

# China Outlook

9 November 2022



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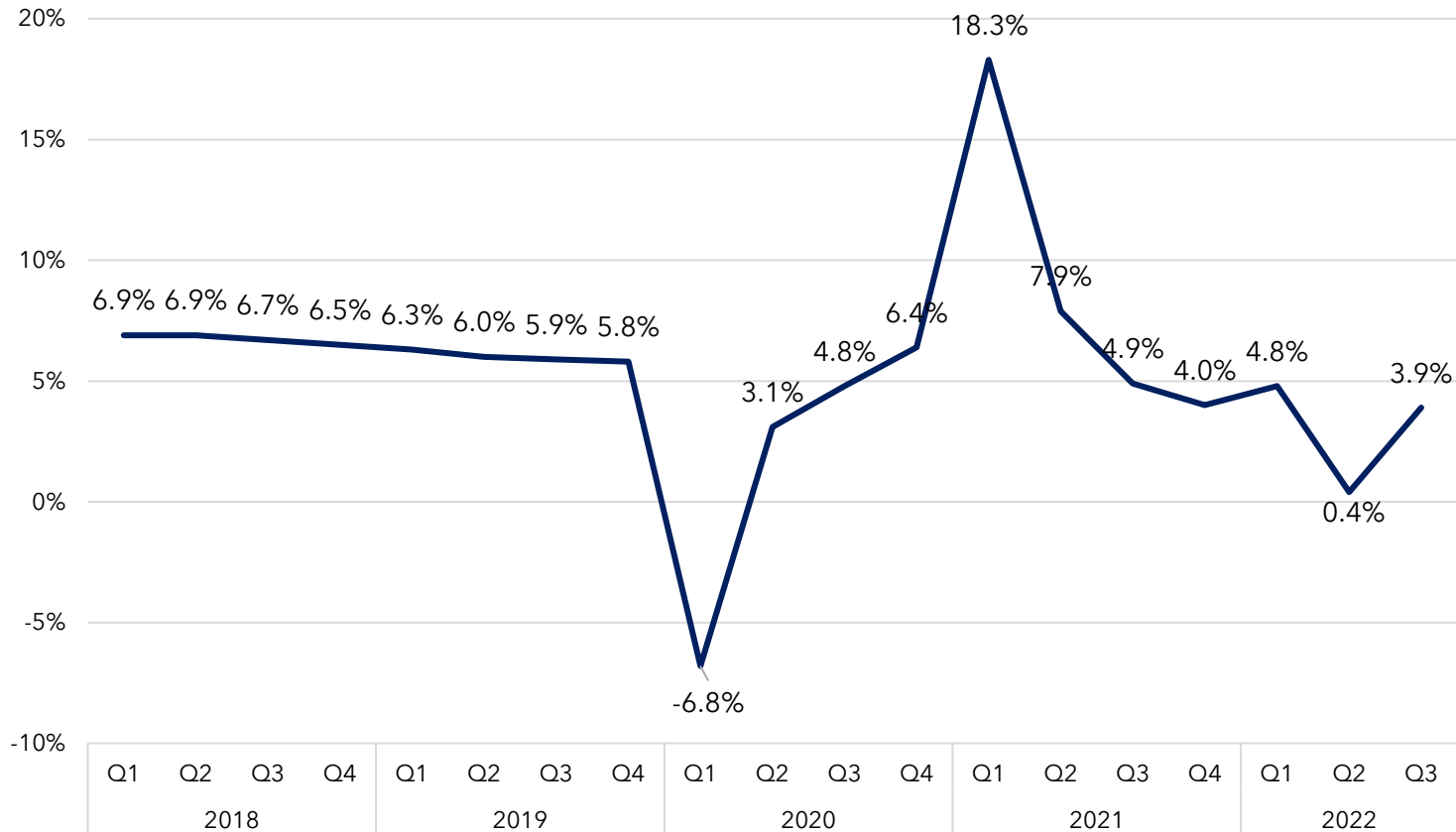
Alfredo Montufar-Helu  
Head of the China Center for Economics and Business  
The Conference Board  
[Read Bio](#)



Gwenn Sonck  
Sinologist, Executive Director  
Flanders-China Chamber of Commerce

# China's growth has slowed down sharply. . .

## China's real GDP growth, YoY



Sources: CEIC

China's growth has been on a declining trend since the start of the year as a result of mounting headwinds, including:

- Continued market uncertainty due to the government's pursuit of 'dynamic Zero-COVID,' which is negatively impacting industrial activity, transportation and logistics, and domestic consumption;
- The ongoing property downturn, which has effectively eroded one of the country's key growth drivers, and is affecting upstream industrial activity and important consumer spending categories;
- The global economic slowdown, which is leading to a moderation of external demand for China-made products.

**We currently forecast that China will grow 3.3% in 2022 and 5.1% in 2023.**

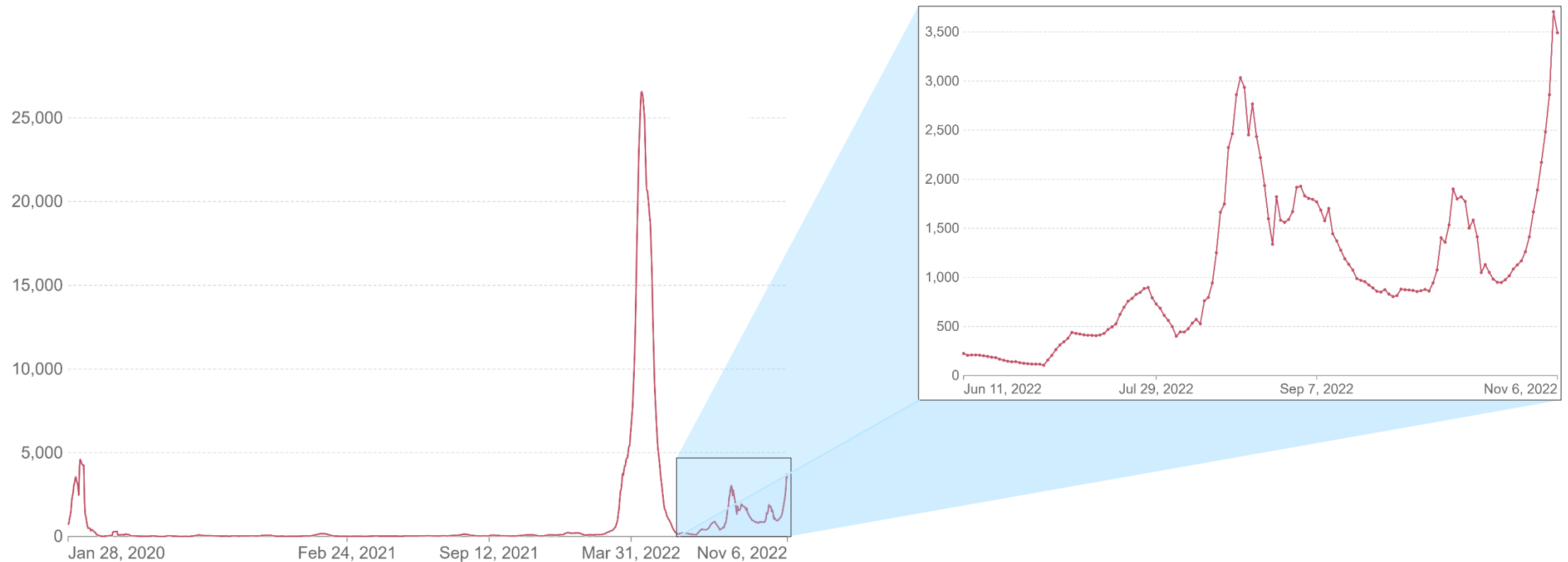


...with mounting headwinds dragging down its growth prospects. . .

