


BRIEFING

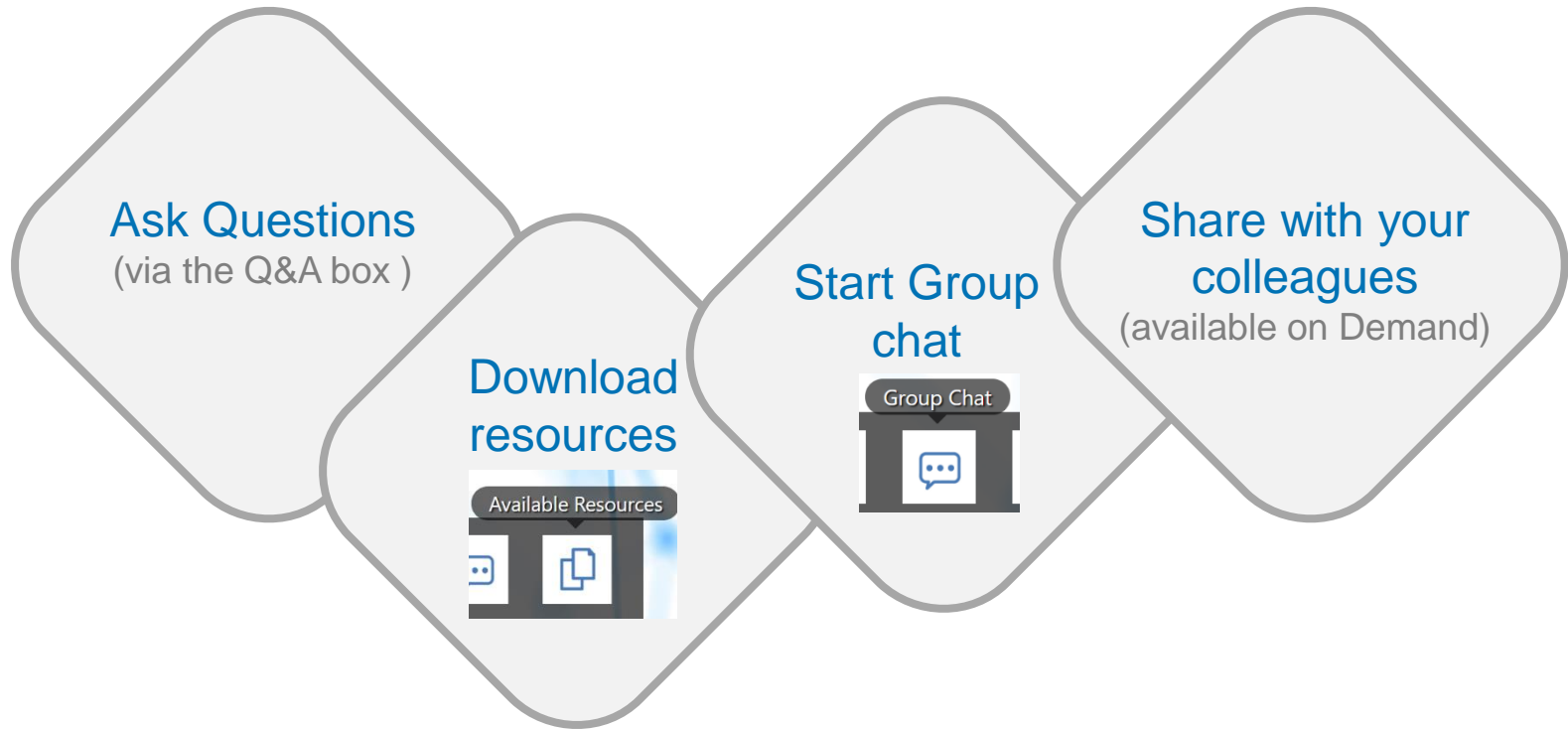
# How to understand and navigate China's changing business environment for foreign investors

February 2022



**David Hoffman – SVP Asia**  
The Conference Board China Center for  
Economics and Business  
[david.hoffman@tcb.org](mailto:david.hoffman@tcb.org)

