triviumchina

CHINA IN 2023

WHAT AMERICAN BUSINESS NEEDS TO KNOW

Table of contents

Executive summary

- In 2023, Xi Jinping and the Chinese leadership are focused on righting the economic ship and restoring a sense of normalcy after three years of COVID-related disruptions.
- Importantly, the risk-adjusted return on investment for foreign companies in China has changed dramatically in the past few years – with economic growth structurally slowing, and policy, reputational, and geopolitical risks all rising substantially.
- In 2023, China faces a turbulent global political environment. Geopolitical frictions between China and the developed world, particularly the US, have raised risks for multinationals, creating supply chain disruptions and compliance challenges across a multitude of industries.
- More worrying still, rising tensions have prompted MNCs to begin actively developing contingency plans to react to a potential crisis in the Taiwan Strait.
- Senior Chinese leaders have laid out an ambitious policy agenda as they seek to right the economic ship, and boost economic security, throughout 2023. Understanding officials' priorities this year will be key for ongoing business success – and risk management – in China.
- An increased focus on economic, resource, and data security among China's top policymakers is causing MNCs to reconsider how they fit into China's economy.
- So far this year, there have been mixed messages from senior officials – with Premier Li Qiang proclaiming "a year of FDI" while Xi Jinping has emphasized self-sufficiency. These mixed messages are leaving foreign executives unsure of their play space in the China market going forward.
- At the 20th Party Congress in October 2022, Xi Jinping ran the table – installing his allies in key Party positions at the apex of political power in China. Business leaders at MNCs are looking to assess the new leadership's approach to economic management.
- While some of the new cohort, such as Premier Li Qiang, are considered to be very open to working with foreign

companies, questions remain as to how much latitude they will have to craft the economic agenda given Xi Jinping's centralization of power.

- Equally important for business leaders is the reality that policymaking has now become more insular – making various policies that will impact MNCs in China more difficult to predict, let alone influence.

- Senior MNC executives continue to be concerned by the ongoing intrusion of the Party into the private sector – including the establishment of Party cells in foreign businesses.

- The most recent Party-state reorganization will advance this trend further, with new Party bodies overseeing economy-wide financial and sci-tech strategies.

- More broadly, the ultimate impacts of the recent government restructuring will require renewed efforts at government engagement in China, particularly at the Ministry of Science and Technology, where most businesses had few touchpoints.

- The big question weighing on boards' minds is whether foreign companies will be allowed to further engage in onshore innovation in the mainland – and whether they should, given enhanced home-market pressure to preserve cutting-edge technologies outside of China.

China in 2023: Back to business?

2022 was an annus horribilis for the Chinese economy. In 2023, Xi Jinping and the Chinese leadership are focused on righting the economic ship and restoring a sense of normalcy after three years of COVID-related disruptions.

Discussion in the boardroom

Is China still worth it? Corporate executives across a range of industries are increasingly asking this question. The fact is that the risk-adjusted return on investment has changed dramatically in the past few years – with economic growth structurally slowing, and policy, reputational, and geopolitical risks all rising substantially. These discussions are still in the early stages. Few companies are looking at a full-on China exit, except in the most sensitive of sectors. But the conversation on what a medium-term future in China looks like – along with associated profit expectations from the country – is active at the board level.

2022 CHINA TIMELINE

jan	
feb	**Feb 4 –** Xi Jinping agrees to "no limits partnership" with Russan President Vladimir Putin **Feb 4-20 –** Beijing hosts 2022 Winter Olympics **Feb 24 –** Russia invades Ukraine
mar	
apr	**Apr 1 –** Shanghai COVID lockdown begins
may	**May 25 –** Premier Li Keqiang chairs meeting with 100,000 cadres with a call to arms to boost economic growth
jun	**Jun 1 –** Shanghai COVID lockdown ends
jul	
aug	**Aug 2-3 –** US Speaker of the House Nancy Pelosi visits Taiwan **Aug 4-7 –** China holds military exercises around Taiwan, further stoking tensions
sep	**Sep 15-16 –** Xi Jinping leaves China for the first time since COVID began, heading to Central Asia for the Shanghai Cooperation Organization meetings
oct	**Oct 7 –** The US institutes wide-ranging export bans on semiconductor technology to China **Oct 16-22 –** Xi Jinping runs the table at the 20th Party Congress, installing key allies in critical posts
nov	**Nov 14 –** Xi Jinping meets US President Joe Biden in Bali, raising hopes of a temporary halt in the deterioration of bilateral relations
dec	**Dec 7 –** China abruptly abandons its zero-COVID policy, leading to widespread confusion among officials, further economic turmoil, and frustration among the populace

What you need to know

China's economy and business environment entered 2023 on a decidedly uncertain foot. It's exactly one year out from the disastrous Shanghai COVID lockdown, and while Chinese policymakers have officially put the zero-COVID policy behind them, the trajectory of this year's economic recovery remains cloudy. Throughout the early part of 2023, senior Chinese officials have been saying all the right things about supporting the private sector and welcoming foreign investment – but business and household confidence remains in the doldrums. Below, we review the wide-ranging challenges over the past 12 months that set the context for this year's uncertainty, and explore what Xi Jinping and his colleagues will do right the ship.

On the home front, 2022 was marked by a series of crises that consistently kept Xi and the Chinese leadership off guard. At the top of the list was COVID, which the government spent most of 2022 trying to contain, often through extreme measures. These COVID containment measures tanked the economy (growth was flat in Q2), caused widespread public resentment, and stretched local government finances close to the breaking point. Worst of all, policymakers failed to fully control the virus. In December, Xi finally threw in the towel, abandoning the zero-COVID policy out of the blue. The suddenness of the change caught officials and the populace off guard, resulting in a massive surge of COVID cases and deaths. All of the above – the failed zero-COVID policy, the economic downturn, and the chaotic exit from zero-COVID – served to undermine popular support for, and trust in, Xi and the Party.

