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policy · market · strategy



Entwicklungen in China in Zeiten von Geopolitik und Implikationen für die Schweizer Industrie

schillingtalk Industrie 4.0 Spezial

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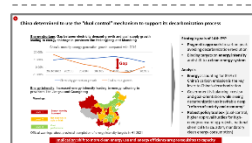
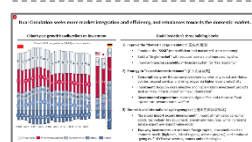
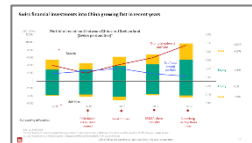
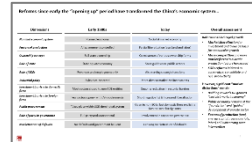
China Macro Group (CMG)



Profile

- CMG is an agile, diverse and partnership-led **European boutique consultancy** with specialization in applied China research and analysis
- CMG serves European **SMEs, MNCs, the public sector** as well as **investors**
- It focuses on China's **policy, market and China-related international affairs**
- CMG operates with offices in **Zurich, Munich and Beijing**

Key expertise areas



Economic policies and market reforms

- SOE reform, market access, SSSR, tax system

Financial system, market and policies

- Financial opening-up, Green Finance, FinTech,

Industrial, S&T and talent policies

- Guidance funds, MIC25, int. S&T cooperation

Trade and foreign (economic) policies

- RCEP/CPTPP, trade promotion, Belt-and-Road

Social and environmental policies

- Pension reform, Hukou reform, carbon trading

Our approach

Fact-based, rigorous and in-depth research and analysis

Interdisciplinary and cross-cultural team

On-the-ground presence and engagement with Chinese experts

China competency at the core: language, economic/political system, historic context



Executive Summary

- **Strategic business environment:** Under China's 14th Five-Year Plan (2021-2025), China keeps refining its Socialist Market Economy to address the new geopolitical, security and pandemic-related realities
 - By deviating from the CCP's "basic line" by adding "coordinate development and security" as a top-level policy concept to the party's constitution, it is indicated at the 20th CCP Congress (Oct. 2022) that economic development will increasingly be viewed through a security lens
- **Economy:** After signs of economic stabilization in Q1 2023 in response to the dropping of "zero Covid" restrictions, disappointing Q2 data shows indicates an eroded confidence – putting pressure on the government as economic challenges are mounting on several fronts
- **Geopolitics:** China's evolving foreign policy continues to be a reflection both of a perceived structural and sustained competition with the US in which China sees itself at an advantage as well as the goal to achieve "national rejuvenation" by 2049
 - Russia: With its "pro-Russia neutrality", China tries to balance geopolitical interests with "hard" security realities and long-held values
 - Taiwan: Conflicting interests and declared ambitions by key actors make for a real geostrategic conundrum – however, there is no clear incentive for China to change status quo before mid-term
 - Switzerland-China: Switzerland's China policy is moving away from honing a "special relationship", while continuing pragmatic engagement
- **Business sentiment:** In response to geopolitical and economic uncertainties, businesses draw different conclusions – two trends are becoming apparent:
 - Localization: businesses for economic and political reasons tend to see a case to deepen their localization ("in China for China")
 - Diversification: amid rising trade and investment frictions between the major trade blocs, some businesses try to move certain parts of their China supply chain elsewhere to not fall victim to supply chain shocks
- **Conclusion for Swiss businesses:** Barring any major escalation, the strategic business environment for Swiss businesses in China will continue in a "Dual Circulation" scenario (base case), continuing to offer commercial opportunities but coupled with more policy-based distortions, also in response to US (decoupling) policy towards China

Agenda

- 1** **China's strategic business environment under an evolving policy context** **15'**
 - Recap: China's political and economic system
 - China's 14th Five-Year-Plan (2021-2025): influencing factors and top-level priorities/shifts
 - 20th Party Congress (Oct. 2022): policy shifts and power consolidation
- 2** **Chinese economy's post-Covid economic growth** **10'**
- 3** **Select geopolitical factors** **15'**
 - China's foreign policy (vision)
 - Ukraine war
 - "Taiwan issue"
 - Sino-Swiss relationship
- 4** **Evolving foreign business sentiment** **5'**
- 5** **Conclusions for Swiss business** **5'**

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4	Evolving foreign business sentiment	5'
5	Conclusions for Swiss business	5'

Ideology: the current CCP constitution shows CCP's self-understanding, socialist mission and communist vision

CONSTITUTION OF THE COMMUNIST PARTY OF CHINA

*Revised and adopted at the 19th National Congress of the
Communist Party of China on October 24, 2017*

General program:

*“The Communist Party of China is **the vanguard of the Chinese working class, the Chinese people, and the Chinese nation**. It is the leadership core for the **cause of socialism with Chinese characteristics** and represents the developmental demands of China’s advanced productive forces, the orientation for China’s advanced culture, and the fundamental interests of the greatest possible majority of the Chinese people. The Party’s **highest ideal and ultimate goal is the realization of communism**.”*

*“All Party members must [...] strive to fulfill the **three historic tasks** of advancing modernization, achieving China’s reunification, and safeguarding world peace and promoting common development, achieve the two centenary goals, and realize the Chinese Dream of national rejuvenation.”*

The “party-state”: Governance under the leadership of the vanguard CCP

CCP Constitution
(2017)

“Leadership of the CCP is the most essential attribute of socialism with Chinese characteristics, and the greatest strength of this system. The Party exercises overall leadership over all areas of endeavor in every part of the country.”

PRC Constitution
(Art. 1, before and after
amendment in 2018)

Chapter I General Principles

Article 1 The People's Republic of China is a socialist state under the people's democratic dictatorship led by the working class and based on the alliance of workers and peasants.

The socialist system is the basic system of the People's Republic of China. Disruption of the socialist system by any organization or individual is prohibited.

Article 1 The People's Republic of China is a socialist state governed by a people's democratic dictatorship that is led by the working class and based on an alliance of workers and peasants.

The socialist system is the fundamental system of the People's Republic of China.
Leadership by the Communist Party of China is the defining feature of socialism with Chinese characteristics. It is prohibited for any organization or individual to damage the socialist system.

Added

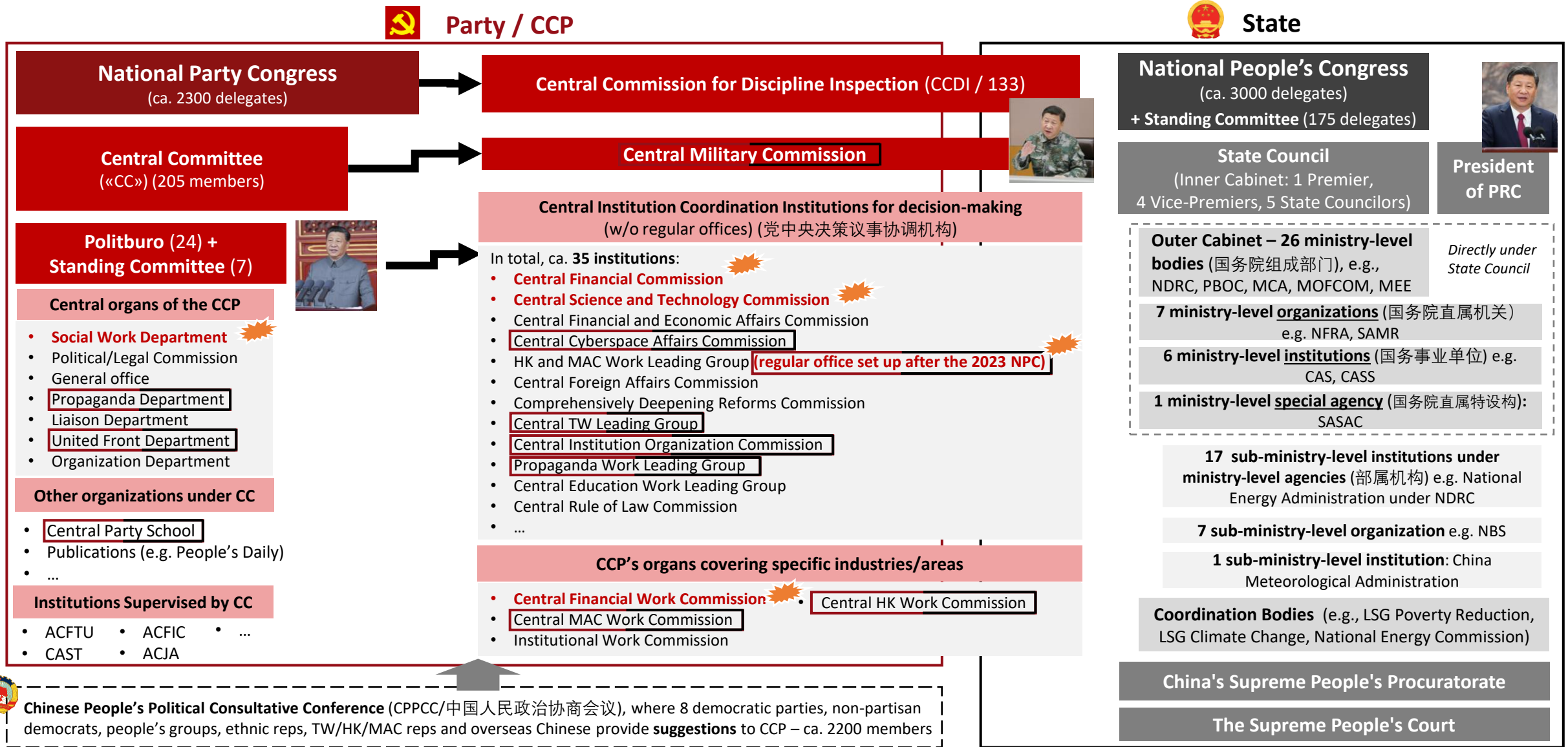
Amendment to the Constitution of the People's Republic of China

Posted: November-21-2019 Adjust font size: 

Announcement of the National People's Congress of the
People's Republic of China
No. 1

The Amendment to the Constitution of the People's Republic of China has been adopted by the First Session of the Thirteenth National People's Congress of the People's Republic of China on March 11, 2018 and is hereby promulgated to take effect.

“Party-state”: high-level synoptic view of China’s party-state system – after the 2023 NPC



Legend: **Newly set up after the 2023 NPC** (starburst icon)

Serve both as Party organ and state organ (boxed icon)

This NPC deepens party governance of state bureaucracy with 4 new bodies – Social Work Department as new interface to society

Two key constitutional norms as conceptual basis of China's economic system

Constitution as amended on 11th March 2018



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Constitution of the People's Republic of China

Updated: Nov 20, 2019 16:25 PM npc.gov.cn

Constitution of the People's Republic of China

(Adopted at the Fifth Session of the Fifth National People's Congress and promulgated by the Announcement of the National People's Congress on December 4, 1982; amended in accordance with the *Amendment to the Constitution of the People's Republic of China* adopted at the First Session of the Seventh National People's Congress on April 12, 1988, the *Amendment to the Constitution of the People's Republic of China* adopted at the First Session of the Eighth National People's Congress on March 29, 1993, the *Amendment to the Constitution of the People's Republic of China* adopted at the Second Session of the Ninth National People's Congress on March 15, 1999, the *Amendment to the Constitution of the People's Republic of China* adopted at the Second Session of the Tenth National People's Congress on March 14, 2004, and the *Amendment to the Constitution of the People's Republic of China* adopted at the First Session of the Thirteenth National

Article 7 The **state sector** of the economy, that is, the sector of the socialist economy under ownership by the whole people, shall be the leading force in the economy. The state shall ensure the consolidation and development of the state sector of the economy.

Article 11 **Non-public economic sectors** that are within the scope prescribed by law, such as individually owned and private businesses, are an important component of the socialist market economy.

The state shall protect the lawful rights and interests of non-public economic sectors such as individually owned and private businesses. The state shall encourage, support and guide the development of non-public economic sectors and exercise oversight and regulation over non-public economic sectors in accordance with law.

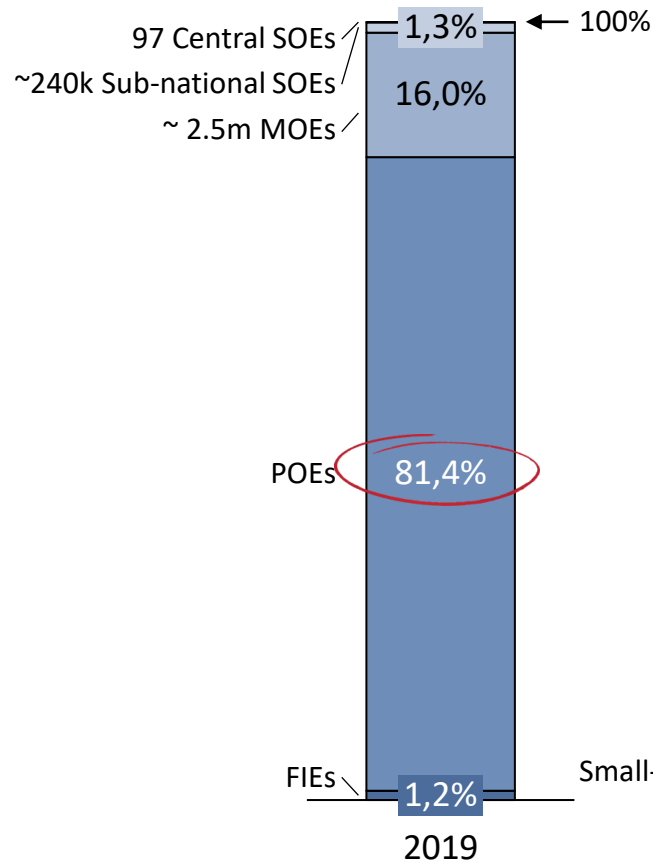
China's hybrid economy boasts ~80% private companies, but SOEs generate ~1/4 of GDP

Most companies today are privately owned...

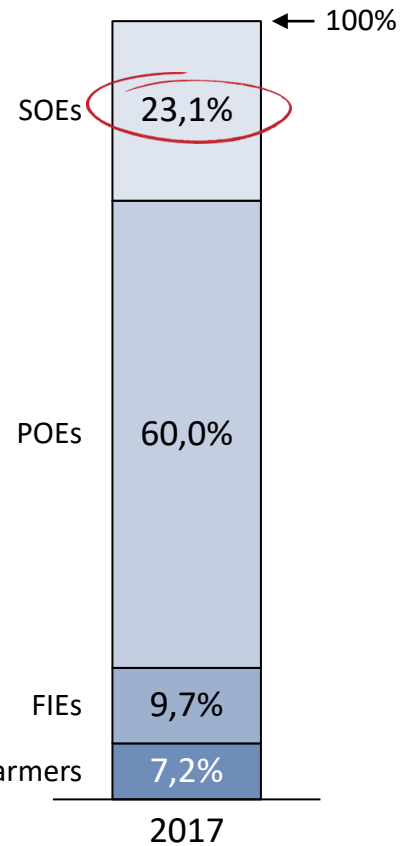
... but state directly controls 1/4 of GDP

Company types and examples

Registered companies (2019)



Contribution to GDP (2017)



Source: World Bank, 4th National Economic Census by National Bureau of Statistics in 2019, gov.cn

Centrally controlled SOEs

- 97 national-level SOEs, administered by SASAC
- Natural monopolies and industries of strategic significance (e.g. networks, heavy industry, petrochemical, aviation, grain supply, telco, military, financial system)



Sub-national level SOEs

- Over 240'000 companies that have undergone substantial SOE reform but remain important for the local and national economy, often in "pillar" industries



Mixed-ownership enterprises (MOEs)

- Around 2.5m MOEs, with private ownership stakes in SOEs to boost market orientation and increase efficiency



Privately-owned enterprises (POEs)

- Rapid increase in privately-owned medium-sized, small and micro companies to 15.27m by late 2018 (+167% compared to 2013)



Foreign invested enterprises (FIEs)

- 222'000 foreign invested enterprises, regulated under the Foreign Investment Law (FIL)



99.8% of businesses are SMEs (1.3% medium, 13.2% small, 85.4% micro), providing 80% of non-government jobs

China's political economy today: substantial evolution during four decades of opening-up and reform

Dimensions	Early 1980s	Today
<i>Nominal economic system</i>	Planned economy	Socialist market economy
<i>Macro strategy</i>	“Opening-up and reform”	“Dual Circulation”
<i>Role of state</i>	State equates economy	State guides non-public sectors
<i>Factors of production</i>	All government controlled	Gradual liberalization (esp. land and labor)
<i>Ownership concept</i>	Full state ownership	Co-existence of various ownership forms
<i>Role of SOEs</i>	Revenues and employment only	Also serving strategic functions
<i>Industrial policy</i>	Subsidies-centered	More diverse marketized instruments
<i>Innovation policy</i>	(Foreign) technology diffusion	Science-based innovation
<i>Barriers to domestic firms</i>	Most sectors closed to non-SOE entities	Ongoing reduction in sectorial barriers
<i>Barriers to foreign firms</i>	Few sectors open – with JV-requirements	Short negative list & increased liberalization
<i>Public procurement</i>	Takes place within SOE-dominated system	Open to POEs, but domestic firms explicitly favored over foreign ones
<i>Role of party in governance</i>	Full party and state control	Select involvement in corporate governance
<i>Marketization of defaults</i>	No defaults and government bail-out	Growing marketization of defaults
<i>Going out</i>	Export-enabling policies	Multi-dimensional policy