# Making the most of the webcast



Tell us about your experience to help us improve our future program



## Panelists:



### **David Hoffman**

Senior Vice President Asia and Managing  
Director of the China Center for Economics &  
Business

The Conference Board

[Bio](#)



### **Gwenn Sonck**

(Moderator)

Sinologist, Executive Director  
Flanders-China Chamber of Commerce, EU-  
China Business Association

[Bio](#)

# The Short Story

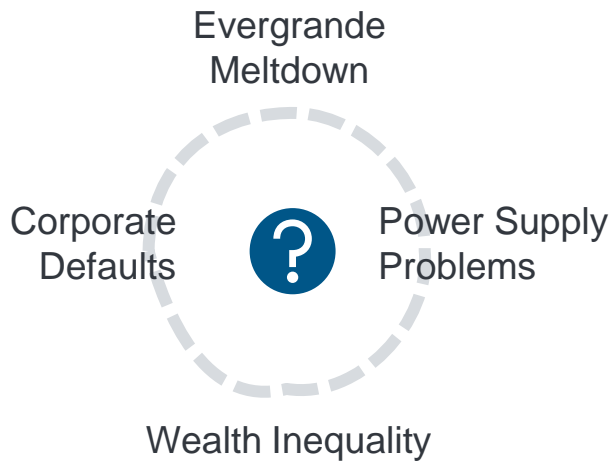
- China remains significantly important and opportune for foreign investors, and many MNCs continue to concentrate their market growth strategies and sourcing in China.
- Economic and geopolitical pressures are driving significant policy redirections that presage material changes to the China operating environment.
- How far the policy redirections will go is highly uncertain at this juncture.
- MNCs must find new ways to align and succeed in a Central Plan environment.
- They must also find new ways to navigate persistent geopolitical tensions and mitigate the associated risks.



# Domestic economic challenges are increasingly pronounced

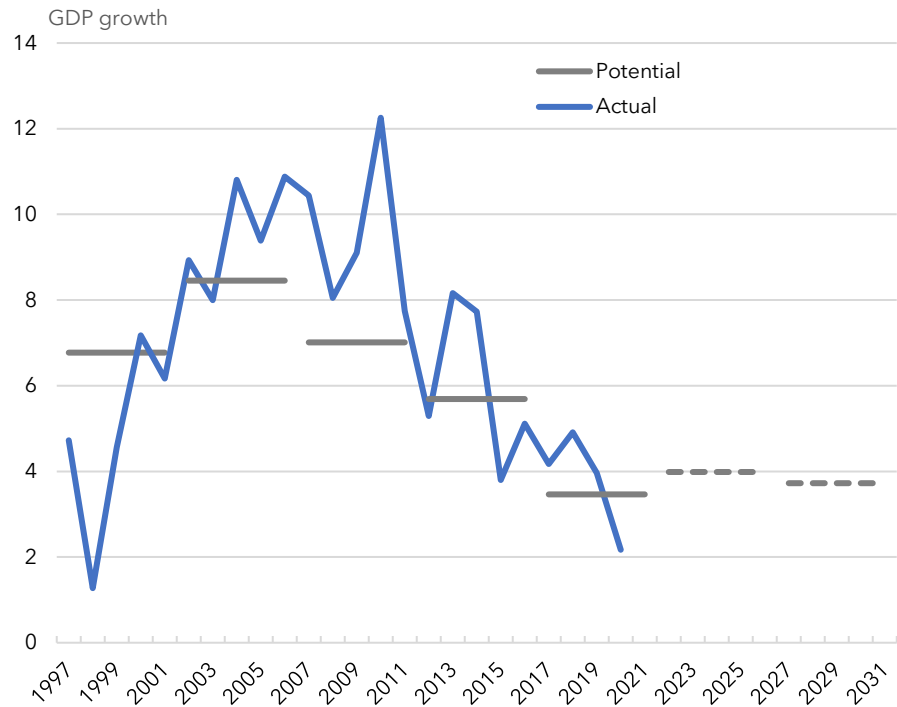
“China's economy generally sustained a steady recovery this year, but the domestic and external environment remains complicated and grim.” – Li Keqiang, June 2 (Xinhua)

Signs of systemic stress are increasingly (and unusually) visible...



