

## White Paper

# The Road to Recovery - Growing Your Business in China

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William Lee  
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## IDC OPINION

The COVID-19 pandemic has triggered a major slowdown in the global economy. However, China is recovering faster than many countries and is predicted to register growth in 2020 while other major economies continue to battle the virus and are sliding into recession. The key to China's recovery is its use of technology to overcome social distancing requirements, which have forced many social and economic activities to go online.

The lesson from the China story is that despite the gloom and doom brought about by COVID-19, many new business prospects are also emerging. Companies should maintain a positive mindset; foster remote working capabilities and habits; and enhance online marketing and customer services. They should build robust partnerships with a strategic vision, and push on with their digital transformation (DX) agenda to tap new opportunities arising from the accelerated demand for digital services.

Companies will face new, more daunting challenges from the massive changes taking place in the aftermath of COVID-19. Digital-first will be at the core of business transformation as the digital economy progresses, and companies can deliver greater value by adopting digital-first business models that enable ultra-fast speed, ultra-high scale, and ultra-wide connections.

## IN THIS WHITE PAPER

This IDC White Paper explores how China has turned the COVID-19 crisis around by leveraging technology to flatten the recessionary curve and return to growth. The pandemic is fast tracking the DX of organizations in China (and the region) as an increasing number of them commit more resources to DX to not only remain resilient during the pandemic, but to thrive after the crisis. We will also take a

### AT A GLANCE

#### KEY STATS

- By 2024, 70% of IT budget in China will be spent on digital transformation/innovation.
- Over half of China organizations are already returning to growth.
- 10 pandemic-related ICT segments in China will present business opportunities worth over RMB1.5 trillion (US\$246.5 billion) in 2020.

#### WHAT'S IMPORTANT

- With social distancing, digital-first will be at the core of business transformation.
- Organizations can take a leaf out of the China recovery story by leveraging technology to capture growth in the digital economy.

#### KEY TAKEAWAY

Communication service providers play a key role in business recovery and growth. Businesses looking to expand into and out of China should select a reliable provider with strong network coverage to partner with them on this journey.

closer look at some of the key technologies required to capture the opportunities and succeed in doing business in China in the next normal.

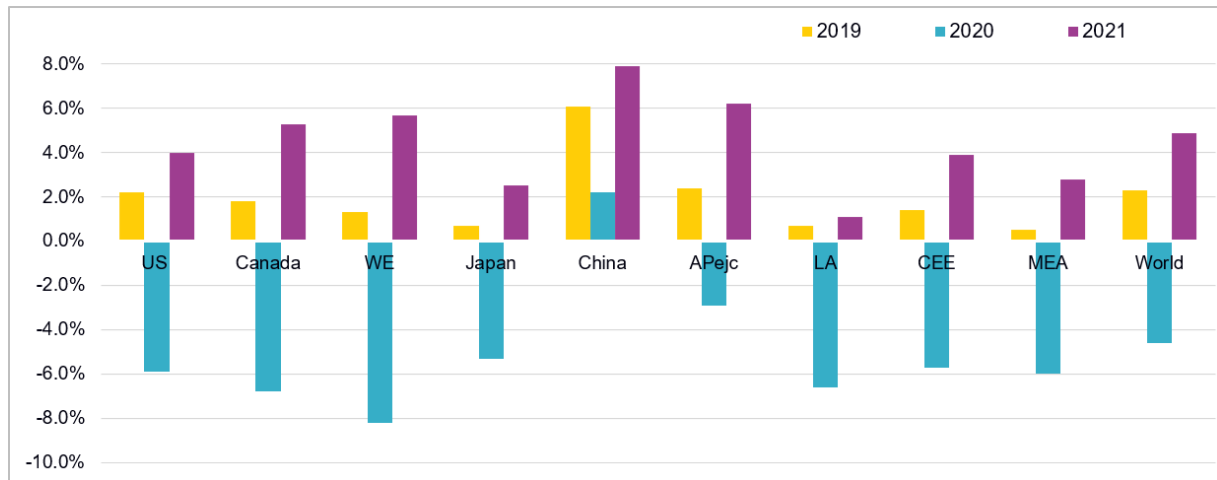
## SITUATION OVERVIEW

### COVID-19's Impact on the Global Economy

The COVID-19 pandemic is impacting the world's economy on an unprecedented scale. Figure 1 shows that the gross domestic product (GDP) of the world's economies is projected to post sharp declines in 2020. It is worth noting that apart from China, all the major economies are projecting a negative GDP growth this year, returning to growth only in 2021.