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14th FYP deviates from prior policy trajectories – strongly shaped by geopolitics, security concerns & pandemic

Key external/internal factors shaping 14th FYP



US-China rivalry to persist

- «Big threat from US containment and suppression» (美国遏制打压是一大威胁)
- “The world today is undergoing major changes unseen in a century”



Confidence: “Opportunities outweigh challenges”

- “System advantage” (制度优势)
- “East rising, West declining” (“东升西降”是趋势)



1st centennial goal achieved – “new era”

- Formal absolute poverty eliminated by 2021
- Ideological progression to “qualitative growth” and a “new development pattern”



Growth imperative: overcome “middle income trap”

- Adjust growth model to consumption-led and manage debt, aging, productivity and decarbonization challenge



Strengthened governance capacity

- 19th CCP CC 5th/6th Plena further consolidate Xi’s power
- Party disciplining, renewal (自我革命) and visibility, broadening CCP cells in PoEs, new instruments (e.g. SCS)
- Pandemic control as most rigorous governance effort

Re-thinking in Chinese leadership



From Xi’s speech in the 7th meeting of the CCP Commission on Economy & Finance on 10th April 2020

Technological self-sufficiency

- Industrial policy focusing on bottleneck technologies
- “More basic science and 0-1 innovation”
- Secure supply chains with “self-circulation” (自我循环)

Security and securitization

- Data, energy, food, supply chains, military capacities, FDI

Health/social policy and “common prosperity”

- Fiscal expenditures rebalancing from fixed-asset investment to more social welfare – and pursuit of more “social equality”

Digital economy

- Data as a factor of production

“Large gravitational field”

- More (formal) opening-up for foreign capital and technology

SOEs – bigger and stronger

- To carry out national strategic objectives

14th Five-Year-Plan – 19 chapters, 65 paragraphs

Chapter	Topic	Page	Category
第一篇	开启全面建设社会主义现代化国家新征程	1	Modernization goals
第一章	发展环境	1	Modernization goals
第二章	指导方针	1	Modernization goals
第三章	主要目标	1	Modernization goals
第二篇	坚持创新驱动发展 全面塑造发展新优势	11	Innovation
第四章	强化国家战略科技力量	11	Innovation
第五章	提升企业技术创新能力	14	Innovation
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第三篇	加快发展现代产业体系 巩固壮大实体经济根基	20	Industrial
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Economic policy

Social policy

Security/governance

FYP goals/governance

Zoom-in: «Dual Circulation», beyond rebalancing, China’s development model shall also be made more resilient

Xi’s guidance on “resilience”



From Xi’s speech in the 7th meeting of the CCP Commission on Economy & Finance on 10th April 2020

*“The industrial chain and supply chain cannot be dropped at a critical moment. [...] This epidemic is a **stress test under actual combat conditions.**”*

*“[...] we need to build an **independent, controllable, safe and reliable industrial chain and supply chain**, and strive to have at least one alternative source for important products [...].”*

Corresponding policy priorities

- Retain China’s central role in **industrial and supply chains** and preserve “critical links” domestically
- Tighten **foreign dependencies** on China’s most competitive manufacturing sectors and capabilities
- Diversify **import sources and supply chains**
- Leverage **trade relations with BRI partner countries** to make supply chains more “secure and stable”
- Accelerate **S&T and industrial policies** to reduce dependence on foreign critical inputs
- Build domestic industrial backups to allow “**self-circulation**” (自我循环) in “critical moments”

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Key changes: mostly policy continuity from 14th FYP, 7 key changes identified

Overall attitude: ambivalence

Clear confidence in own achievements and system...

- **Accomplishments** of Xi's ten-year leadership period are significant
«Our party [...] has overcome many long-term unsolved problems» (攻克了许多长期没有解决的难题)
- It still sees a **«system advantage»** (制度优势) in its socialism with Chinese characteristics

... but even more pessimistic about external environment

- **Strong risk perception:** risk of «dangerous storms» (惊涛骇浪), the world **«standing at crossroads of history»** (历史的十字路口) and Deng's judgment **“peace and development are still the themes of our times”** (和平与发展仍是当今时代的主题) removed
- Dropped language on **«strategic window»** (重要战略机遇期)

7 key changes of political report vs. the 14th FYP



«Chinese-style modernization»

- New theory for how to reach 2049-goal



«Common prosperity»

- Follow-through on social policies to address «principal contradiction» for a «better life»



«Whole process democracy»

- China's new conceptual alternative for civic rights and political participation



Party-building: re-injecting “purpose”

- Emphasizes need to adhere to «party's original mission» (党坚守初心使命)



Cultural confidence and “self-reliance”

(文化自信自强)

- Using same concept as in S&T



Using “force” as last resort

- Formula re-surfaces – last mentioned at 16th Party Congress in 2002



Economic realism

- Toning down of market governance policy, easing of Zero-Covid and pragmatic decarbonization

Emphasized party building priorities

Legitimacy

- «Keep flesh and blood ties with the people» (保持同人民群众的血肉联系)

Party governance

- «Complete a comprehensive and strict **party governance system**» (健全全面从严治党体系)
- «**Party's self-revolution** to guide social revolution» (以党的自我革命引领社会革命)
- «**Corruption** is biggest cancer that endangers the party's vitality and combat effectiveness» (腐败是危害党的生命力和战斗力的最大毒瘤)
- «**Consolidate CCP's long-term rule**» (巩固长期执政地位)

Party members


- «Be strong **believer** in communism's idealism» (做共产主义远大理想(...)的坚定信仰者)
- “Develop **grassroots-party** into strong fighting fortress” (基层党组织建设成为有(...)战斗堡垒)
- «Build a **high-quality cadre team** worthy of the important task of national rejuvenation” (建设堪当民族复兴重任的高素质干部队伍)

With the support from the 19th CC, Xi paves the way for his key ideological and policy concepts to enter the constitution

20th Party Congress: deviates from Deng's «basic line», influence of «1st centenary» and external factors unclear

Incumbent or
ingoing/outgoing
party secretary

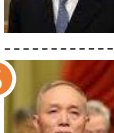


	15th PC – 1997	16th PC – 2002	17th PC – 2007	18th PC – 2012	19th PC – 2017	20th PC – 2022
	 2	 1	 2	 1	 2	 3
Leader (title, theory)	<ul style="list-style-type: none"> Jiang as General Secretary, starting his 2nd term*: “Deng Xiaoping theory” (邓小平理论) 	<ul style="list-style-type: none"> Jiang as General Secretary, finishing 2nd term*: “Three Represents” (三个代表) 	<ul style="list-style-type: none"> Hu as General Secretary: Scientific outlook on development (科学发展观) 	<ul style="list-style-type: none"> Hu as General Secretary, finishing his 2nd term: Scientific outlook on development 	<ul style="list-style-type: none"> Xi as “core” of party: “XJP thought on Socialism with CN Characteristics for a New era”*** 	<ul style="list-style-type: none"> Xi as “core” of party: “XJP thought on Socialism with CN Characteristics for a New era”
Changes to Deng’s basic line: “focus on economic development” (以经济建设为中心)	<ul style="list-style-type: none"> Reaffirms Deng’s focus on economic development and emphasizes “Reform and Opening Up” 	<ul style="list-style-type: none"> Introduces “Moderately Prosperous Society” and follows Deng’s basic line (党的基本路线) 	<ul style="list-style-type: none"> Adds “Scientific outlook on development” and follows Deng’s basic line 	<ul style="list-style-type: none"> Reaffirms “Only “Reform & Opening Up” can develop China” (只有改革开放, 才能发展中国) – following Deng’s basic line 	<ul style="list-style-type: none"> Adds “Belt-and-Road Initiative” and the “Comprehensive national security” (总体国家安全观), adjusting Deng’s basic line 	<ul style="list-style-type: none"> Adds “Coordinate development & security” (统筹发展和安全), “High-Quality development” and “Dual Circulation” further changing Deng’s basic line
Other key new changes			<ul style="list-style-type: none"> “Socialist modernization” (社会主义现代化) Comprehensive layout of Chinese socialism 	<ul style="list-style-type: none"> Ecological civilization (生态文明) Supervision on major officials 	<ul style="list-style-type: none"> Strict party governance Cultural confidence Innovation driven development Supply side reform 	<ul style="list-style-type: none"> “Common Prosperity” Taiwan issue Loyalty of party members ‘Two upholds’
Aggregate**						

* Jiang served a bit more than 2 terms due to the Tiananmen Square Incident ** Aggregate level of change vs. previous Party Congress *** 习近平新时代中国特色社会主义思想  Term

Xi’s third term represents biggest power concentration since Deng and allows for continuity and follow-through in policymaking

20th Party Congress: Politburo Standing Committee with “sea-change” in composition – only Xi’s faction stays



- | | | |
|---|---|---|
| 1 |  <p>Xi Jinping /
General Secretary</p> | <ul style="list-style-type: none"> 69 years CCP General Secretary, Chairman Central Military Commission (since 2012), and President of the PRC (since 2013) |
| 2 |  <p>Li Qiang /
Premier</p> | <ul style="list-style-type: none"> 63 years, Shanghai PS (19th CC PB), 18 years professional ties to Xi Xi’s top secretary in mid-2000s when Xi was Zhejiang Party Secretary (central figure in «New Zhijiang Army») First Premier since 1976 that is not promoted from Vice Premier |
| 3 |  <p>Zhao Leji /
NPC</p> | <ul style="list-style-type: none"> 65 years, 15 years personal/professional ties to Xi Close with Xi, fathers revolutionary comrades in Shaanxi <u>Previously:</u> Secretary CCDI (19th CC PBSC), <u>new:</u> Chairman of NPC |
| 4 |  <p>Wang Huning /
CPPCC</p> | <ul style="list-style-type: none"> 67 years, CCP Secretariat (19th CC PBSC), 15 years professional ties to Xi Worked with Jiang and Hu, but now architect of Xi Jinping Thought <u>Previously:</u> Executive Secretary, <u>new:</u> Chairman of the CPPCC |
| 5 |  <p>Cai Qi /
CCP Secretariat</p> | <ul style="list-style-type: none"> 66 years, Beijing PS (19th CC PB), 37 years professional ties to Xi Worked under Xi in Fujian/Zhejiang (part of «New Zhijiang Army») Central CCP Secretariat as ideology and propaganda tsar |
| 6 |  <p>Ding Xuexiang /
Exec. Vice-Premier</p> | <ul style="list-style-type: none"> 60 years, Director CCP GO (19th CC PB), 15 y. professional ties to Xi Xi’s top secretary when Xi was Shanghai Party Secretary in 2007 Executive Vice-Premier (Xi’s chief of staff), role previously ranked #7 |
| 7 |  <p>Li Xi /
CCDI</p> | <ul style="list-style-type: none"> 66 years, Guangdong PS (19th CC PB), 15 years personal/professional ties to Xi – knows Xi from working for a close family friend of Xi Secretary of CCP Central Commission for Discipline Inspection (CCDI), CCDI role previously ranked #6 |

Note: the government positions held by PBSC members will only be confirmed at the NPC 2023

Li Qiang: Li with business-friendly track record, especially in SH with broad economic policy portfolio

Li has led 3 provincial economic powerhouses over the last decade



Li Qiang, born in Rui'an, Zhejiang, 63 years old
Alma mater:

- Hong Kong Polytechnic University (MBA)
- Central Party School (Cadre training and Master's in World Economics)
- Zhejiang University (Master in Management Engineering)
- Zhejiang Institute of Agriculture (Bachelor in Agricultural Mechanization)

National-level:

- 2022-Present: **Member of the 20th CCP Politburo Standing Committee**
2017-2022: Member of the 19th CCP Politburo
2012-2017: Alternate member of the 18th CCP Central Committee

Provincial-level:

Party roles:

- 2017-2022: **③ Party Secretary, Shanghai**
2016-2017: **② Party Secretary, Jiangsu**
2011-2016: **Deputy Party Secretary, Zhejiang**
2011-2012: Secretary of Political and Legal Affairs Com., Zhejiang
2005-2011: Standing Committee Member, Zhejiang
2004-2012: Secretary-General of CCP Committee, Zhejiang

People's Government and People's Congress roles:

- 2017-2017: Chair of Standing Committee, Jiangsu
2013-2016: **① Governor, Zhejiang**
2012-2013: **Acting Governor, Zhejiang**
2000-2002: Director of Administration for Industry and Commerce, Zhejiang
1998-2000: Deputy Director of General Office, Zhejiang
1992-1996: Deputy Director of Civil Affairs Department, Zhejiang
1991-1992: Director of Personnel Division of Civil Affairs Department, Zhejiang
1990-1991: Director of Disaster Relief Division of Civil Affairs Department, Zhejiang
1988-1990: Director of Rural Relief Division of Civil Affairs Department, Zhejiang

SH Party-Secretary role equips Li with broad economic policy portfolio

Opening up

- Building the «Five Centers» (五个中心), i.e., turning Shanghai into a **world center** in terms of its **economy, finance, trade, shipping and technological innovation**



Industrial policy and emerging tech

- Launched policy programs aimed at **fostering innovation** in industries such as **Biomedicine, IC, NEVs, Smart Manufacturing, Data Port & AI**
- Annual AI Conference in Shanghai introduced



Connectivity, logistics, transport

- Under Li, the **integrated development of the Yangtze River Delta** was elevated to a **national strategy**
- Expansion of the **Shanghai port**, making it one of the world's best-connected ports



Financial and capital market policy

- Establishment of **STAR Market** as a new financing channel for high-tech companies
- Expansion of **Shanghai-Hong Kong Stock Connect**
- Positioning Shanghai as **international reinsurance center**



Labor market & entrepreneurship

- **Support for leading tech entrepreneurs** such as Jack Ma
- Support policies to catalyze **entrepreneurship**
- Action plan to **simplify start-up registration** and **liberalize the labor market**



Trade and FDI

- Expansion of Shanghai's **Free Trade Zones**, including bringing in **Tesla** in 2018
- Active role in **Shanghai's Global Investment Promotion Conferences**



Despite being rather new to national-level politics, Li brings along substantial experience from running 3 key provincial economies

Agenda

1	China's strategic business environment under an evolving policy context	15'
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5	Conclusions for Swiss business	5'

Economic trends: No rapid recovery as expected – threatening the “around 5%” growth target for 2023

- **End of “zero Covid”** expected to unleash a quick recovery on the back of “**revenge spending**”
- **Q1 2023** with **stabilization signs** after the worst performance in 50 years in 2022 (except “Covid” 2020) – especially on **services** and **pent-up demand**
- **Q2** showing months of disappointing data – illustrating the **eroded confidence** both on consumer and business side
- With real estate, exports and investments subdued, pressure to attain “around 5%” is rising – with youth **unemployment** at a record high
- **Growth** increasingly **needs to be driven by domestic demand**, for structural reasons, however, this transition has **so far** proved **difficult**
- For **2023**, economic policymakers have announced **more support** (fiscal/monetary) to
 - ...stabilize real estate (relax purchase restrictions for buyers, relax capital restrictions for developers)
 - ...boost domestic consumption (e.g. consumer credits for NEVs)
 - ...expand infrastructure investment (e.g. expanded fiscal deficit, new special purpose bond quotas)
 - ...reduce the burden for businesses (esp. SMEs, with further tax/fee rebates)
 - ...attract FDI (pro-business rhetoric, reduce negative list)