The possibility for a prolonged period of under-potential growth looms large...

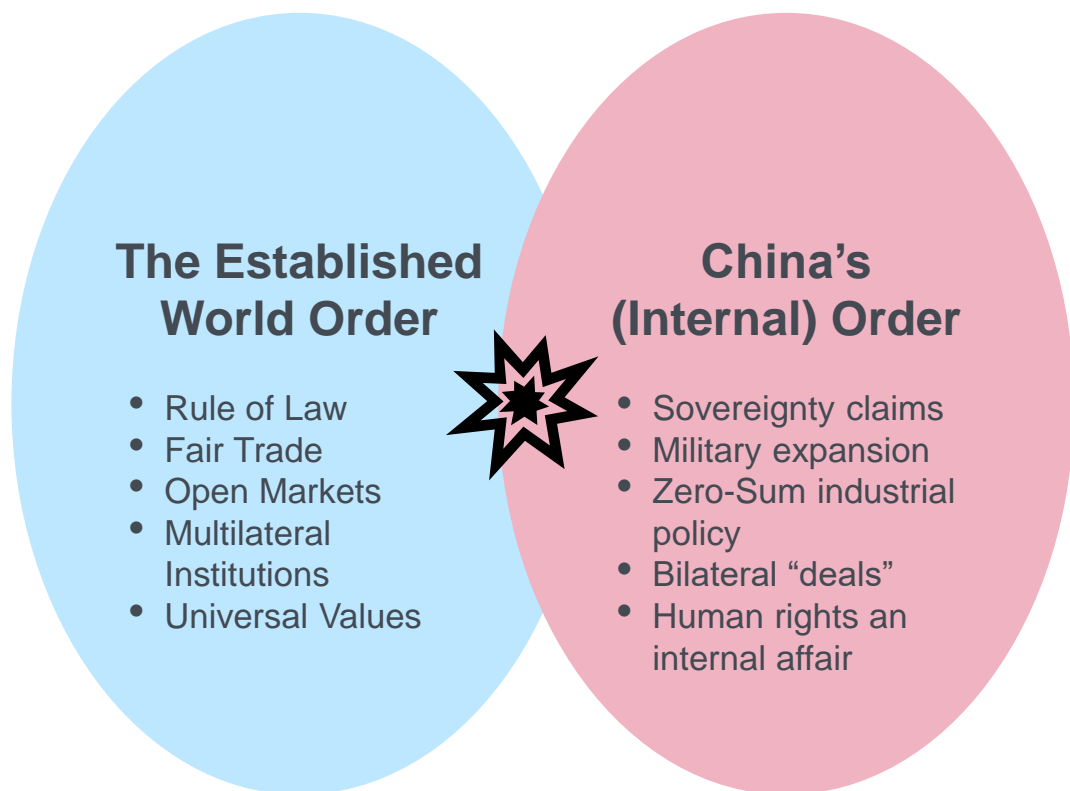
TCB alternative series estimate



Sources: The Conference Board



## Externally, US-China/Sino-western tensions remain fraught, with risks biased strongly toward the downside

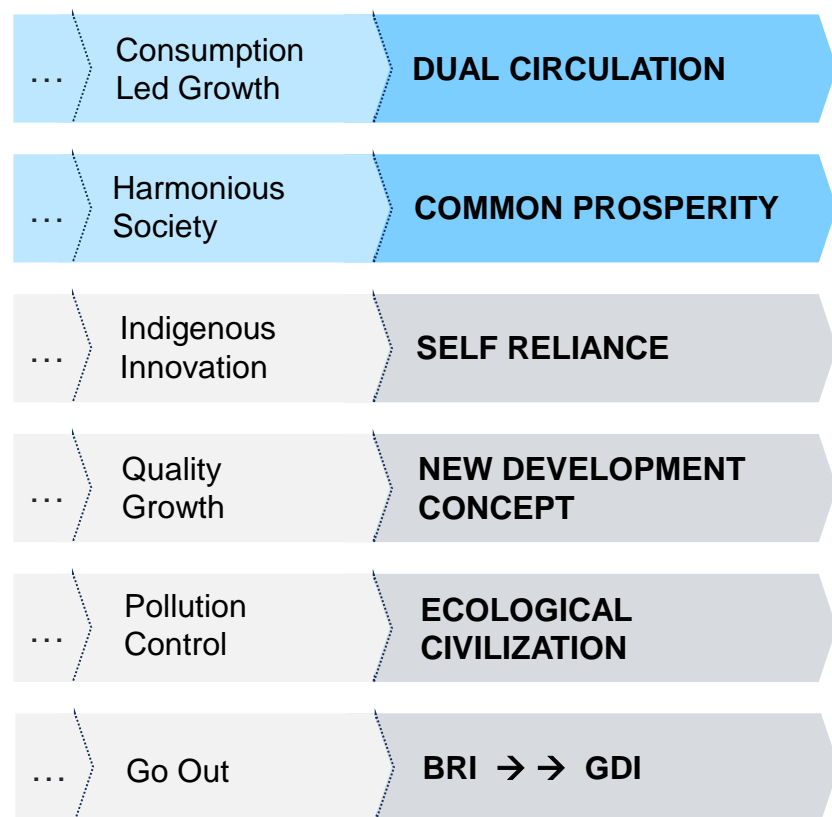


- A hostile external environment “for a prolonged period” is the Party’s stated planning assumption.
- US-China tensions are blamed entirely on US containment intentions and related slander.
- The sentiment is provoking two response functions:
  1. Isolate from the outside
  2. Insulate the inside



# Amidst challenges “not seen in 100 years”, policy redirections have taken on new energy and urgency

The “new” campaigns all boast long standing antecedents...progress on these reform concepts has been limited...



- Reforms necessarily yield slowdown in the near-term for gains in the long-term.
- Reforms also always lead to some unexpected consequences. Execution hazards are many.
- Understandably, China has chosen an incremental approach (模石渡河), often wavering on or postponing reforms when economic growth was negatively impacted.
- President Xi is now talking big and bold.

## Is this time different?

If so, is it a function of leadership vision or economic necessity, or both?



# Communications on the “new” policy agenda are highly ideological. What does this signify?

- Beginning with the 19<sup>th</sup> Party Congress in 2017, and amplifying substantially since the CCP Centenary on July 1, ideology now features majorly in the Party’s public discourse.
- The several main ideological thrusts mostly tie in with the expressed second centenary goal of “**building China into a great modern socialist country in all respects**”.
- This follows on from the first centenary goal of “**building a moderately prosperous society in all respects**”.
- The core theme is “**Common Prosperity**”. The criteria for success are yet unknown.





