THE NEXT CHINA IS STILL CHINA

THE NEXT CHINA IS STILL CHINA

An Insider's Playbook for Winning in the New Era

JOE NGAI AND NICK LEUNG

SCRIBNER
New York Amsterdam/Antwerp London
Toronto Sydney/Melbourne New Delhi

Scribner
An Imprint of Simon & Schuster, LLC
1230 Avenue of the Americas
New York, NY 10020

First Scribner hardcover edition June 2026

Interior design by Kyle Kabel

Manufactured in the United States of America

1 3 5 7 9 10 8 6 4 2

Library of Congress Control Number is available.

ISBN 978-1-6682-2621-6
ISBN 978-1-6682-4232-2 (Int Exp)
ISBN 978-1-6682-2622-3 (ebook)

For our families

Contents

Prologue

In January 2023, at the World Economic Forum—the annual, invitation-only gathering of global business and political leaders in Davos, Switzerland—several dozen Asia-focused CEOs and senior executives of the world's largest companies gathered for a private dinner. The topic of the evening: China.

The gathering was hosted by McKinsey & Company and moderated by Joe Ngai, the Firm's Greater China chairman and one of this book's co-authors. He'd led dozens of similar discussions over the years, but the mood that night was different. The executives in the room were leaders who'd invested heavily in—and benefited from—China's rise of the past two decades. Collectively, they commanded operations employing tens of thousands, supply chains spanning dozens of provinces, brands recognized globally from Shanghai to London to Abu Dhabi. And yet, for the first time in memory, the conversation wasn't about growth targets or market expansion; it was about whether their China strategies still worked at all. Questions came quickly, circling what we'd titled the evening's discussion: "unprecedented headwinds"—or the collision of economic uncertainty, geopolitical tension, and rapid technological change: *When would China's housing downturn stabilize? Should our board be anxious about the slowdown in consumer confidence? Do we expand India operations as a hedge to China?*

Beneath each question lay the same unease: whether China's role as the engine of global growth—the foundation upon which so much progress had been built—was coming to an end. After guests stepped back out into the snow, a journalist lingered in the hallway and asked Joe what had become a recurrent boardroom query: "If this is the reality now," he said, "where does the next opportunity lie?" The question followed naturally: "What's the next China?"

The query, of course, wasn't philosophical but practical. Which country—or combination of countries—would replace China as the world's next engine of growth, profits, and scale? Throughout the week at Davos, the notion "China + 1" dominated private conversations—the imperative of finding alternatives to China as the country labored through geopolitical challenges, overcapacity, weakening sentiment from consumers and investors alike, and rapid technological change.

While Joe fielded questions in Davos, Nick Leung—his predecessor as McKinsey's China head and this book's other co-author—was halfway around the world in Shenzhen, the glass-and-steel city at the heart of China's manufacturing ecosystem. He was leading a procurement workshop for a multinational client whose China footprint was foundational to its competitive advantage—dense supplier networks, specialized tooling clusters, production lines calibrated for speed and precision, and a labor force that could scale up or down by the hour. The stakes were high enough to draw the global CEO into the room.

The directive from headquarters was clear: find an alternative. Costs were rising. Policy risk felt harder to navigate. The company needed options, and it needed them now. Nick and his teams had spent months stress-testing scenarios. Yet every alternative led to the same judgment: "There are no great substitutes—we must choose the least bad option." In other countries, the promise of stability and efficiency proved fragile. Rising wages and input costs eroded gains. The frictions of "friend-shoring"—logistical delays, substandard infrastructure, quality inconsistencies, a lack of institutional knowledge—piled up. Finally, the CEO voiced what everyone in the

room was thinking: "We're starting to realize how much we've taken China's ecosystem for granted."

No other country pairs the world's most advanced supply chains with its largest consumer base. In China, companies can launch faster, adjust in real time, and iterate—refining and improving with each repetition—inside of a digitally connected, highly competitive marketplace in which innovation is a condition of survival. Is it any wonder, then, that this combination of scale, speed, and depth has proven so hard to find elsewhere?