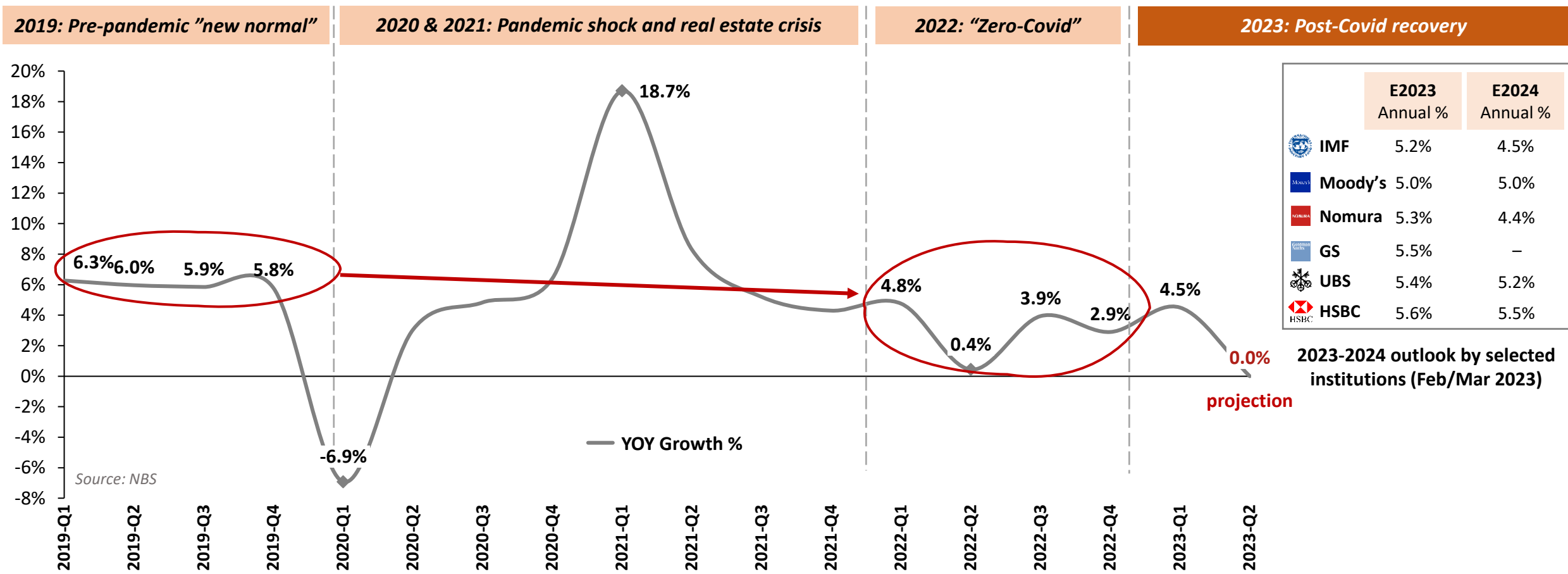


*“in response to the changes in the economic situation, **more forceful measures** must be taken to enhance the momentum of development, optimize the economic structure, and promote the continuous recovery of the economy”*

- Li Qiang (PM), at a meeting of the State Council, 16 June 2023

Zero Covid 2020-2022-period: 3% in 2022 – recovery in 2023 expected largely on back of “revenge spending”

China’s quarterly GDP growth over the past 4 years and 2023 prospect



	E2023 Annual %	E2024 Annual %
IMF	5.2%	4.5%
Moody's	5.0%	5.0%
Nomura	5.3%	4.4%
GS	5.5%	—
UBS	5.4%	5.2%
HSBC	5.6%	5.5%

2023-2024 outlook by selected institutions (Feb/Mar 2023)

projection

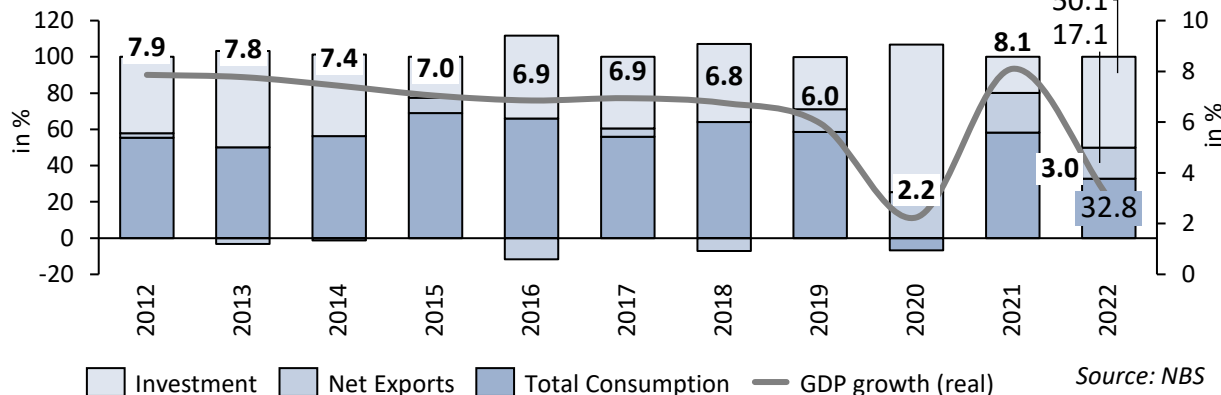


Post-Covid recovery more challenging than expected – largely hinging on restored confidence among consumers and businesses

H1 2023: with Covid measures dropped, activities are resumed in Q1, but Q2 weaker than expected (1/3)

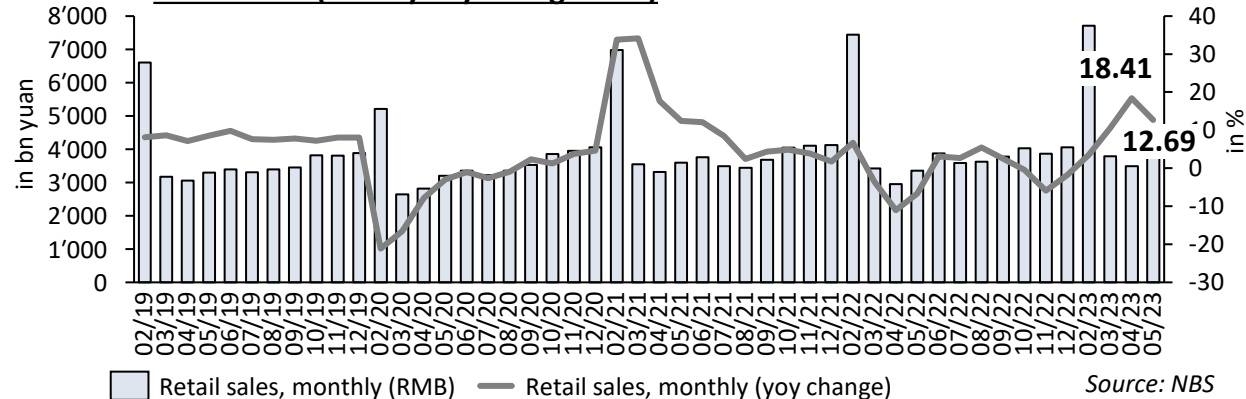
2022 GDP growth (3%) thanks to solid investment growth, 2023?

GDP growth (annual, real, in %), disaggregated into its key drivers



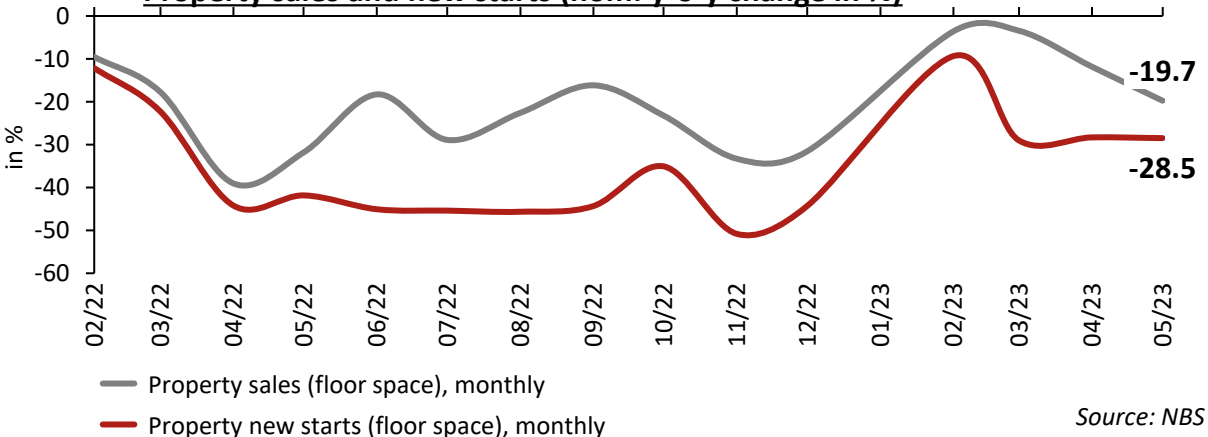
Rebound of domestic consumption strong on services – overall weak

Retail sales (nom. y-o-y change in %)



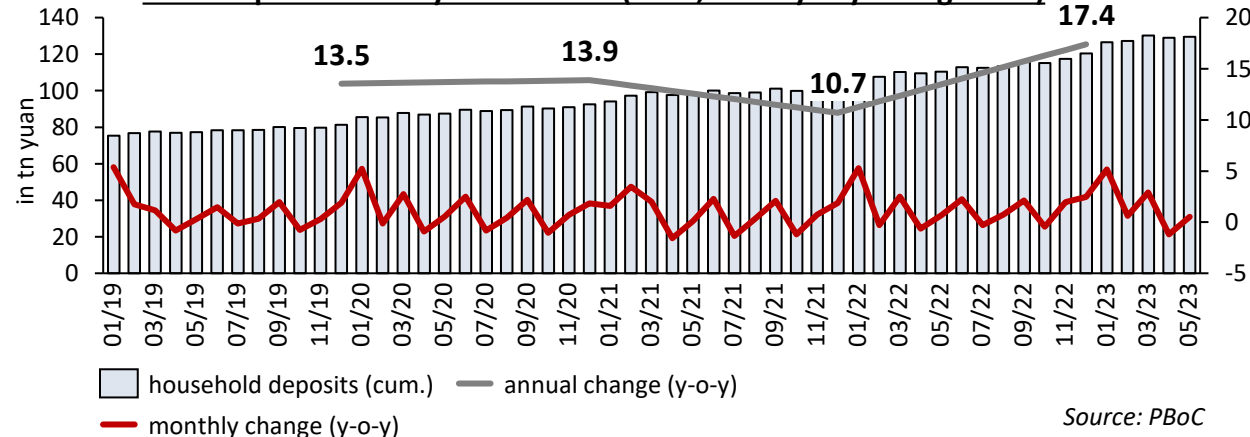
Real estate sales remain negative despite targeted policy easing

Property sales and new starts (nom. y-o-y change in %)



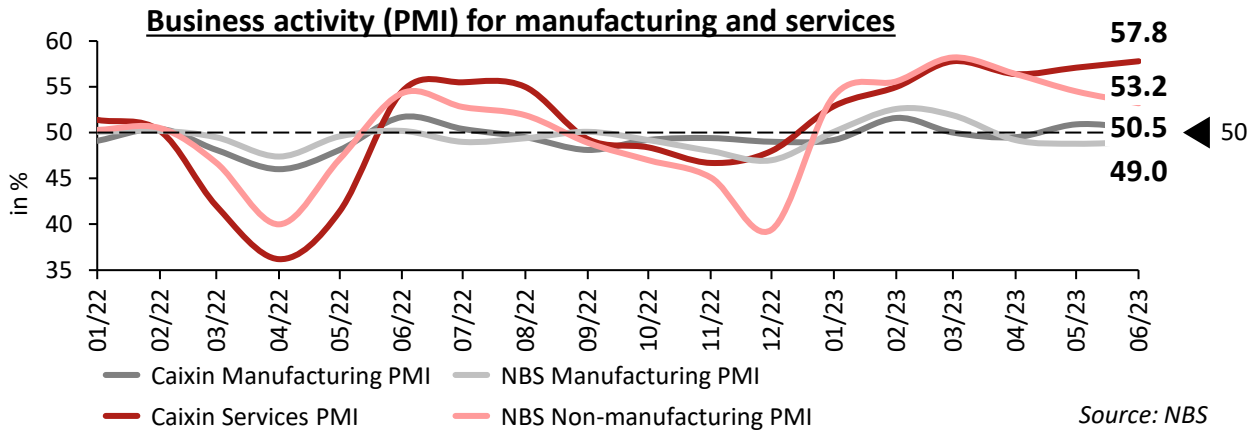
Households continue to hoard cash instead of spending it

Bank deposits held by households (total, nom. y-o-y change in %)

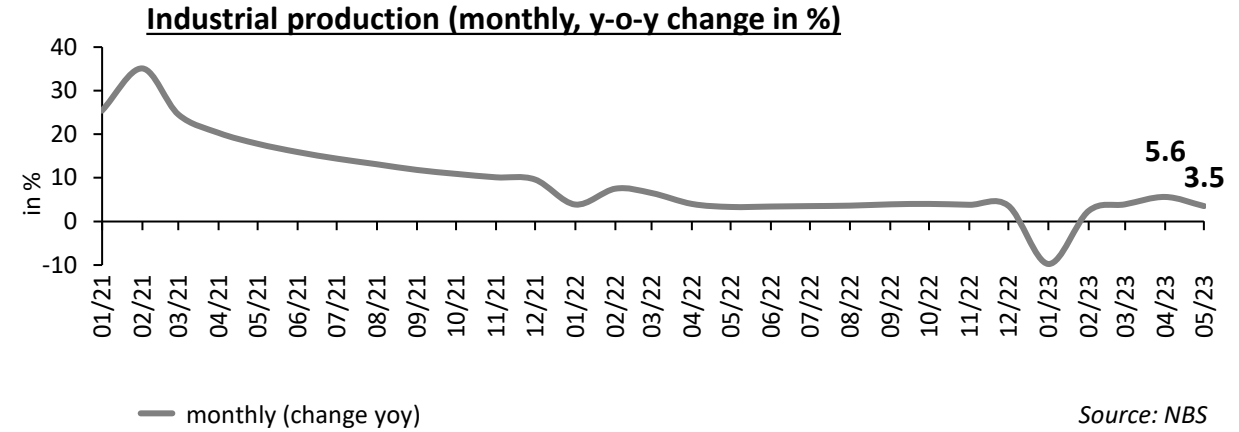


H1 2023: with Covid measures dropped, activities are resumed in Q1, but Q2 weaker than expected (1/3)

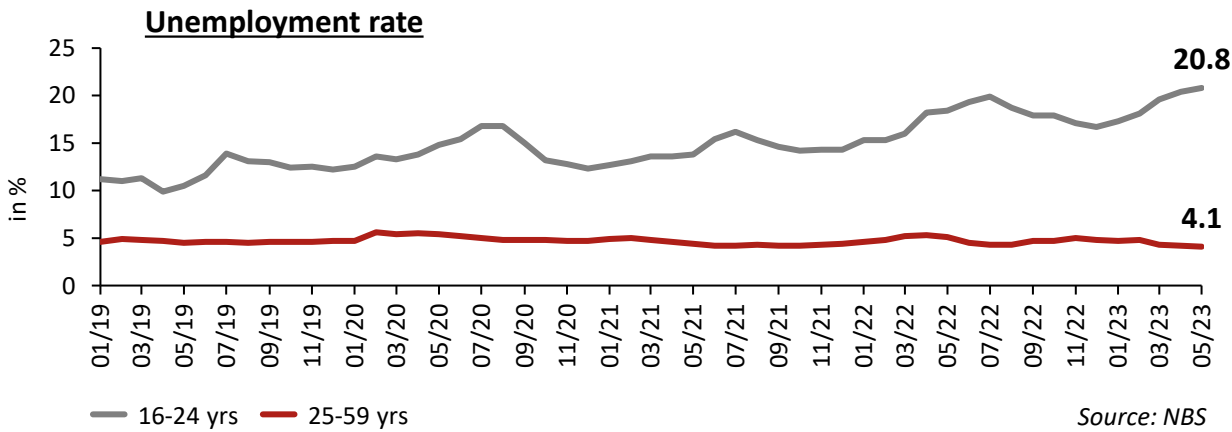
Services activity with strong recovery, manufacturing not (yet)



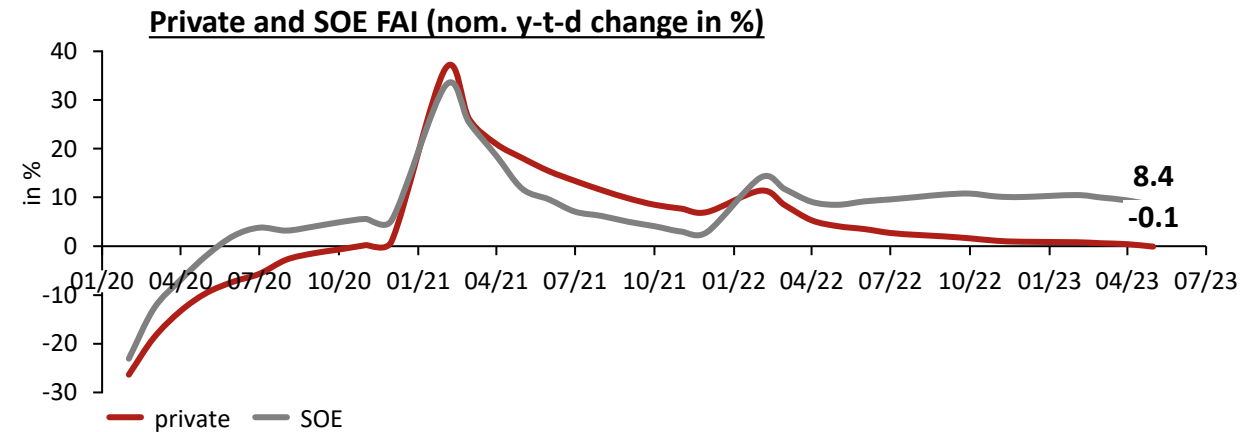
Industrial activity weakening in May after upward signs