FIGURE 1

#### Global GDP Forecast (%)



Note: WE - Western Europe; APeJc - Asia/Pacific excluding Japan and China; LA - Latin America; CEE - Central and Eastern Europe; MEA - Middle East and Africa

Source: IDC, September 2020

Until a vaccine or treatment is widely available, which may take another 18 months, COVID-19 will continue to take its toll on businesses this year, with a spillover effect on the economy. While China, which was the first to be hit by this pandemic, is charting its way to recovery with the gradual opening of workplaces, factories, domestic travel, and limited international travel (particularly to countries with better control of the crisis), most of the world's economies have yet to reach the next normal. Instead, they are experiencing economic slowdown and even recessionary conditions. The United States (US) economy, for example, contracted at a rate of over 10%, and unemployment shot up from 3.5% pre-COVID-19 to a high of 14.7% in April this year.

### China Market Returning to Normality

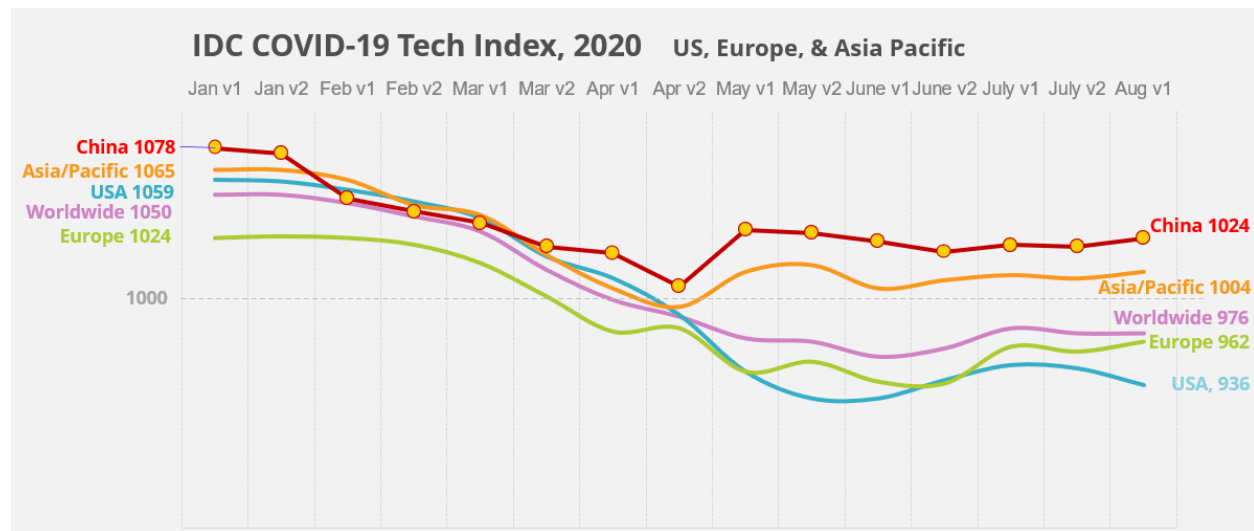
The health of a country's information communication technology (ICT) market provides a good indication of the strength of its economy. If key industry sectors such as government, healthcare, manufacturing, retail, financial services, transportation, etc., are negatively impacted by COVID-19, the overall ICT market supporting these industries, which include the enterprise IT markets (server,

storage, networking, software, IT services, and cloud computing), as well as the emerging technologies markets (Internet of Things [IoT], artificial intelligence [AI], big data and analytics [BDA], security, etc.) will be hit directly. Analyzing the IDC COVID-19 Tech Index trend, therefore, can provide a clue on the state and pace of recovery of a country or region.

From Figure 2, we can see that the worldwide index is flattening to stability and is at the start of the recovery cycle from May this year with business confidence coming back. European organizations have also shown signs of a rebound in confidence from May, although it is still in negative territory. American organizations post the lowest index overall despite signs of the lockdown ending. It is worth noting that China organizations had shown signs of a V-shaped recovery since the end of April because of their effective and strict control of the outbreak which is also evident in some parts of the Asia/Pacific region including Australia, Hong Kong, Korea, New Zealand, Singapore, and Taiwan. IDC expects China to return to normality by the end of the year with substantially lower numbers of new confirmed and suspected cases, and steadily increasing number of treated cases.