## COVID-19-led disruption is set to continue

### Daily new confirmed COVID-19 cases in China

7-day rolling average. Due to limited testing, the number of confirmed cases is lower than the true number of infections.



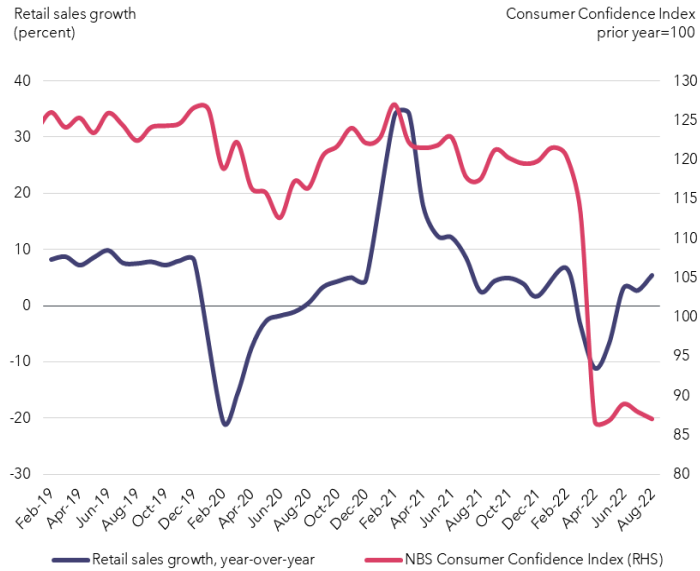
Sources: Our World in Data, Johns Hopkins University CSSE COVID-19 Data



# ...with mounting headwinds dragging down its growth prospects...

**Weakness in consumer and investor confidence will persist in the short- to medium-term**

**China's retail sales vs consumer confidence**



Sources: NBS, CEIC, The Conference Board

**The ongoing property downturn has deprived China from one of its key growth drivers**

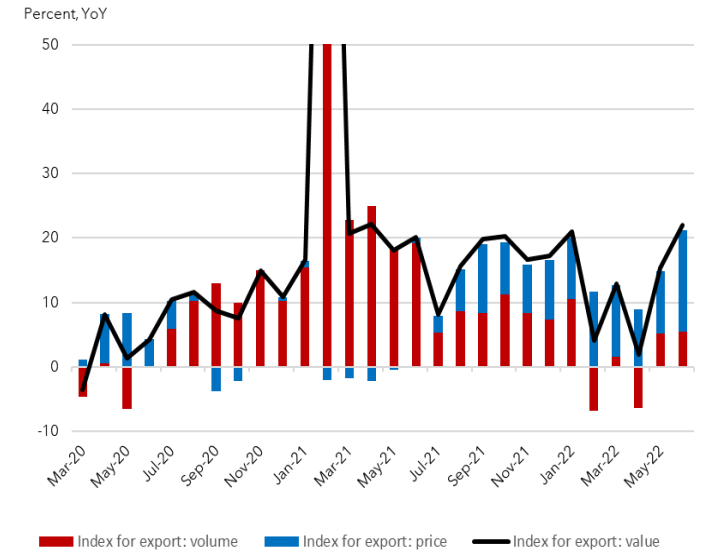
**Real estate sector, key indicators**



Sources: NBS, CEIC, The Conference Board

**Falling external demand due to global growth slowdown erodes another key growth driver**

**China's exports: volume vs value**



Sources: GAC, CEIC, The Conference Board



# ...against the backdrop of a more challenging external environment

**Large majorities continue to hold unfavorable view of China**  
*% who have an **unfavorable** opinion of China*

■ Most unfavorable    ■ Least unfavorable

	'02	'05	'06	'07	'08	'09	'10	'11	'12	'13	'14	'15	'16	'17	'18	'19	'20	'21	'22	
	%	%	%	%	%	%	%	%	%	%	%	%	%	%	%	%	%	%	%	%
U.S.	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	79	76	82	
Canada	-	27	-	37	-	36	-	-	-	45	-	48	40	40	45	67	73	73	74	
Sweden	-	-	-	40	-	-	-	-	-	-	-	-	59	49	52	70	85	80	83	
Netherlands	-	34	-	-	-	-	-	-	-	-	-	-	43	42	45	58	73	72	75	
Germany	-	37	33	54	68	63	61	59	67	64	64	60	60	53	54	56	71	71	74	
UK	-	16	14	27	36	29	35	26	35	31	38	37	44	37	35	55	74	63	69	
France	-	42	41	51	72	60	59	49	60	58	53	49	61	52	54	62	70	66	68	
Italy	-	-	-	61	-	-	-	-	64	62	70	57	61	59	60	57	62	60	64	
Spain	-	21	38	43	56	41	38	39	46	47	55	50	56	43	48	53	63	57	63	
Belgium	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	71	67	61	
Poland	-	34	-	42	54	41	41	32	41	43	52	44	42	29	37	34	-	-	55	
Hungary	-	-	-	-	-	-	-	-	-	-	-	-	44	45	47	37	-	-	52	
Greece	-	-	-	-	-	-	-	-	38	37	46	-	37	40	48	32	-	42	50	
Israel	-	-	-	45	-	37	-	46	-	60	50	42	-	43	42	25	-	-	46	
Japan	42	-	71	67	84	69	69	61	84	93	91	89	86	83	78	85	86	88	87	
Australia	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	87	85	86	
South Korea	31	-	-	42	49	54	56	-	-	50	42	37	-	61	60	63	75	77	80	
Malaysia	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	39	
Singapore	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	34	34	

Note: Prior to 2020, U.S. and Australia surveys were conducted by phone. See topline for results.  
 Source: Spring 2022 Global Attitudes Survey, Q5b.  
 "Negative Views of China Tied to Critical Views of Its Policies on Human Rights"

PEW RESEARCH CENTER

“The PRC presents America’s most consequential geopolitical challenge. . .

We will prioritize maintaining an enduring competitive edge over the PRC. . .

[It] is the only competitor with both the intent to reshape the international order and, increasingly, the economic, diplomatic, military, and technological power to do it. . .”

**US 2022 National Security Strategy**

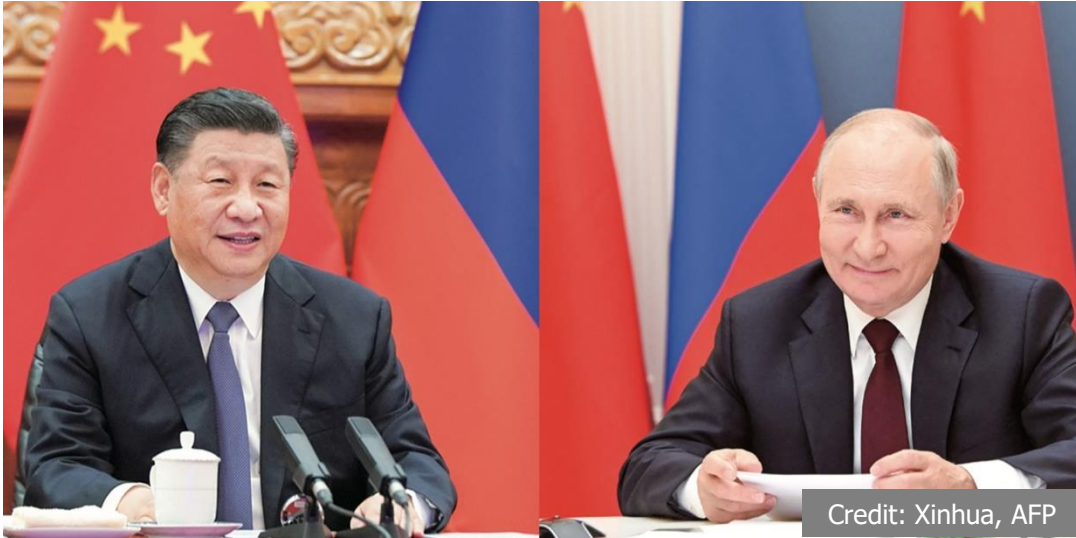
“We will work together responsibly, as Allies, to address the systemic challenges posed by the PRC to Euro-Atlantic security . . . We will boost our shared awareness, enhance our resilience and preparedness, and protect against the PRC’s coercive tactics and efforts to divide the Alliance.”

