

APPLE

IN



CHINA

THE CAPTURE OF
THE WORLD'S GREATEST COMPANY

PATRICK MCGEE

The first major history of Apple in the 21st century 4 from near-bankruptcy to world's most valuable company.

Apple in China is the untold story of how the tech giant tied its fortunes to America's biggest rival, transforming both company and country.



1996: Days from Bankruptcy

Crisis Point

Apple comes within days of not making payroll and hires a Chapter 11 bankruptcy lawyer

Global Strategy

Sells factories, embraces outsourcing for survival

Jobs Returns as Advisor

"We are in real danger" - internal meeting notes

Jobs refuses to be CEO

Meeting notes: July 29, 1997, desktop and display review:

"We have a big problem," Jobs proclaims.

He expresses optimism about the company's prospects if it can make it five years down the road, saying, "The road map does not look like the road map of a company that's at risk of going out of business." But he was less sure Apple could get through the next twelve months. <We won't really have the desktop products we need for one year. This might not be good enough to survive. We are in real danger.=

when Steve met Jony



The iCEO



Steve meets Jony
Ive Meeting of the minds



Translucent Plastics

"You've not been very effective, have you?"

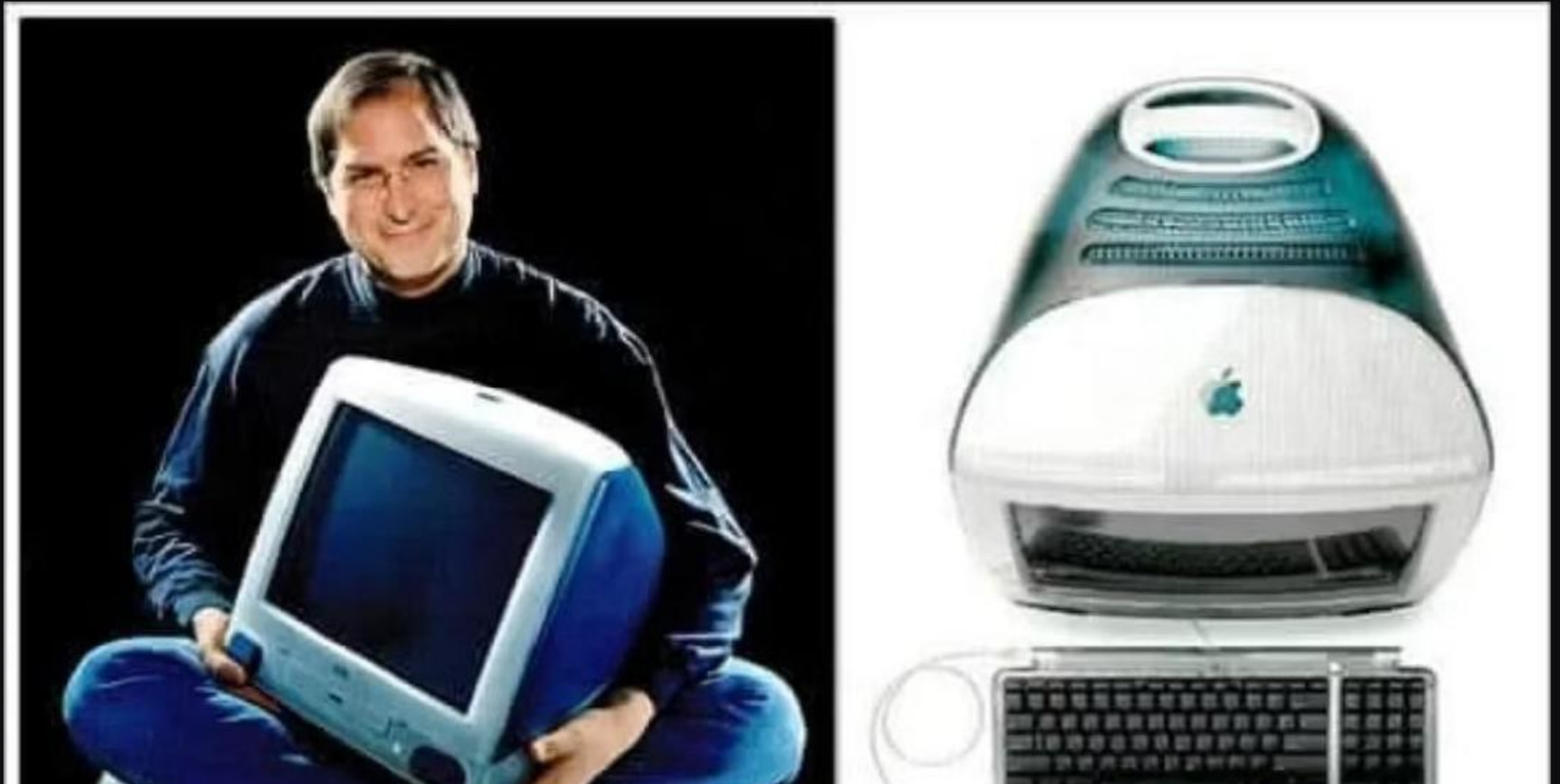


Jobs becomes CEO

*<The company that invented [the]
PC is reinventing it! =*



"Make it lickable"



Apple assembles iMac:

California + Ireland + Singapore

LG takes over:

South Korea + Wales + Mexico





Terry Gou: "I Can Fix This"