**FIGURE 2**

**IDC COVID-19 Tech Index 2020 - Trending to Stability**



Note: Index based on scale of 1000, where a score above 1000 indicates growth and below 1000 indicates a decline in IT spending. Asia/Pacific index (orange line) also includes China.

Source: IDC COVID-19 Tech Index

Starbucks (retail) and Tesla (manufacturing) are examples of multinational companies whose operations in China had successfully navigated through the COVID-19 crisis. Starbucks deployed AI predictive analytics to determine which stores were the safest to reopen early, and to assist with mobile ordering. Starbucks and other multinationals are now using the lessons learnt in China to apply them to their operations in other parts of the world, and in so doing, are helping to prepare their companies for the next normal.

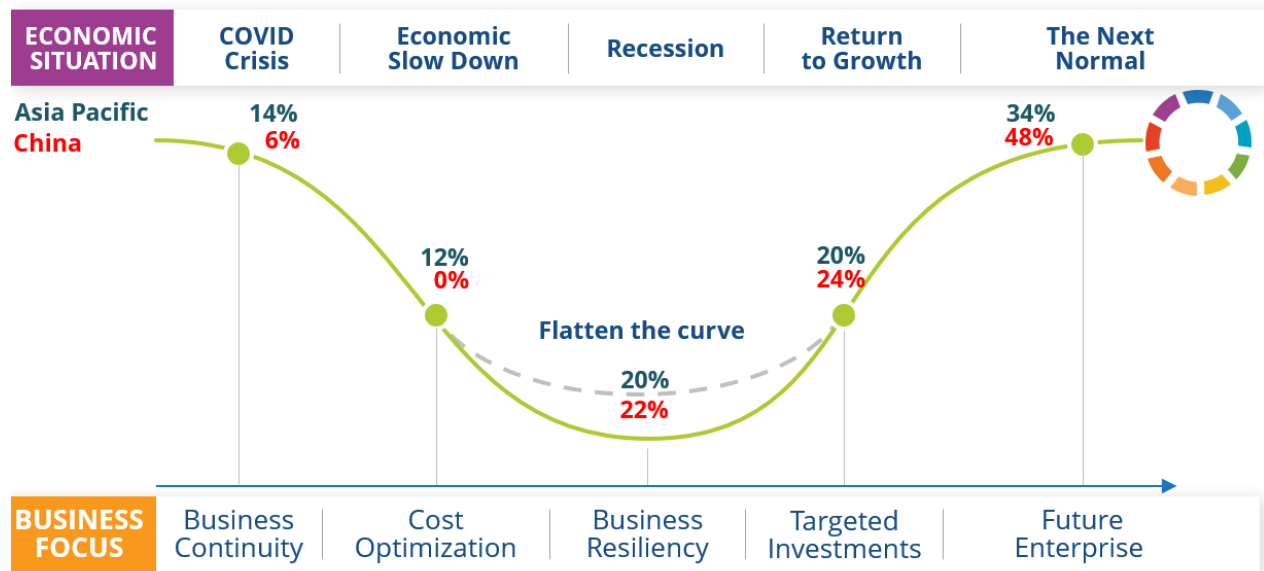
**Turning Crisis into Opportunity**

The COVID-19 pandemic has underscored the importance of DX in the eyes of CEOs across all industries. IDC sees an opportunity to “flatten the curve”, using technologies like big data analytics,

AI/machine learning (ML), cloud, industrial internet, and advanced network services, among others, to minimize the impact of the current crisis and emerge on the other side of the curve more resilient, more digitally fit, and ready to seize new opportunities in the next normal. This analysis is captured in IDC's five-stage crisis-to-enterprise-recovery framework which begins with organizations concentrating on business continuity at the onset of the pandemic, to focus subsequently on cost optimization, resiliency, targeted investments, and culminating in the emergence of a lean, dynamic, and innovation-fueled future enterprise (see Figure 3).

**FIGURE 3**

**IDC Crisis-to-Enterprise-Recovery Framework**



Source: IDC COVID-19 Journey to the Next Normal, Wave 4, Sep 23, 2020 (n=314 for Asia/Pacific, n=55 for China)

Figure 3 also shows the percentage of organizations in China and Asia/Pacific at the different stages of recovery. China is ahead with over 70% of organizations already back to growth through continued technology investments that will set them up to be future enterprises in the next normal.

IDC predicts that by 2024, 51% of the worldwide IT budget and 70% of that in China will be spent on digital innovation/transformation. The pandemic has been an impetus for DX, and organizations in China and the region are committing more resources to it — more than half of Asia/Pacific IT and business leaders surveyed are willing to increase IT spending in 2021.