**NATO 2022 Strategic Concept**





## . . .against the backdrop of a more challenging external environment



“Russia is the country that I have visited the most times, and President Putin is my best friend and colleague.”

**President Xi Jinping, 2019**

“My friend – and I have every reason to call him a friend – President of the People's Republic of China Xi Jinping and I continuously consult each other on what and how things need to be done. . .”

**President Vladimir Putin, 2020**

- **China is not likely to abandon Russia:** their strategic alliance has grown in importance against the backdrop of an increasingly adverse external environment.
- It must, however, be emphasized that **China does not have a military alliance with Russia. Their ‘no limits’ friendship is constrained by their need to maintain strategic flexibility and autonomy of action.**
- Both aim to facilitate a global environment that supports the survival, legitimacy and stability of their respective regimes, but they go about this differently:
  - ✓ China recognizes the benefits of participating in the international rules-based system that was built following WWII, including with respect to maintaining stability and predictability. But it seeks to shape it to accommodate its interests and growing influence.
  - ✓ Russia, on the other hand, seeks to disrupt this system, as it believes it has harmed its development and undermined its security.
- China continues to tread carefully in balancing its relations with Russia and interests elsewhere. While in public it has a pro-Russian stance, so far it has remained neutral in the more substantive moves.
- **But the conflict has complicated the geopolitical landscape for China,** as it has clearly united the West; shown the magnitude and intensity of sanctions Western governments can take; and has made small powers more fearful of large ones, and exacerbated nationalism.

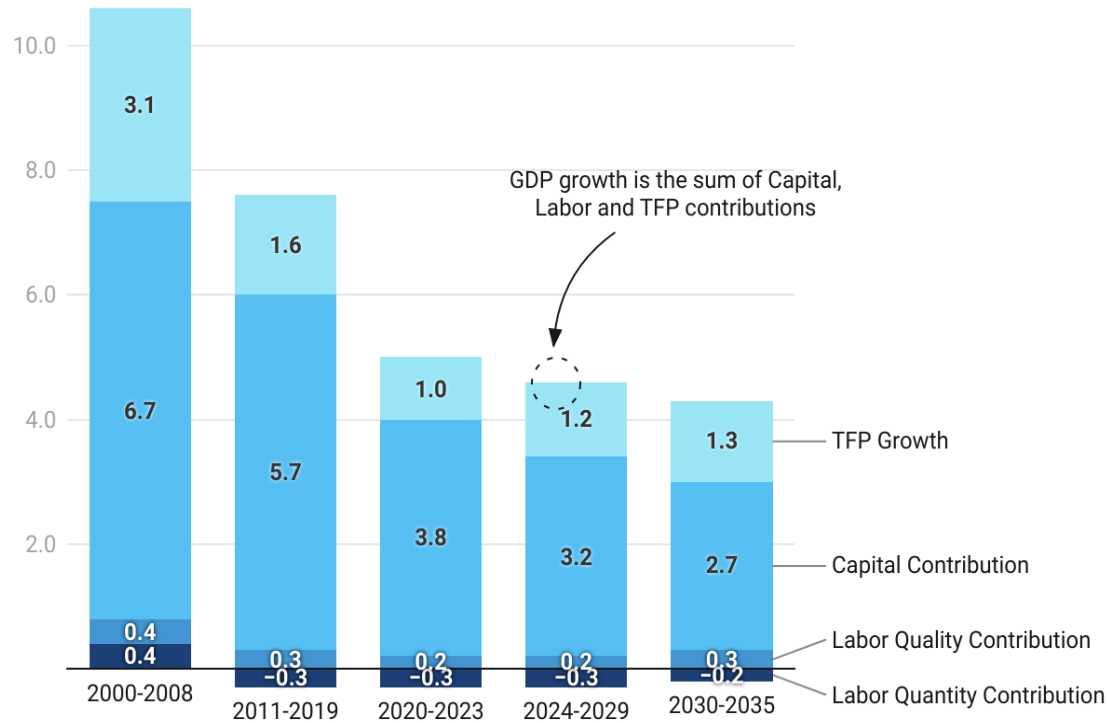




# This is complicating and already complex restructuring process

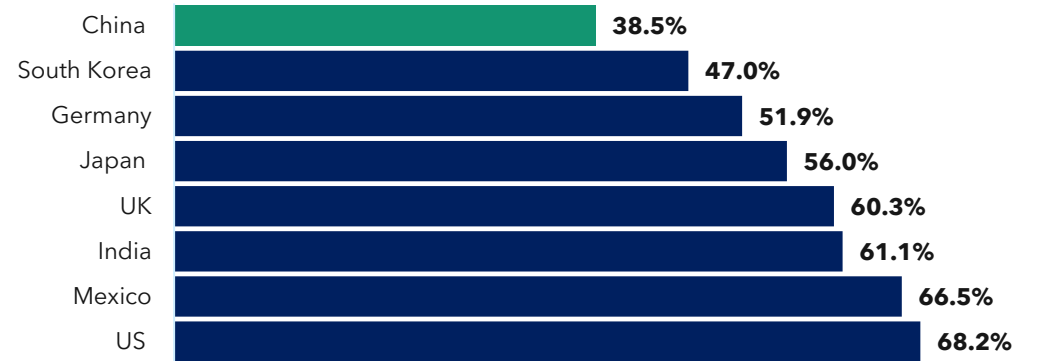
## GDP growth projected to moderate in the coming decade due to slowing capital and labor contributions

Contribution of factor inputs and efficiency changes to China GDP growth (average annual % change)



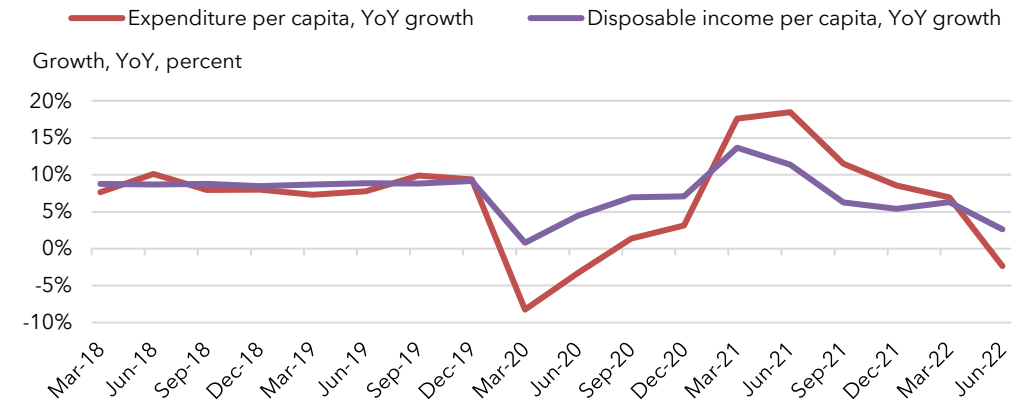
Source: The Conference Board Global Economic Outlook 2023 · Created with Datawrapper