# Marxism for the 21<sup>st</sup> Century – What is it?

Embrace absolute Party Rule to achieve the goal of Common Prosperity and National Rejuvenation

“Government, army, society and education — east and west, south and north, the Party leads all.” – Mao Zedong (often cited by Xi)

“We must uphold the firm leadership of the Party. China’s success hinges on the Party. Without the Communist Party of China, there would be no new China and no national rejuvenation. The Party was chosen by history and the people. The leadership of the Party is the defining feature of socialism with Chinese characteristics and constitutes the greatest strength of this system. It is the foundation and lifeblood of the party and the country, and the crux upon which the interests and wellbeing of all Chinese people depend.” – XJP Centenary speech, July 1, 2021

“Happiness comes from struggle.”  
– Xi Jinping (as quoted in [Qiushi](#))

“**Common Prosperity** is the essential requirement of Socialism.” – Xi Jinping

Economic	Cultural
<ul style="list-style-type: none"><li>▪ Raising income and education levels population wide to improve economic productivity.</li><li>▪ Equalization education access and basic public services.</li><li>▪ Bolstering public sector as the mainstay.</li><li>▪ Adjustment of high income (disparities).</li><li>▪ Coordinated development of real estate and finance sectors.</li><li>▪ Rectification of problems with disorderly expansion of capital.</li></ul>	<ul style="list-style-type: none"><li>▪ Not “neat and uniform” egalitarianism”. Hard work ethos.</li><li>▪ Unity of purpose – The Great Rejuvenation (i.e. The Chinese Dream)</li><li>▪ Prosperity (well being) through purpose ... despite impending sacrifice and struggle. Warning on economic slowdown?</li><li>▪ Dedication to socialist core values: absolute Party leadership, collectivism, patriotism.</li></ul>

\*\*\*Solidly Promoting Common Prosperity”, Xi Jinping speech, August 17, 2021



# The sweeping rectification of the private sector was the first volley in the “common prosperity” campaign. What does it signify?