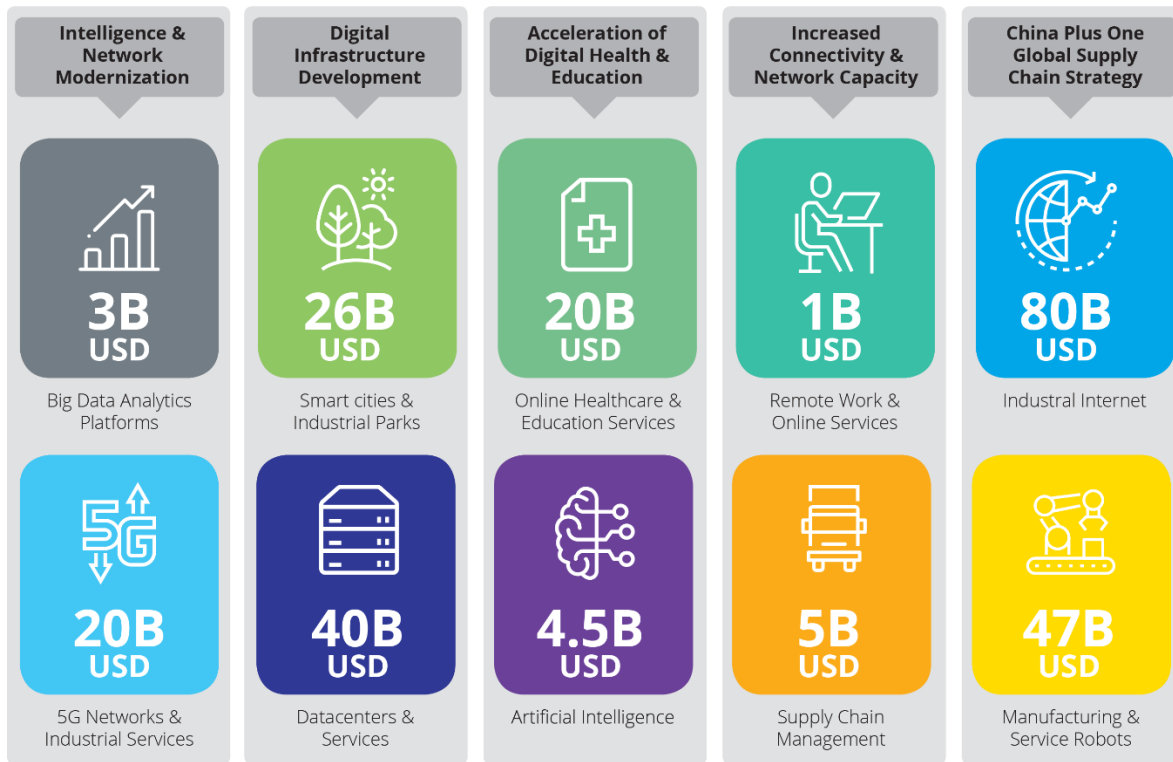
**THE ROAD TO RECOVERY**

***Increase in Ecommerce and Digital Businesses***

IDC predicts that 10 pandemic-related ICT segments in China will present business opportunities worth over RMB1.5 trillion in 2020 (US\$246.5 billion) as shown in Figure 4. These opportunities will accelerate DX across all industry verticals in the country, driving an increase in ecommerce and digital business activities.

FIGURE 4

### Top 10 ICT Opportunities in China in the Next Normal



Source: IDC, March 2020

Communication service providers will play a critical role in building and rolling out network services to support growing demand for connectivity and network capacity arising from the surge in network traffic within and across the industry verticals and geographies. The China government has already announced its budget for the seven new national infrastructure projects that will prepare the country for the next normal:

1. Ultra-high-voltage power grid (US\$11 billion)
2. High-speed train and subway (US\$172 billion)
3. Electric vehicle charging network (US\$26 billion)
4. 5G base stations and networks (US\$17 billion)
5. Big data centers (US\$21 billion)
6. AI research & development (US\$14 billion)
7. Industrial IoT (US\$14 billion)

#### ***Public Clouds Becoming the Primary Route to Access IT Innovation***

In the past few years, major public cloud services suppliers have introduced a stream of innovative IT services, including a wide variety of AI-related, blockchain, IoT back-end, augmented reality/virtual reality (AR/VR) back-end, robotics back-end, encryption, container, serverless computing, and even

new computing hardware services (graphics processing units [GPUs], field programmable gate arrays [FPGAs], AI-optimized processors, and quantum computers). IDC expects the pace of IT innovation launches on public clouds to continue and, more likely, accelerate in the coming years.