*Working with Apple isn't about the profits; it's about the **learning**. Apple trains up your entire engineering workforce to meet its demanding quality standards.*

The Vision

Others see Apple as challenging to work with; Gou sees the challenge as the opportunity

The Strategy

"If we can please Apple, we can please anyone"

Available vs Possible

Dell, HP and Compaq see low cost + scale,
Apple sees *unconstrained design possibilities*.



iPod Classic (2001)

Made in **Taiwan** by Inventec

*"Boxes of parts literally overflowing into
disposal"
stairwells"*



iMac G4 (2002)

Made in **Taiwan** by Quanta

*"Tied up almost every machine shop on
the entire island"*

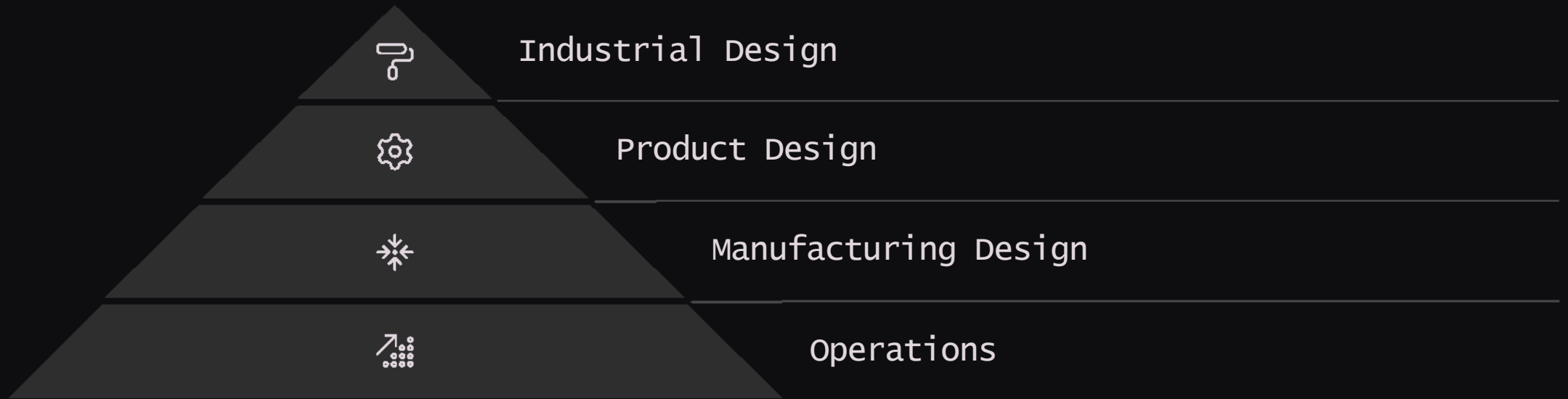


iPod Mini (2004)

Made in **China** by Foxconn

"All of this is at your

Crafting Excellence: The Pyramid



In some sense these are distinct stages, but the processes are *concurrent*:

Communication is constant, so operational breakthroughs feed back into design excellence.



"The One Device"

Analysts misunderstand China's significance-they believe it's just assembly:

Andrew Batson, Reporter, The Wall Street Journal

Not Really "Made in China"

DECEMBER 16, 2010 AT 5:00 AM PT

But China's value isn't components *within* the phone-it's the machinery and processes that make it&

\$7.3B

Apple Machinery
in China

By 2012, more than US buildings
+ retail stores combined

100%

Production Shift

1999: 0% made in China
2009: Virtually all products

How Organized Crime in China Leads to Apple's Political Awakening



In Chinese slang, "yellow cows" are scalpers or black market operators who profit from reselling goods at markup prices.

