission recommended reviewing the arrangement to treat Hong Kong and the mainland as separate customs areas in the export of dual-use technology.

Chinese government policies—such as Xi Jinping’s continuing exhortations for China to increase its “self-reliance” (that is, independence from foreign technology and more)—add to the forces for increased separation of the Chinese and US economies and, consequently, for the separation of business activities of businesses that choose to operate in both geographies. In 2019, expect corporates, Chinese and non Chinese, to start to investigate quietly their options for creating separate corporate structures for their China-focused and US-focused operations. Separate route-to-market partnerships and development centers as well as distinct products and services and maybe even brands, headquarters, and legal entities are entirely possible outcomes of the direction in which government action is moving businesses.

Chinese government is highly active

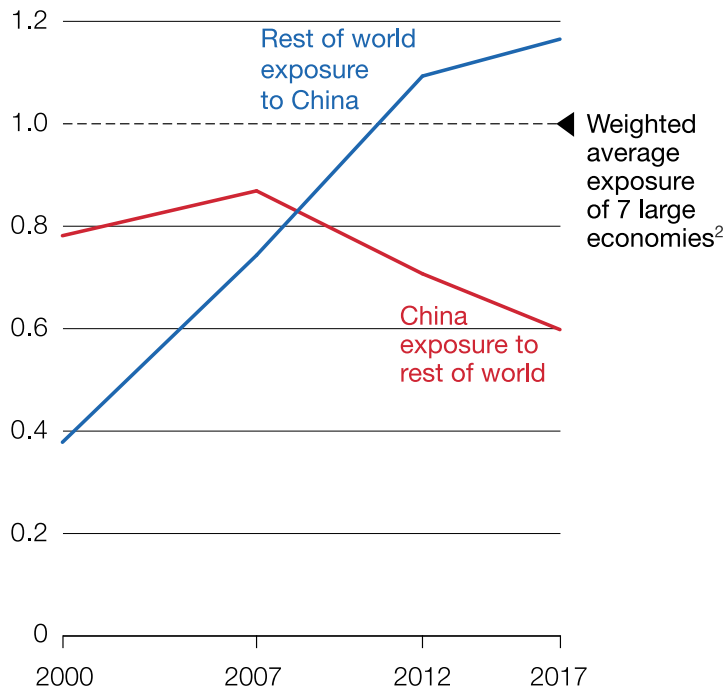
Most major leadership moves and ministry reorganizations in the Chinese government were completed in the first half of 2018. New policies, with active follow up to track implementation, were seen through the year, as ministers acted on the agenda set for them by Xi Jinping, who will complete his sixth year as president in March 2019. By the end of this year, businesses could feel the impact of an uptick in policy and regulatory announcements and enforcement actions. Greater levels of intervention by the government into business activity spanned almost all aspects of operations—from online operations through to new subsidies and tax rebates and greater involvement of the Party Committee in private-sector companies. On investments, some businesses were discouraged from making international investments (Exhibit 2); others were strongly encouraged to invest in struggling state-owned enterprises.

Many industries faced discontinuities because of policy changes, one example being private kindergartens, where policy changes effectively locked them out of operating from the majority of residential tower blocks. Multinationals did see follow-through on commitments made to allow them to hold a majority stake in parts of the financial sector

Exhibit 2

China has been reducing its exposure to the world while the world has been increasing exposure to China.

China and the world exposure indices over time,¹ index



¹Includes trade, technology, and capital exposure metrics.
²China, France, Germany, India, Japan, United Kingdom, and United States.

Source: IHS Global Insight; International Monetary Fund; Organisation for Economic Co-operation and Development; WIOD; McKinsey Global Institute analysis

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will lead to more intervention in the future.

Where might government intervention be most visible in 2019?

and in the automotive sector. **Pharmaceutical companies** saw further changes to drug-approval and -reimbursement policies, with more than 100 foreign-developed drugs approved into the China market in 2018. Overall across all sectors, a more interventionist government is feeling confident in its ability to shape and control more and more specific details of a business, leading it to intervene through policy, regulation, and arbitrary one-off actions.