The array of cloud services and third-party professional and managed services focused on enabling traditional enterprise workloads on public clouds has expanded dramatically over the past few years. In fact, China has the largest and fastest-growing public cloud spending in the Asia/Pacific region, growing at a five-year compounded annual growth rate (CAGR) of 34% from US\$2.4 billion in 2019 to US\$54.2 billion in 2024. We expect the ecosystem of technology companies supporting these cloud environments to enlarge rapidly as well, providing cloud services, and professional and managed services in the public and hybrid cloud arenas.

### ***Lingering Worries Over Security***

IDC's *2019 Industry CloudPath Survey* of almost 2,000 enterprise respondents has shown that at least 40% of enterprises evaluating clouds (either public cloud and/or private cloud) have indicated security as the area of greatest concern. This is not new as fears about security in the cloud have been a constant finding in all cloud user annual surveys conducted by IDC since 2009.

Security will remain on high priority for enterprises moving to the cloud, especially in China because of its strict data residency and protection regulations on foreign companies operating in the country. For example, the Cybersecurity Law of PRC (CSL) subjects operators of critical information infrastructure (CII) in the country to special requirements in connection with the procurement of products and services, and cross-border transfer of data. Such requirements provide major opportunities for cloud service providers which can effectively address these concerns, and transform security from being an inhibitor to an enabler for enterprises' move to the cloud in the next few years.

### ***Importance of Cross-border Connectivity***

Over the past few decades, many companies have chosen to invest in China for its low labor costs and huge domestic market. However, with the rapid growth of China's economy, the country has gradually lost its cost advantage and competitiveness to other lower-cost Southeast Asia countries like Indonesia, the Philippines, and Vietnam. Nevertheless, the rising middle-class has made China a very attractive consumer market for many businesses. As a result, many companies in China are looking to diversify their operations by setting up branches in Asia to reap the cost benefits. Similarly, companies outside China, especially retailers, consumer products and automotive companies (like Starbucks, Apple, Walmart, Nike, Samsung, Toyota, Hyundai, LG, etc.) are expanding their operations in the country to capture the growth opportunities.

IDC estimates that by 2021, 90% of enterprises worldwide will build their IT strategies around a mix of on-premises private clouds, public clouds, and their existing platforms to accommodate the increasingly diverse requirements of their modern applications. This will drive the growth in demand for global interconnection services from these hybrid and multicloud organizations that are seeking secure and reliable cloud-to-cloud, and on-premises-to-cloud cross-border connectivity solutions.

As businesses expand their operations geographically into and out of China, cross-border connectivity will become increasingly important. The challenges they need to address include network latency between China and the rest of the world, as well as global connectivity and interoperability through VPN.

## RIDING ON CHINA'S GROWTH

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### *Local Datacenter for Performance and Security*

Frequent cyberattacks have continued to place cybersecurity high on the business agenda. New modes of attack with new features in the form of AI, automation, and ecosystem, have placed continued focus on cybersecurity as many enterprises around the world have been subjected to varying degrees of cyberattacks. Many countries, including China, have promulgated many cybersecurity laws and regulations to cover various industries and technologies in the country. This move has created a rising demand to protect customers' cybersecurity, driving growth in the cybersecurity industry.

While cloud computing has driven the consolidation and concentration of datacenters for economies of scale in delivery, edge computing and advances in co-location and hosting services have shifted delivery through a mix of out-country hyperscale datacenters and in-country datacenters. This is necessary to achieve high performance, low latency, and secured connectivity while maintaining scalability and access to the full stack of cloud services from the public cloud hyperscalers. Communication service providers with a strong in-country and regional footprint, backed by solid global operation experience and local knowledge, will be key to ensuring the quality, scale and resiliency of network required to support the expansion of businesses by organizations both into and out of China.

### *Connectivity into and Across China*

The backbone of a globally connected ecosystem has never been more important now with the pandemic. The intra-Asia subsea cable is critical in connecting China to the rest of Asia. The ability of communication service providers to offer continuous and reliable connection by rerouting impacted customers to alternative subsea cable path in a timely manner is essential to avoid costly disruptions. This crucial, central role that the network plays has been put through tremendous strain with the explosion in apps, as well as the rapid rise in mobility and devices, both in and outside China. Worldwide machine-to-machine (M2M) subscribers surpassed 3.2 billion connections with a year-on-year growth of 48%, with Asia/Pacific contributing the bulk of the growth at 91% year-on-year. This has led to more devices being connected to the network and the resultant increase in network traffic.