Youth unemployment hitting a new record high in May



Private businesses remain cautious on investments

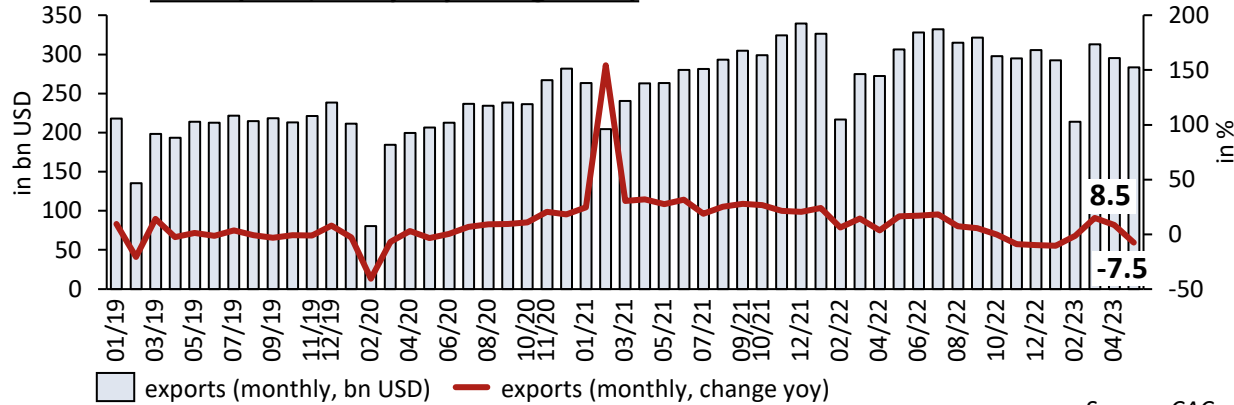


Against the backdrop of domestic and international policy uncertainty, non-service industries remain extremely cautious

H1 2023: with Covid measures dropped, activities are resumed in Q1, but Q2 weaker than expected (1/3)

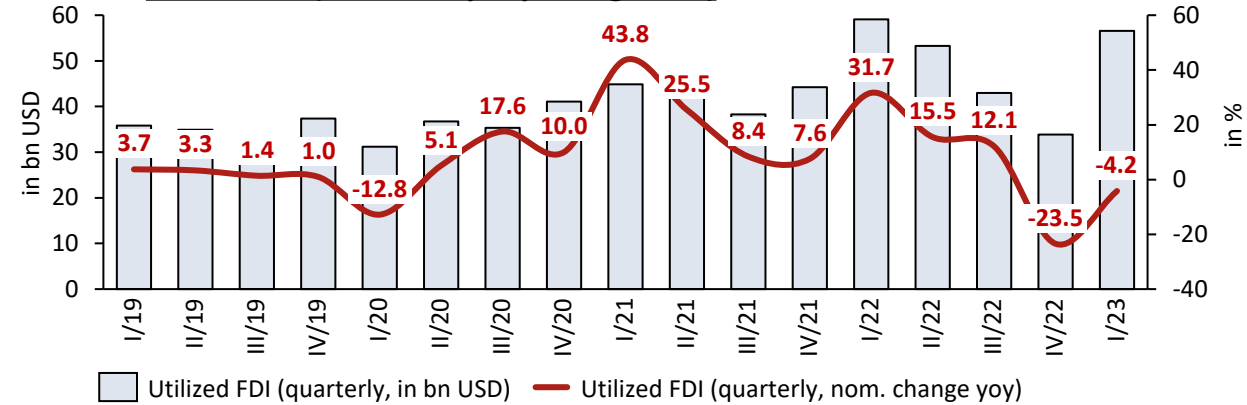
Exports remain weak amid sluggish global demand (inflation)

Trade (total, and y-o-y change in %)



FDI inflows slowing down (+8% 2022 vs. +20.2% 2021), a policy focus

Utilized FDI (total, and y-o-y change in %)



With domestic and external demand remaining weak, real estate not likely to recover to previous levels, and businesses wary – how to restore confidence and attain the “around 5%” GDP growth for 2023?

NDRC Report: Recognizing the challenges ahead, the state planners identify four structural growth obstacles

NDRC Report...

REPORT ON THE IMPLEMENTATION OF THE 2022 PLAN FOR NATIONAL ECONOMIC AND SOCIAL DEVELOPMENT AND ON THE 2023 DRAFT PLAN FOR NATIONAL ECONOMIC AND SOCIAL DEVELOPMENT

Delivered at the First Session of the 14th National People's Congress on March 5, 2023

National Development and Reform Commission

«China has entered a period of development in which strategic opportunities, risk, and challenges exist together and uncertainties and unforeseeable factors are rising»

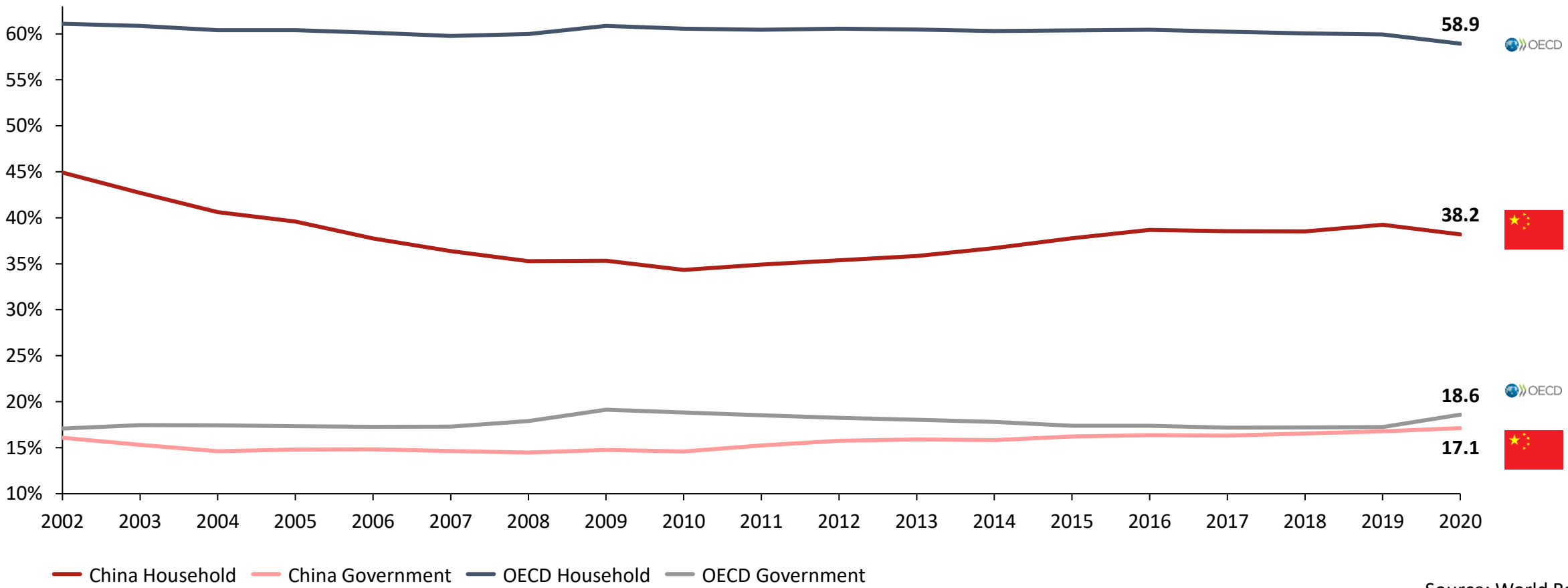
... highlights key challenges ahead for China's socio-economic development

International situation	<ul style="list-style-type: none"> • Changes unseen in a century, global political and economic risks • Food/energy security • Industrial and supply chains • Global growth and financial market stability
Domestic situation	<ul style="list-style-type: none"> • Unbalanced and inadequate development • Triple pressure – shrinking demand, supply shocks, weakening expectations
1 Insufficient demand	<ul style="list-style-type: none"> • «The problem of insufficient total demand remains relatively acute» • Investment growth in manufacturing remains weak • Growth in real estate investment an uphill battle • Private sector hesitant to investment • Global protectionism
2 Supply side	<ul style="list-style-type: none"> • The supply side is facing powerful structural constraints • Capacity for S&T innovation, bottlenecks in raw materials and key equipment • Obstructions in industrial and supply chains • Ensure food/energy supply
3 Risks	<ul style="list-style-type: none"> • Risks prone to becoming interwoven and amplifying each other • Financial risks (local governments debt risk) • Cross-border, cross-market, and cross-sector risks more interrelated • Workplace safety, natural disasters
4 People's well-being	<ul style="list-style-type: none"> • Job creation (employment situation for some groups remains grave) • Personal income growth is difficult to sustain • Supply shortages in education, medical services, childcare, elderly care and housing • Environment
Market expectations	<ul style="list-style-type: none"> • Market expectations are still unstable • Enterprises (esp. MSMEs), are still facing difficulties in production and business operations • People are cautious in spending, lack of enterprise confidence, weak demand

Domestic demand: Chinese consume much less on average in international comparison – a huge potential

CN households save more and consume less than elsewhere

Consumption by households and the government (in % of GDP)



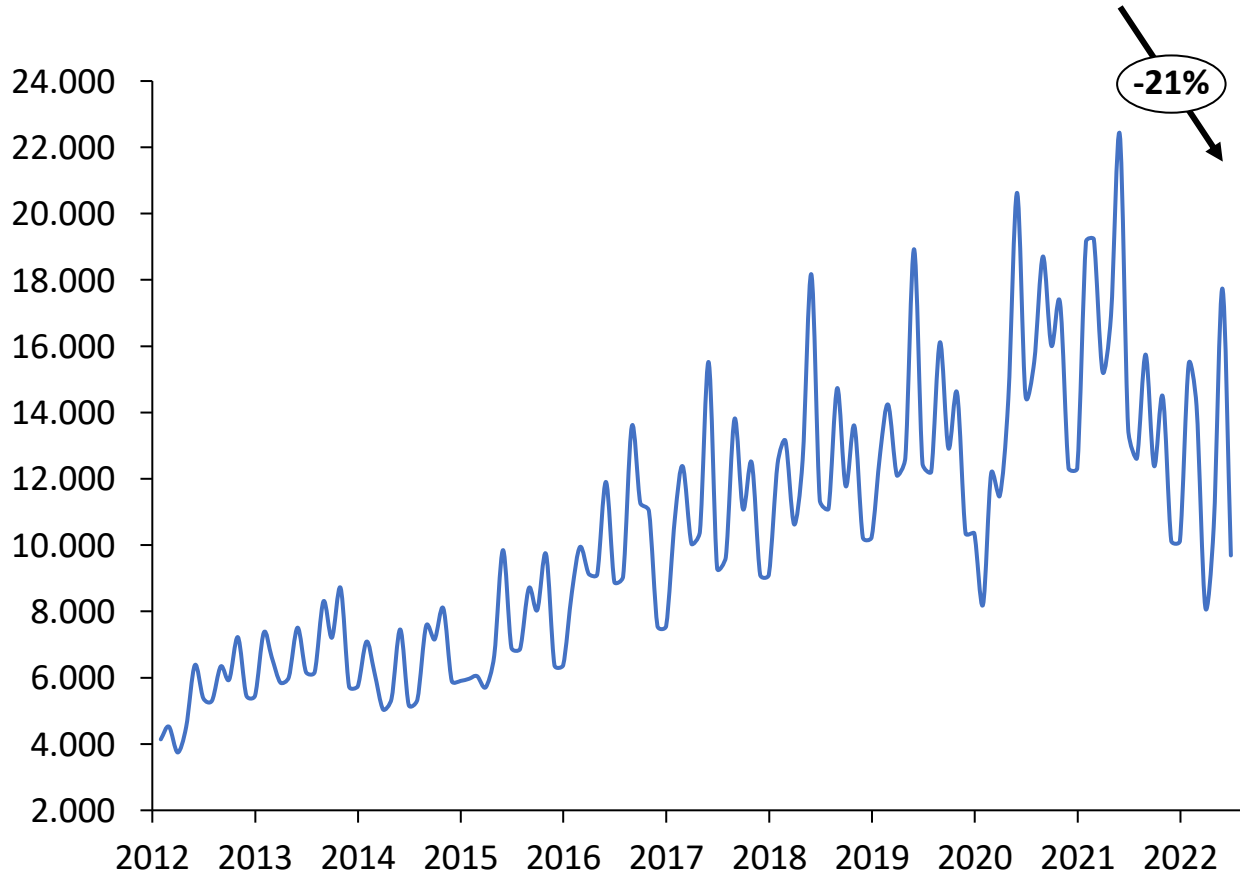
Source: World Bank



Risks: The real estate sector – a relevant driver for GDP in the past – has been hit hard due to policies and Covid

Real estate (>25% of GDP) badly hit...

Total sales of commercial residential buildings (in 100m CNY)



Source: NBS

...both by Covid and the de-risking campaign as of August 2021

Economic significance

- The real estate sector and adjacent activities make up to 25-30% of China’s annual GDP, and up to 80% of household wealth is tied up in real estate (limited alternatives), vs 30-40% in most other markets

“Fictitious growth”

- Overinvestment in real estate a major driver in the past of GDP, however without the underlying “real” social value-add
- Between 1/5 and 1/4 of housing stock is empty

Deleveraging (policy)

- Policymakers have been trying to reduce this debt-driven investment spree
- In August 2021, “three red lines” for property developers (limits on debt-to-asset ratio, debt-to-equity ratio, cash-to-short-term-debt ratio)
- Immediately hit developers, such as Evergrande – the country’s most indebted developer with on-balance-sheet liabilities of 2% of China’s GDP and off-balance-sheet liabilities of another 1%

Effect/situation today

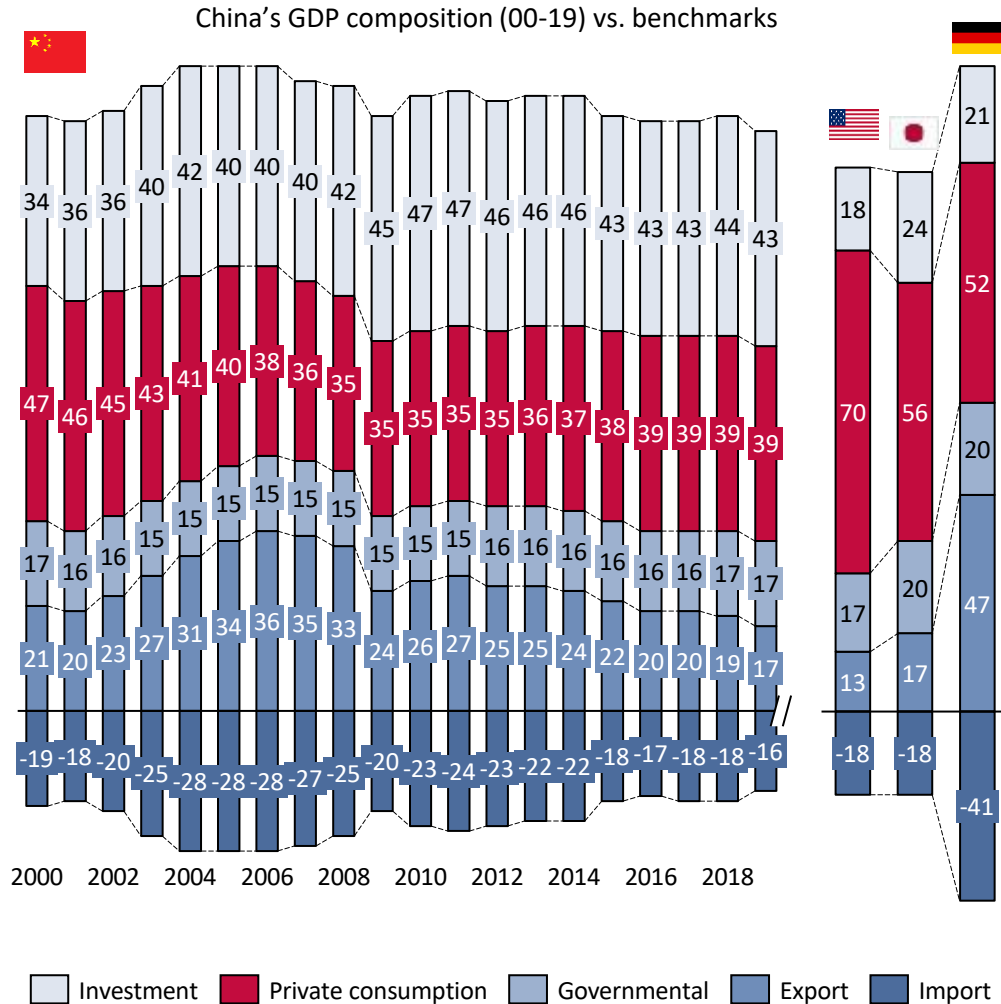
- Price drop after “three red lines” (roughly -30% Jan-Aug 2022)
- Policy relaxing (lower mortgage rates, tax breaks), but confidence is low