Against this backdrop, a pattern began to emerge. In Davos, executives were asking "What's the next China?" In Shenzhen, Nick was watching a client discover there were no good answers. Across dozens of similar conversations, in boardrooms, forums, workshops, the same reality kept surfacing. The companies searching hardest for alternatives were having trouble finding the answers they wanted—not because China was getting easier, but because replicating what China has to offer proved impossible anywhere else.

The realization crystallized six weeks after Davos, on a flight over the South China Sea. The conclusion felt almost too simple: The next China is China.

Joe posted it on LinkedIn, expecting a ripple. Instead, it exploded. The phrase had circulated before, rolled out whenever an obstacle had emerged or a sector lulled. This time, it landed differently, generating more than twenty-eight thousand mentions across Chinese and global media, from the *China Daily* to CNBC to Bloomberg. Over the months that followed, multinational and Chinese clients alike began asking us to take the idea into board and investor meetings. A consumer goods CEO asked us to brief the board on whether the "consumer depression" headlines were real. A private equity founder invited us to his limited partners investor day to discuss which segments remain investable. An entrepreneur asked, over lunch, how to reorganize his company for overseas growth.

We've been careful—then and now—to be precise about what we're saying. Growth in China is slowing. The economy is maturing. Competition is intense, corporate debt has climbed, and weaker

consumer confidence has struggled to offset the economic drag from a prolonged property downturn. This isn't the China of 2010 or even 2019. It's a reset, and the contrast with the past two decades of breakneck growth feels jarring.

But the numbers tell a more durable story. At just 2 percent annual growth, China would add output over the next decade equivalent to today's entire Indian economy; at 5 percent—the government's target—it would be like adding an India, Japan, and Indonesia combined. Already the world's second biggest economy and the largest by purchasing power parity (PPP), China is the top trading partner for more than 120 countries—far more than any other single economy—and accounts for about 30 percent of global growth.

No collection of "speedboats" can displace the same water moved by a supertanker. In terms of raw growth, beyond its former quantitative role, China is likely to play a larger role qualitatively—increasingly shaping the technologies, business models, and industries of the future. Its companies are among the leaders in sixteen of the eighteen high-growth "arenas of competition" that McKinsey identifies as future engines of global value—from AI software and cloud infrastructure to electric vehicles, e-commerce, and consumer internet.

We're not suggesting competing in the next China will be easy—if anything, it'll be harder. The bar for success has risen, outcomes will diverge more sharply, and only companies willing to fundamentally rethink how they compete will endure. This transition to the next China will be both macroeconomic—from hard manufacturing toward services and IP creation—and microeconomic, demanding new capabilities: operating across borders, building and defending global footprints and brands, managing IP at scale, and embedding AI and robotics. For Chinese firms, it means extending global reach and organizational sophistication; for foreign multinationals, it means moving beyond merely selling into China toward partnering and building within its innovative ecosystems. For both, the rewards remain significant for those that can continue to adapt.

We don't believe in one-size-fits-all playbooks. Consider this book a navigator's chart—drawn from decades of experience in

China—which maps long-running currents as well as hidden risks. The forces we describe will persist, but tactics, timing, and execution must constantly evolve.

We hope you'll come along for the ride. As we will show, understanding how to compete and win in China will equip you to succeed anywhere. The next China is *still* China; the real question is whether it's for you.

PART I

HOW WE GOT HERE

CHAPTER 1

McKinsey's Early Days in China

The next China can't be understood without first appreciating how the current one came to be. What now feels inevitable—the scale, the speed, the sheer audacity—was once a fragile experiment. A rural country of bicycles and ration books dared to reinvent itself, and in a single generation, it did. Villages were folded into mega-cities, factories became innovation hubs, and hundreds of millions surged into the middle class while the world began not just watching China but also learning from it.

Like many business tales, this one begins with a virtually blank slate on which a few pioneers were willing to scrawl a new vision for how things should work.

