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Teneo Insights

Coronavirus: A Weekly Update From Teneo

A discussion between Jerome Hauer, Ph.D., Gabriel Wildau, Kevin Kajiwara, Paul Haenle and Oscar Wang.

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Kevin Kajiwara (KK): Good day, everyone, and welcome to today's Teneo Insights conference call. I'm Kevin Kajiwara, Co-President of Teneo's Political Risk Advisory Business coming to you live today from New York City for our latest edition of our conference calls on the coronavirus.

Those of you who've joined us of late will know that we have been focusing most recently on a lot of immediate issues. Today we want to take a step back and look at something of the bigger picture, particularly focusing on one of the most dynamic and contentious issues of the day, which is China. Its role in this crisis and its relations with the U.S. now and going forward. Now, one thing I want to note, those of you who have joined us in the past, you'll see that we're using a different platform today. As usual, after my conversation with our panelists, we will be answering your questions, but we'll now be fielding those in written form so you can submit a question at any time during the call by clicking the moderator chat icon at the top of your screen.

All questions will remain anonymous and we'll address them later on. So, joining me today for our discussions are the senior members of our China team. Paul Haenle, he's Teneo's Chairman for the Asia Pacific region. He's also the Director of the Carnegie-Tsinghua Center in Beijing. Prior

to joining Teneo, Paul was the Director for China, Taiwan and Mongolian Affairs at the National Security Council for Presidents George W. Bush and President Obama. He was also the White House representative to the U.S. negotiating team at the Six Party Talks, nuclear negotiations with North Korea. Gabe Wildau, he's a Senior Vice President with Teneo's Political Risk Advisory Business. Gabe heads up our China coverage in the U.S. and he joins Teneo following 13 years in China, most recently as the Shanghai Bureau Chief for the Financial Times. And Oscar Wang is a Managing Director and he's the Head of Teneo's Shanghai office and our Strategic Communications Business across mainland China.

I'm happy to have all of these gentlemen back on our call, but we're going to start as we typically do with an update on the outbreak itself. Joining me as a familiar voice to all of you. Dr. Jerry Hauer, he's a Senior Advisor to Teneo Risk. Jerry is a leading expert in emergency response and management and crisis planning. He was the Commissioner of the Division of Homeland Security and Emergency Services for the state of New York and Director of the Office of Counter Terrorism. He was the Acting Assistant Secretary of the U.S. Department of Health and Human Services for Public Health and Emergency Preparedness.

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So, where are we? As of this morning we're at about 2.6 million cases worldwide. About 830,000 of those are here in the U.S., there have been 186,000 deaths worldwide, about 47,000 in the U.S. What that means is actually that COVID-19 has become the leading cause of death in the United States in April on a daily basis. It outpaces both heart disease and cancer at this point. Now governments around the world have pledged in excess of \$8 trillion to combat the economic impact of this. In the U.S. we've lost more jobs in a month that had been gained since the bottom of the last recession. Initial jobless claims for the week came out a moment ago at just over 4.4 million in addition to the 22 million we've seen in the previous month.

You've all seen that oil, we've seen unprecedented market action in the last week as the production cuts agreed between OPEC Plus and others. Even if they are adhered to, which is always questionable, they come nowhere near to matching the demand destruction and this comes even as storage fills up around the world. Economic activity around the world has essentially halted. Today's United Kingdom and EU Purchasing Manager Index numbers show the steepest falls in history and we're in the midst of corporate earnings season, of course, characterized in large part by a lot of pulling of guidance.

President Trump last night said that he totally disagreed with the Governor of Georgia's reopening plans. This comes days after exhorting States to liberate themselves from lockdown. So, I guess it's any wonder that America's confidence in the Federal Reserve Bank is actually the one number that's surging. It's at a 15-year high. And as we look at market action, I think you have to wonder whether the market is kind of hoping that

things are better than they actually are. But Jerry, let me start with you here. Because ready or not, here they come. States are preparing to start reopening and relaxing restrictions, particularly in the South where I've seen Georgia and South Carolina and others. We've seen limited protests in other States calling for more. Meanwhile, the current estimate is that only about somewhere between 3 and 10% of Americans have actually been infected. So that leaves at least 300 million of us remaining vulnerable. It sounds to me like there's a disconnect there. Jerry, what do you think?