Outlook

- Difficult position, i.e. to reduce “fictitious” growth, while at the same time not dampen confidence and curb economic dynamism
- Long-term focus on deleveraging, but short-term major losses will likely be “socialized” via SOEs

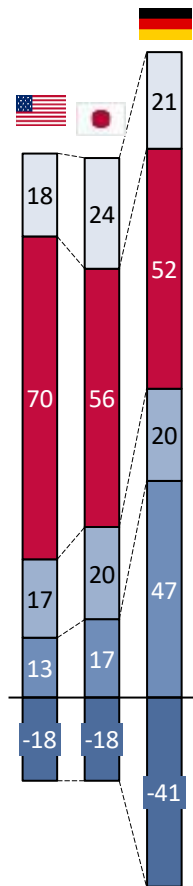
Key reform: Expand domestic demand towards a «large domestic cycle» under the «Dual Circulation» strategy

China's past growth heavily reliant on investment



Five building blocks envisioned by Chinese policymakers

- 1 Promote consumption (促进消费)**
 - People-centered dvpt: meet the real needs of the people's aspirations for a better life
 - Final consumption is the lasting driving force of economic growth (old/new cons.)
- 2 Promote investment (促进投资)**
 - Strengthen manufacturing and climb the value chain (incomes, supply capacity)
 - Overcome weak links: transportation, energy, water, logistics, environment, healthcare
 - Accelerate "new", digital infrastructure
- 3 Improve the distribution pattern (完善分配格局)**
 - Common prosperity – essential for socialism, important for CN-style modernization
 - Primary (labor income), secondary (social security), tertiary (donations) distribution
 - Form a "strong domestic market" (larger middle-class, both rural and urban)
- 4 Enhance supply quality (提升供给质量)**
 - Achieve a high level of self-sufficiency and supply capacity in S&T (esp. in SEI), to satisfy existing and create new demand (demand and supply in a "virtuous cycle")
- 5 Improve the market system (完善市场体系)**
 - Reforms and opening towards a "complete domestic demand system" (market-based factor allocation on land, labor, capital, data/technology / opening up on T&I)
 - "High-standard" and unified single market



Policy shift towards balancing supply- with demand-side: «Make sure [...] the strategy to expand domestic demand is integrated with our efforts to deepen supply-side structural reform» (Xi Jinping, report to the 20th Party Congress, Oct 2022)

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China's top-level foreign policy concepts and goals, underpinning a more assertive foreign policy

Top-level foreign policy positions

Exemplary corresponding foreign policy position / messaging

Mission	<p>Realizing the great rejuvenation of the Chinese nation (中华民族伟大复兴)</p>	 <p><i>"Realizing the complete reunification of China (Taiwan) is ...the meaning of national rejuvenation... oppose interference by external forces for Taiwan independence"</i> Xi Jinping in the 2023 National People Congress</p>
External environment	<p>"World today is undergoing major changes unseen in a century" («百年未有之大变局»)</p>	 <p><i>"At present, the changes of the world, the times, and the history are accelerating, and all countries are thinking about the future"</i> Xi meeting Michel, President of the EC, in December 2022</p>
	<p>"The US are obsessed with containing China" («美国痴迷于遏制打压中国»)</p>	 <p><i>Western countries headed by US implemented all-round containment and suppression against China, bringing unprecedented severe challenges to our development</i> Xi Jinping in the 2023 speech for CPPCC</p>
	<p>Multi-polarization is being irresistible (“世界多极化...历史潮流势不可当”)</p>	 <p><i>"The historical trend of world multi-polarization and economic globalization is irresistible"</i> Xi's speech in 2023 Eurasian Economic Union meeting</p>
Top-level concepts	<p>Strategic confidence based on Socialism with CN characteristics (以中国特色社会主义为根本增强战略自信)</p>	 <p><i>"The United States is not qualified to speak condescendingly to China"</i> Yang Jiechi, then Politburo member, in Alaska in 2021</p>
	<p>New type of international relations / great power relations (新型大国关系 + 新型国际关系)</p>	 <p><i>"We must change our way of thinking...to achieve a new type of international relations of fairness, justice and mutual respect"</i> Yang Jiechi, then Politburo member, in Alaska in 2021</p>
	<p>Leading the reform of global governance system (引领全球治理体系改革)</p>	 <p><i>"The opinions of the US can not represent international public opinion, and the rules made by a few people will not become the basis of the international order"</i> Yang Jiechi, then Politburo member, in Alaska in 2021</p>
	<p>Building a community with a shared future for mankind (人类命运共同体)</p>	 <p><i>"Adhere to the maintenance of world peace and promoting common development, and commit to building a community with a shared future for mankind"</i> Xi meeting Michel, President of the EC, in December 2022</p>
Key engagement / cooperation concepts	<p>Belt and Road Initiative as overall guiding planning (相当长时期对外开放和对外合作总规划)</p>	 <p><i>"BRI is also an open platform for common development and common prosperity"</i> Speech by Qin Gang, Foreign Minister, in 2023 "Chinese Modernization and the World"</p>
	<p>Build global partnerships with increased efforts on developing countries and peripheral areas (全球伙伴关系)</p>	 <p><i>"Put ASEAN in a priority position and are willing to achieve common development and prosperity with ASEAN countries and move towards modernization together"</i> Wang Yi, then Foreign Minister, meeting ASEAN Ambassador to China in 2021</p>

To maintain its core interests, China pursues "multipolarity" with more focus on developing countries, but not de-emphasizing EU

Agenda

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Ukraine war: China's ambivalent situation is a "pro-Russia neutrality"

Anti-US attitude

- *US hegemonic interests as root-cause of NATO East-expansion*
- *Strategic containment against China continues anyway*
- *US intent is prolonging – or even escalating – the war in Ukraine to weaken Russia and rally its allies and partners behind its coalition of democracies*

**Net position of China =
pro-Russia neutrality**

Pro-Russia attitude

- *Revisionist partners to rebalance global governance*
- *Geopolitical "dependence" of China on Russia*
- *"Legitimate security concerns"*
- *Strategic interests (energy, food, military technology)*
- *Fear of angering Russia as a neighbor country*
- *Xi-Putin personal relationship*

Pro-Ukraine attitude

- *"Territorial integrity and sovereignty of Ukraine"*
- *Human suffering and Chinese citizens esp. in Kiev*
- *Bilateral political and trading relationship*
- *Non-dual-use humanitarian aid*
- *Avoidance of circumvention of sanctions against Russia*
- *Security guarantees (安全保证) in case of nuclear attack (1994, 2013) (https://www.gov.cn/jrzg/2013-12/05/content_2543057.htm)*

Further risks/impacts on China: secondary sanctions, domestic polarization, EU-China relations, relative isolation in UN

Agenda

1	China's strategic business environment under an evolving policy context	15'
	<ul style="list-style-type: none">Recap: China's political and economic systemChina's 14th Five-Year-Plan (2021-2025): influencing factors and top-level priorities/shifts20th Party Congress (Oct. 2022): policy shifts and power consolidation	
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“Taiwan issue”: Conflicting interests and declared ambitions make for a real geostrategic conundrum



PRC view



US view



Taiwan view

Declared objective

- «**National reunification**» as «historic task» and a «requirement» of China’s «**national rejuvenation**»
- **By peaceful means**, if not compelled to use force

- Preserve **peace and stability** until a **peaceful solution** can be found that considers «**the wishes and best interests of Taiwanese**»

- ROC already a *de facto* **sovereign country**, leaders see their responsibility in preserving this autonomy and democracy

Interest in status quo

- Concentrate on **domestic priorities** of the «new era» while reducing **foreign dependencies** and strengthening **military capabilities**

- Keep **option for a peaceful solution**, i.e. prevent China’s option of unification through force, or deterrence
- Broadly **consistent across different Administrations**

- Keep *de facto* **independence** and **democratic system**
- Varies by **ruling party**

Strategic intents

- «**Reunification**» as only way to «... **foil attempts of external forces to contain China**, and to safeguard **sovereignty, security, and development interests**» (TW 2022 White Paper)
- To **break US «island chain strategy»** of containing China

- Preserve TW’s **political and economic autonomy**, though not a «vital» US interest
- Effective US-led **deterrence** (remain dominant regional stakeholder, preserve US credibility in the region)
- **Peace and stability in region**, also in view of **supply chains** (esp. chips)

- Preserve **political autonomy**
- Keep **international support** for own «cause», esp. among democracies or countries with historic sensitivities towards independence or sovereignty questions
- Keep **US engaged** in this «issue»

The Taiwan Strait – a link in the 1st island chain



Source: *The Economist* (2017)

Against this backdrop, however, no actor has a real interest in changing the status quo at the moment, or at any cost

Beijing's position: "Reunification" as "historic task" with a "peaceful resolution" as the "basic guidance"

Key historical pillars of the PRC's Taiwan policy throughout the reform era continue to shape Beijing's stance today



Third Plenum of the 11th Central Committee in 1978

1978/9

Deng Xiaoping sets "peaceful reunification" as the baseline of Beijing's Taiwan policy

- Introduced "peaceful reunification" as Beijing's basic guideline policy (i.e., keeping a military solution only as a last resort) and proposed a "One Country, Two Systems" principle which would give TW a high degree of autonomy and vowing that national government would not intervene in TW's local affairs



Constitution of the CCP

1982

Defines "reunification" as a "great task" of "all Chinese people"

- Defines Taiwan as a "part of the sacred territory of the People's Republic of China" and stresses "reunification" as a "great task" of all Chinese people "including our compatriots in Taiwan"



PRC Anti-Secession Law

2005

Legal basis for PRC to use non-peaceful means to prevent TW independence

- Article 8 sets out provisions for China to use non-peaceful means and other necessary measures if Taiwan were to officially attempt to secede or if all possibilities for a peaceful "reunification" would be completely exhausted

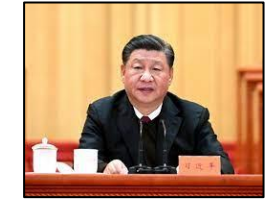


PRC National Security Law

2015

Applies a national security logic to any pro-Taiwan independence activities

- Domestically oriented, this PRC law codifies that any activities by Chinese people or organizations including "compatriots from Taiwan" failing to uphold national sovereignty and territorial integrity are seen as threats to national security



Xi Jinping's address the 19th Party Congress

2017

Sets 2049 as an implicit deadline for the "historic task of reunification"

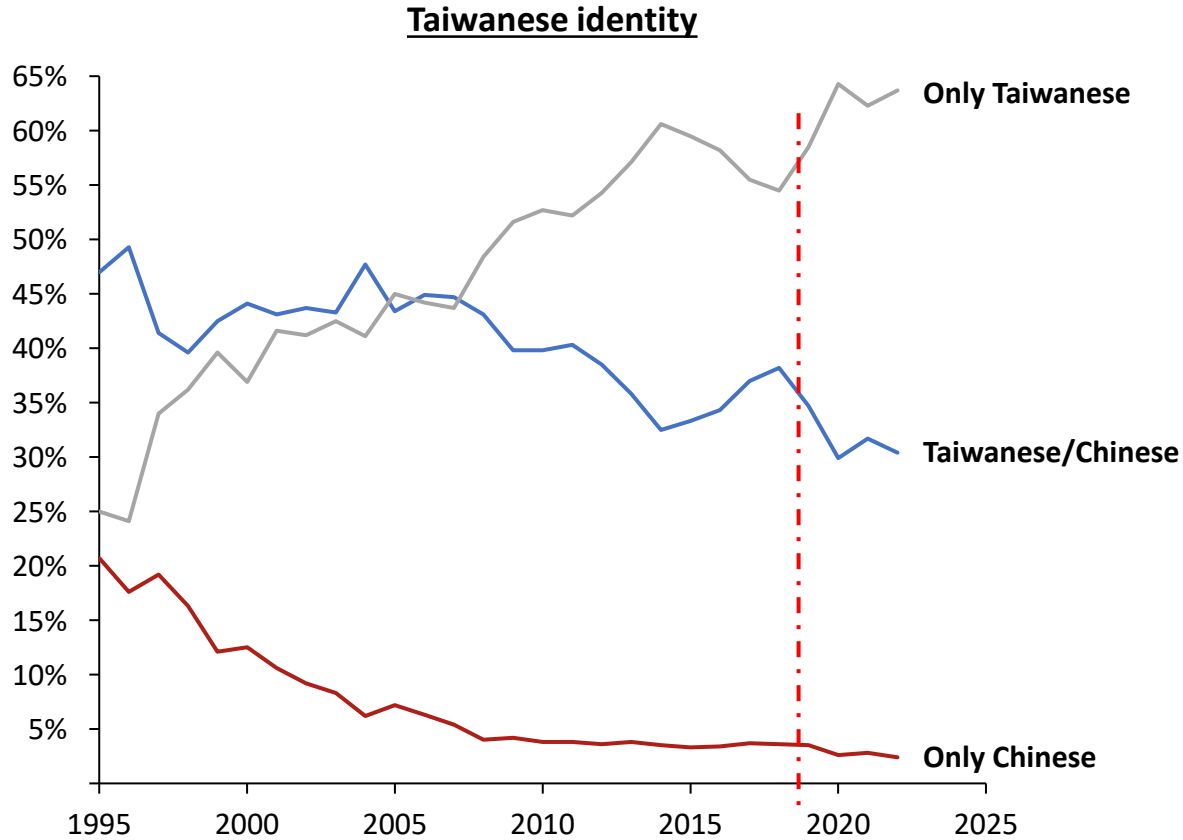
- By linking "the historic task" of achieving China's reunification to national rejuvenation, Xi has set as an implicit deadline at 2049, when the PRC marks its centenary

'Basic guidelines' remain in name, but new 3rd TW White Paper – unlike 2nd – shows altered urgency and resolve