A "Business Doctor" Lands in China

"Mai-ken-xi, not Mai-dang-lao." The year was 1995. In Mandarin, McKinsey's name shares its opening syllable with McDonald's, and more than once we were mistaken for the American golden arches that had landed in Beijing just a few years earlier. The Firm's first attempt at explaining who it was—and what it did—was met with polite confusion. "What exactly do you sell?"

At the press conference announcing McKinsey's first mainland China offices, the headline wasn't our arrival; it was that one of our

lead partners, Tony Perkins, a fluent Mandarin-speaking Mormon, had six children. In the land of the one-child policy, a large family was bigger news than the advent of an unknown firm whose name sounded vaguely like a fast-food chain's.

The other McKinsey lead, Gordon Orr, was an electrical engineer turned strategist who'd become one of the youngest partners in the Firm's posh London office in St. James's. Restless, he had volunteered for Hong Kong and, soon restless again, pushed on to Beijing. "But if we were serious about building in this part of the world," Gordon says, "the real adventure would be in mainland China." In China's capital city in the mid-1990s, it might take two years just to get a landline installed. By the time Gordon retired three decades later to join the boards of Lenovo, Swire Pacific, EQT, and Meituan, the country had become the world's largest smartphone market, home to 1.3 billion mobile users.

Most multinationals were still years away from entering China—McDonald's had been one of the first—and parachuting into a business culture that understood products better than services was a bold move. Back then, "advice for a price" didn't even exist in China's legal code: you could register a factory or an import-export firm but not a consultancy. A district halfway to Tianjin agreed to classify McKinsey as a "wholly owned foreign enterprise" in commercial services—a bureaucratic workaround that created the Firm's first China foothold with offices in Shanghai and Beijing.

Gordon spent the first weeks positioning himself. After a few clumsy attempts to explain management consulting, he tried a new line, portraying himself as a business doctor for companies that needed to get healthy—or if that failed, a coach who trained average athletes into gold medalists. It wasn't quite poetry, but he'd learned that mentioning McKinsey drew blank stares; alluding to his Harvard and Oxford degrees earned a dinner invitation.

Looking out across the city from McKinsey's glass tower in today's Beijing, population twenty-two million, it's easy to forget how tenuous those beginnings were and also how far the Firm—and China—have come. In the mid-1990s, Beijing was a low-rise city of twelve

million, its wide roads packed with bicycles, dust, and scaffolding. Foreign hotels were few. Only one in twenty Beijingers owned a car. Office space was easy to find; phone lines weren't. The Firm's first deal was securing the vacant office of a departing Canadian telecom company: "We'll take your lease if you leave the phones." The city buzzed with anticipation and hope for the future.

The First Generation of Business Talent

The next big challenge was people. With no alumni to tap, not a single senior Chinese colleague at McKinsey anywhere, and few Chinese returnees from Western business schools, the Firm had to create its own pipeline. So we went to Beijing's elite schools: Tsinghua University and Peking University. One evening at Peking University in 1995, the two-hundred-seat hall overflowed while another two hundred would-be attendees pressed outside the doors. "We didn't know if anyone would show up—we were a foreign company with no product," Gordon admits. "But the word was out that we were hiring, and success meant a ticket to a US business school."

The aspirants were rocket smart. Their résumés reflected the hunger of the times: top in economics at Tsinghua, highest scorer on Sichuan's national entrance exam. Two women from that group would form the backbone of the Beijing office. One, Sha Sha, gravitated toward Gordon because he'd announced that McKinsey believed in mentoring "local talent and together creating impact."

Sha dove into global-mining work just as Chinese steel became the world's volume leader, spending weeks inside China's steel towns. "The frontline mill workers were very kind and hardworking—I began to realize how marvelous Chinese manufacturing was," Sha says. She then went to Harvard for an MBA, returned to the Firm, and by the late 2000s was hosting CNBC China's *Boss Town*, interviewing entrepreneurs and CEOs on their professional and personal arcs. Commerce had officially entered the Chinese zeitgeist—vaulting in just a few years from Gordon's "business doctor" days to prime-time TV.