Dr. Jerry Hauer (JH): Well, Kevin, it's unfortunate that we're seeing some of these governors respond to the pressure to reopen. We continue to see an escalation in number of deaths countrywide in the U.S. The pressure to reopen is only going to cause these focused hotspots to start to increase in the number of cases. I think a premature reopening in any State, anywhere in the country, is just going to lead to a refocus on the number of cases increasing on a daily basis. The whole focus right now needs to be in keeping the virus under control. Any loose thing at this point in time will wind up with a second wave and actually a premature second wave. We all expect that we'll see a second wave at some point but prematurely opening in this stage and we'll start to see that second wave earlier than expected.

KK: How concerned are you and policymakers on the public health front? Even as states look to loosen restrictions and there is more news coming out that some of the hotspots like say New York City are on the far side of the curve. Plus, as we get into better weather around the country that irrespective of what policymakers tell them, people just start to get relaxed and start to gather in ways that are dangerous.

JH: I think that the information coming out of the White House and some of these governor's offices - that we've hit the plateau and we're starting to see a decline in some areas - has given people the sense that it's time to let go. We're starting to see these protests. People are letting down their guard. And I think that only bad things can happen if we start to communicate to people that we're through the hoop and we're ready to start over. Again, all that's going to do is lead to a second wave, and I think that the notion, people tend to think that flu goes down during the summer. All the indicators at this point in time, particularly in a report that was submitted to the White House three weeks ago, there is no indication, no confidence in the fact that this virus will go away during the summer. In fact, most people in the scientific community feel that this virus might stay at a steady level throughout the summer and then continue in the fall, and as you've heard on TV in the last 24 hours from the CDC Director, we will then have two infections in the country and actually in the world at the same time, which could be quite deadly.

KK: Obviously, this is a complicating factor for companies as they contemplate an environment where restrictions are being loosened and states are reopening. And I should mention at this point that our colleagues in Teneo Risk have been coordinating with all of the areas of competency within the firm to help companies think through that. If you'd like to discuss that with us further, please don't hesitate to reach out to us at teneoinsights@teneo.com. I want to move on to China in just a moment here, Jerry, but before I do, from last week, last week's conversation, are there any developments on either the vaccine or the therapies front that are worth calling out at this point?

JH: Yeah, Kevin, as we've said in the past, there are over 70 clinical studies on vaccines, therapeutics, convalescent plasma and hyperimmune globulins. The only thing that has caught everyone's attention in the last three to four days is the study on hydroxychloroquine, the malaria drug that was pushed and recommended by the President to be used for patients with COVID-19. The study that was released this week showed that the number of deaths in people getting that as a treatment was greater than the number of deaths in people not getting the drug. Bottom line is the drug is dangerous. We've known that all along, but in this environment, in treating people with COVID-19, it appears to be particularly deadly and most of the scientists at this point are pulling back from the use of the drug.

KK: Interesting. So, the primary focus of today's call as I mentioned at the outset is going to be with regards to China. So, I want to turn to China and its handling of the disease here a bit for a moment. Much has been made about the data flaws in China of course as well as their obfuscation about what was happening at the start. But I'm much more concerned with where things are now. So, the world is obviously looking at China as a template for restart. They're also looking at China quite frankly, to provide a floor on global demand and to be a stable source of supply on things like PPP, etc. Where do you think they are? Are we seeing some degree of a second wave in China or is this just evidence of how difficult it is to get a handle and control on the first wave?

JH: Well, you know Kevin, China was very slow to get moving in trying to control the outbreak. They were suppressing information. They were not ready to deal with the outbreak itself. They have almost 84,000 cases, 4,700 deaths. The second wave that some

expected in China has not really materialized in any significant way. China's really been aggressive now in cellphone tracking, they've deployed a system called Health Code that gives you a color coding that allows you to understand what your risk is for getting sick. They now have facial recognition cameras that allow them to look at where you are, whether you're wearing a mask. They have systems in place, so when you're trying to get into your apartment or your office, you now have a QR code that you scan. You have to give your name, your ID number, where you've traveled, and they take your temperature.