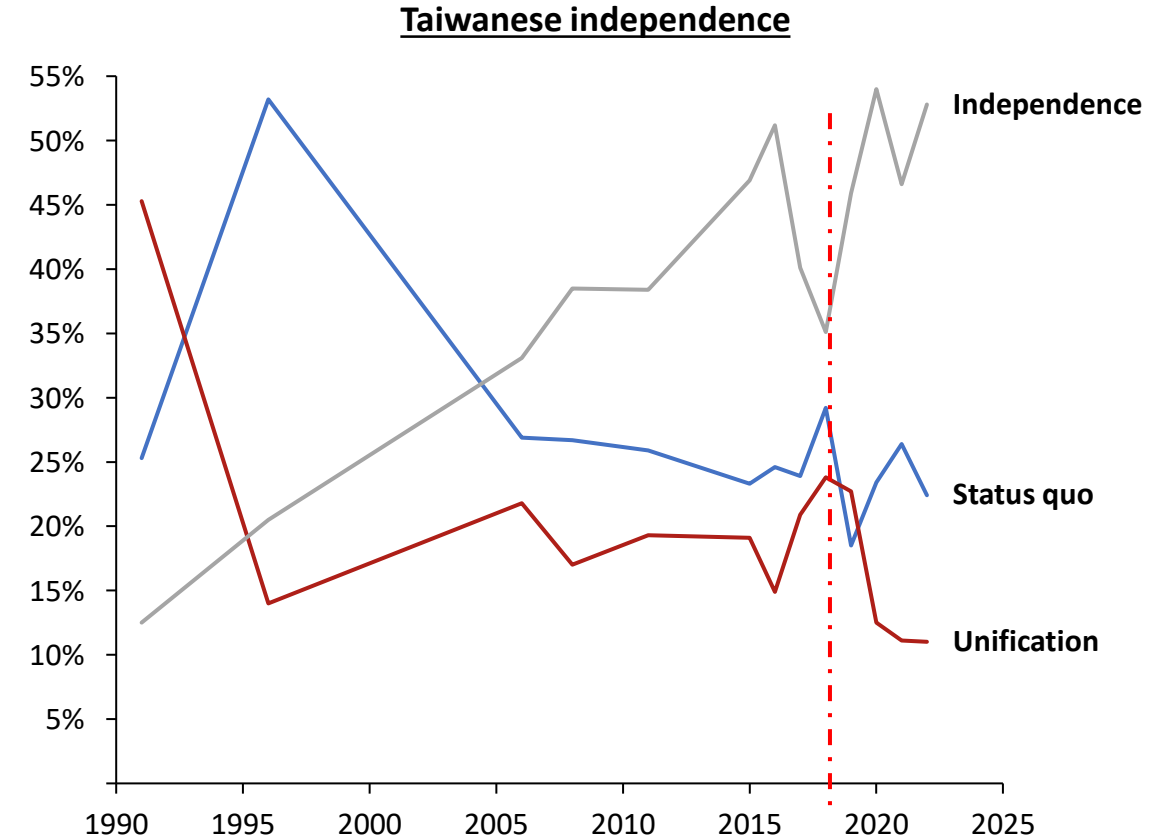
	1993 White-Paper (first one)	2022 White-Paper (third one)	What changed
Basic guideline	<ul style="list-style-type: none"> • “Peaceful reunification and One Country, Two Systems” (reserving the right to use military force) 	<ul style="list-style-type: none"> • <i>Unchanged</i> 	<ul style="list-style-type: none"> • Basic guidelines of China’s approach remain the same, while details have changed and the tone has become more assertive
“Reunification” approach	<ul style="list-style-type: none"> • Resolve “Taiwan issue” through peaceful negotiations on basis of “One China Principle” • Actively promote development of Cross-Strait relations through people-to-people, economic, cultural and other exchanges • Finding a solution acceptable for both sides 	<ul style="list-style-type: none"> • Resolve political differences and exchange views on basis of “One China Principle” and “1992 Consensus” • Work with all parts of Taiwan’s society to explore an “innovative 1C2S” principle • Emphasize common glorious destiny and economic and social benefits of “reunification” for Taiwan 	<ul style="list-style-type: none"> • The overall urgency for the completion of «reunification» outweighs talk about «peaceful reunification»
Post-peaceful unification promises	<ul style="list-style-type: none"> • 1C2S: “Two co-existing systems” with a high degree of autonomy as part of a unified Chinese state“ • “High-degree of autonomy”: <ul style="list-style-type: none"> – Administrative, legislative, independent judicial and final adjudication rights – Autonomy over party, government, military, economic, financial matters – PRC will not send troops or government personnel to TW – Unofficial exchanges with foreign governments can continue 	<ul style="list-style-type: none"> • Seek an “innovative 1C2S” principle (i.e. learning from experience in HK) on the premise that the “Two Systems” are subordinate to the “One Country” • As long as “China’s national sovereignty, security and development interests” are respected: <ul style="list-style-type: none"> – TW permitted to “maintain a different social system” with “high-degree of autonomy in accordance with law” as a “SAR” – “The way of life of TW compatriots will be fully respected and private property, religious beliefs, lawful rights and interests of citizens protected” • TW compatriots who support “reunification” will – after “reunification” – be “masters in their home” (当家作主) 	<ul style="list-style-type: none"> • In the 2022 white-paper, «1C2S» is clearly defined as subordinating TW’s autonomy to the PRC • Furthermore, Beijing now vows to let «patriots» rule TW after «reunification» • Promises regarding political and legal autonomy from the 1993 white-paper have all but disappeared

The trend points toward separation, and has accelerated after the events in Hong Kong in 2019 – a watershed

An increasing alienation from Beijing...



... drives the desire for Taiwanese independence

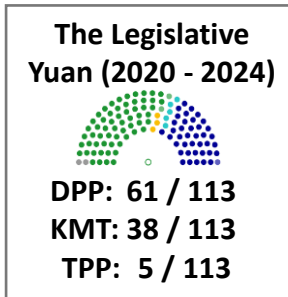


Sources: Taiwan Public Opinion Foundation



Deteriorating societal sentiment in Taiwan increases the risk of a more assertive position on TW's independence by Beijing

Presidential candidates across key political parties with varying views on formal TW independence



Democratic Progressive Party (DPP)



*„I am without a doubt **a politician who supports Taiwanese independence**. I will never change this stance no matter what office I hold.“*

— Lai Ching-te, pres. candidate of the DPP



Kuomintang (KMT)



“I oppose one country, two systems, and insist on Taiwan's own democratic values and move forward. [...] Taiwan independence has no legal basis, so I oppose Taiwan independence.”

— Hou Yu-ih, pres. candidate of the KMT



Taiwan People's Party (TPP)



*“Taiwan should retain its subjectivity. We can befriend Japan and the US, but we do not need to become hostile with China. **TW can benefit from both sides and not be in a dilemma**”*

— Ko Wen-je, pres. candidate of the TPP

Outlook: from a status quo of ‘heightened volatility’ to one of seven key future scenarios

... to 7 key future scenarios – 4 of which feature some type of «escalation» / ✨

- **China-led/-imposed triggers**
 - ① Shorter-term escalation triggered by domestic complexities in China ✨
 - ② Decision to invade by PRC once full military preparedness achieved, after 2027 ✨
 - ③ Longer-term negotiated re-unification (in 2030s) using Beijing’s economic and political leverage
- **«External» triggers**
 - ④ Shift in US’ Taiwan policy, esp. with Republican election dynamics and outcome in 2024 or 2028 ✨
 - ⑤ Growing momentum in TW’s international solidarity efforts, or «pro-independence» election dynamics in 2024 or 2028 ✨
- **Perpetuation**
 - ⑥ Longer-term perpetuation of status quo whereby Taiwan is able to continuously ensure an effective and credible US-supported deterrence capability stabilizing regional security order
- **De-escalation**
 - ⑦ Return to constructive US-China engagement, a stabilizing Taiwan policy of the US and/or PRC-friendly domestic politics in Taiwan

Assessment: PRC factors providing for stability in cross-strait relations

- Deterrence works, eg Tsai-McCarthy meet in Los Angeles
- China's continued dependencies, eg food and technology
- Taiwan acting as a «silicon shield» given the PRC's dependence on TW semiconductors
- Military not fully ready (vs. 2027 goal)
- Strategic preference for a non-military solution
- Russia-Ukraine outcome unclear
- Xi with substantive and conflicting domestic priorities
 - Eg. common prosperity, high-quality development, consumption-driven economy
- Wang Huning tasked to work out «innovative one-country-two systems»-formula
 - Likely focusing more on people-to-people

Agenda

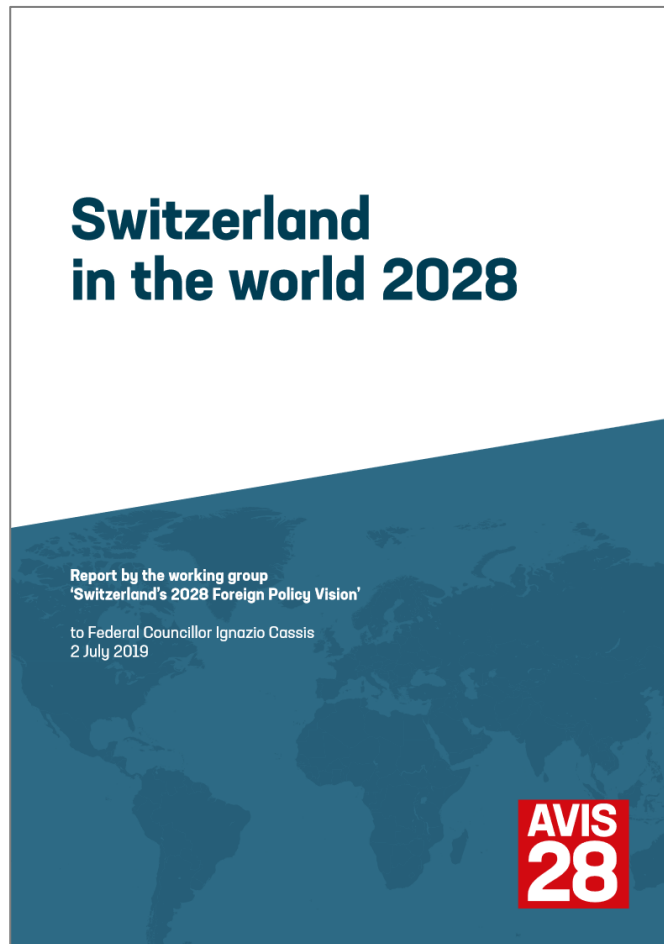
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Switzerland reflecting about its role in a “rougher, more fragmented, complicated and less predictable world”

CMG analysis

Reflection process initiated by Swiss MFA...

... broadly raising six geostrategic (policy) questions for Switzerland



How are global affairs evolving?

- How does Switzerland view “multipolarity” as an evolving reality?
- How is the influence and soft power of the “West” evolving?
- How is US-China bloc building evolving and what are the effects?

Proximity to Europe?

- How to structure relations with an EU striving for “strategic autonomy”?
- Are there disadvantages and distortions from the EU’s growing “bloc behavior”?
- When does Switzerland align with EU-level sanctions?

Position vis-a-vis US-China competition?

- What is the position of Switzerland among the US, the West, and China?
- How big is the positioning pressure, are there (already) “hard” trade-offs?
- How to engage as a European country with China overall?

Neutrality and security cooperation?

- Can Switzerland’s neutrality be upheld and is there international buy-in?
- Shall Switzerland cooperate more strongly with NATO?
- How to support Ukraine beyond adopting sanctions?

Reliability of international law and multilateralism?



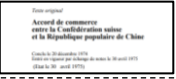







- How and where can Switzerland contribute to reforms of multilateralism?
- Does Switzerland need to team up with other “middle ground” powers?
- What role can Switzerland play as “host state” of UN organizations?

Independent foreign policy?

- Can Switzerland uphold a sovereign, independent foreign policy?
- Can Switzerland remain a credible actor to offer “good offices”?
- Is accession to the EU the only mid- to long-term option?

Swiss discourse: altered context pushed Switzerland's China policy away from honing a "special relationship"

From a "pioneering spirit" in bilateral relations...

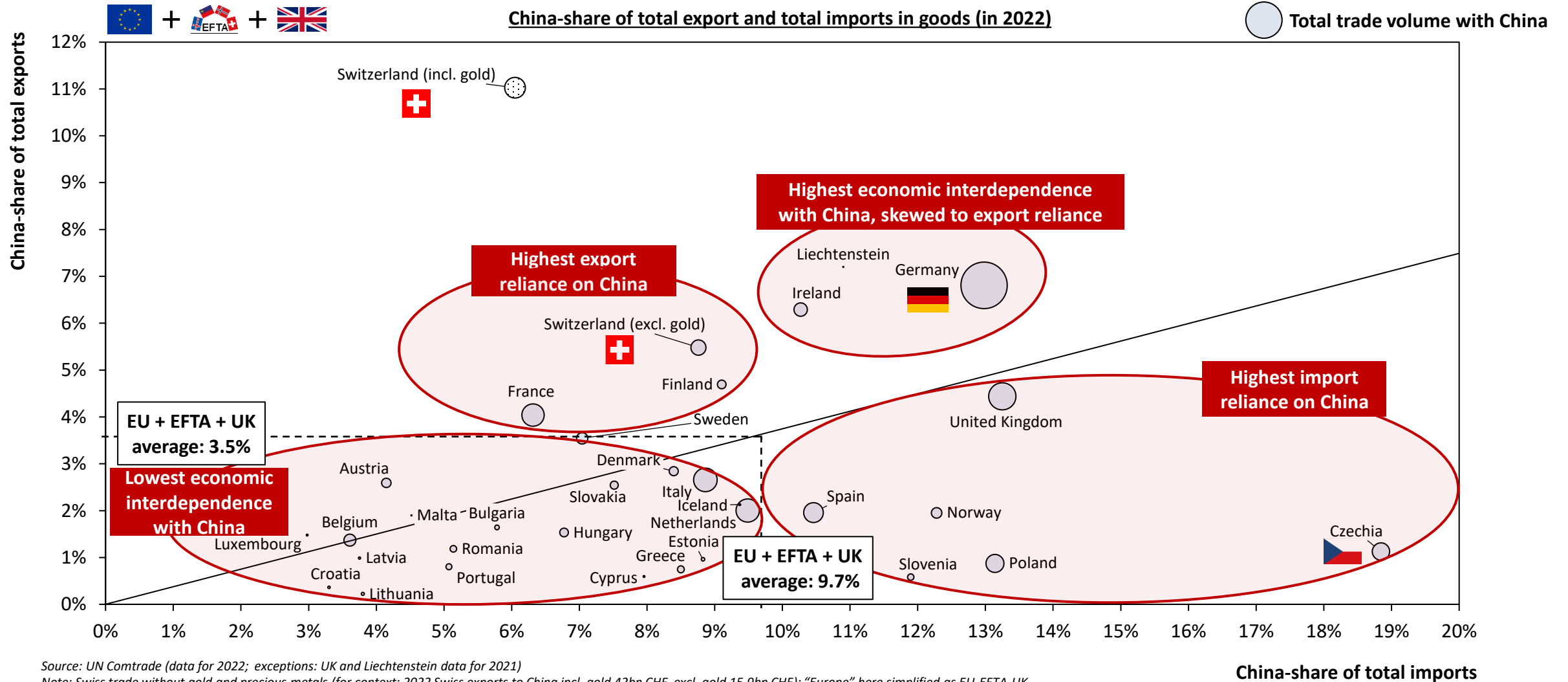
	1950: early recognition of PRC
	1954: welcomes PRC at Geneva Conference, as 1st PRC official trip abroad of Zhou Enlai
	1974: Early trade agreement (MFN treatment)
	1980: first Sino-foreign JV (Schindler)
	2007: early granting of MES to China
	2013: first continental European and comprehensive FTA
	2016: early country supporting the AIIB
	2016: «strategic innovative partnership»
	2018: UBS as first foreign bank with majority ownership
	2019: BRI third-market cooperation MoU signed

... to an altered domestic political context for Switzerland's China policy

Topic	Description
«Syngenta» as sputnik	<ul style="list-style-type: none"> Acquisition of Swiss agrochemical giant Syngenta by ChemChina, China's largest transaction to date, raising wariness with China's state-led economy
China's reputation	<ul style="list-style-type: none"> General damage to China's reputation driven by China's position in the war in Ukraine, Zero Covid policy, perceived hardening under Xi Jinping as well as – earlier – China's wider industrial ambition including 'Made in China 2025'
Xinjiang	<ul style="list-style-type: none"> Shifting perception on human rights and ESG topics, especially regarding systematic human rights violations against Uyghurs as per UN OHCHR report
Taiwan issue	<ul style="list-style-type: none"> China's perceived increased urgency to solve the "Taiwan issue" and its displayed assertiveness in the face of Western political support to Taiwan
US China policy	<ul style="list-style-type: none"> US' policy communication, alignment efforts among like-minded countries under Biden plus political framings such as "democracies vs. autocracies"
EU China policy	<ul style="list-style-type: none"> EU concept of "tritych" relations (partner-competitor-rival), despite led by EU as supranational actor, spilling over into Swiss political discussions
BRI	<ul style="list-style-type: none"> Frustration over lack of materialized cooperation under Sino-Swiss BRI MoU
Chinese influence	<ul style="list-style-type: none"> China's alleged influencing operations in Switzerland and perceived security threat, e.g. on corporate espionage, as raised by Swiss intelligence service

EU view/trade: Germany with highest interdependence with China – dominating EU trade with China

China a key trading partner for Europe, but varying highly in significance across countries – DE alone accounting for 48% of EU27's China exports



Source: UN Comtrade (data for 2022; exceptions: UK and Liechtenstein data for 2021)