The Firm's first multinational projects were more detective work than strategy. Rémy Martin, for instance, had no legal presence in China, yet its cognac flowed freely into the mainland through Hong Kong. "If you believed the numbers," Gordon recalls, "Hong Kong's per capita consumption would have left everyone permanently drunk." McKinsey analysts counted bottles in Beijing nightclubs and trucks at the Shenzhen border to estimate sales of cognac and Nokia phones. It was consulting stripped to its core: look, count, report—among the Firm's first experiments in data gathering in 1990s China.

In those days, McKinsey's work was as much about language as analysis. Concepts like "discounted cash flow" didn't exist in Chinese business vocabulary, so the Firm created an "Introduction to Consulting" glossary for clients. Kickoffs began, quite literally, with "Hi—this is the language we're going to use in meetings." To build relationships, the Firm gave talks at conferences and published a Chinese-language edition of *The McKinsey Quarterly.*

Every client meeting felt like a threshold moment—enterprise leaders grappling with the idea of governance, entrepreneurs confronting "return on investment" as a quantifiable metric. We weren't alone. Accountants, bankers, and consultants were fanning out across Beijing. Goldman Sachs, Morgan Stanley, and Ernst & Young were all knocking on the same doors. Another first: in the mid-1990s, Wangfujing Department Store hired away one of our star retail consultants, Todd Anderson, who'd been staffed from the Firm's Minneapolis office. He stayed at the Beijing retailer only a few months—but it foreshadowed a McKinsey-to-client talent conduit that would become routine.

Then came the first local Chinese clients—raw, unsophisticated, but eager to learn how modern companies worked. A paging company run by underworld figures approached us after its founder picked up a street-side copy of *The McKinsey Quarterly.* We politely declined their business. A few months later, four rice farmers from Guangdong with a $100 million bottled water business signed on. When the farmers took offense at a critical progress review—those

biweekly project check-ins—they staged a protest lunch. Every dish crawled with worms—sea, earth, big, small. "Our Hong Kong team would've had a heart attack," Gordon says. "I knew it was a test. I'm British. I eat anything." We helped the company grow into a $200 million Nestlé acquisition target.

In those early days, Gordon and his tiny team—your authors' predecessors—weren't just serving clients. Along with many other professional services firms, they were helping to bring modern business thinking, techniques, and tools to China. In the 1990s, "consulting" hadn't been classified as a category in China, but by 2024, about half a million people worked in the industry, generating revenues of about $39 billion. McKinsey had front-row seats to a country inventing itself, and each day felt as if the foundations were being poured.

The Global Ambition of Lenovo—an Early Reference Case

"To get rich is glorious." Deng Xiaoping's phrase, uttered in the early 1980s, gave license to a generation of Chinese villagers and entrepreneurs to take risks and imagine a life beyond farming. The village and family enterprises that began to sprout in unlikely places—metal parts in Zhejiang, furniture in Guangdong, textiles in Jiangsu—were the seedlings for what would eventually become one of the world's most dynamic private sectors.

By the 1990s, private Chinese firms were no longer operating in the shadows, and by the mid-2000s, companies such as Huawei, Alibaba, and Legend were no longer a sideshow but a main act: by 2005, private companies were accounting for more than one-third of GDP, more than 75 percent of new urban jobs, and half of total social investment.

The story of Lenovo shows the roots of this Chinese ambition. Started by a handful of ex-academics out of an office at the Chinese Academy of Sciences, Lenovo, an offshoot of Legend Group, had become China's top PC maker by the early 2000s. It moved about five million desktop PCs in China in 2005, accounting for roughly a

third of the market. Yet Dell and HP were moving aggressively into China, and Lenovo faced stark choices: diversify, defend the PC market at home, or go abroad.

When IBM's PC division came up for sale, Lenovo faced a defining choice. None of Lenovo's leadership team had ever worked outside China, and most spoke little to no English. International expansion meant betting the company—and possibly losing it—while the government offered no safety net if the gamble failed.