The facial recognition, by the way, also does remote temperature tracking. They have also, as I mentioned, put an app on people's phones so that they can track where you are, where you've been, who you've been in contact with. That's something we're trying to get going here in the United States because it allows contact tracing. If you're in contact with somebody that tests positive, they can then figure out who in fact you've been in contact with. You isolate the person that's sick and then you quarantine all those people that the person has been in contact with. They have become very aggressive in trying to get control of things and maintain that control. So, at this point in time we really have not seen a second wave of any significance materialize.

KK: And one final question for you. I mean there's been a lot of talk obviously of South Korea and Germany being relative success stories, but one that's kind of gone under reported out there is Taiwan. Obviously integral to the global supply chain as well. But it actually seems to be quite a remarkable success story. Can you comment on that?

JH: Yeah. Sure, Kevin. Taiwan is a model for the rest of the world. Even before the first case in Taiwan, they started putting controls in place for people coming into

the country, doing health screening, doing temperature screening. One of the things they did is they started integrating all the data from their healthcare system, immigrations, customs, screening, blocking people or prohibiting people that traveled to Wuhan from entering the country. They halted the exporting of face masks. They began rationing face masks. They actually mobilized the armed forces to assist in making face masks. They implemented quarantine of people, and they set an app and did tracking of cell phones. And if you were quarantined for 14 days, they had you stay in your home. Twice a day, they would call your phone to make sure that you actually were in your house. They called it an electronic fencing, where they actually use phone signals to geo-track people. The Journal of the American Medical Association said that Taiwan took 124 discrete actions to try and control the virus. They did an outstanding job. When you look at the numbers, Taiwan only had 425 cases and six deaths. They really are a model for the rest of the world.

KK: Yeah, that's remarkable. Thanks. Before coronavirus, two of the really big long-term global trends that we were watching most closely were, one, the rise of China, and two, the evolution of the U.S. role in the world. And as we've seen global GDP collapse at a moment when no marginal dollar of GDP can really be left on the table, where the U.S.-China relationship and where they are on that continuum between conflict and cooperation, is going to have a material impact on economic recovery in the world. And in many ways, this is perhaps the seminal moment in U.S. post-war global leadership.

So, I want to explore what's going on here in a little bit greater depth, but I want to start with Oscar, in Shanghai. There's a lot of new data coming in on China, and it's always hard to know what the truth is, especially as U.S. journalists have been forced

to leave China, and in fairness, Chinese journalists have been forced to leave the U.S. as well. But, Oscar, give us a sense of what is going on, and how the restart is going in Shanghai and what life is now like?

Oscar Wang (OW): Sure, thanks, Kevin. Well I will say, just to add to the point you just made, I think China for now, the situations and it's very kind of a model and fast evolving on a daily basis. In terms of the people's daily life and businesses, Shanghai and a large number of the provinces and CDC in these countries are I would say 90 or 95% back to normal or so called new normal. But however, I mean you probably see this news on newspapers as well. There are still several cities where specific areas were categorized as contingent hotspots such as like RBC, Northeast China, Chaoyang District in Beijing and Yuexiu District in Guangzhou. And most of them because of these new imported cases in local community, in these cities or areas. But here in Shanghai, fortunately there has been zero new cases in local community for the past 10 days and all the new imported cases which is very limited were identified and contained at airports in Shanghai.

So, in this city, most of the people are still wearing masks but it's still getting really crowded and traffic in the morning can be as bad as the time before the COVID-19 outbreak. So, you can easily feel the recovery and the changes around you. For example, like in the past week, two out of the five shopping malls I would go to are no longer running temperature checks at the front gate. Also, more and more restaurants are reopening while there are exceptions which is still locked up and for businesses here, even the office buildings. So yes, you have to run the cure coat check. You have to get through the guard. But I guess one thing is every company has their autonomy to deploy their quality policy protections right?

So, for some of the companies that we know, I would say majority are actually just back online and back to the office physically but allowing people to have a certain level of flexibility. For us at Teneo, we are still having our staff working from home, simply because we've taken a relatively precautionary measure with all staff. But you have that kind of autonomy to be flexible with your staff and other signals from local governments are also very encouraging. So for example, a few days ago, Shanghai Government gave a very precise timeline of when students will be back to school and indicated days are all right after the Labor Day holiday in early May. And just earlier today, local Shanghai Government now sees a series of economic stimulus programs with strong elements on boosting up the retail consumption by issuing so called city coupons to citizens.