These quasi-gangsters initially gained notoriety by scalping train tickets but expanded to Apple products during iPhone launches.

Yellow cows would bus in thousands of migrants, so each could purchase two iPhones, and they'd take them to second-tier cities and sell them for marked up prices.

Xi takes power, attacks Apple

Apple China

People's Daily vows to destroy Apple's 'unparalleled arrogance'

War of words continues following CCTV attack on iPhone manufacturer

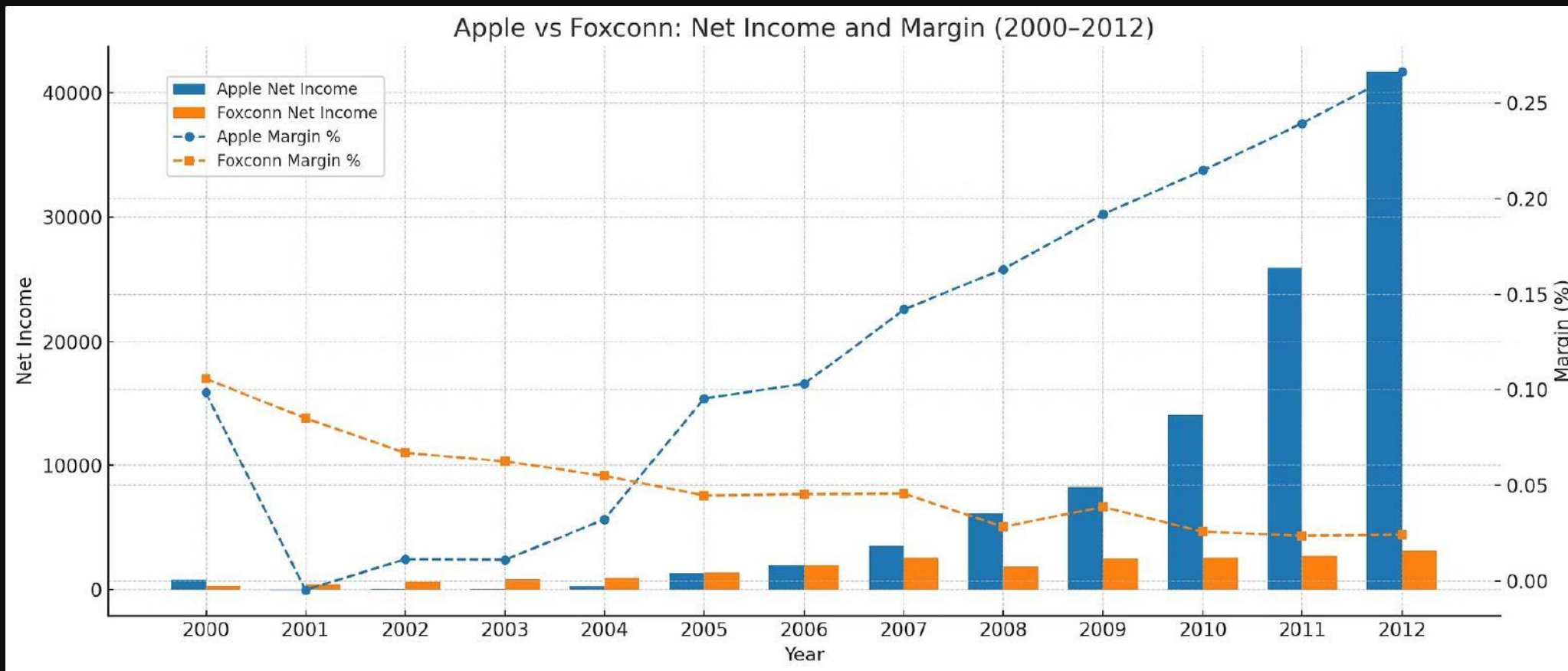
Reading Time: **2 minutes**

Why you can trust SCMP 

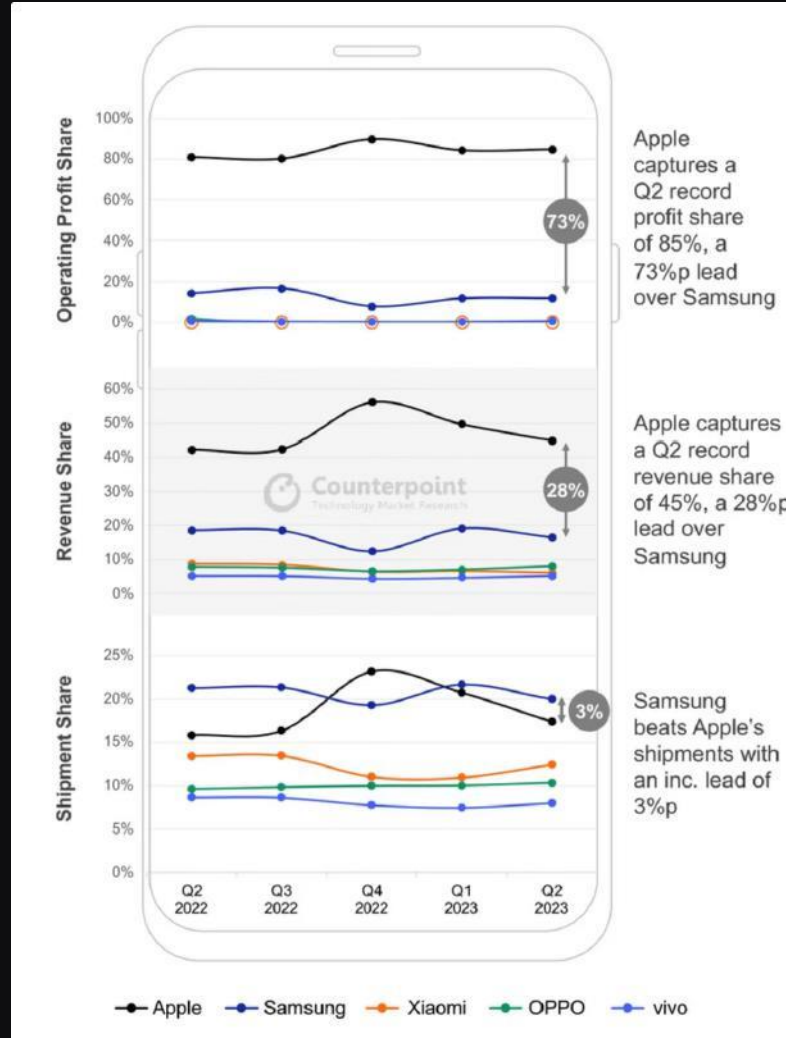


Apple vs Foxconn: Profit Margins

A narrative in Beijing emerges: Apple isn't giving back.



20% of the share; 80% of the profits



The Gang of Eight

Facing mounting pressure from Beijing, Apple sought ways to respond without compromising its core business model. Joint ventures-the standard playbook for foreign companies-remained off the table for Tim Cook's team.



Traditional Joint Ventures

Most Western companies partnered with Chinese firms, sharing technology and control.



Apple's Resistance

Apple refused to dilute control or share proprietary technology with Chinese partners.



Alternative Concessions

Instead offered economic benefits: local job creation and manufacturing expertise.



Delicate Balancing Act

Navigating CCP demands while maintaining Apple's integrated business model became increasingly difficult.

The Apple Squeeze

We won't pay you much, but the experience will be invaluable.



<I don't remember, ever, a strategic withholding of information. All we cared about was making the most immaculate thing . . . We were inventing every day. Every day you'd invent your way through a problem. It was absolutely wonderful as an experience. But I guess we were unwittingly tooling them up with incredible knowledge4incredible know-how and experience.=

4 former Apple industrial designer.

The 50% Rule

"Whatever rate you're growing at, grow that fast with someone else"

As iPhone shipments soared, Apple encouraged China-based suppliers to feed the Android market.

The iPhone didn't kill Nokia; Chinese imitators of the iPhone did. And the imitations were so good because Apple trained all their suppliers.





The Local Language



Creating Champions

Apple's standards helped create firms like Beijing Jingdiao (CNC Machines) and Lens (smartphone glass).