## Private consumption to GDP ratio



Sources: CEIC

## China's disposable income vs expenditure

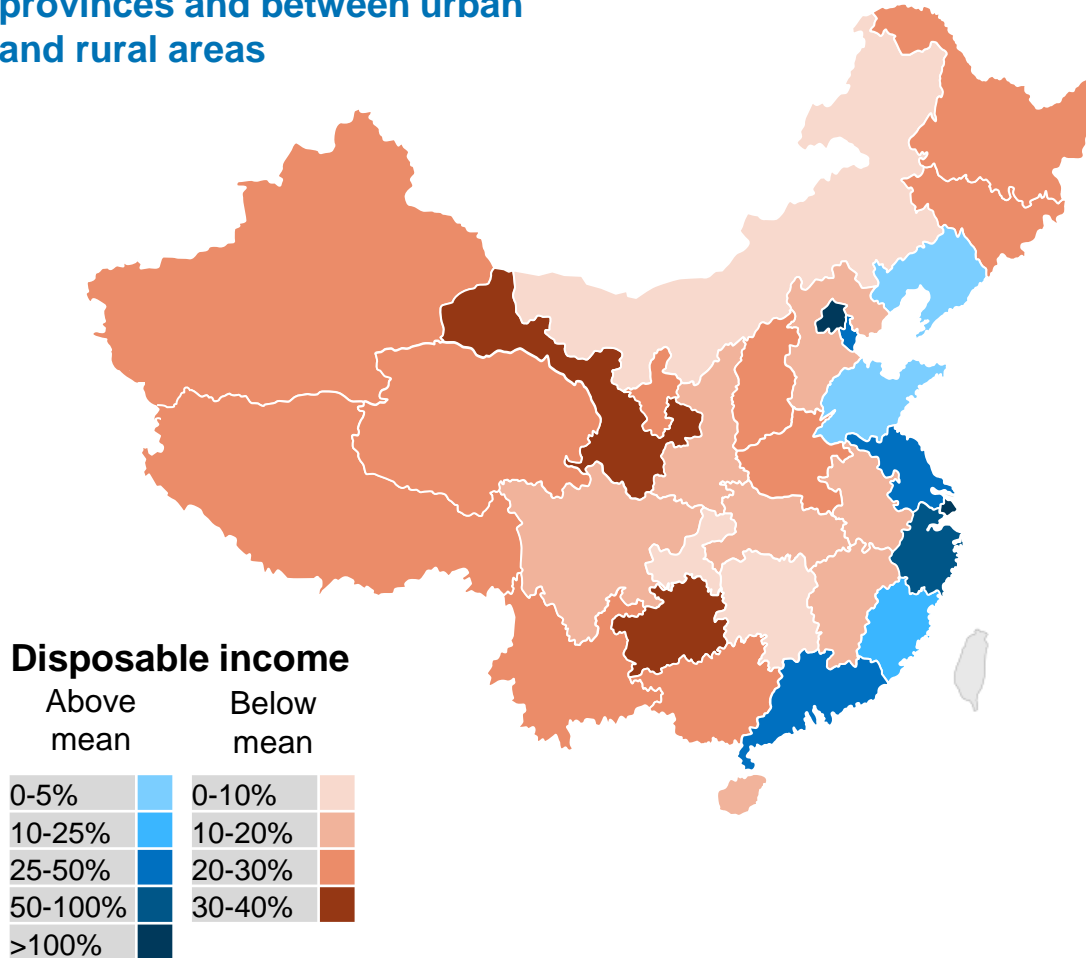


Sources: NBS, CEIC, The Conference Board



# This is complicating and already complex restructuring process

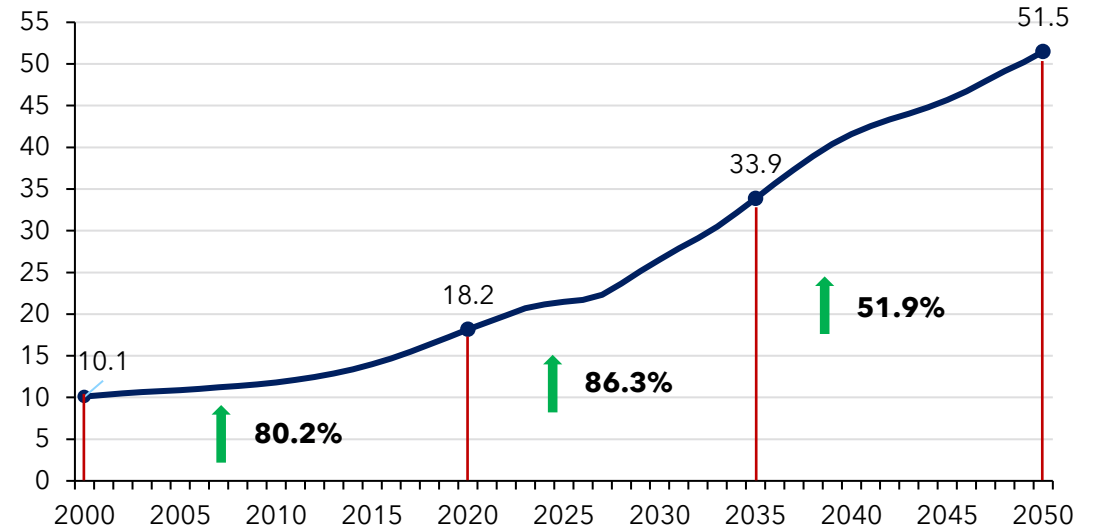
Income levels vary widely across provinces and between urban and rural areas



Source: NBS, CEIC

China is undergoing one of the fastest shifts to an aged society the world has seen, with a GDP/capita below the global average

China's elder dependency ratio



	2020	2030	2040	2050
Total population (bn)	1.41	1.42	1.38	1.31
Aged 65+ (%)	12.6	18.2	26.2	30.1

Source: NBS, UN World Population Prospects



# As a result, China faces a new development paradigm

China's development *imperative* is to transition to a high value-added economy and achieve the goals outlined under 'Xi Jinping Thought', to which end it needs to increase its *resilience* to global volatility and make development more *sustainable* and *inclusive*

## 'Xi Jinping Thought'

### Guiding principle for CPC and government action

**2020-35** China to "basically achieve modernization" by increasing its technological and economic strengths and become a global innovation leader

**2035-50** China to become a 'great modern socialist country' and a global leader in terms of overall national strength = "national rejuvenation"

### 'Dual Circulation' Strategy

Make the domestic economy the main driver of growth, including by diminishing import dependency in, as well as further localizing and strengthening resilience of critical supply chains.