So, the last point I want to make, I will say a very important point of time will be the upcoming national holiday from the 1st to the 5th of May as there are high expectations from most consumers and businesses that the number of people traveling out of town during that period will increase dramatically. And the forecast report I got over the past two days from the local tourism industry estimated that the number will be rising by 40% compared to the number of people traveling during the Qingming festival in early April. Then it will be a very crucial observation and question on whether the number of contracted cases will rise again or continue to stabilize following the holiday.

KK: Oscar, how would you characterize the domestic perception of Chinese government performance here? Has there been any sign of any kind of social unrest or any sign that the government is preparing for social unrest more than they normally do?

OW: Well overall, I would say the Chinese government did a good job in terms of the controlling and managing the narratives overall, across the society, right? So, I would say overall it is relatively stabilized and you didn't see a massive kind of protest or different views spread online even. But I would say the only one exceptional case would be the city of Wuhan which was the epicenter of the outbreak. I mean you probably saw this on media outlets, people there apparently live a different life to the rest of the country and what they experience was very extreme, like case kind of scenario. Then naturally you have those kinds of emotional reactions.

But I would say the rest of the country is relatively similar. But I mean just as some observations from my perspective regarding the sentiment right now, is in China. So, on one hand, I mean for sure the concern is around, for example, jobs where sustainability over the individual incomes continue to grow among quite a wide range of the social groups. That is obvious and especially younger generations, early 20s or early 30s are probably hit the most emotionally as this would be the first time in their life that they have come across an economic downturn in this country. But on the other hand, you also see the overwhelmed nationalist sentiment widely spreading online on social media platforms. Most of the time against the U.S. of course and the governors, I mean you can imagine they are pulling the strings but the level of the heat, what I see is quiet [inaudible 00:09:41].

KK: Paul Haenle, someone who lives and works in China, you're very attuned to U.S. views as well. So, I'm just wondering from that perspective, how would you perceive the performance of Chinese authorities? What have they done well and where have they really fallen down?

Paul Haenle (PH): Well, thanks Kevin, and I think you can split it up, the domestic response into two phases. You have, as Jerry said, the slow response suppressing information in the early phase. But then both Oscar and Jerry have talked about in the containment and mitigation phase, there were really some bold and aggressive steps taken by the Chinese authorities to curtail the virus' spread. And I think in that particular phase, there is a lot that we can learn from China. And in China, I think the leadership wants to focus the narrative of course on the efforts that they took in the containment and mitigation phase, shutting down entire cities, rampant testing, temperature checks, massive quarantine facilities. They took some very bold steps. There's a report out of the UK, the University of Southampton that says without China's testing, quarantine and travel restriction policies, the number infected in China would be almost 70 times higher.

But if you look at the early phases, and this is really the phase that the Trump administration and many political and officials in the U.S. want to keep the focus on is what they refer to as the denial and the coverup in the early stages. And even though the virus first appeared in December, it took China over a month and a half before it decided to lock down Wuhan. There were a few days in early January that the Trump administration officials want people to focus on where Hubei was holding annual political meetings. And during that time, even though the number of cases were going up, there were no new cases officially announced. And then in January 18th in Wuhan, they had an annual potluck New Year's banquet to commemorate the end of those political meetings where 40,000 people gathered and then many people, about 5 million left Wuhan before the Chinese New Year. And only after that on January 23rd did China lockdown Wuhan.

So, there's quite a bit of focus on the early phases. You've seen now it's become quite a political issue as President Trump needs to explain the slow response and some of the missteps of the Trump administration. He wants to turn the attention on China. We've seen senators in Congress that are talking about allowing Americans to sue China in Federal Court. In fact, Missouri and Mississippi now have filed suits against China saying that their own residents suffered. And this is not just a U.S. issue. We see it also in Europe too. So, while China wants the world to focus on what it did in the containment and mitigation phase, which in many ways was very, very impressive and we have a lot to learn from. There's a big focus in the U.S. and other parts of the world to keep the focus on what happened in those early stages.

KK: Yeah, Oscar made the point a moment ago that for many people in China, this is the first economic downturn that they've ever really experienced. And last week we saw some of the latest economic stats. The headline, of course, was Q1 GDP, a contraction of 6.8% the first time we've had a contraction in China since 1992 at least. Gabe, obviously there's always the question about the quality of data, but what's your overall sense of the state of the economy in China right now?