## Why?

- ▶ Common Prosperity?
- ▶ Rectify the “disorderly expansion of barbaric capital”?
- ▶ Sever the link between wealth and power?
- ▶ Curtail unreasonable private fortunes?

## Why Now?

- ▶ Political calendar?
- ▶ Signaling for allegiance to policy shift?
- ▶ Favorable timing tailwinds?
- ▶ Urgent government need for resources to rebalance economy?

## Private Sector Rectifications

- ✓ Ecommerce companies
- ✓ Social media companies
- ✓ Fintech companies
- ✓ Fan clubs and celebrity culture
- ✓ High-income individuals who avoid taxes or make “excessively high incomes”
- ✓ Tutoring and education companies; private schools
- ✓ Gaming companies
- ✓ Ride-sharing, car-hailing, bike sharing, and power bank sharing companies
- ✓ Companies that want to IPO in the U.S.
- ✓ Companies that make heavy use of algorithms
- ✓ Cloud operators that sell to the state sector
- ✓ Bitcoin miners and crypto exchanges
- ✓ Real estate companies and landlords
- ✓ Private investment funds

...What's next?

List source: SupChina



## Two things are clear:

1. The “birdcage” on the marketized part of the Chinese economy is moving and re-sizing.
2. Central Planning is re-emergent as the prevailing “market” governance model.

### Central Planning 2.0

- ✓ A “Core” Voice— improved planning consistency, communications, and coordination
- ✓ Top Level Design – improved central/local alignment
- ✓ Discipline – swift punishment deviation/dereliction
- ✓ State sector plays the leading role
- ✓ Efficient market/economic management enabled by big data and AI



#### GUIDEPOSTS –

- Duration and inclusiveness of investigations
- Transparency and nature of any penalizations and restructurings
- Release and nature of any rectification-related policies and regulations
- Release and nature of any rectification related wealth redistribution policies and mechanisms
- Official policy statements and support measures for private sector



# What tangible policy changes can be expected in the near-term?

Stepped up control, Party oversight, and central economic management are to be expected...

POVERTY		FINANCIAL RISK		ENVIRONMENT
Increase Self Sufficiency	Maintain Social Stability	Prevent Economic Crisis	Reduce Wealth Inequality	?
ECONOMIC		<u>Business Environment Manifestations</u>		CULTURAL
<ul style="list-style-type: none"> <li>▪ New laws, administrative centralization, and strong enforcement to fix the “disorderly expansion of capital” problem. Focus on:                             <ul style="list-style-type: none"> <li>✓ Data and platform operations</li> <li>✓ Technology development</li> <li>✓ Resource allocation</li> <li>✓ Capital flows</li> </ul> </li> <li>▪ Notable redirection of private and public sector investing toward 14<sup>th</sup> FYP goals, especially regarding self sufficiency and technology priorities</li> <li>▪ Larger than expected wealth redistribution programs:                             <ul style="list-style-type: none"> <li>✓ Public housing</li> <li>✓ Tax reform</li> <li>✓ Property tax</li> <li>✓ Forced philanthropy?</li> </ul> </li> <li>▪ Soft nationalization of real estate and finance sectors</li> </ul>		<ul style="list-style-type: none"> <li>▪ Newfound regulatory focus on “cultural security”</li> <li>▪ Persistently tight control on public discourse</li> <li>▪ Full activation of Social Credit Score systems</li> <li>▪ Persistent mobilization campaigns; heavy focus on patriotism                             <ul style="list-style-type: none"> <li>✓ Deep fealty to founding revolutionary leaders</li> <li>✓ Anti liberalism and anti-capitalist excesses</li> </ul> </li> <li>▪ Ramp up of patriotic education and entertainment</li> <li>▪ Pronounced socialist/patriotic overlays on culture industries: film, TV, literature, art, performing arts</li> <li>▪ Heightened ethno-nationalism and finer screens on doors to block more flies</li> <li>▪ Unstinting anti-corruption and political loyalty purges and campaigns at local government levels. Incapacitated local regulatory implementers.</li> </ul>		