Individual consumers saw the impact of active government intervention online, on what content they could see or post and on what games they could play and for how long. They also saw the failure of government regulation over the issue of fake vaccines given to children and the more than 500 peer-to-peer lenders that went out of business, leaving investors out of pocket. These failures are seen by the government as failures of insufficient intervention and

Ensuring that manufacturing companies do not implement sudden large-scale layoffs as part of their response to US tariffs will be priority number one. Any company that thinks it can get away with such layoffs should plan on leaving China entirely, as the government reaction will not be mild. Even if layoffs were part of a long-term plan made before tariffs were even thought of, it will be extraordinarily hard to persuade government officials that this is the case. The reality is, they may not even care, if their key performance indicator is to prevent any layoffs. This will be an equal-opportunity policy—applied to all manufacturing companies regardless of nationality or ownership structure.

Navigating a way out of the \$1.3 trillion (roughly 10 percent of the total market cap) pledged-share problem on China's domestic stock markets will be another priority. Thousands of company owners have borrowed against the value of their shares from brokers, banks, and grey-market financiers. To put it mildly, many of the funds raised were not put into productive investments. With the decline of the stock market, many of these loans are now underwater, a problem for the borrower and (often state-owned) lender. Frequently, the underlying business is operating just fine; this is purely a crisis of capital structure. Some of the companies will pass into state ownership as state-owned companies step in to assume the loan and wipe out the private-sector owner. Others will be available for international investors to acquire, if they can persuade current owners to take the valuation discount that is required.

Inspections of businesses to check on their cybersecurity-law compliance will become more frequent in 2019. This is an area where the government feels it needs to be seen to be acting proactively to protect Chinese citizens. By now, companies cannot claim to be in ignorance of what the law requires. Most important, they need to have the right levels of Multilevel Protection Scheme certification and appropriate personal-data protection and cross-border data-transfer policies. A real-name user system and emergency-response plan are necessary. Investigations of prominent Chinese companies will be as common as of multinationals. Everyone needs to comply.

To consumers, further policy interventions on how they can use the internet may be the most visible policy direction in 2019. All activity online will be expected to link clearly to a real name and real ID. They can expect further constraints on what content is deemed appropriate; on how long activities, especially gaming, can be undertaken; and on the

kind of social comments that can be posted. Border inspections on importing goods for personal use will likely also ramp up further in 2019—5,000 renminbi (about \$726) is the widely ignored limit.

Chinese government policies on the private sector

Recent weeks have seen coordinated speeches from Chinese leaders on their support for the private sector. Are these more than words of encouragement while actions to box in and constrain private-sector operators continue? It is important to differentiate between active regulation of all companies (which was absent before) and a specifically anti-private-sector policy. A fair number of entrepreneurs were so accustomed to operating successfully in a regulatory vacuum that any structure of regulation is seen by them as a government squeeze. Yet many actions—such as depriving small and medium-size enterprises (SMEs) of access to bank loans, to government procurement, or to the arbitrary seizure of assets by local government—have happened too often. The speeches have convinced some, but many more are waiting to see action.

Will targets given to banks—to have one-third of new corporate loans from large commercial banks go to the private sector, two-thirds of new corporate loans from smaller banks go to the private sector, and 50 percent of all corporate loans go to the private sector—be followed through on, providing funding to those traditionally reliant on shadow finance, those caught in a pledged share trap, or those hit by US tariffs? Or will “risk mitigation” lead banks to claim these clients too risky to lend to at all, and they will simply sit on their deposits? Likely many will do just that. Similarly, a commitment from the Ministry of Justice to protect the assets of private enterprises from state actors will likely only protect the largest private companies, which already had a voice. SMEs leaned on by local government will still find it hard to defend themselves.

Large private-sector companies asked to invest in the mixed-ownership model of state-owned enterprises as it scales up in 2019 will find they have to say yes. And in 2019 there will be examples to show that the mixed-ownership model goes both ways—not only will private companies be expected to invest in state-owned enterprises, but they will also be expected to accept investment and possibly a board member from the state.

High levels of uncertainty and volatility will lead to lower confidence in private Chinese business owners, leading to lower investment levels and lower asset prices. Expect a step up in consolidations and change of ownership. And expect more founder owners to step away from the business entirely, retiring à la Jack Ma, and maybe even selling out entirely to a third party if their families do not want to continue in the business.

Policy we should see more of, but likely will not

Regional disparities in economic growth widened in 2018, with the eastern and southern parts of the country moving further ahead of provinces in the northeast. This is despite government leaders frequently visiting underperforming regions on investigatory trips, announcing new committees to address the problem, and strong-arming companies to invest there. A better action would be large-scale fiscal redistribution, rather than leaving local government to spend what they can borrow or raise through taxes. Borrowing is increasingly hard for some, given their existing indebtedness. Taking an international example, London and the southeast of England have 7 percent of their gross value add redistributed to the rest of the country by central government each year. Something of at least this scale, sustained over many years, is required to get the hardest-hit regions, dependent on heavy industry that is dying, back on their feet.