Gabe Wildau (GW): Thanks, Kevin. So the Chinese economy suffered the worst ever quarterly contraction at least since the official data series began. In the first quarter, it was a decline of 6.8%. But that data point obviously covers the period of the most intense lockdown from late January through early March. And so, what we see today is that China's economy is recovering quite quickly. Some of the proxy indicators that analysts look at are things like coal consumption at major power plants. And by that metric, we see China is probably over 90% back to normal, where you compare coal consumption now to the same period last year. But there are bumps in the road ahead. So, what we're forecasting for the economy is something

like a W-shape recovery, where China is right now in the middle upwards section of the W after the initial shock from the virus.

But there are good reasons to believe that there's going to be another downturn coming up later this year because China's economy was already facing pretty significant downward pressure before the virus began, especially from the property sector and that is likely to reemerge. So, the question that I think a lot of investors are looking at is what is China's response going to be in terms of stimulus, where so far, we've seen quite a modest and quite a cautious policy response to the outbreak. We've seen mostly a supply side response in terms of policy focusing on getting businesses back up and running, emergency loans, preventing outright business collapse. But what we haven't seen yet is the robust demand side stimulus that would be comparable to what China has tried to use in response to the global financial crisis and in subsequent down cycles since then.

So, we haven't seen major infrastructure stimulus. We haven't seen a major loosening of credit to the corporate sector and for home mortgages. And so, what we're looking at is at what point does China feel like it has to pull the trigger on that more forceful stimulus? I think the forbearance, the cautious approach we've seen so far reflects the policy constraints that China is facing, given the huge accumulation of debt and probably wasteful investment or low efficiency type investments made over the last decade that was funded by that big explosion of debt. And China is very aware of the financial risk problems and the little productivity problems caused by previous rounds of stimulus. And that's why they're reluctant to pull out that old playbook again. But in line with the W forecast that we are sharing with clients, once that third leg of the W, the second downturn starts, we feel that China will eventually have no choice but to unleash heavier stimulus as a ratchet up stimulus that could come sometime in the second half of this year.

And the triggers for that are likely to be when we see a renewed downturn in industrial profits, especially state-owned enterprise profits, when we see another downturn in fiscal revenues, so local government tax collections and land sale revenues. And especially when we see unemployment problems start to emerge, there are forecasts that if you consider that both the reduction in new jobs created velocity and a layoff to the existing jobs, that China's net job creation this year could be 20 million jobs below the trend from previous years. And so, when those pressures start to emerge, what I expect is that heavier stimulus will arrive. But it's late compared to the very forceful policy responses that we've seen in Europe and the U.S. and in Japan. China has been remarkably cautious on stimulus. But I expect eventually they will have to ratchet that up.

KK: And to what extent did they think about this from a global perspective as well? I understand what you're saying, with a total debt to GDP ratio in excess of 300% that that big fiscal bazooka is just not coming this time from China. But it does seem like stimulating demand via running a sizable current account deficit and buying stuff from the world would perhaps be one of the best exercises of soft power they could actually engage in at this point given how ham-fisted they've been on the PR front.

GW: Yeah. I know that a lot of, especially regional economies, are probably looking towards China to be a driver of global demand, given the weakness elsewhere in the world. I think those hopes may be disappointed. Later in the year, as I said, when I do expect stimulus to ratchet up, there will be some demand spillover to the rest of the world. But if anything, China's own growth will suffer. Because China traditionally run current account deficits, they are reliant on global demand and that global demand is now collapsing. So that's another, I mentioned property earlier, but the other big vulnerability for China's economy is the export sector, where exports were essentially flat last year due to the trade war.

And that was already a very impressive performance given the headwinds from trade war that they were even able to hold exports flat. This year, China's exports could fall 10, 15, or even 20%. And while there will be some demand, certain commodity exporters may benefit if China finally decides to use, for example, infrastructure stimulus. I don't think the world wouldn't be responsible for other global and regional economies to rely on China to drive global demand that we're simply not going to see a rerun of 2008 where they really did play that role.

KK: So, Paul, one of the things that we've been hearing the most from a lot of our corporate clients, of course, has been their concerns regarding supply chain and the need to diversify the supply chain or create redundancies. And on the other hand, with China, as the first to recover, perhaps the Chinese supply chain is more important than ever in a sense. What are you hearing from clients in general and how are you advising on this front right now?