# The “new era” business environment for foreign investors: central plans + geopolitical tensions

## Two Key Trends

1. Central Planning developments point to increasingly prescribed, Party-defined play-spaces for the private sector and for foreign investors.
2. Unstinting pressure on the Taiwan issue points to persistently elevated Sino-Western geopolitical tensions that will continue to complicate many aspects of doing business – data operations, sourcing, compliance, communications...

## Key Success Factors and Learnings...

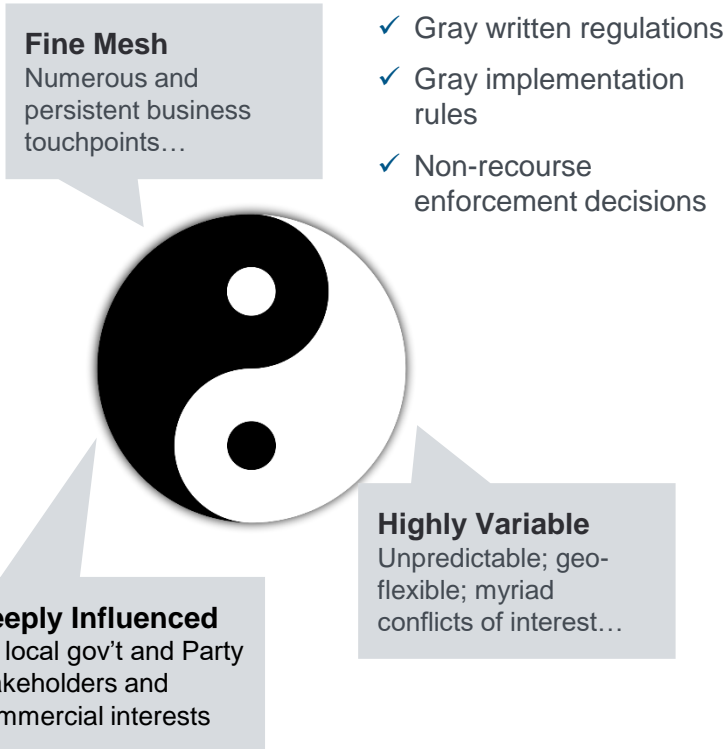
- ✓ Pick play-spaces most strongly aligned with the national development plans of key stakeholders
- ✓ Mind the gaps – continually demonstrate contributions to focal development plans
- ✓ Co-opt and mobilize state supporters – regulators, customers, partners
- ✓ Rigorously communicate value proposition to stakeholders
- ✓ Delight Chinese regulators on priority compliance “expectations”; work to shape regulatory practice