In an energized Beijing meeting, Chairman Liu Chuanzhi asked each executive for their view. As is normal in meetings of Chinese executives, the most senior leader speaks last. One by one, they said: "Buy IBM!" They'd witnessed the remarkable rise of their own company, of the domestic PC industry, of Beijing now full of cars, and the Chinese economy over the last decade in a trajectory beyond their most ambitious dreams. This had wired them for growth and expansion. Liu delivered his verdict: Lenovo would try to buy IBM. It would go international.

The $1.25 billion deal closed in 2005, and the integration of IBM PCs into Lenovo proved to be complex with issues big and small.

Lenovo's China-based team and IBM's leadership brought different business instincts to the table, for example. At the first annual planning meeting, members of Lenovo's sales organization proposed aggressive growth targets, shaped by years of competing for survival in a fast-moving market. By contrast, IBM's executives favored goals that could be met with greater certainty; after decades of industry dominance, caution came more naturally. Other discussions similarly grappled over the balance between speed and restraint. Early meetings could be testy. Lenovo owned IBM's PC division but endeavored to maintain a fifty-fifty split among senior leaders. Executives began counting heads, and if the room leaned one way, the other side would joke about a takeover.

These integration-related issues didn't resolve overnight, but they gradually subsided as decision-making structures and leadership roles were formalized. Lenovo would emerge as a distinctive global brand, and one of China's few true multinationals.

Bridging East and West

By 1997, Nick had returned to China from Zurich, drawn by what the Firm's multinational clients were calling China's "insane growth." Half Chinese and half Swiss, he'd grown up in Hong Kong, the product of a family history in the region that stretched back a century: his grandfather had built a trading firm in 1920s Hong Kong and raised twelve children. After university at the London School of Economics and a few years working in Europe, Nick was back walking the streets of his youth.

China seemed the polar opposite of sometimes too predictable European stability. As a young engagement manager in Zurich, Nick would work on Swiss projects that ran for years, with careful optimizations of a few basis points on a giant insurer's investment portfolio paying out for decades. "You could spend eighteen months aiming—because the target didn't move," he recalls. In China, shuttling between Hong Kong and Beijing, Nick jumped into projects that, comparatively, felt like they were running at warp speed. Hong Kong's handover loomed amid China's booming 1990s: the targets were shifting every week.

Speed was everything. In the 1990s, China's growth defied historical norms for a large economy—surging past 13 percent in the early years and averaging about 10 percent across the decade—and some clients were doubling revenue every three years. No one wanted long strategy debates. For one fast-growing consumer credit client, Nick had prepared a classic McKinsey strategy: size the market, formulate a strategy, define the choices, prepare for implementation. The client cut in: "No time! Bring Saturday whatever data you have—implementation will be Monday."

McKinsey's early market data came from improvisation, such as deploying hundreds of temporary staff to survey pedestrians as a way of tracking consumption trends. That kind of creativity marked consulting in China in the early 2000s, when China's entry into the World Trade Organization (WTO) cut tariffs, opened markets, and set Beijing and Shanghai as boardroom priorities.

"Second Home Market"

China's WTO entry in 2001 was the invitation that multinationals had waited decades to receive. But the China they found was unfinished and opaque—like America's Wild West, raw, promising, and lacking in rules. Glassmaker Corning, chasing the telecom boom, was like many multinationals at the time so fearful of intellectual property (IP) theft that McKinsey flew to Corning, New York, for every single meeting.

Despite the opacity, the size of the prize was irresistible. Between 2000 and 2010, foreign direct investment into China nearly tripled to north of $1 billion. By the end of the decade, foreign-invested enterprises were generating 28 percent of China's industrial output and 22 percent of its tax revenues. Executives who'd grown used to eking out single-digit growth in the West were thrilled to see China deliver double-digit revenue growth year after year. We told clients to treat China as "your second home market."

Autos led the way. Volkswagen formed a joint venture with SAIC in 1984; General Motors followed in 1997. By 2002, Chinese buyers were purchasing 3 million vehicles a year. Seven years later, China overtook the US to become the world's largest auto market—more than 13.6 million vehicles sold in China versus more than 10.4 million in the US and 3.8 million in Germany.