PH: Thanks, Kevin. This is an issue that we talk to clients about quite a bit. Gabe and I have discussed this issue extensively as well, and he made an important point. I think he's absolutely right, is the coronavirus and the global pandemic have simply accelerated the trends that we've already seen in progress because of the trade war around this issue of decoupling. And if you look at the AmCham report, the survey that was done just a couple of weeks ago in both Beijing and Shanghai surveying American companies, the percentage of companies that say decoupling is impossible was 44%. But that's down from 66% in the fall that said decoupling was impossible. So that number is dropping.

The debate prior to COVID-19 really has been centered around technology, telecommunications, defense industries. But now, I think with COVID-19, you see now calls to bring manufacturing back to the U.S. of medical equipment, safety gear,

pharmaceuticals, ventilators, many items that are in short supply that come from China. And so, I think this is reinforced concerns by many in the U.S. and the Trump administration certainly will use this to make their case for greater decoupling efforts that the U.S. is too dependent on one country in particular China. And so, the debate now around how comfortable are we about this, and I think bringing, of course, all manufacturing back to the U.S. would be quite difficult. You have issues around labor costs. And I think it's not a binary question in engaging our clients. We encourage them to a better way to think about this, a more sophisticated way is to think, as you said at the opening your question, how do we diversify? Not decouple from China, but how do we diversify our global supply chain activities so that they're not so concentrated in any one country? And so, we think the debate should be viewed in this way. We should also look at stockpiling, how do we stockpile smarter? But we don't think it's a binary decoupling between the U.S. and China debate or issue, it's more about how do you diversify your global supply chain so that you are not so dependent on one country.

KK: Well, this is a good segue actually into the geopolitics of all this. Through the Belt and Road Initiative through institutions that China has built, like the AIIB, through their bilateral debt relationships, as companies and countries diversify that supply chain, China is going to actually have influence even as that happens with its relationships around the world.

PH: Oh, absolutely. And I've heard some experts say it's not an issue of decoupling because decoupling would imply that there's only two actors. But frankly, there's a lot of actors in this global supply chain. And there's a lot of parts of the world that is quite dependent on China, where China has done quite well. Countries along the Belt and Road, for example, where the U.S. presence frankly is not nearly as strong as China's presence is. And so, we see an

effort now to by China, you know I mentioned the two phases of the coronavirus response by China, the early phase, the cover up and denial, and then the containment mitigation. They're now in a third phase, which is international outreach and assistance, trying to help countries around the world dealing with the coronavirus, either by providing medical equipment, or by sharing their best practices that they learned through their own experience. And this is part of an effort, not just to help the world, but also frankly to enhance China's own geopolitical influence.

KK: Yeah, I'm aware of the time here and I'm happy to see we actually do have some questions coming in. So, I want to race through a couple of other items here though, because these are really important unfortunately. Gabe, we've talked about this a lot. What are China's objectives here? You've talked about, you know, it's clear, they've been trying to evolve the economy from an export-led one to a consumption-led one. That's very obvious. And on the other hand, they are also attempting to become more self-sufficient in strategic industries in particular through the Made in China 2025 initiative. So, they've been preparing for this even before coronavirus. But what is their long-term goal here? I think there's often times a mistake that they're looking for hedging money, allow what the U.S. has had, or are they really looking to just be able to grow their economy unimpeded in a mercantilist fashion and have the seat at the table to shape the world that would allow them to pursue that? What do you see as the objective here?

GW: Economically, China's objectives haven't directly changed as a result of this outbreak. If anything, the escalated geopolitical tensions that have accompanied this outbreak probably just reinforced China's preexisting goals, which, as you say, partly involve a form of self-sufficiency, or at least self-sufficiency particularly around technology, where in a previous era

of China's growth, it was mainly about raising living standards and just achieving a high volume of growth. Now, in what Xi Jinping calls the so-called new era, the objective is less on growth for growth's sake or on the quantity of growth and more about high quality growth, especially around technology. And so, as I think we've discussed on other calls, one thing we saw during the virus was that the key semiconductor and flash memory factories in China continued to work, even including one in Wuhan right through the heavy period of the outbreak. And that reflects the emphasis on mastering these key technologies. So, China wants to reduce its dependence on the U.S. and Japan and South Korea for these key inputs for their technology sector and they want to become, instead of a buyer of high technology from the rest of the world, they want to become a supplier of high technology to the rest of the world. And again, the geopolitical rivalry that has only intensified as a result of this would certainly reinforce China's leadership ceiling that they can't rely on foreign suppliers. And indeed, we've seen that during this outbreak, there's been some continued progress on the U.S. side in trying to restrict high tech semiconductor exports to China. And so, that's only intensified from what we've seen before. And on the U.S. side, there's quite a concerted effort to try to block those ambitions.