### 'Common Prosperity'

Reduce income and wealth inequality and improve social mobility; address imbalances in and improve quality and accessibility of public services; abolish unfair industry practices



# Implications from the 20<sup>th</sup> National Party Congress of the CPC

## Work Report delivered at the 20<sup>th</sup> NPC

**Hold High the Great Banner of Socialism with Chinese Characteristics and Strive in Unity to Build a Modern Socialist Country in All Respects**

*Report to the 20th National Congress of the Communist Party of China  
October 16, 2022*

**Xi Jinping**

**Xi Jinping's position as the 'core' of the CPC is now part of the Party's ideological guidelines**

*"Article 3: Party members must fulfill the following obligations. . .*

*. . . uphold Comrade Xi Jinping's core position on the Party Central Committee and in the Party as a whole and uphold the Central Committee's authority and its centralized, unified leadership. . ."*

- **No longer 'first among equals,' rather 'the core and the the rest.'** Xi Jinping has emerged stronger, not only in terms of his position at the helm of the CPC and the government, but also in terms of defining the direction that China will take across all strategic directions. He stands at an equal level to Mao and Deng, and will guide China through a "New Era."
- **Strong affirmation of national interests** against the backdrop of what the government regards as an increasingly antagonistic external environment, including 'red line' issues around sovereignty and the indivisibility of China. **National security, across all dimensions, is paramount.**
- **Long-term objective of "national rejuvenation" is reaffirmed, and this will have clear global repercussions:** "we will continue to work hard and build China into a great modern socialist country that leads the world in terms of composite national strength and international influence by the middle of the century."
- **Work report reiterates that high-quality development is the top priority of the CPC.** The public sector – including SOEs – will play a leading role in this, but so will POEs. Still, the country's economic structure is heavily biased to favor SOEs, and reforms will be needed to enable the private sector to reach its potential.
- **Innovation, technology and science are critical priorities**, but challenges are increasing due to recent policy moves by the US.
- **'Dual circulation' was enshrined in the Party Charter**, signaling that push to achieve self-reliance will intensify.
- **'Common prosperity' was also enshrined in the Party Charter.** It will lead to expansion of middle class in long-term. But expect regulatory disruption in the short- to medium-term, especially in industries with poor labor practices and low tax contributions.



# China's development priorities going forward

## 'Xi Jinping Thought'

### Supply-side reform

- Improve supply of goods and services
- Address economic imbalances
- Cut overcapacity, reduce excess inventories, reduce financial risks

### Demand-side reform

- Boost amount and quality of consumption
- Improve income and wealth distribution
- Improve social security, pension and insurance systems, hukou system

### Regional development

- Promote urbanization and shifting of production capacity inland
- Undertake major infrastructure projects to increase connectivity and deliver positive economic spillovers

### Sustainability

- Peak carbon by 2030, carbon neutral by 2060
- Improve the efficiency of energy use
- Improve water conservancy

### Innovation

- Leverage emerging tech to drive productivity dividends
- Up indigenous innovation capabilities
- Dual use technology

### Opening-up

- Attract foreign capital, tech, expertise, products; and adopt int'l best practices and standards to advance national development goals

### National security

- With respect to tech, energy, food, water, infrastructure
- Secure critical aspects of supply chains
- Boost military capabilities

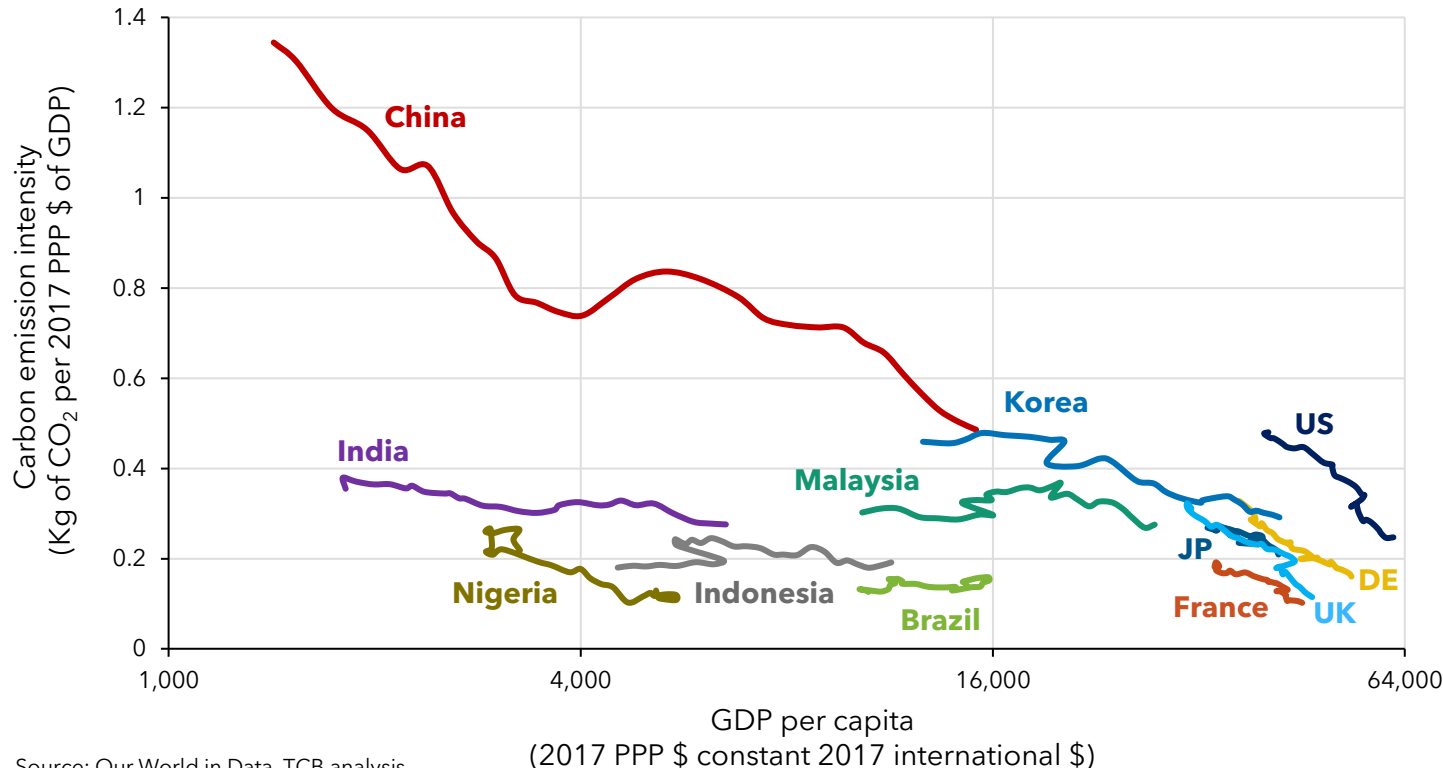
## 'Common Prosperity Initiative'

## 'Dual Circulation' Strategy

# China's path to 'national rejuvenation' faces significant challenges

It is precisely in contributing to surmount these challenges that the opportunity for FDI lies in, and *especially* in down-market periods of reduced financial and fiscal capacity

## Carbon emission intensity vs GDP/capita (1990-2018)



Source: Our World in Data, TCB analysis

Estimates suggest that achieving China's goal of becoming carbon neutral by 2060 will require over RMB 170 trillion in investment

- China has become more carbon efficient along its economic development process, with the amount of CO<sub>2</sub> its economy generates per US dollar (PPP) of output decreasing significantly since 1990.
- Despite this, China still lags other countries: China today is roughly where South Korea was in the 1990s





# What is China doing to attract FDI?

## Relevant policies

Foreign Investment Law

Negative List for Market Access (applies to all POEs)

Negative List for Foreign Investment Access

Negative List for Foreign Investment Access in FTZs

Catalogue of Encouraged Industries for FDI

Cross-border Trade Negative List

## On 25 October, the government released 15 measures to facilitate FDI

- **Focus: manufacturing and high-tech**, particularly: high-end equipment, essential and critical components, smart manufacturing, R&D centers, green and low-carbon tech
- Government to provide support in terms of land allocation, environmental impact assessments, planning and energy consumption
- Simplify entry requirements for senior executives, technical workers, and their families
- Support foreign firms to raise funds by listing in the domestic stock market and selling bonds
- Implement temporary waiver of withholding tax on FDI
- Promote high-quality manufacturing FDI in central, western and northeastern regions