Consumer goods followed as well. Coca-Cola and Procter & Gamble were already entrenched, but the 2000s brought a retail and fast-food explosion. Walmart and Carrefour rolled out hypermarkets, McDonald's propagated from city to city, and KFC, owned by Yum! Brands, moved fastest; by 2011, it had more restaurants in China than in the United States, serving congee and soy milk alongside fried chicken. For urban families, these brands became symbols of modern life.

No sector embodied both risk and promise more vividly than pharmaceuticals. Foreign drugmakers faced vast unmet patient needs, primitive diagnostic capabilities, and a drug distribution chain riddled with opacity and stunningly high markups. For Pfizer,

AstraZeneca, and Johnson & Johnson, China's healthcare system was both commercial opportunity and moral imperative.

Corporatization accelerated when the reforming Premier Zhu Rongji allowed state giants to be listed overseas. By the mid-1990s, the first Chinese state-owned enterprises (SOEs) were floating shares in Hong Kong, with China International Capital Corporation (CICC)—Morgan Stanley's joint venture with China Construction Bank—at the center. "To be listed, bankers told SOEs they needed a strategy—and McKinsey was where to get it," Nick recalls. Investment banks, accountants, lawyers, private equity—everyone had a role as China plugged into global capital.

China's 1.3 billion people were rapidly becoming an economic force. By the mid-2010s, no global CEO could present a growth strategy without a China chapter; by the COVID era, multinationals were drawing a good portion of their global revenue from China.

The market's sheer speed and scale were reshaping entire industries. Over the past fifteen years, the pharma market jumped nearly three-fold to north of $110 billion in 2024. GM was selling more cars in China than in the US by 2010; Volkswagen and BMW crossed that threshold relative to Germany in 2009 and 2013. L'Oréal was booking tens of billions of RMB in China by the late 2010s, while Western markets remained flat. Wall Street reaped windfalls, too. Goldman's $2.5 billion stake in the Industrial and Commercial Bank of China (ICBC) returned more than $10 billion, and more than forty Chinese firms went public in the US in 2010.

Growth has since slowed for many of these firms, but their legacy endures. These companies brought billions in capital, modernized supply chains, and set new benchmarks for management, R&D, and compliance.

China Charts Its Own Path

Joe joined McKinsey in 2002, returning to China, like Nick, after a childhood in Hong Kong and years of study abroad. A native Cantonese speaker, Joe attended boarding school at Phillips Exeter Academy

in New Hampshire and ironically began studying Mandarin only as an undergraduate at Harvard.

In one of his earliest entrepreneurial adventures, Joe and a group of fellow undergraduates from Hong Kong convinced university administration to offer a new language class—Mandarin Chinese for Cantonese speakers. Everyone mastered pinyin—the Romanized representation of Chinese characters—aced the class, and unknowingly prepared for what came next: little did Joe expect to be working with mainland Chinese clients every day, drafting PowerPoint slides, documents, and emails in simplified Chinese, strokes streamlined for speed and scale.

After law school at Harvard, Joe co-founded an internet company that took him back home to Hong Kong. Following the dot-com crash, he joined McKinsey as an associate, initially in financial services, before expanding into large-scale transformations for China's fast-growing private enterprises. A classically trained cellist and an avid trail runner, Joe drove transformation work with the same persistence required by the concert hall and endurance sport.

In the early reform years, McKinsey's work was largely focused on importing Western best practices. China's leaders were hungry to learn. Reform-minded officials and executives asked: How does JPMorgan manage a global portfolio? How does GE motivate managers? How do European telecoms run networks? Chairman Levin Zhu of CICC, one of Joe's first clients, aimed literally to become "the Goldman Sachs of China." In other industries, Western icons such as GE and Citibank became templates for Chinese firms, models for how to structure, govern, and manage risk.