KK: So, this obviously brings us to the question of U.S., China relations. And I think it's not a stretch to say that they're deteriorating. But so much counts on the nature of this relationship. Paul, what's your take here? Why is coordination so poor between the two countries, both on the health front as well as on the economic front? And do you think China is taking advantage of this situation?

PH: Well, I think that the fact that the U.S. and China have not been able to set aside their growing differences and cooperate on a global pandemic that's killing citizens across the globe, including Americans,

gives you a sense of how bad the state of the relationship is. You can just look back at other times. In the early part of the Bush administration, there was growing hostility between the U.S. and China. We had the EP-3 crisis where our aircraft landed in China. We didn't get the crew back for a week. There were calls for a much tougher policy toward China in the early days of the Bush administration. But 9/11 happened and the U.S. and China managed to get back on a more constructive footing and were able to cooperate to a certain extent on global terrorism.

After the global financial crisis, I was in the White House then, as the China Director for President Bush. His first phone call on the global financial crisis was to the Chinese president, Hu Jintao, to say, "If we don't work together, the international community may not be able to work our way through this crisis." That has not happened at all with the coronavirus. In fact, it's the opposite. Both sides have engaged in a very dangerous blame game and have taken steps to deliberately inflict damage on each other. Recalling journalists from both countries. The Washington Post, New York Times. Journalists have been removed from China. The issues within the bilateral relationship across the board are worsening. They're not getting a lot of attention these days, but if you look at what's happening in the South China Sea with regard to Taiwan, there are some issues bubbling up.

And this is about to become a much bigger issue in the context of the U.S. presidential campaign. Both sides are trying to paint the other side as soft on China. And I think that China has been an issue in previous presidential campaigns, but I think that this year, we will potentially see China playing the biggest role we've seen in modern history, in the context of a U.S. presidential campaign. And that will not be good for the relationship.

KK: Gabe, who do you think is winning here, if you will? I mean, despite the own goals that China

has scored with shipping faulty equipment and charging a premium for PPE, rather than giving it as aid, blaming the U.S. for having introduced the virus, trying to force a Congressman in Wisconsin to introduce a bill praising China, their egregious abuse of foreigners, particularly Africans, of late. On the other hand, there was a poll done in Italy, which was so hard hit, over their preferred ally outside of Europe, and only 36 percent of them said China. But that was 20 percent better than the 30 percent saying the U.S. The U.S. tends to look at things as a zero-sum game right now. I'm not sure that China does. How do you see the balance here?

GW: Well it's a good question. It's a difficult one to answer though, because as you say, there's currents moving in both directions. Broadly speaking, I think we could divide it between the response in the developed world and the response in the developing world. I mean, China has provided aid and PPE to Europe, but I think in Europe and in the U.S., there's a high degree of cynicism and skepticism about China's motives. There's a sense that the Chinese government is behaving opportunistically. There is some anger over allegations of hoarding of equipment or excessive buying of equipment by Chinese people in January and February when the outbreak was centered in China, that then caused shortages later on when the outbreak spread to Europe.

And so, I think China's soft power efforts have really not achieved great results there. But in the developing world where China has provided important, in places like Africa, where they have been an important source of aid, I think that does have an impact in the context of a geopolitical rivalry where the U.S. and China, as you say, there's a view on both sides that it's zero sum and both countries are exerting pressure on third countries to try to choose sides. And I think in that context, China probably will win some allies, will persuade some developing countries in particular, to choose sides with them because of what they've been

able to provide in terms of aid, which Europe and the U.S. and Japan simply haven't been able to do.