Awareness of inadequacies in the healthcare system has risen to the level of public concern that air pollution reached a couple of years ago. We finally did see effective government action on air pollution. But it feels that for healthcare, where needed action would be in orders of magnitude more costly, we are still years away from a tipping point. For many families, this becomes a personal issue, as elderly relatives face memory issues and high levels of cancer (rate of liver cancer 12 times higher and of stomach cancer 20 times higher than US rates), and those much younger suffer from diabetes, asthma, and other chronic conditions. Shanghai is, in some ways, on the front line: with one-third of its population already over 60, it will need to innovate public and private long-term-care solutions for chronic diseases. And if the richest city in China doesn't do so, then the outlook in poorer cities is indeed challenging.

Japan–China grassroots reconnection

There is a very good chance in 2019 and into 2020 that China's reengagement with Japan will move from the embryonic political gestures of 2018 to something much more substantial. If unconstrained by Chinese-government discouragement, Chinese tourists will again descend on Japan in enormous numbers, potentially with 30 percent-plus year-on-year increases, to shop, eat, visit remote country inns, and more. Key categories for purchase will be Japanese luxury goods, clothing, pharmaceuticals, cosmetics, and even foods—categories where the Japanese reputation for quality and safety, in the minds of Chinese consumers, is high. By the time of the Tokyo Olympics, Chinese visitors could be the leading nationality of visitors, creating a boom in retail sales. These physical sales will result, in time, in the growth of cross-border e-commerce sales to Chinese consumers who never leave China.



aken more interest in Tokyo real estate, perhaps a sign of China and Japan.

Awareness of how attractive Tokyo real estate is relative to Shanghai and Beijing is rising, leading Chinese investors to consider Tokyo the “new Sydney” for buying an apartment. Beyond that, some Japanese ski resorts are now finding that the Chinese have become their number-one buyers by nationality.

Japan needs workers at all skill levels, as Prime Minister Abe recently highlighted through his proposal to allow 500,000 workers into Japan by 2025; most would come from China. Potentially, we could see an official pilot of this program over the next two

years—in time to support the millions of visitors for the Olympics. High-skill Chinese workers need not wait. Japan runs its residency scheme on a points basis, favoring high-skill workers who have made, or will make, a positive contribution to the economy.

For businesses, Chinese businesses will continue to follow the lead of Lenovo, with its successful acquisition of NEC's and Fujitsu's PC businesses, looking for acquisitions of both technology and luxury brands. This could be tech start-ups, spin-offs from the Japanese tech conglomerates, and niche luxury brands. Just as the Chinese have purchased vineyards in France, they could in 2019 acquire Japanese sake breweries, fruit orchards, and whisky distilleries.

The success of Softbank as an investor in China is encouraging Japanese companies to look again at a market that many have historically viewed as rigged against them. Expect to see more Japanese investments into the Chinese service sector.

