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# China's AI Industry: Identifying Opportunities for Foreign Investment

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On July 20, 2017, China's State Council released a development plan for the country's artificial intelligence (AI) industry. The plan aims for the total market size of AI related industries in China to exceed RMB 1 trillion (around US\$150 billion) by 2020. By 2030, the plan aspires to reach 10 times this figure.



źródło: [www.china-briefing.com/news/2017/08/03/chinas-ai-industry-identifying-opportunities-foreign-investment.html](http://www.china-briefing.com/news/2017/08/03/chinas-ai-industry-identifying-opportunities-foreign-investment.html)

Claims that China has the rest of the world beat in AI are hyperbolic. Although the country ranks first globally for widely cited AI related papers, 70 percent of these are self-citations, and China is still behind the US and UK in terms of publication influence. In 2017, the number of promising AI startups in China, according to McKinsey, was three. The US saw 39 that year.

However, the possibility that China may overtake the US in the near future is looking increasingly likely. Indeed, one of the key goals in the State Council's AI plan is to reach "world leading status" in AI, and become the "world's AI innovation center" by 2030.

While total AI financing in the US is seven times that of China, AI-related patents of Chinese companies already outnumber those in America. China is set to vastly increase public spending while recent moves of the current US administration suggest cuts.

The State Council plan includes all the key priorities for the healthy development of China's AI industry suggested by the McKinsey Global Institute earlier this year. It also promises widespread subsidies, tax breaks, and special AI industry parks.

Given these developments, it is natural to explore what opportunities there are for Western AI companies in the Middle Kingdom. In sectors where opportunities exist, companies must think carefully as to whether, and how, they should enter the Chinese market.

### **Western AI companies in China**

China's ambitious AI strategy indicates huge potential for growth in the industry, and many areas of opportunity are already emerging. Christopher Piazza, Product Marketing Manager, PCs and Smart Devices at Lenovo,

remarks: “The space for AI is very open and full of opportunity, whether Chinese or foreign driven. Both sides have methods in place that push platforms and services forward.”

Piazza identifies AI driven voice activated platforms, such as Amazon’s Echo, as an example. “Foreign platforms for voice technology are ahead of Asian countries in general, not limited to China, and this is where they can ideally strike out and lead the pack.” He continues: “In this space, China isn’t moving at break-neck speeds and, if anything, is playing catch-up to foreign competitors.”

Domestic competition in China is already stirring, however. JD, Alibaba, and Xiaomi have all launched their own voice-enabled smart speakers, and domestic startups such as Mobvoi (Chumen Wen Wen) are rolling out voice assistants for use in areas such as driving and navigation. While these are still lagging Western voice assistant services in terms of user satisfaction, one should not underestimate the ability of Chinese firms to catch up to, and surpass, Western standards.

Whether Chinese consumers will be interested remains to be seen. Home stereo systems are a novel concept in China, let alone smart speakers. Piazza agrees “It is hard to pin down if this will lead to better market adoption as the space intrigues consumers, but hasn’t won them completely over or sold them on the idea of a voice controlled home.”

### **Chinese vs foreign firms**

Asked whether current advantages enjoyed by Western AI companies could translate into superior market performance if they were to enter China, Piazza is split. Although foreign AI firms hold certain advantages, tracking the wants of Chinese consumers is challenging. Additionally, government policy for foreign companies is a double-edged sword.

“Government policy is always a bit tricky to navigate and can, at times, slow or quicken the process,” Says Piazza. “It is dependent on how seriously China commits to technology services and data acquisition, which is currently looking very promising.”

All things considered, however, Piazza puts his money on Chinese AI platforms in the long run, “Simply because they can consolidate platforms to two or three major players, as opposed to the foreign sector which has quite a bit more, creating separate platforms that sometimes don’t operate with each other.”

Thomas Zhang, Group IT Director at Dezan Shira & Associates points out another advantage for Chinese AI companies: “They can find enough sample data and usage scenarios in China due to its huge population base. Even if only one percent of people try a product or service, a company can collect enough data for developing and evaluating their technology.” Zhang states, “This is a little difficult for foreign companies, especially for those countries with a small population.”

Zhang also notes, “Another advantage is the big base of engineering talent in China. In the field of AI, not only doctors/researchers who play a lead role in AI are needed, but also lots of engineers who know AI well and can apply AI technology to a real product.” For the former Zhang says, “Most are talent who come from US/Europe after having studied there for years. For the latter, however, it will be China who holds the advantage.”

### **How should Western companies proceed?**

The key for foreign players wanting to crack China’s market is cooperation. Much like other emerging technologies such as electric vehicles, teaming up with local players is the best, and often only route.

While China’s plan promises tax breaks and subsidies for AI industries, Piazza indicates, “[this will be] a driver toward foreign investment into developing further the AI practices that already exist in China. The main objective in all of this is to build up China’s route to market (RTM) for AI services. It needs to be fostered here and grown locally, a foreign company does not have the capacity to enter here.

”Piazza goes on: “If a foreign entity/company wants to operate in China they will have to conform to the local market, there really isn’t too much wiggle room, though sparse examples do exist.” He states frankly, “Foreign companies cannot enter China unless they work with local companies already established in the space, which means setting up local servers, data centers, and offices within the mainland, similar to the steps Google has already been laying out over the past year.”

Zhang’s views align. He reaffirms, “The biggest difficulty for foreign companies is how to find the way to collect original data and use it for AI research.” China’s e-commerce market, for example, “has been dominated by limited players, so foreign companies would have to cooperate with a local giant.”

Finally, companies should make themselves aware of restrictions that already exist as barriers to entry, and of any further regulatory changes that may affect their future outlook. No regulation currently exists in China specifically governing the development and sale of AI. However, a mix between existing regulations such as China’s new Cybersecurity Law, and de facto practices, leaves some sectors difficult to enter for foreign companies.

For example, some AI companies may provide platforms for customer services and management. However, state-affiliated entities will prefer to work with local firms in this area due to security reasons, making it practically impossible for foreign firms to sell their products or services to them.

### **An AI future**

For foreign AI companies, China’s rising dominance represents a struggle with entrenched local firms for the domestic consumers. Firms should look on the market to identify the most suitable partners with which to form

joint ventures. Additionally, they should be searching for announcements of new regulatory incentives or development zones where local policy is favorable for setting up the necessary infrastructure to push into the market.

Companies can look back at how foreign players have previously gone about entering Chinese markets for emerging technologies, and search for successful examples. China's AI industry, though competitive, presents a huge opportunity for foreign investors if they succeed in market entry.

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