By the mid-2000s, homegrown "Lenovos" were sprouting across nearly every industry. The private sector became the growth engine—its share of GDP rose from about 40 percent in 2000 to more than 60 percent by the late 2010s—driven by market reforms, WTO entry, and pro-growth policies.

Financial services offered both promise and peril. In the early 2000s, global banks and asset managers saw China as the next great frontier—vast, underbanked, and ready to open. Joe's widely read

paper "The One Trillion Dollar Opportunity in Asset Management" became a rallying cry. Yet efforts to transplant New York–style risk models—built on deep credit histories and audited disclosures—quickly collapsed in China's fast-evolving, data-poor financial system. Credit bureaus had little information; the stock market ran on speculation. Still the money came in: from Goldman into ICBC, from Bank of America into China Construction Bank, from Temasek into multiple lenders, and from Carlyle into China Pacific Insurance.

McKinsey's job, as Joe recalls, was to translate and bridge—helping Western institutions adapt global frameworks to local realities while teaching Chinese clients the language of modern finance and partnership. But even as capital poured in, the limits became clear. "We watched Nike thrive in China's consumer market," Joe says, "but we argued whether a Western bank could ever truly win here. Would Chinese banks' home-field advantage in a renminbi system always prevail?"

Two decades later, the verdict is in. China's banking ecosystem stayed Chinese. Foreign firms earned solid returns as investors, but their market share today is only around 1 percent. The constraint wasn't ambition but structure: a renminbi-based system, limited access to local funding, and regulations that kept foreign banks at the margin.

Throughout, Chinese companies absorbed Western ideas—and then reshaped them. In a landscape of fierce competition, fast-moving consumers, and rapid digital change, they developed scale-first models driven by iteration that more stable markets couldn't have produced. By the 2010s, McKinsey teams could feel the shift: China was no longer following global frameworks but redefining them.

The Chinese Leapfrog

Soon enough, private Chinese firms weren't just catching up—they were vaulting ahead. Village clusters that began in the 1980s making metal parts, furniture, and textiles had become global suppliers to

Mercedes, IKEA, Nike, and more. By the 2000s, Chinese companies were acquiring firms overseas and launching their own brands. Global expansion wasn't easy—weak global brand recognition abroad, public relations mishaps, regulatory hurdles, and cultural pushback—but Lenovo, Ping An, Midea, and others were no longer looking to Western examples. They were writing their own playbook.

If Lenovo's story was about global expansion, Ping An's was about reinventing finance at home. Founded in 1988 in Shenzhen, it grew from a small insurer into a diversified financial group. Ping An founder Peter Ma studied global peers like AIG and Allianz, brought in foreign executives, professionalized governance, and managed performance and risk. That foundation powered Ping An's leap into the digital age, and by 2010, its income from insurance premiums neared $32 billion. Today Ping An sits at the forefront of AI-driven finance, serving more than 240 million retail customers across insurance, healthcare, and wealth management. Its 118-story Shenzhen headquarters is a pilgrimage site for global financial executives who want to partner with or learn from this $1.9 trillion financial giant, now one of the world's largest and most technologically advanced financial institutions.

Digital services marked another inflection point. By the mid-2010s, China's mobile internet had rewired daily life. Two superapps—Alibaba's Alipay and Tencent's WeChat Pay—turned the smartphone into a place where all transactions happen. Even wet-market stalls ran entirely on mobile payments—no terminals required. By the end of 2024, mobile payments had reached 86 percent of the population, the highest penetration in the world.

These systems became economic infrastructure: slashing transaction costs, pulling millions of merchants into the formal economy, and generating data loops that powered new innovations in logistics, retail, credit scoring, and lending. The ripple effects spread across the economy, enabling everything from one-hour food delivery to connected cars.

Alibaba founder Jack Ma captured in 2019 why mobile payments took off: "From the very beginning, credit cards were designed for the

wealthy, and now their influence is fading. Mobile payment, on the other hand, was designed for the poor from day one." Elon Musk has repeatedly pointed to WeChat as the benchmark for scale: "It does everything—sort of like Twitter, plus PayPal, plus a whole bunch of things, and all rolled into one."