Meanwhile, a range of new digital economy use cases demands that the latency of network connections continues to decrease. This creates a trifecta of more users and devices consuming more bandwidth that must be delivered at faster speeds. The networking industry has evolved to meet these challenges by relying on software-defined networking (SDN), which began in the datacenter and has now extended out to the access, wide area, and edge network. Communication service providers with strong capabilities in SDN solutions will be well-positioned to provide network connectivity across all components of an enterprise, enable connections to the cloud among internal and external users, and be a central place to monitor and secure operations.

### *Access to International Cloud Service Providers Outside China*

China's growing influence on the Asia/Pacific public cloud market is apparent with the accelerated growth of Chinese providers like Alibaba Cloud, Tencent Cloud and Huawei Cloud, all of which have been expanding aggressively outside China into the Asia/Pacific region. Other international providers such as AWS, Microsoft Azure, Google Cloud, and IBM Cloud have also enlarged their geographical footprints in the region with some of them having a significant presence in the China market like Azure



China (operated by 21Vianet) and AWS China (operated by Sinnet and Ningxia Western Cloud Data). AWS ranks among the top 5 in China's public cloud services market with a market share of 5.2% while Microsoft is in the top 10 at 3.4%.

Access to these high-performance public cloud services from world-leading providers will require secure, reliable, and dynamic private networks from communication service providers so that the traffic never hits the public internet. Strong competency of the providers to guide the migration process will help to maximize the performance of the organization's IT and data.

### ***Last-mile Connectivity***

Last-mile connectivity refers to the portion of the telecommunications network that physically reaches the end-user's premises. This is typically the speed bottleneck in communication networks, where the bandwidth effectively limits the amount of data that can be delivered to the organization. Connecting to remote rural areas, especially in developing countries, is a challenge as it requires a strong business case and time for the communication service providers to build up the infrastructures at scale. Most of the time, this is achieved through a mix of fixed-line, cellular, and Wi-Fi coverage for cost-effectiveness. Managed SD-WAN will de-risk this deployment journey through automation spanning the planning, proof of concept (POC), design, configuration, and deployment phases. Eventually, the 5G transition plan will overhaul current communications infrastructure and converge services, leading to unified carriers delivering complete digital connectivity between the carrier network and the customer.

Connectivity is more important now than ever as the pandemic drives the increasing need to stay connected, informed, safe, productive, and entertained. Choosing a communication service provider with extensive, flexible, resilient, and scalable network connectivity through an extensive global network is of utmost importance for organizations to stay ahead of the recovery curve in providing scalable access anytime, anywhere real-time insights, and pervasive digital experiences.

## **CONCLUSION**

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With the gradual reopening of workplaces and factories, it is clear that Asia/Pacific is raring to jumpstart its COVID-19 recovery journey with China leading the way. As businesses plan for recovery, they should look into investing and leveraging technology to flatten the curve. This IDC White Paper has discussed some of the ways that organizations can organize and invest to participate in an increasingly digital-centric China market.

Communication service providers play an important role on the road to recovery and to business growth. Organizations looking to expand into and out of China will need to select a reliable and well-connected partner for this journey, one with extensive local delivery capabilities and support, as well as broad global and regional network connectivity, and access to public cloud services outside China.

Economic uncertainty, political instability, climate effects, and disruptive innovations are a fact of today's economy. But crises can be a unique opportunity for organizations to change their path to adapt and seize new growth opportunities. Digital-first will be at the core of business transformation, and organizations should continue to invest to stay digitally fit and resilient for the next normal.



## About IDC

International Data Corporation (IDC) is the premier global provider of market intelligence, advisory services, and events for the information technology, telecommunications and consumer technology markets. IDC helps IT professionals, business executives, and the investment community make fact-based decisions on technology purchases and business strategy. More than 1,100 IDC analysts provide global, regional, and local expertise on technology and industry opportunities and trends in over 110 countries worldwide. For 50 years, IDC has provided strategic insights to help our clients achieve their key business objectives. IDC is a subsidiary of IDG, the world's leading technology media, research, and events company.

## IDC Asia/Pacific Headquarters (Singapore)

80 Anson Road, #38-00  
Singapore 079907  
65.6226.0330  
Twitter: @IDC  
idc-community.com  
www.idc.com

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