Consumers holding up well

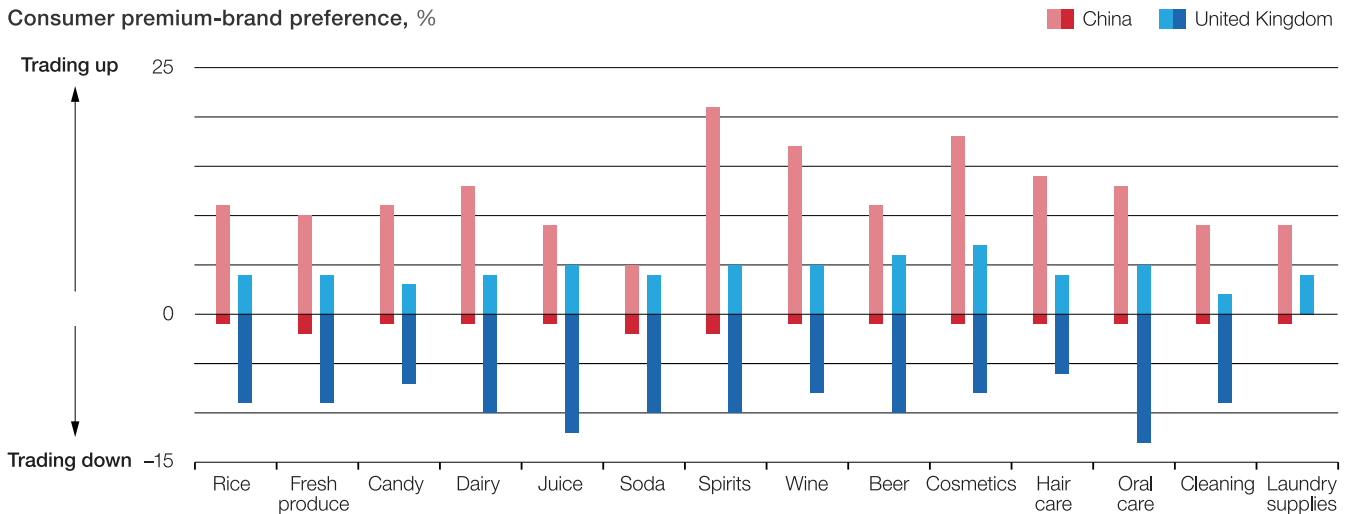
Consumers remain the key driver of China's domestic growth, creating 78 percent of GDP growth in the first nine months of 2018. That **consumers remain confident** and willing to grow their spending is essential if China is to achieve anything close to 6 percent growth in 2019. Through 11 months of 2018, the consumer has proved resilient to news of US tariffs and slowing domestic growth, with only modest declines from record levels of confidence earlier in the year. Why? Disposable income rose over 8 percent in the first nine months of the year, showing strong momentum, and looking ahead into 2019, promised tax cuts—equivalent to a year's pay for the median household—have been announced and are probably already built into consumers' mind-sets. And, at the moment, the urban job market remains robust. The long-promised property tax, which would depress property prices, shows no sign of appearing in 2019. While retail investors through peer to peer (P2P) may have lost out, and while the stock market is down again this year, investors in property have largely done OK in 2018, with a nationwide average price increase of around 5 percent. Consumers seem to feel that the government will act to stop further declines in the stock market and may even bail them out of loss-making P2P firms.

Chinese consumer demand evolving again

The **Chinese consumer continues to trade up** more than down (Exhibit 3). The annual retail-industry association meeting in Kunming in November saw retailers reporting a strong year, especially for those that have created effective offline and online integration. Sales of China’s fast-moving consumer goods (FMCG) grew by 6.3 percent in the third quarter from a year ago, and even supermarkets have grown by 5.0 percent. Across fresh foods, alcoholic beverages, cosmetics, and more, ten times as many consumers report trading up to higher-priced goods than down. Take mobile phones as an example: the average price of a mobile phone sold in China has increased 65 percent over the past five years. There are consumer segments willing to trade down, as the success of the Pinduoduo online retail platform shows. But that really reinforces that there remain many price-sensitive consumers unwilling to pay for a brand that does not deliver them benefits who, when given a choice, will go for the no-name product that seems to offer equivalent functionality.

Exhibit 3

Chinese consumers—in contrast to UK consumers—continue to trade up for premium products across a broad range of goods.



McKinsey&Company | Source: McKinsey 2018 Global Consumer Sentiment Survey

These trends are driving increases in imports of premium goods from several Organisation for Economic Co-operation and Development markets. One key enabler has been an increased willingness from China's customs authorities to agree to the import of fresh and processed foods. A second has been the scaling up of cross-border e-commerce capabilities, such as bonded warehouses in China and easy-to-use (for an international supplier) online websites from Alibaba and JD.com. The latter now hosts more than 20,000 international brands on its inbound-to-China e-commerce website.

Consequently, the barriers for international SMEs to get their products to Chinese consumers have never been lower. The United Kingdom has seen export growth to China of nearly 30 percent. Australia, Japan, and South Korea are also benefiting from this trend. While cross-border e-commerce won't eliminate China's trade surplus with the rest of the world, it will be a contributor to driving its current account surplus down below 1 percent of GDP in 2019.