## Examples of prohibited sectors for FDI

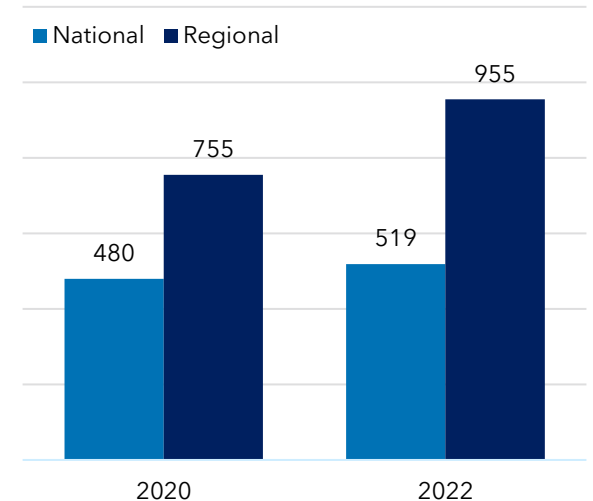
- Internet news information, publishing, video and audio programming services
- Editing, publishing and production of books, newspapers, periodicals, audiovisual recordings and e-publications
- Social survey service
- Compulsory education
- Artistic performance groups
- Development and application of diagnosis and treatment technologies relating to human stem cells and genes
- Domestic express mail services

\*\*\* FTZs Negative List has less prohibited areas

## Restricted sectors

- Currently there are 10 restricted industries
- Restrictions take the form of requirements around maximum shareholding percentage and nationality of legal representatives
- Chinese partners must hold controlling stakes in: (i) construction and operation of nuclear power plants; (ii) domestic water transport companies; (iii) public air transport companies (min. 75%); (iv) construction and operation of civil airports (not airport tower); value-add telecom services (100% foreign ownership is permitted in e-commerce)