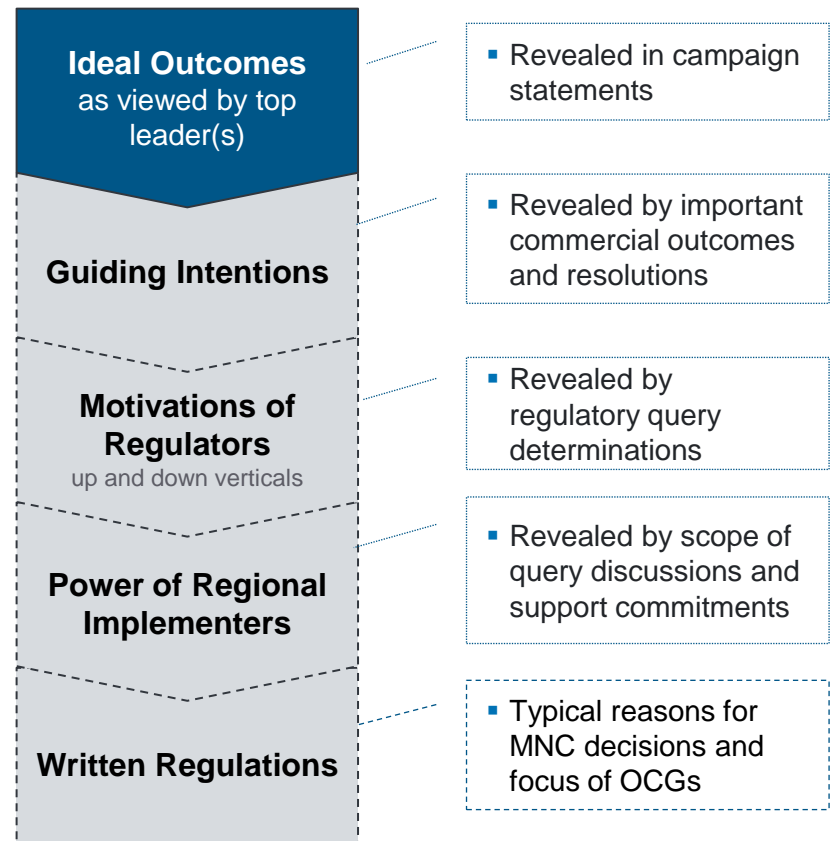
# Finding alignment points in a planned economy

In the hierarchy of Chinese regulatory drivers, The “Ideal Outcomes” envisaged by top leaders matter most...

## Key features of the regulatory system...



## Factors driving regulatory outcomes...



# Call to Action 1: Realign to evolving policy priorities

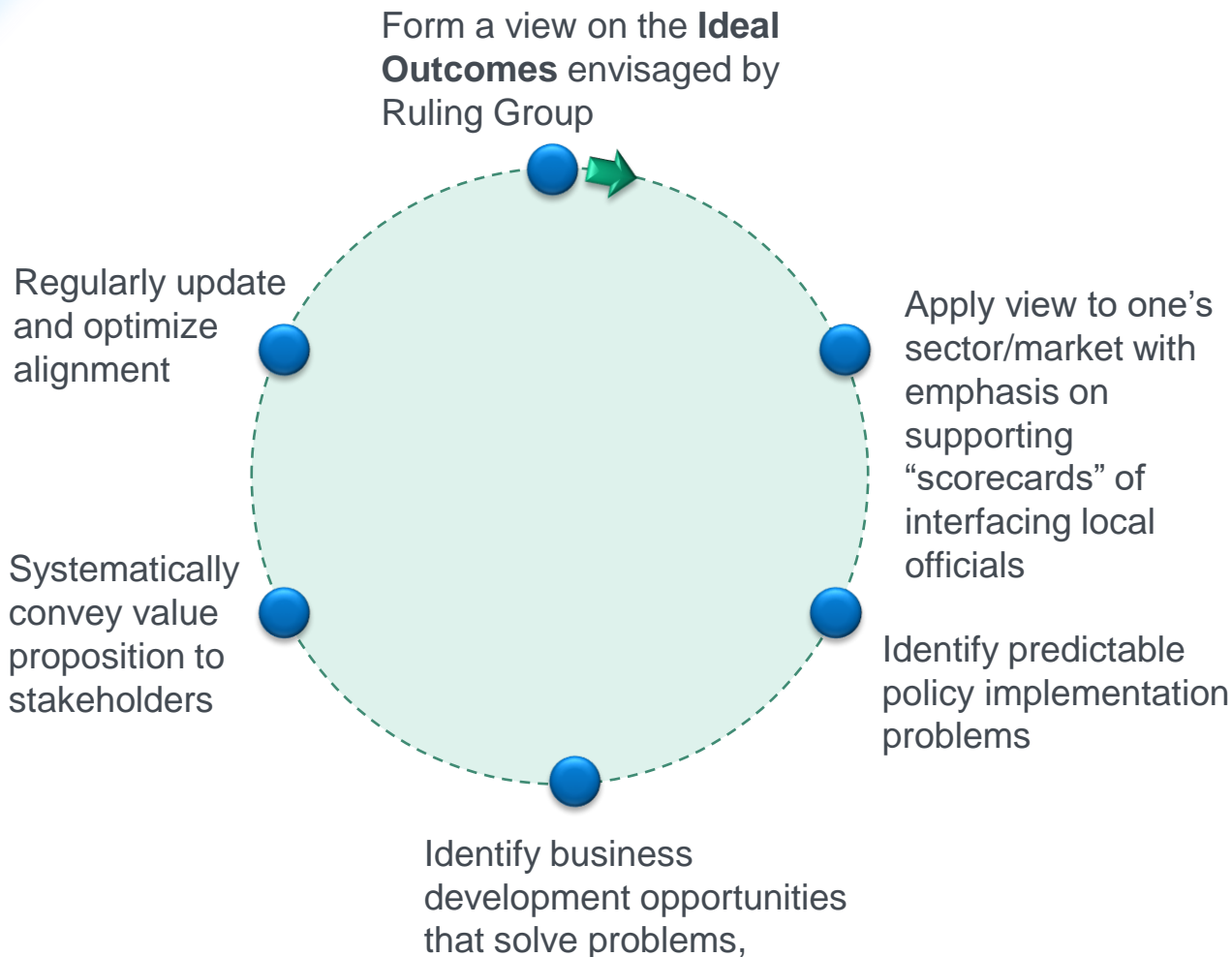
## GENERAL "IDEAL OUTCOMES"