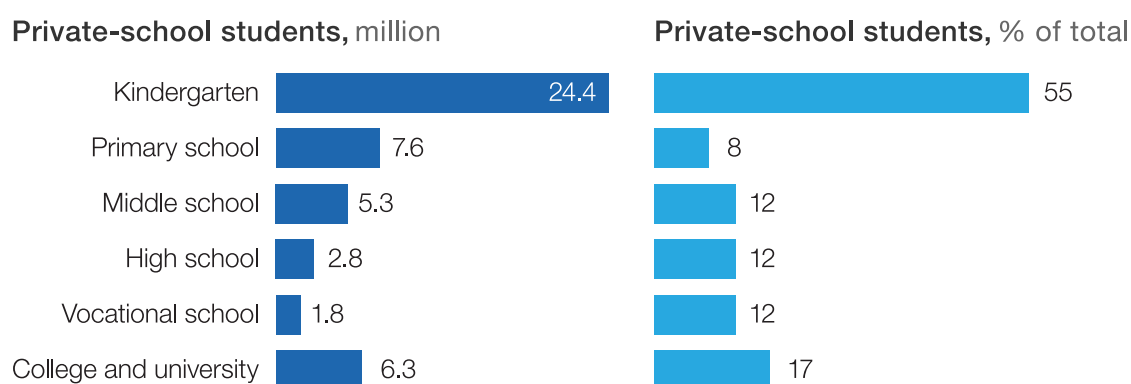
Local brands will continue to gain in strength and share in 2019. Already 30 of the top 50 FMCG brands are now local, up from 20 five years ago. Six of the top seven mobile-handset brands are also local today. International FMCG companies see real value in these local brands, as they have moved upmarket and are more willing, as a result, to look to acquire or partner with local brand owners than in the past, when the main strategy was to defeat them in the marketplace. These local brand leaders will increase their export volumes in 2019, especially to Southeast Asia.

Growth in consumer spending in 2019 will particularly come in services. Demand for high-quality private education, from kindergarten onward, continues to rise (Exhibit 4). Substantial amounts of international capital will be invested against these opportunities. Tomorrow Advancing Life, the Chinese education-services company, now has the highest worldwide market value in the sector. Whittle Schools & Studio, from the United States, has raised \$700 million and is now completing its first Renzo Piano–designed campus in Shenzhen; it plans many more in China. Westminster School, from the United Kingdom, is planning to license its name to six new schools in China. Healthcare will continue as another high-growth sector in services. From medtech apps and monitoring devices to dental clinics to treatment of chronic diseases like diabetes and increasingly prevalent cancers, consumers are becoming more and more aware of opportunities to spend on health. McKinsey expects healthcare expenditures to reach \$1 trillion in China by 2020,

with double-digit growth rates continuing beyond then. As a result, many Chinese healthcare companies retain high stock-market valuations and are actively looking for international acquisitions that they could rapidly scale in China.

Exhibit 4

More Chinese families are paying for private education for their children.



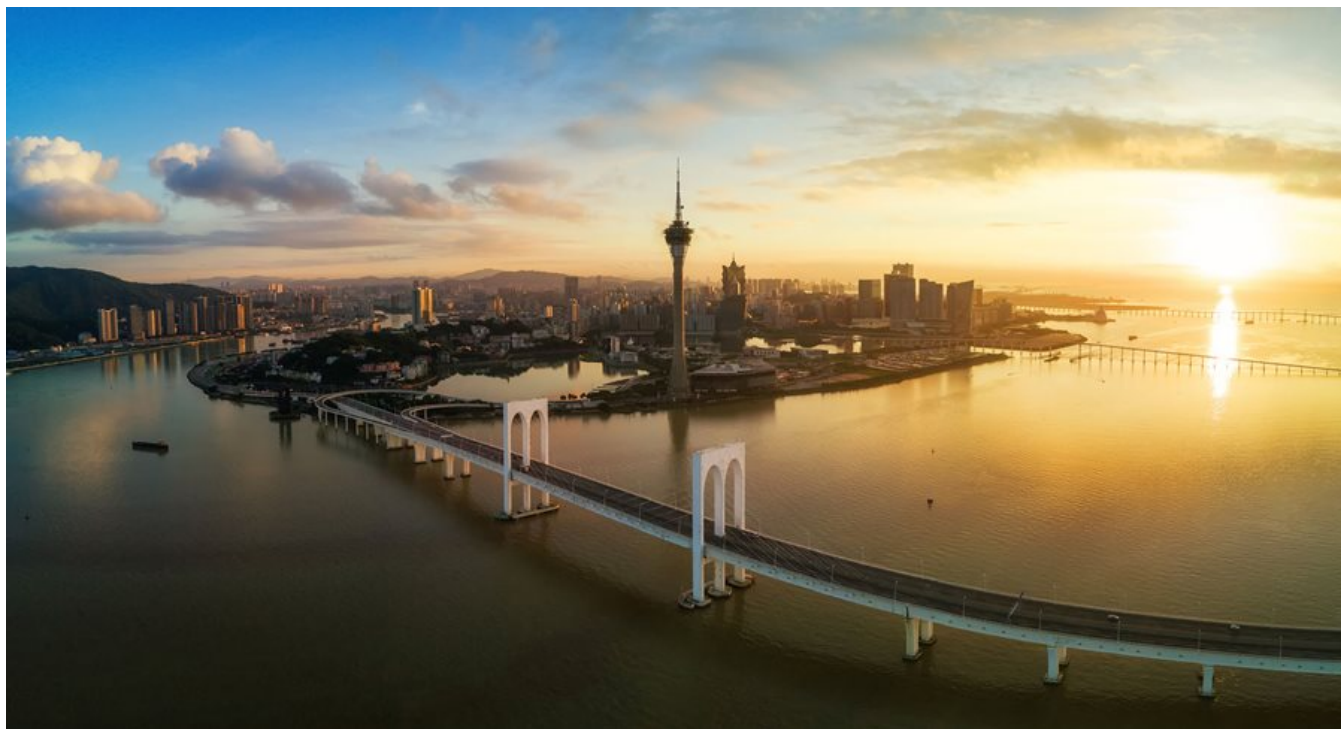
Source: McKinsey 2018 Consumer Report; Ministry of Education of the People's Republic of China