Spawning Competitors

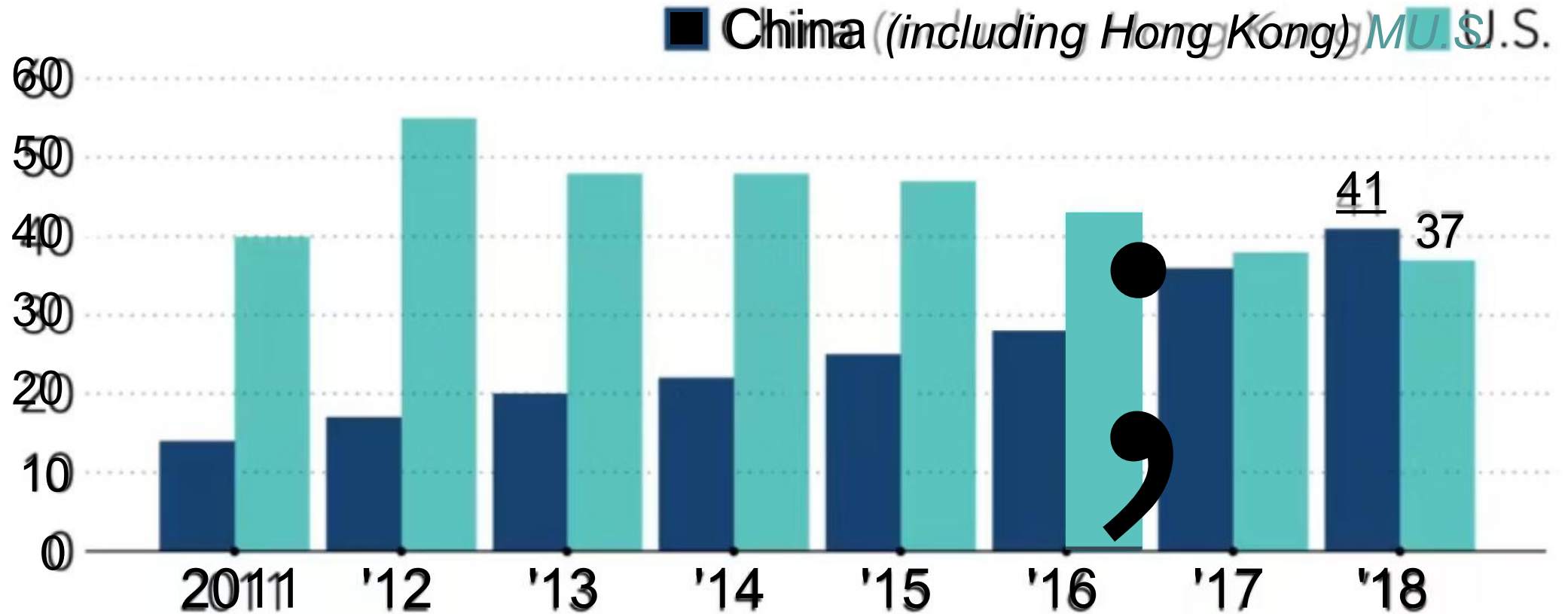
Huawei and Xiaomi grew by learning from Apple's ecosystem.



Global Dominance

Chinese brands now produce over 50% of global smartphones.

China now boasts more Apple suppliers than U.S.