### 1. National Security

- i. Self reliance
- ii. Economic stability
- iii. Industrial modernization
- iv. Productivity
- v. Sustainability**
- vi. Public welfare (Common Prosperity)

...  
...  
...  
...  
...  
...

x. Growth



# Geopolitically, MNCs have an increasingly difficult middle ground to navigate

– PRINCIPAL CONCERNS –





## Call to action 2: Commit to a higher level of risk monitoring and cross border, cross functional coordination

### Know your risks... Some key questions...

1. What future US or EU sanctions or restrictions could impact China commercial operations?
2. What international public opinion trends could impact our China commercial operations?
3. What nationalistic swings could provoke discrimination?
4. How sensitive are secure and controllable supply and self sufficiency issues for our customers and regulatory stakeholders?
5. What US-China or other geopolitical “gray swans” could provoke regulatory or market disruption, discrimination, or retaliation?

### Employ a higher level of risk management and regulatory engagement...

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



## Future Forward Perspectives

- Be smart about what goals China is most challenged by in your ambit and envision business opportunities in them.
- Cautiously, but authentically, continue China-for-China organizational development with full HQ-China Co consensus on balancing benefits and risks.
- Continuously strengthen brand management; build associated local brands organically and through acquisition; prioritize digital marketing/CRM.
- Study and develop local financing and financialization opportunities via state investment entities, PE funds, Mainland and Hong Kong capital markets, and State incentive programs.
- Carefully and cautiously meter benefits for China – like tech transfer, FDI, and management training. Promote generous visions of more benefits come.



## Questions? Contact Us

David Hoffman | Senior Vice President, Asia  
[David.Hoffman@tcb.org](mailto:David.Hoffman@tcb.org)

For Research Inquiries  
 Anke Schrader  
[anke.schrader@tcb.org](mailto:anke.schrader@tcb.org)

For Membership Inquiries  
 David Basmajian  
[david.Basmajian@tcb.org](mailto:david.Basmajian@tcb.org)

Claire Xia  
[claire.xia@tcb.org](mailto:claire.xia@tcb.org)

Or visit  
[www.conferenceboard.org/asia](http://www.conferenceboard.org/asia)

## About The Conference Board China Center

Founded in 1916, [The Conference Board](#) is the member-driven think tank that delivers trusted insights for what's ahead. To be durably successful in China, you need continuous and reliable foresights on China's economic trends, political economy influences, consumer market shifts, trade and geopolitical factors, and business environment dynamics specific to MNCs in this market.

Our independence, deep China experience, and hardnosed data work yield unique insights that inform and improve your business planning. In joining our [China Center](#), you gain access to an unmatched market intelligence platform and an exclusive peer network for exchanging perspectives on your highest priority issues. The Conference Board China Center public purpose work is made possible by virtue of funding support and thoughtful guidance from our China Center Executive Members.