Joe recalls bringing thirty foreign banking executives to China in 2017—the first time McKinsey had invited global clients to learn from Chinese fintech. They were stunned. In Shanghai cafés, customers ordered on WeChat, paid with a scan, and picked up drinks without waiting; at Alipay, algorithms spat out credit scores and approved loans within seconds.

Joe saw the contrast clearly: "In London, people still talked about 'digital transformation.' In China, we were already living it. You didn't *go* online; you just *were* online."

We saw the same leapfrog in electric vehicles. By 2020, Shanghai's green-plated EVs outnumbered petrol cars, and Shenzhen was running fully electric bus fleets. BYD and Geely—once dismissed as budget brands—turned Chinese EVs into a global success story. In the first seven months of 2025, BYD sold 2.5 million electric vehicles, surpassing Tesla. German executives soon found themselves flying to Shenzhen to study China's EV ecosystem. Meanwhile, Chinese suppliers became Apple's largest manufacturing partners, powering the global iPhone and iPad boom.

The flow of expertise had flipped. In the early 2000s, McKinsey sent German consultants to teach Ping An about insurance. A decade later, European insurers dispatched digital teams to Shenzhen to decode Ping An's finance-plus-healthcare machine.

Chinese companies are no longer students; they have become peers. They're now leading across major technology sectors: in 2024, 70 percent of the world's new EVs were sold in China. Its express delivery volume ranked first globally for the eleventh year, surpassing 180 billion packages, with year-on-year increases of 21 percent or more. China installed half the world's industrial robots and registered more World Health Organization–tracked clinical drug trials than the US—roughly 21,500 to the US's nearly 12,000.

Pushing the Next Frontier

Understanding how China built its business landscape—from makeshift phone lines to advanced digital ecosystems—is central to navigating "the next China."

We'd like to say a word about perspective. China's transformation has been extraordinary, but visitors to Shenzhen, Shanghai, or Hangzhou are seeing the showcase version of the country: high-tech campuses, financial tower skylines, and globally recognized digital giants. Behind these cities lies a vast country still profoundly uneven in its development.

Four decades of reform pushed hundreds of millions to lift themselves out of poverty and built the world's largest middle class, yet GDP per capita remains only about a sixth that of the US and a third of the EU. A third of Chinese remain in rural areas, where life feels shaped by a different pace and set of possibilities. Even within China, millions travel to Shanghai or Beijing not for leisure but to witness what they call the "economic miracle."

At the top end, ambition hasn't slowed—it's intensified. Each entrepreneurial generation pushes closer to the technological frontier. In the 1990s, China entered the PC era a decade behind Silicon Valley; by the 2000s and 2010s, internet firms followed Western models on a short lag. Today, innovation spreads almost instantly—and often emerges more sophisticated.

"McKinsey's had more than a thirty-year history in China, and we've been the first in many dimensions," says Bob Sternfels, McKinsey's global managing partner. "We think it's time for a next set of firsts—focused on an evolving playbook for how organizations thrive in today's context."

We're eager to see what the next wave holds.

CHAPTER 2

A Market Like No Other

Everyone believes their market is special; exceptionalism is, ironically, a near-universal affliction. China's case stands apart—because of structure, not sentiment. No other market harnesses the following five forces with comparable intensity: sheer scale and growth; blistering speed; adventurous young consumers; unmatched supply chain efficiency and depth; and a culture of relentless, sometimes ruthless, competition. Only in China do they interact at this magnitude. Together, they form not just a market but a singular ecosystem—one that reshapes every company that enters it. We return to these characteristics not because they're new but because they're enduring phenomena. They're systemic, defining, and decisive in shaping China's economy—and are increasingly felt worldwide.

The Story of Chinese Violins

By coincidence we both play string instruments—and our childhood experience of "trading up" to obtain better and better musical gear captures the essence of how China innovates. Nick remembers visiting Zurich's Jecklin shop as a boy for a rite of passage: graduating from the half- and three-quarter-size Chinese student violins that he'd started on to a "proper" full-size French violin.