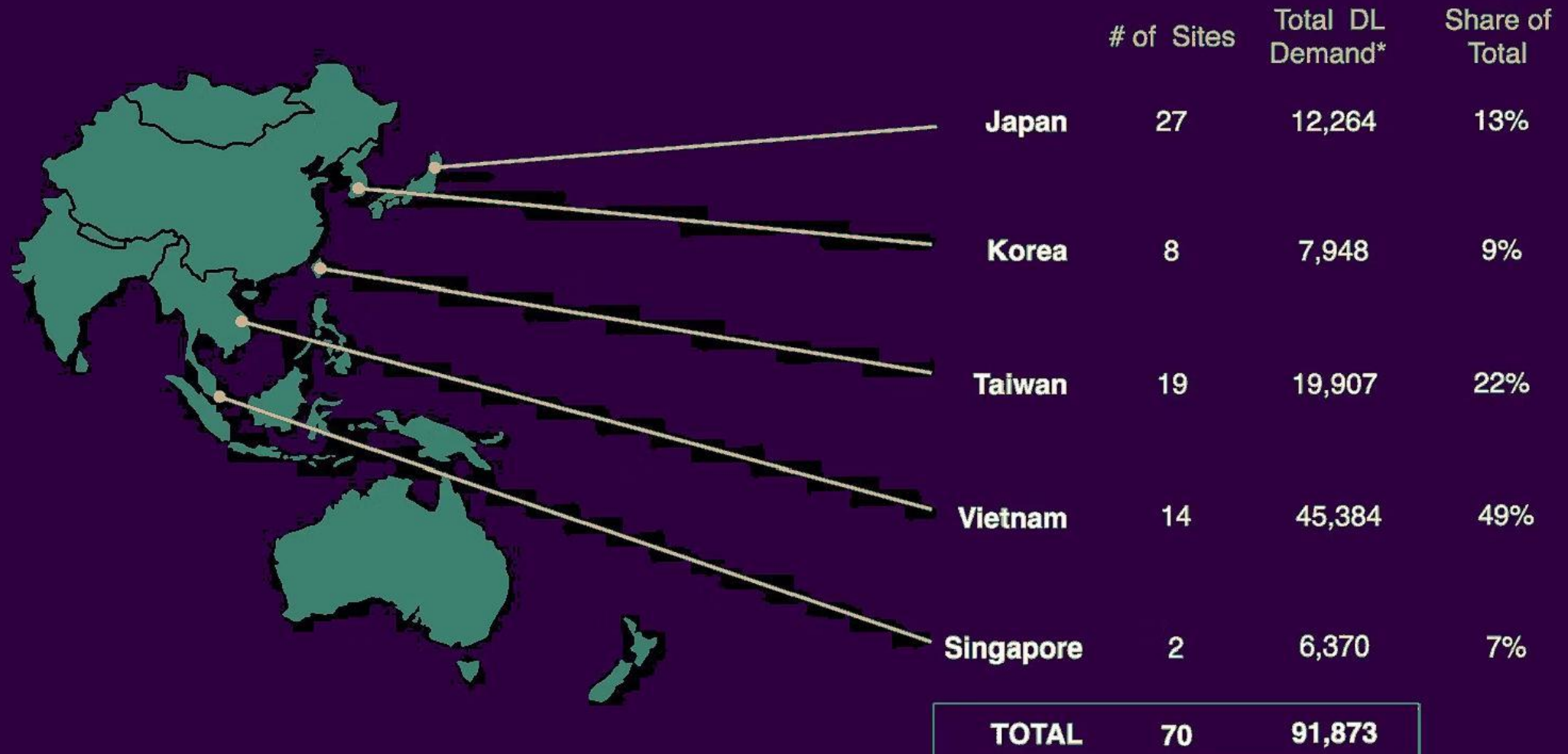


Based on ownership/headquarters location

Source: Nikkei Asian Review analysis of Apple's supplier list

Even those figures vastly understate China's importance in the Apple supply chain&

Non China Labor Demand Overview



Sichuan & Chongqing			
Month	20 17	2018	YoY %
April	58, 748	93,331	59
May	60, 663	88,185	45
June	71, 217	91,207	28
July	73, 041	100,707	38
August	79, 973	112,584	41
September	85, 842	117,874	37
01 Month	71, 581	100,648	41

Greater Shenzhen			
Month	2017	2018	YoY % 46.
April	301,133	317,010	5
May	326,369	295,477	-9
June	358,719	325,195	-9
July	410,642	379,341	-8
August	409,530	400,119	-2
September	412,899	401,452	-3
0/ Month	369.882	353,099	-5



Greater Henan			
Month	2017	2018	YoY%6
April	235,131	246,139	5
May	242,655	221,327	-9
June	286,641	264,517	-8
July	348,664	379,059	9
August	388,079	446,08.7	15
September	386,873	425,602	10
ell Month	314,674	330,455	5

Greater Shanghai			
Month	2017	2018	YoY % A
April	410,770	409,565	0
May	447,189	389,331	-13
June	456,479	396,434	-13
July	523,984	477,270	-9
August	560,635	507,2^	-10
September	813,873	572,2L-	-7
re/Month	502,155	458,668	-9

Apple's influence on China:

Training workers

Since 2008, Apple has trained at least 30 million workers - more people than the entire labor force of California.

Investment

By 2015, Apple was *investing* \$55bn a year in China. *Spending* was 2-3x that amount.

Targeted

Ruthlessly efficient + narrowly targeted in the advanced electronics sector - "by far the most important" thing desired by Xi Jinping

Apple's investments in China exceed that of the Marshall Plan

"The Marshall Plan is the most generous act of any people, anytime, anywhere, to another people."

-British Foreign Secretary Ernest Bevin.