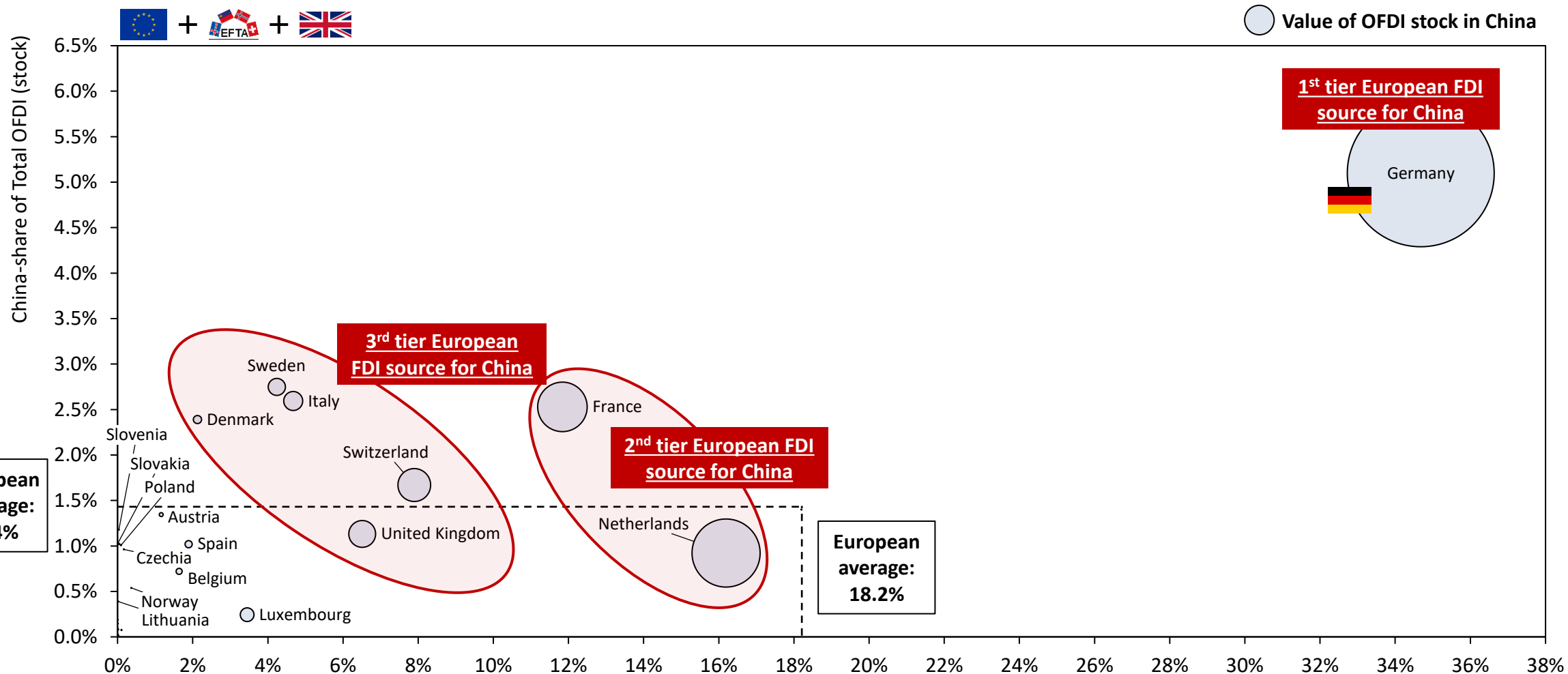
Note: Swiss trade without gold and precious metals (for context: 2022 Swiss exports to China incl. gold 42bn CHF, excl. gold 15.9bn CHF); "Europe" here simplified as EU-EFTA-UK

China-share of total imports

Lower direct importance of the Chinese export market in countries lacking high-tech manufacturing and international brands

EU view/investment: Germany by far the top European investor in China – and a key technology supplier

German companies also dominating foreign direct investments, accounting for ~35% of total European outbound FDI (OFDI) stock in China



Source: Eurostat (Data for 2021; exceptions: NOR for 2019 and UK for 2018); Irish National Bank (IRE data for 2014); Austrian National Bank (AUT data for 2021); No data available for Iceland and Liechtenstein
 Notes: "Europe" here simplified as EU-EFTA-UK; Net OFDI are defined as assets minus liabilities

Country-share of total European OFDI in CN (stock)



High inter-dependence: German companies are strongly invested in China, hence are important technology providers for China

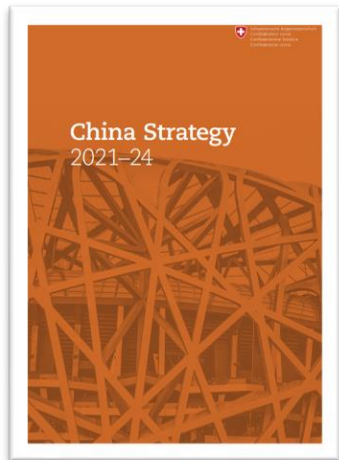
Switzerland's China policy: interests and values put on equal foot, and continuing pragmatic engagement...



China Strategy...

...critically assesses an evolving China...

... and lays out its cooperation principles and policy goals



Swiss China Strategy approved by the Swiss Federal Council in March 2021

Key formal aspects:

- First country-specific foreign policy strategy
- Broad stakeholder consultation
- Binding mandate by the parliament to create such a strategy

Geopolitical ambitions

- China's transformation into a **"major power with far-reaching geopolitical ambitions"**
- Ambitions to **"chang[e] the rules of international cooperation** to suit its own interests"
- **"Far-reaching consequences"** to the international order of possible emulation of the **"Chinese development model of prosperity without pluralism"** by developing countries

Values

- **Frequent differences on values** such as democracy, the rule of law and human rights

Political and economic system

- "Divergent political, social and economic systems"
- Economy remains **"dominated by state"** or state-owned or state-subsidized entities
- China's **divergence** from an anticipated trajectory of **"political liberalization"** plus increasing **"authoritarian tendencies"**
- **"Repression** of dissenting voices" and **"persecution** ethnic minorities"













Cooperation principles

- Defines Switzerland's **global positioning** (chapter 3.2)
 - Is **neutral**, does not belong to any "bloc", and is **committed to dialogue**
 - Sees itself as **"bridge-builder"** with **"independent positioning"**, **"targeted diplomacy"** and **careful conduct in international disputes**
 - Clear **commitment to "Swiss core values"**: Liberal economic order and liberal international order, rule of law, basic rights of individuals and democracy
- As a result, takes a **pro engagement stance**:
 - Sees **"turning away from China"** as **neither beneficial to China's domestic situation, nor in Swiss interest**
 - Regular exchanges on China-related matters with **"like-minded partners"** as lever to engage with China

Policy goals – in four focus areas

- **Peace and security**: **Promoting international dialogue and multilateralism**, but also **human rights** and protecting Switzerland from **foreign interference**
- **Prosperity**: Reaching from **tourism and trade promotion**, to strengthening **education, research and innovation cooperation**, broadening **market access and FTA update**
- **Sustainability**: Mutual cooperation on transnational issues such as **climate change, public health** as well as **international laws and standards**
- **Digitalization**: Harnessing **opportunities** as well as mitigating risks of **China's key role in all aspects of digitalization**

Outlook: more value-based Swiss foreign policy could affect relations, possibly creating risks for Swiss business

Thematic arena	Key current Swiss political factors – across three key actors	Likelihood	Potential impact	Risk?
Overall China policy	 • Elections: Swiss federal and then Federal Council elections may strengthen central-left, likely leading to more normative and human rights related measures on China	Low	Moderate	
	 • Swiss foreign policy strategy: New policy 2024-27 (and possibly subsequent updated China Strategy) takes harder stance on China in response to rising pressure	Low	Moderate	
Value-based foreign (economic) policy	 • “Taiwan issue”: National Council operationalizes Motion 22.4259 on strengthening exchange with Taiwan’s Parliamentary Yuan with concrete intensification of relations	Moderate	Moderate	 <i>A materialized risk is expected to 1) affect general dynamic and political appetite on both sides for deepening bilateral relationship, plus 2) the Chinese government can take retaliatory actions – e.g. against Swiss business – to corresponding Swiss political action</i>
	 • Responsible business: parliament adopts motion “Gredig” to include “forced labor”	Moderate	Moderate	
	 • Responsible business: Federal Council raises due diligence requirements in line with EU	Moderate	Moderate	
	 • Sanctions: Motion 22.3983 about the adoption of the EU’s Xinjiang sanctions	Low	High	
	 • Export controls: Switzerland adopts a new export control regime with focus on the PRC	Low	High	
Security topics	 • FDI: Switzerland adopts a “strict” FDI screening mechanism, targeting (also) China	Low	Moderate	
	 • Society/academia: Debate on Chinese influence moves to center of the China debate	Low	Moderate	
	 • “Lex Huawei”: Motion 22.3414 (adopted by NC 05/2023) on security in critical infrastructure (e.g. 5G), with possibility to ban components from China (Huawei)	Moderate	Moderate	

Key Swiss actor:  Federal Council/government  Parliament  Non-governmental actors/societal

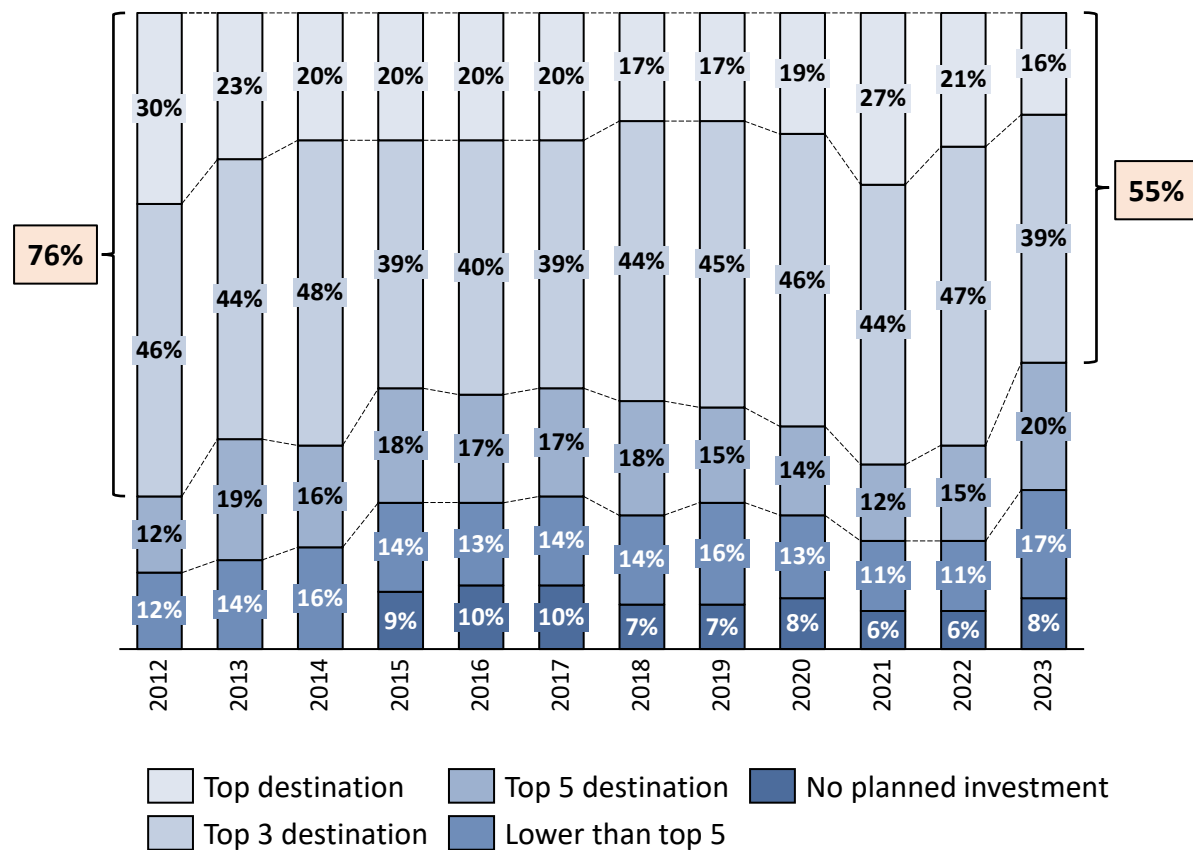
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Business attitude: European business interests remain strongly tied to China, but calculus now more complex

Business' appetite to invest in China still robust, but shrinking...

Where China ranks among EUCCC member's top future investment destinations



Source: EUCCC Business Confidence Survey (BCS) 2023

...with intent to balance opportunities, risks and commercial dependence

- **Opportunity:** China remains a key growth driver for many EU companies
 - According to the European Chamber of Commerce in China (EUCCC), between 2016-2023, on average **half of member companies** (N=499+) reported an **annual revenue growth rate in China above 5%**
 - One in seven EUCCC companies reported an **annual growth rate of above 20%**
- **Risk:** In the wake of the Covid and Ukraine crises, some European companies have decided to relocate some of their supply chains away from China, largely to de-risk them and strengthen their resilience
 - According to the EUCCC 2023 BCS, **11% of EUCCC members** reported to have already taken the decision to **shift current investments in China to other markets**
- **Commercial dependence:** In 2022, major publicly listed European companies reported an average revenue share of ~11% in China
 - **Some of these European companies reported a high dependence of up over 20% of total revenue** in China - these are mostly in the automotive, aerospace and semiconductor sectors
 - e.g. BMW generated 29.4% and semiconductor companies NXP (NL) and Infineon (DE) even 35.6% and 28.6% of revenues in China



Business attitude: recent business sentiment surveys confirm localization and diversification trends

Economic worries dominate, followed by geopolitical challenges...

Top ranking business challenges amongst EUCCC members

	2018	2019	2020	2021	2022	2023
1	Chinese economic slowdown	Chinese economic slowdown	Chinese economic slowdown	COVID-19	COVID-19	Chinese economic slowdown
2	Ambiguous rules & regulations	Global economic slowdown	US-China trade war	Global economic slowdown	Chinese economic slowdown	Global economic slowdown
3	Global economic slowdown	US-China trade war	Global economic slowdown	US-China trade war	Global economic slowdown	US-China trade war
4	Rising labour costs	Rising labour costs	Rising labour costs	Ambiguous rules & regulations	Rising raw material / commodity prices	COVID-19
5	Competition from CN POEs	Ambiguous rules & regulations	Ambiguous rules & regulations	Rising labour costs	Rising labour costs	Decoupling

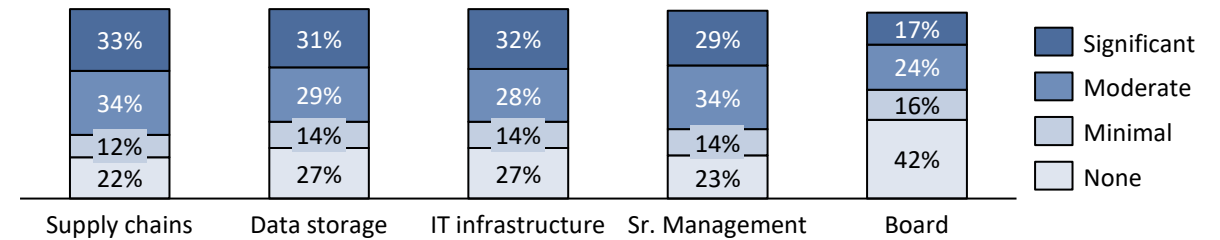
Source: EUCCC Business Confidence Surveys 2018-2023

Notes: FIE = Foreign Invested Enterprise; POEs = Privately-owned Enterprises

...prompting two broad mitigation strategies to enhance resilience

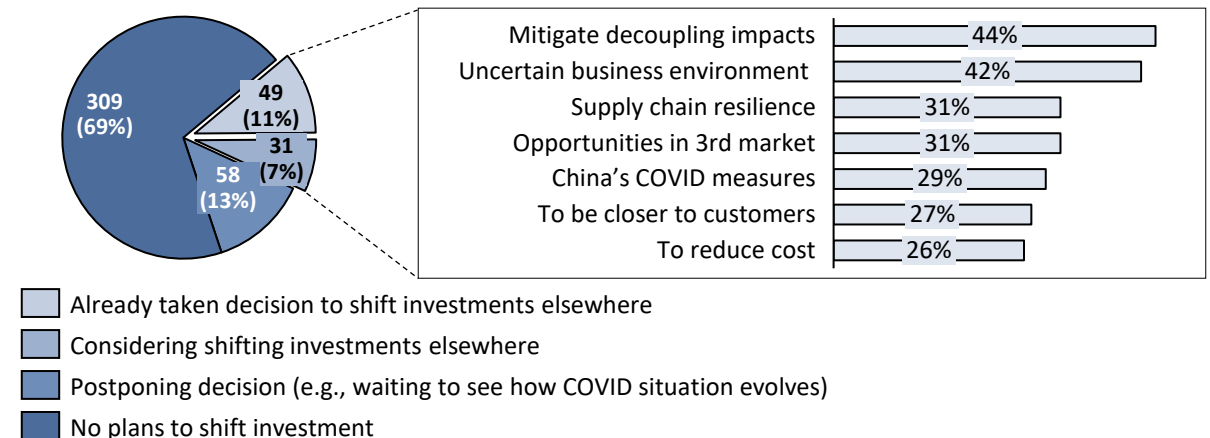
1. Localization: Majority of companies insulating China operations and supply chains

Extent of localization in EUCCC member's China operations between 2018 and 2023:



2. Diversification: 11% reporting shift of investment to mitigate decoupling & uncertainty

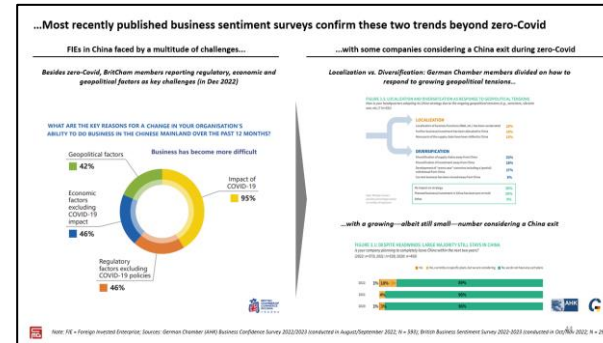
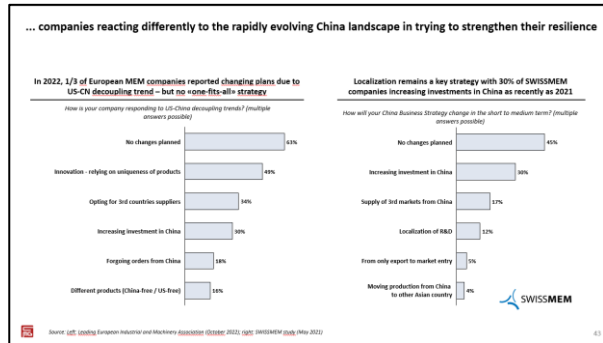
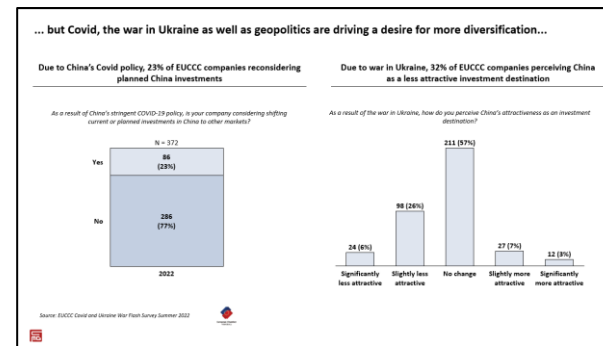
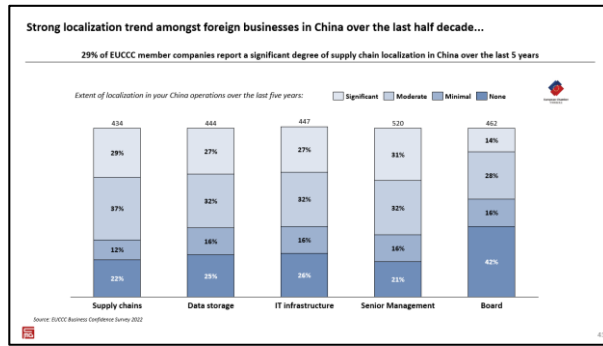
Number and reason of EUCCC member shifting current China investments to other markets:



Business attitude: from exports to more localized operations to better “insulate” China business

Key points

- Strong **localization trend** amongst foreign businesses in China over the last half decade...
- ... but Covid, the war in Ukraine as well as geopolitics are driving a desire for more **diversification**...
- ... **companies reacting differently** to the rapidly evolving China landscape in trying to strengthen their resilience
- ...most recently published business sentiment surveys confirm these two trends beyond zero-Covid
- ...showing that European **exports** to China may be **replaced** with on-the-ground production (FDI), and China used as **export platform** towards APAC
- ...raising **fears** in Europe about loss of **competitiveness** and **national security** (dual use) due to the expected technology diffusion in China’s state-led system



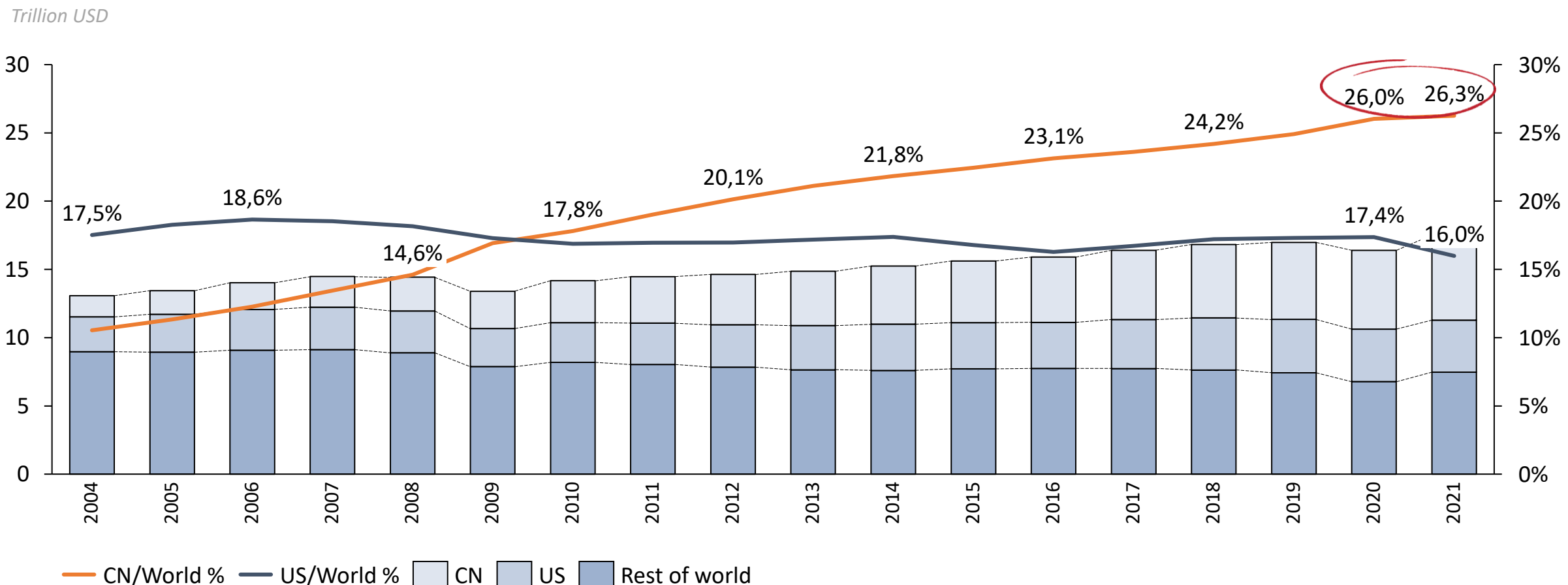
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- 3** Key geopolitical factors 15'
 - China's foreign policy (vision)
 - Ukraine war
 - "Taiwan issue"
 - Sino-Swiss relationship
- 4** Evolving foreign business sentiment 5'
- 5** **Conclusions for Swiss business** 5'

China centrality: China is largest manufacturing hub since 2010 contributing ~1/4 of global industrial output

China's share of global industrial value-added at 26%

Total value added in industry, China vs Rest of world (2004-2021)



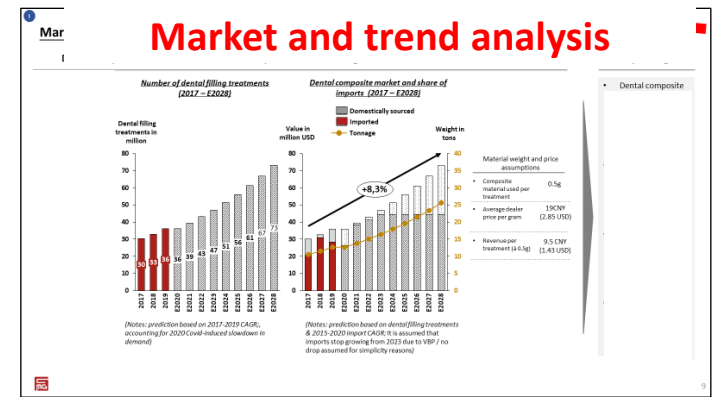
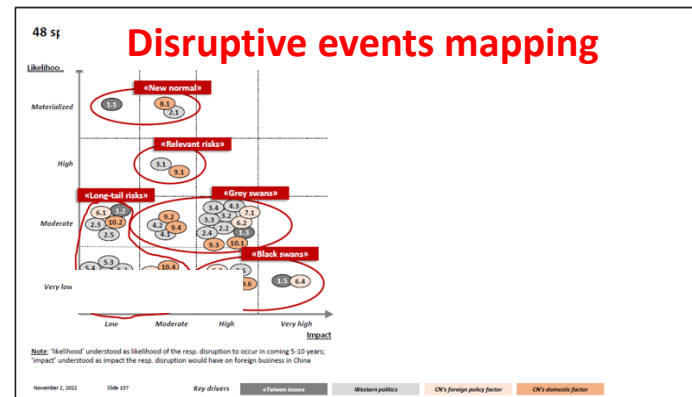
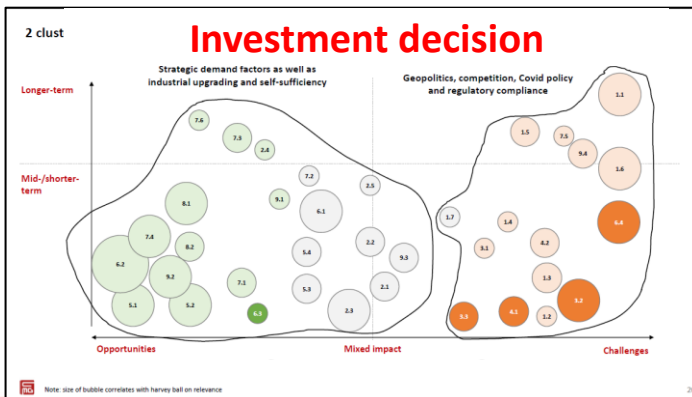
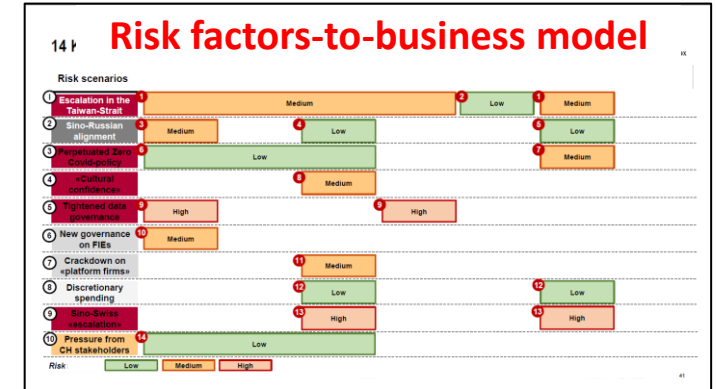
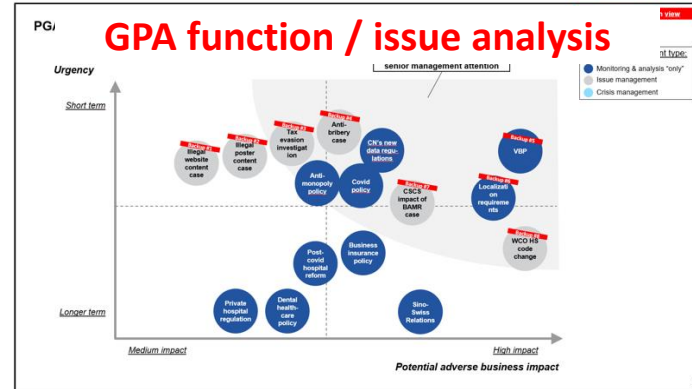
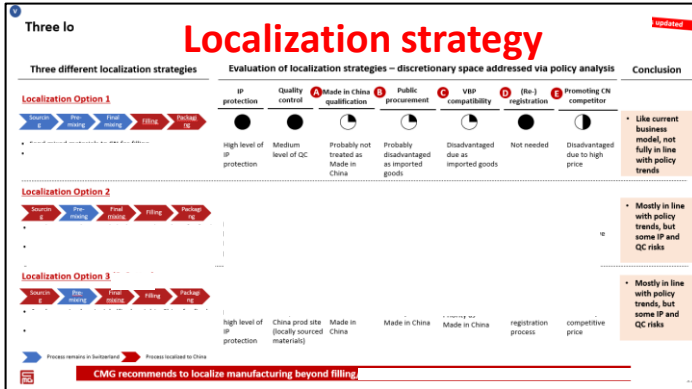
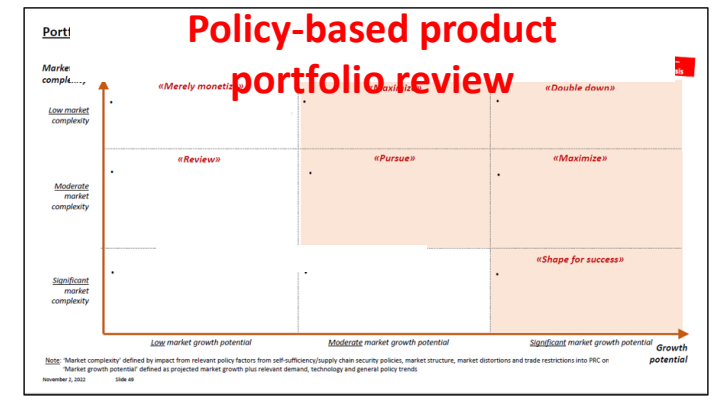
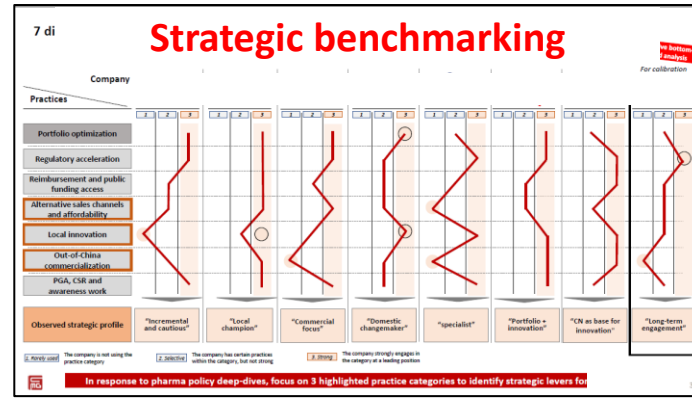
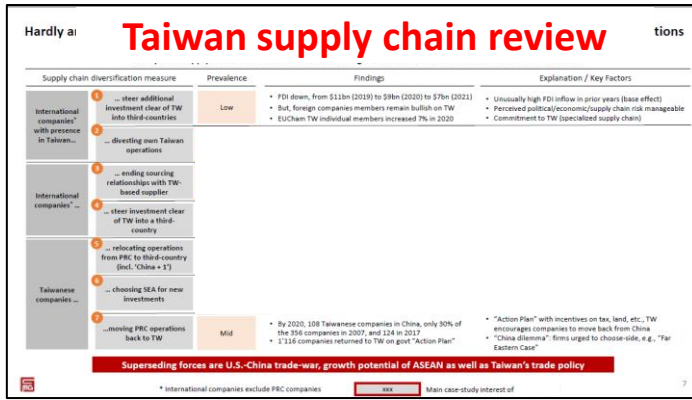
Scenario framework: High-level “China scenario” characteristics along key geopolitical and domestic factors

Key geopolitical factors	<i>Geopolitical escalation / conflict</i>	<i>Non-favorable external environment / geopolitical tensions</i>	<i>Favorable external environment / geopolitical de-escalation</i>
<u>Key domestic factors</u>			
<i>Governance «overstretch» and/or economic stagnation</i>	<p>«Regime crisis»</p> <ul style="list-style-type: none"> • Escalation in TW-strait, or equivalent disruption • Faltering economy due to Western sanctions • Parallel governance/control rigidification causes legitimacy crisis 	<p>«Economic stagnation»</p> <p><i>Deviation scenario – «economy»</i></p> <ul style="list-style-type: none"> • Governance stifling of private sector and entrepreneurship • Slowed down tech catch-up, hit by US export controls • Growth deceleration 	
<i>Ideological socialist governance, self-sufficiency policy and popular support for policy trajectory</i>	<p>«Decoupling from West»</p> <p><i>Deviation scenario – «geopolitics»</i></p> <ul style="list-style-type: none"> • Escalation in TW-strait, or equivalent disruption • Western sanctions, but no economic collapse • China accelerates its decoupling from “West” 	<p>«Dual Circulation»</p> <p><i>Base scenario – as per 14th FYP</i></p> <ul style="list-style-type: none"> • US inflicts partial decoupling on China • China with self-sufficiency and industrial policies • New economic normal 	<p>«Regional hegemony»</p> <ul style="list-style-type: none"> • US’ Indo-Pacific campaign fails/recedes • China as center of APAC trade and supply chains • Multidimensional connectivity established
<i>Liberal/pragmatic governance and/or self-sufficiency achieved</i>	<p>«Regime renewal»</p> <ul style="list-style-type: none"> • Escalation in TW-strait, or equivalent disruption • Faltering economy due to Western sanctions • Leadership renewal from within China’s political elite 	<p>«Gravitational economy»</p> <ul style="list-style-type: none"> • US-China following a “managed” competition • Self-sufficient with indigenous innovation • Opening-up to make China center of global economy 	<p>«Re-globalization»</p> <ul style="list-style-type: none"> • CN successfully avoids middle-income trap • Rapprochement with US • Re-convergence on global trade rules • China part of high-standard FTAs/RTAs

Conclusions for Swiss business

- Socialist market economy
- Policy impacts
 - Growth, competitive pressure, business model
- Growth
 - 26% of global industrial value-added
 - Lagging in digitalization, vocation talents, energy efficiency, weak SMEs, etc.
- Strategy adjustments?
 - HQ vs. subsidiary
 - E.g. localization, partnerships?
- Risk analysis
- Resilience?
 - More proactive stakeholder engagement in China vs. at HQ, e.g. Gov. Affairs, Corp. Communication, investor relations
- Key corporate success factor
 - Aligned beliefs and understanding about Chinese market

References: referential client work of CMG in analysis for European business' growth and resilience



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