And then I think also, just in terms of global prestige, if you look at, I mean, whatever you think of China's numbers, whether you trust them or not, it's pretty clear that as Paul said, after the initial coverup in Wuhan, China has done a good job of controlling this epidemic. And so, the numbers of deaths, the numbers of cases, there are simply those objective facts that everyone can see, where it's easy to compare China's relatively successful response, at least after that early stage with the sort of shambolic response in the U.S. And so, in that context, I think just whatever you think of China's motives, there are just the bare facts of case numbers and deaths that I think serves to enhance China's prestige.

So that's the picture I see. It's a bit of a mix picture. As Paul was talking about, in other contexts, this epidemic has tended to kind of accelerate trends that were already in progress. So, if you were skeptical of China before, you tend to be even more skeptical now. And there are good reasons that fuel that skepticism, that additional skepticism. But if you were inclined to see China as a potential partner and ally, you can see reasons to do that even more so now. So, I think that's the mixed picture that we're looking at today.

KK: Well clearly, this conversation could go on for some time, but I do want to address a couple of the questions that have come in and get us done here by 9:30. The first is a question for Paul. And you've addressed part of it already, which was how China is going to play into the U.S. election. But parts B and C of this are, what do you think the implications are for the next phases of the trade deal? We haven't even talked about that in a while, on that front. But the second is, again, looking at the U.S. presidential election is, would a Biden presidency actually mean better Chinese relations, in your view?

PH: Well thanks, Kevin. On the first question on the trade deal, we saw the phase one of the trade deal was announced a week before Wuhan was locked down. And certainly, the coronavirus will make it more difficult to implement the contents of that agreement, which included \$200 billion in purchases over two years. We do see, however, both the administration in the U.S. and China appearing committed to the deal and doing what they can to try to implement the deal.

I think there's political incentives in both countries to try to keep the deal on track. Trump doesn't want the deal to fall apart in the context of the presidential campaign. And the Chinese side certainly doesn't want to see more tariffs or greater uncertainty as it's trying to get its economy back up. But clearly it will have an impact. And we've already seen data coming out. If China was on track to hit its targets for phase one, in terms of purchases, they would have by now purchased \$23 billion of products, but they've only purchased \$9 billion. So, you can already see they're behind. But the two sides don't seem to be making a huge deal out of it.

In terms of your second question, look, I think the Trump administration, if they've been successful in anything, it is shifting the debate on China. And that will have an impact even if Biden is elected. I think you'll see a much tougher approach on China. Many of the same issues will be part of the bilateral relationship, the contingent issue at the forefront, and Biden will have to take a tougher approach. I think the difference is, in the Trump administration, it's been a bit haphazard. I don't actually think we have a policy, per say, towards China. We have an attitude towards China and some very hawkish sentiments towards China. But it hasn't come across to me as a well thought out, developed, coherent, interagency strategy tied to resources, working with international partners. And in that sense, if the Trump administration had that, it might in fact be more effective than what they're trying to do. I would expect the Biden

administration to try to have a more well thought out, coherent strategy and work with international partners. And in that sense, they may be more effective in their China approach.

KK: We have time for one more question. And by the way, for others who have asked questions, we will try to get our team to reply to you directly. But there's a question here for Jerry which is, why is COVID-19 different than the flu? And what will make it die out? Keeping in mind, of course, that the seasonal flu that we have today is the descendant of the Spanish flu of 1918. Right? So how would you differentiate this?

JH: Well two things, Kevin. This virus is extremely transmissible. Unlike the flu, the ability to transmit from one person to multiple people is different than we see with the flu. It's also a very lethal virus. The flu kills a lot of people every year. This virus is extremely lethal, and had it not been controlled, we would have seen a continued escalation in the number of deaths.

KK: Right. Thank you very much. I am sensitive that we are at the bottom of the hour. And it's gone by very fast. So, I want to thank everybody for joining us. I want to highlight that next week, we'll be having our usual call at 8:30 Eastern time on Thursday. And my featured guest next week will be Ursula Burns. She is the Chairman of the International Telecommunications firm VEON and she's the former Chairman and CEO of Xerox. She also sits on the boards of Exxon Mobile, Uber, Nestlé and MIT. So please join us next week. Meanwhile, I'd like to thank Jerry Hauer, Paul Haenle, Oscar Wang and Gabe Wildau and all of you for joining us today. We'll be back next week. If you have any additional questions, please don't hesitate to reach out to your Teneo contact or teneoinsights@teneo.com. Thank you very much and have a great day.



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