Investment:

\$13.3bn 4 or 5% US GDP at the time.

(~3% of national income for recipients).

Financial Impact

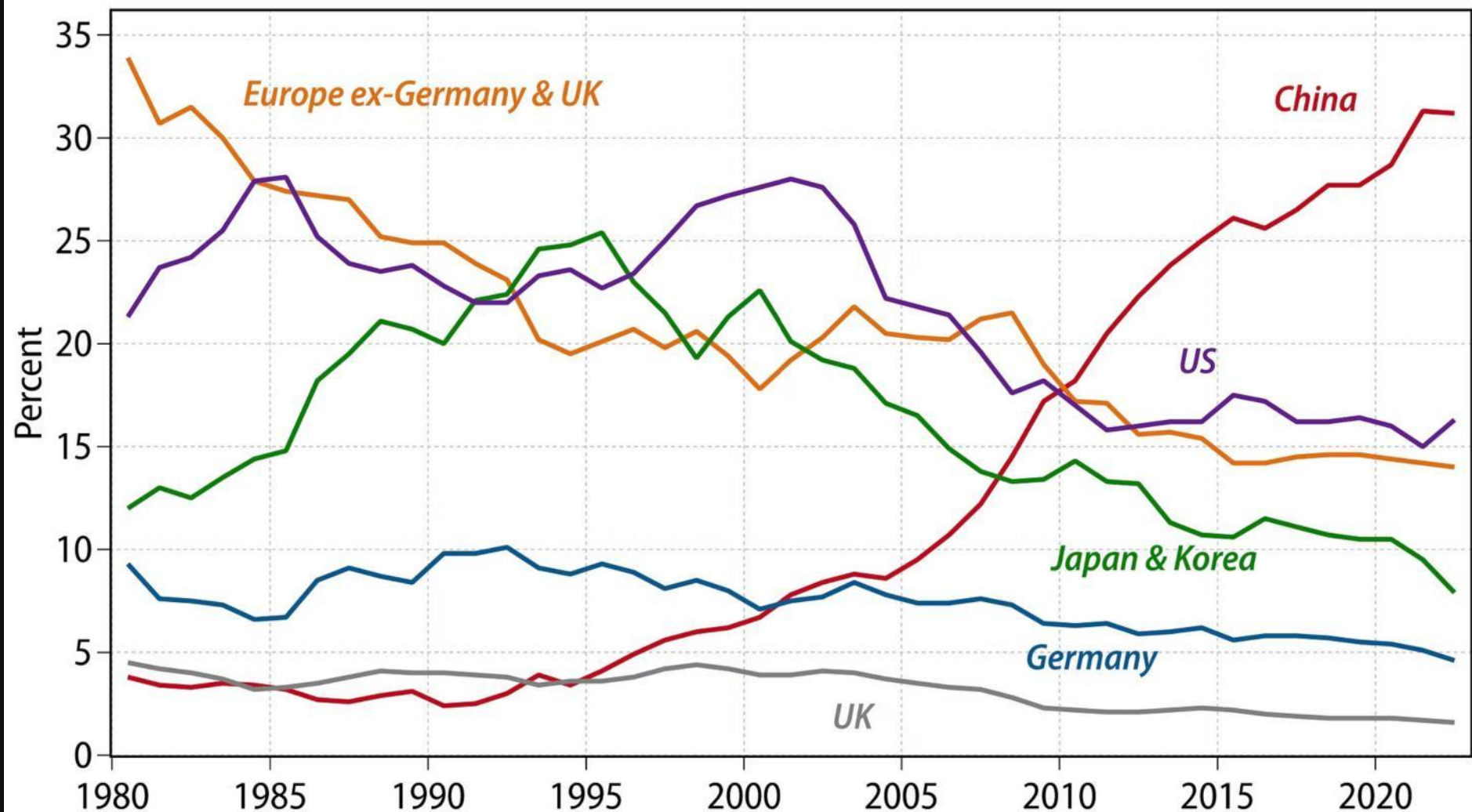
\$135B (current USD)