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Property will overall have a quiet year in 2019. Low-single-digit price increases that are the average across the country will likely trend toward zero as the overhang of properties bought and held for investment will weigh on the market in many cities. Local governments will try to manage the release of supply onto the market to sustain orderly prices, and the rollback of subsidies for shantytown replacement will hold back demand at the bottom end of the market.

Chinese outbound tourism

China's tourists will continue to seek out the new in 2019, whether it is taking a flight to a new international destination (the Shenzhen-to-Seattle flight now carries 12,000 outbound tourists a month) or riding over the new Hong Kong–Zhuhai–Macau bridge (attracting up to 100,000 mainland tourists on a weekend). And 120 million mainland Chinese now have passports, with as many as 30 million more being issued in 2019. A major challenge is that underprepared destinations will easily find themselves being swamped, as was the case at the Hong Kong end of the bridge in its first weekends of operation; further afield, some African-safari destinations were unprepared for an influx of high-end Chinese travelers. New destinations in Latin America are likely to become popular in 2019, and traditional destinations, such as Japan (especially outside Tokyo), are back high on the list.



The expansive Hong Kong–Zhuhai–Macau bridge will continue to be a draw to Chinese tourists in 2019.

A base case for China's economic growth in 2019 of 6 percent, with wide disparities across provinces, is fair, but it contains much-higher risks to the downside than in past years. If across-the-board higher-level tariffs are imposed by the United States for an extended period, that would likely lead consumers to fear for their jobs (or at least pay levels), and so they may cut back on spending. Growth rates will be one to two percentage points lower if the government did not act. The Chinese government does have levers to pull to mitigate falling growth rates, but it must not be indiscriminate to avoid creating its own damaging stresses, such as a new wave of bad debts, rapid releveraging, higher inflation, capital outflows, and asset-price declines, in the domestic economy.

More specifically, the Chinese government has already enabled local governments to issue close to \$200 billion in bonds to support infrastructure construction, and it has the option to implement additional tax cuts (for instance, on automotive purchases) to stimulate consumption. To get more financing to businesses, the government is using both exhortation and requests for directed lending (for example, to the private sector), along with reductions in effective interest rates paid for money borrowed. To get more financing to consumers, mortgage-eligibility criteria could be relaxed again. To support exporters, more tax rebates can be provided and the exchange rate managed to a lower level. And finally, near-term consumer confidence can be bolstered by government interventions to prevent companies from implementing layoffs that they might be considering.

And so 2019 is a year to remain highly alert to signals on where the economy is headed, most critically for being prepared for a wide range of outcomes and being bold when it comes to taking action. It is not a year to set a budget plan for China in January and just expect it to happen as forecast month by month. This is more likely to be one of those years where you toss out your plan for the year by March, moving fast to seek to get ahead of sudden changes in the domestic and international situations.

1. Michael Riley and Jordan Robertson, "The big hack: How China used a tiny chip to infiltrate U.S. companies," *Bloomberg Businessweek*, October 4, 2018, bloomberg.com.

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