## Encouraged sectors

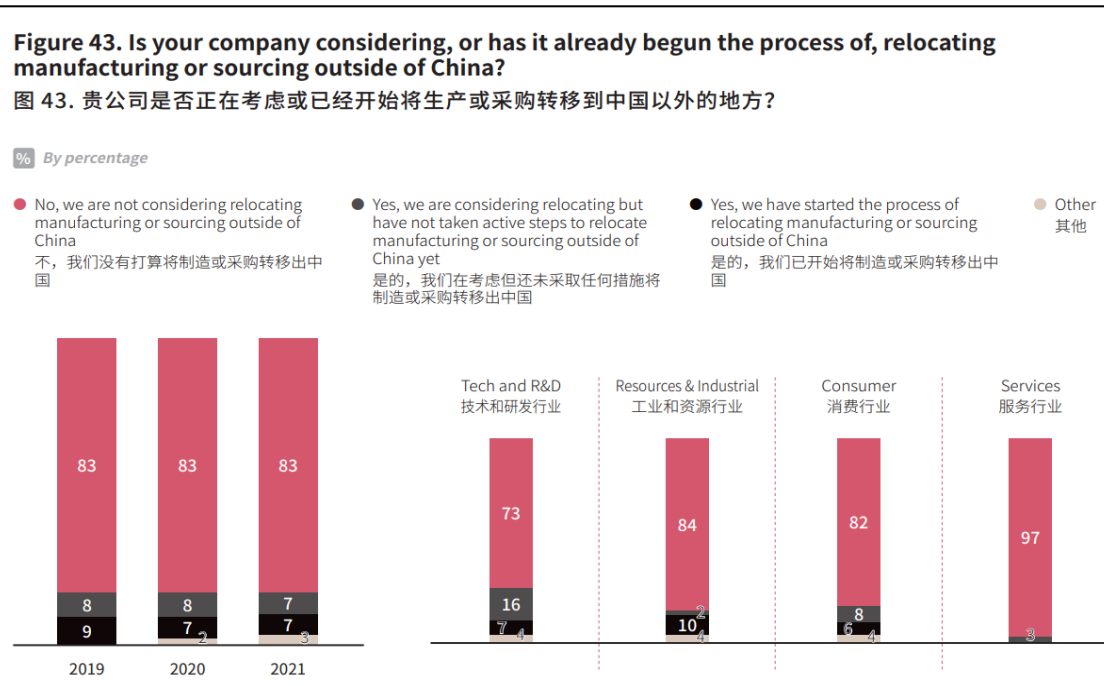


Source: NDRC

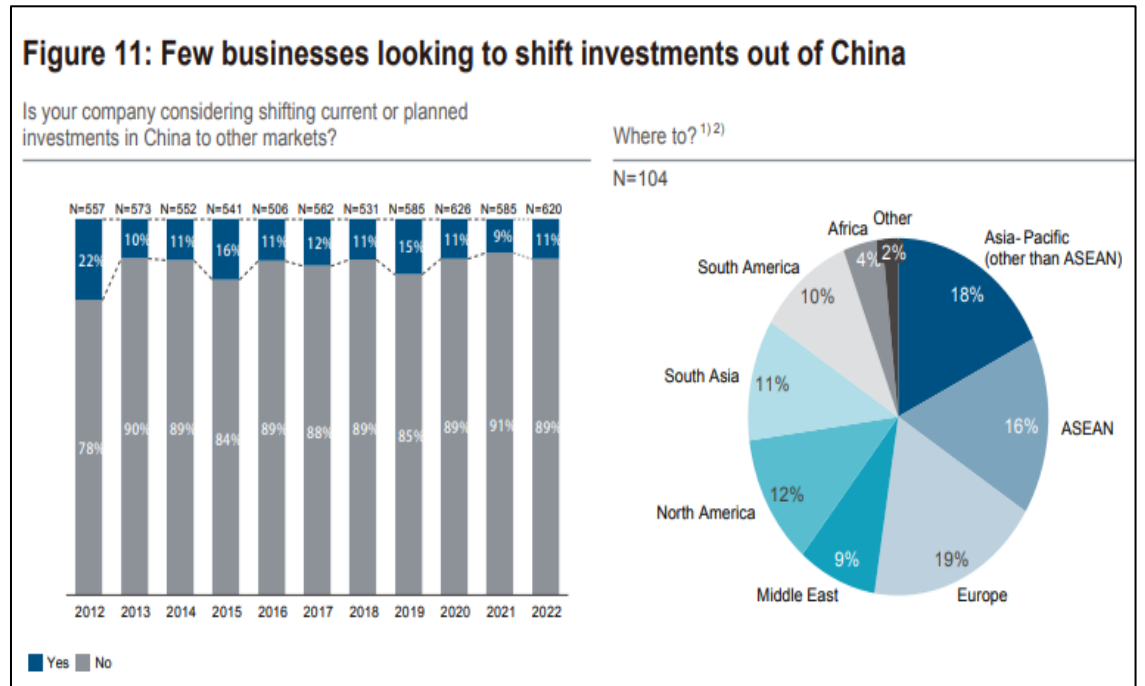


# Majority of MNCs continue committed to the Chinese market. . .

## AmCham China Business Climate Survey 2022



## EuCham China Business Confidence Survey 2022

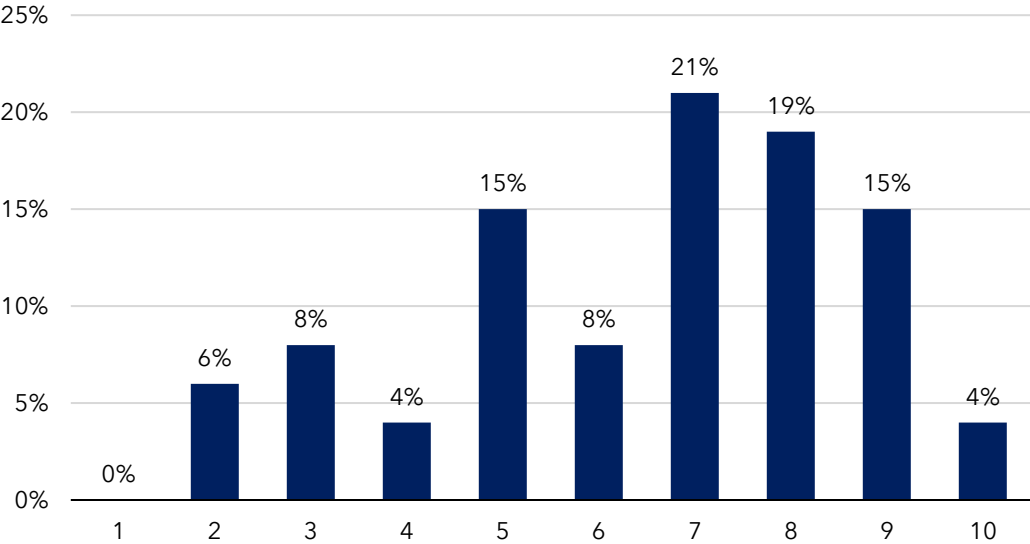


. . .but there is no doubt that China’s operating landscape has become more challenging, increasing the risks for MNCs to be caught in the crossfire. . .

## 1. Geopolitical and reputational risks rising in importance for strategy planning

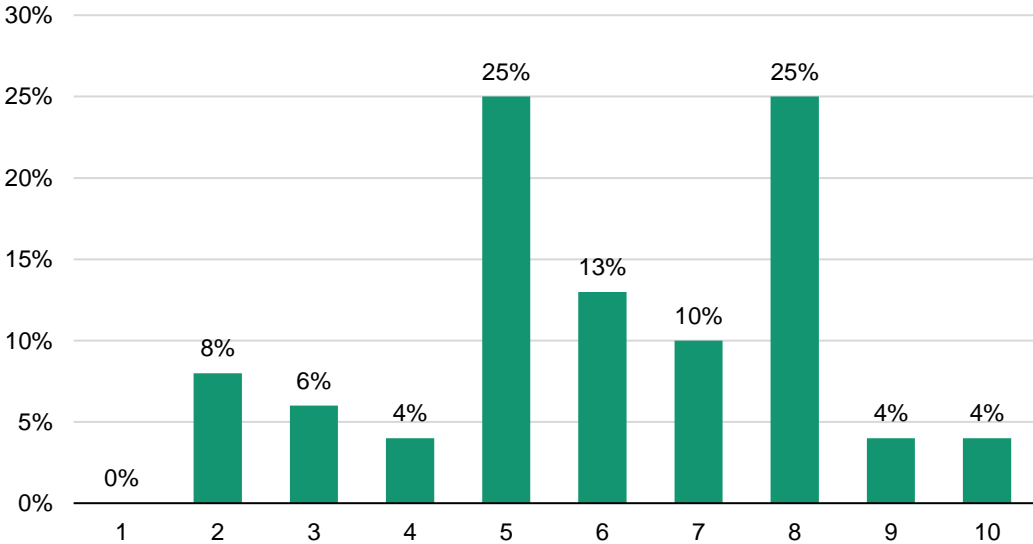
**At the present time, how much are geopolitical developments or concerns influencing the China business?**

(Rate 1 to 10; 1=not at all; 10=extremely so)



Source: China Center for Economics and Business, Poll to members attending DDE session on September 2022

**To what extent are Board/HQ reservations about geopolitical, public opinion, and/or reputational issues impacting China business now?** (Rate 1 to 10; 1=not at all; 10=extremely so)



Source: China Center for Economics and Business, Poll to members attending DDE session on September 2022



. . .but there is no doubt that China’s operating landscape has become more challenging, increasing the risks for MNCs to be caught in the crossfire. . .

## 2. Regulatory disruption



. . .but there is no doubt that China's operating landscape has become more challenging, increasing the risks for MNCs to be caught in the crossfire. . .

### 3. Increasing nationalism

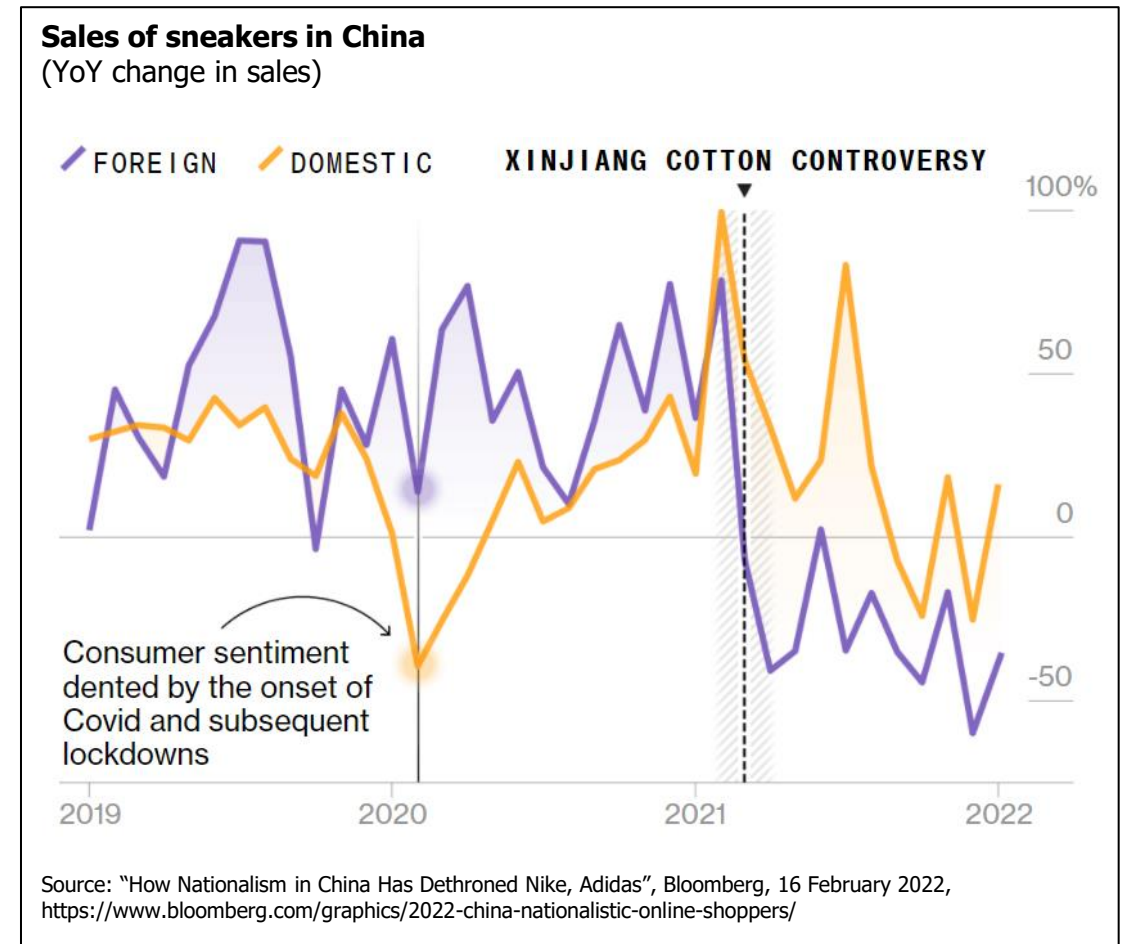
#### Backlash from society and State-backed associations/media against Canada Goose

**Weibo:** "Canada Goose can't escape the web of Chinese laws" #加拿大鹅不能飞出中国法律之网#

**Weibo:** "Who gives Canada Goose the confidence to be arrogant?" #谁给了加拿大鹅傲慢的底气#.

**China Consumers Association:** "If the brand sees itself as a big brand, and engages in double standards, and discriminates against mainland consumers, it will fail in this market."