Geographic Scope

16 European countries



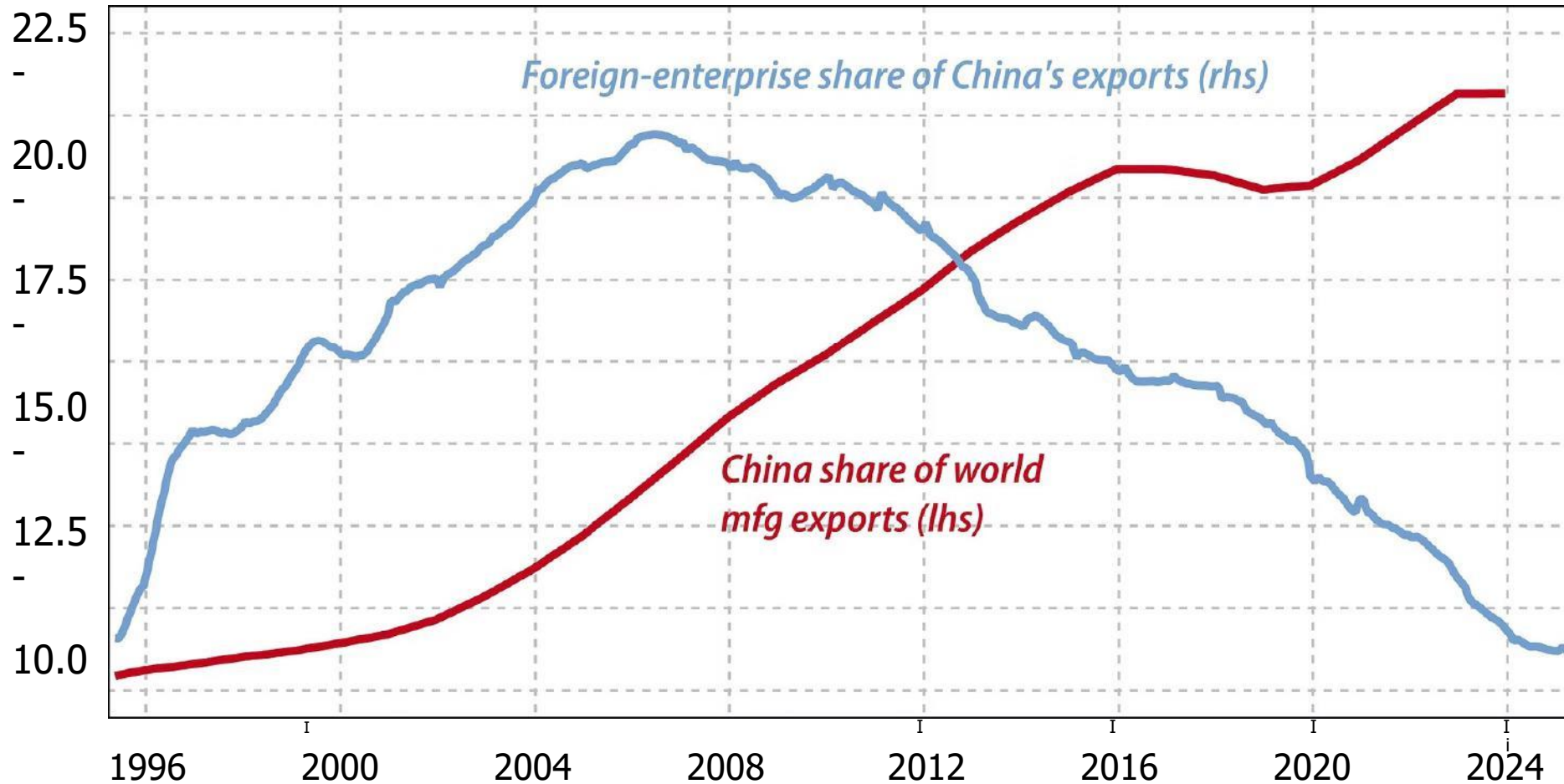
Share of global manufacturing value-added in USD terms



UN, CEIC, Gavekal Dragonomics/Macrobond

China's export growth is now a Chinese-company story

China share of global mfg exports (3yma) and FIE share of China exports (12mma)





Captured

Apple faces a strategic paradox of its own making



Created Ecosystem

25 years of investment in China



Trained Competitors

Chinese firms dominate sophisticated componentry; Chinese brands hold 55% global market share in smartphones.



Supply Chain Lock-in

Can't easily relocate⁴China dominates specialized knowledge



Diversification is difficult

Apple can train Indian engineers, but who will build the eight lane highways? The ports? The high-speed rail?

Questions & Discussion



Is Apple successfully diversifying to India?



what about Tim Cook's \$100B US investment promise?



How do Apple's AI ambitions affect China dependence?