**Economic Daily:** "The moon isn't rounder in foreign countries, and foreign down jackets aren't warmer."

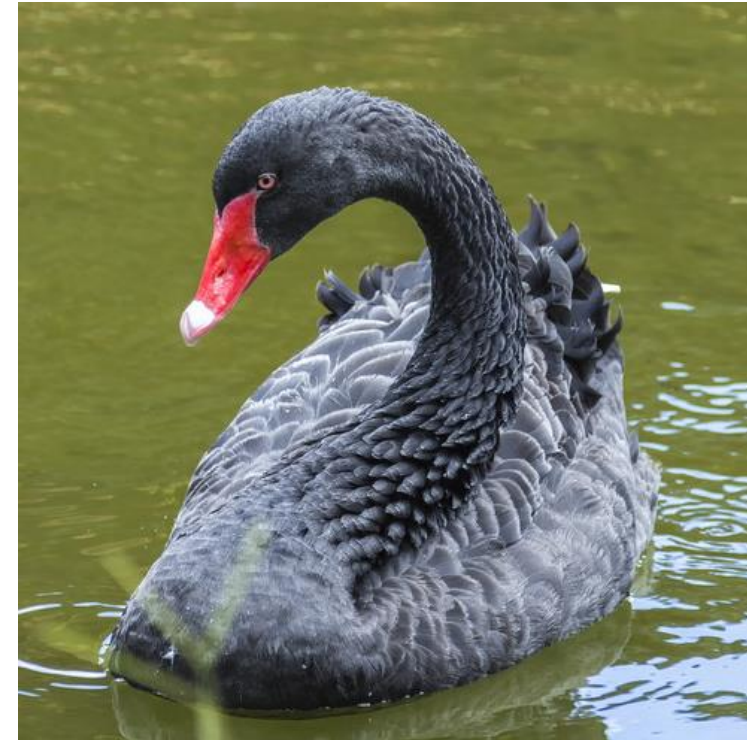




# ... and the risk of geopolitical 'gray swans' happening is increasing!



BEIJING, Aug. 2 (Xinhua) -- Xinhua News Agency is authorized on Tuesday to release the following notice: from 1200 (Beijing Time) August 4 to 1200 (Beijing Time) August 7, 2022, the Chinese People's Liberation Army will conduct important military exercises and training activities including live-fire drills in the following maritime areas and their air space



The term 'grey swan' describes a significant event whose occurrence can be predicted beforehand, but whose probability of happening is considered small (i.e. different from a 'black swan'). It is an unlikely risk which, if materialized, can have a significant material impact.





# Types of gray swans



## COMPANY SPECIFIC GRAY SWANS

### China-side:

- The emergence of another dangerous virus in China
- SCS military accident with Taiwan, Japan, Australia, India, Vietnam, Philippines...
- Forced sale of controlling stake of an American company in China under auspices of national security concerns

## GEOPOLITICAL GRAY SWANS

### US-side:

- Official USG statement of support for Taiwan re-designation or independence
- Reintroduction of FIRRMA outbound investment and commercial screening
- Sweeping ban on US visa issuance to Chinese nationals

### EU-side:

- Introduction of strict, restrictive inbound investment screening legislation
- NATO extends presence in Indo-Pacific
- EU invoked hard economic sanctions on China for human rights abuses in Hong Kong



# At this difficult juncture, strong internal alignment and comprehensive "risk-off" readiness are critical "get rights" ...

## Key Sources of Misalignment:

- ✓ Differing Risk Assessment
- ✓ Different Opportunity Evaluation Calculations
- ✓ Divergence, Autonomy and Control Concerns

**1. Proactively trust-build to enable requisite communications**

**2. Establish a shared "long view" on China**

**3. Commit to a higher level of risk monitoring and cross border, cross functional coordination**

- ✓ Cross border/cross functional scope
- ✓ Sufficient expert resources in DC, Brussels, China, and elsewhere for intel gathering and intervention
- ✓ Advanced risk monitoring processes and systems
- ✓ Cross functional teams: GR, corporate comms, legal, compliance...
- ✓ Game-planned scenarios
- ✓ Clarity on who makes final call on communications



# Key takeaways

## China continues presenting significant opportunities to foreign companies, but the operating landscape has become more challenging

- 1 If China is to successfully transition into a high value-added economy, it needs to boost consumption, and address a series of economic imbalances.** Foreign companies can play a significant role to addressing these challenges by contributing their capital, expertise, technologies and high-quality products.
- 2 A challenging external environment and a complex restructuring process at home are shaping China's development priorities.** National security concerns, considerations around domestic economic resilience, and the pursuit of sustainability and inclusiveness of development have risen in importance in the government's decision-making process
- 3 The implementation of 'Dual Circulation' does not mean that China will close its doors to the world.** Boosting the domestic economy can't simply be understood as increasing consumption. It is about raising economic productivity. This is an area where foreign firms have played a key role by contributing their capital, technologies, expertise and high-quality products
- 4 While Chinese authorities have been taking measures to further open-up and address the concerns of foreign investors, the reality is that the country's business landscape is facing increasing challenges** owing to the impact of Covid-19; rising geopolitical volatility and tensions with other countries; national security concerns; and disruptive regulations
- 5 This increases the risk of MNCs to be caught in the cross-fire** and fuels concerns that China might retaliate against foreign companies for actions done by the governments of their home countries and/or because of actions taken by these companies which are deemed as contrary to China's interests



**Thank you!**  
Any questions?

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9 November 2022



## Navigating the Economic Storm: Real-Time Solutions



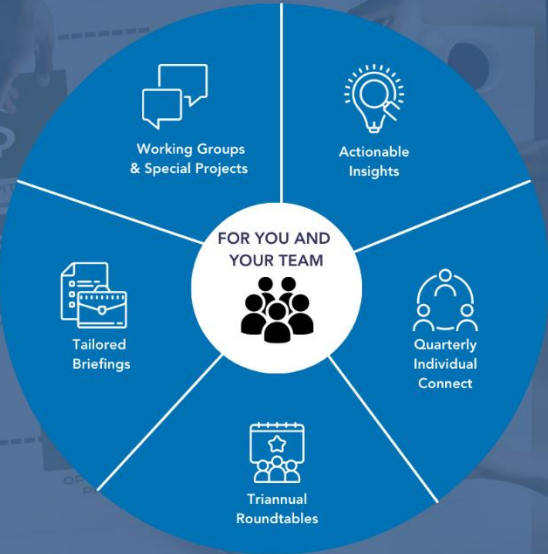
Join The Conference Board on **November 29** to explore the global economic outlook, the path forward for policy makers, and the strategies that businesses can implement to help weather the storm.

[Register for the free event here.](#)



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9 November 2022