2022 was an equally challenging year internationally. The unexpected Russian invasion of Ukraine on February 24, 2022 happened less than three weeks after Xi Jinping announced a "no limits partnership" with Russian President Vladimir Putin in Beijing. Although China claims neutrality in the conflict, it has tacitly supported the Russian position, which has further strained already deteriorating relations with the US and its allies. Growing anti-China sentiment in the US has been coupled with increasing actions by the Biden administration to sanction Chinese firms and cut China off from core technologies, most notably through the US Commerce Department's October 7, 2022 ban of sales of advanced semiconductors to Chinese customers.

Despite these setbacks, Xi Jinping was able to further consolidate his power at the Communist Party Congress in October. The five-yearly Congress selected the top Party leadership, and Xi was able to install his allies in key positions while simultaneously forcing his rivals to retire early. Top Party and government institutions are now all headed by Xi loyalists, meaning that he wields more power than any Chinese leader since Mao Zedong. The upshot is that Xi is now the decisive policy actor in nearly all domains of consequence.

Xi's consolidation of power is increasing policy volatility. Policymaking is increasingly concentrated within Xi Jinping and his inner circle, making it more difficult for outsiders to understand – and influence – the policy process. This more opaque, centralized decision-making process means that policy can change quickly with little or no forewarning. This was most clearly demonstrated with the abrupt abandonment of zero-COVID in December, but it has also manifested itself in recent years through sudden crackdowns on China's tech, data, and online tutoring sectors.

Where we are now

Xi and the top leadership are eager to put the challenges of 2022 behind them – and top of the agenda is restoring the trajectory of economic growth. As part of efforts to revive the economy, the top leadership has made attracting more foreign investment a key focus for 2023 – as well as bolstering private sector confidence more broadly. In March the government unveiled a pro-growth, pro-business agenda, and the prospects for the economy this year are genuinely bright. But businesses – both foreign and domestic – are in wait-and-see mode as they seek to discover whether business-friendly rhetoric will translate into concrete policy initiatives. Additionally, over the medium term, structural challenges loom and geopolitical tensions continue to dominate MNCs' view of the risks around ongoing China investment.

2

Geopolitics to the fore

In 2023, China faces a turbulent global political environment. Geopolitical frictions between China and the developed world, particularly the US, have raised risks for multinationals, creating supply chain disruptions and compliance challenges across a multitude of industries. More worrying still, rising tensions have prompted MNCs to begin actively developing contingency plans to react to a potential crisis in the Taiwan Strait.

Discussion in the boardroom

For most MNCs in China, particularly US companies, navigating geopolitical risk has become the number one issue with regard to China strategy and operations. To a much greater extent than in the past, MNCs are prioritizing contingency planning to deal with geopolitical risk – particularly in the Taiwan Strait. For many, navigating the hostile relationship between the US and China (and its global fallout) is a major business challenge with potentially serious implications for their operations worldwide.

Most notably, the possibility of (even limited) conflict over Taiwan is increasingly seen as a short-term risk rather than a medium-term one. While MNCs are not yet making tangible decisions in response to Taiwan-related risk scenarios (such as actively relocating facilities or personnel), scenario planning is now taking place among senior corporate executives as foreign companies monitor signals from the mainland and determine the red lines that should trigger decisive action.

What you need to know

Taiwan risk is at its highest in decades, but outright conflict remains a remote possibility. In recent years, the Taiwan Strait has become arguably the world's most consequential geopolitical flashpoint. While MNCs have long monitored the risk of conflict over the island, tensions are at a multi-decade high due to a combination of Beijing's growing assertiveness, Washington's increasing hostility toward China and support for Taiwan, and Taiwan's shift toward a more local identity – and loss of interest in eventual reunification.

Though none of the three main parties involved (the US, mainland China, and Taiwan) are genuinely interested in provoking open conflict, there is a very real danger of an accident or miscalculation causing the primary actors to "sleepwalk" into some sort of crisis or confrontation. As such, multinationals are looking to identify key risk thresholds that may presage a dangerous escalation over the island.

Deteriorating US-China relations spell trouble for MNCs. US-China relations are at their lowest point since the normalization of ties in 1979, with tensions driven by deep-seated mistrust and intensifying great power rivalry. The two superpowers increasingly clash over a wide range of issues, including governance philosophies, economic systems, human rights, and the proper structure of the global system.

Moreover, Washington's liberal use of economic sanctions, including a crippling ban on the export of cutting-edge chips to China, has led Beijing to the conclusion that the US is dead set on containing China and suppressing its interests. This in turn has prompted Beijing to develop its own counter-sanctions toolkit to hit back against the US. MNCs face the looming danger of getting caught between competing sanctions regimes and will need to make concerted efforts to avoid running afoul of one government or another.

A mistrustful Europe will plot its own course on China. While the European Union shares many of Washington's concerns over China's growing power and turn toward authoritarianism, many countries and leaders within Europe see China primarily through an economic lens – and are thus eager to have constructive relations with China. At both the national and supranational levels, European leaders have sought to define areas where officials believe they can cooperate with China (particularly in the economic sphere) while sticking to core principles on the more intractable disagreements – like human rights and sovereignty issues.

However, growing wariness of Beijing's intentions continues to color perceptions of China among politicians and ordinary people alike. For its part, as US-China tensions increase, Beijing has sought to improve ties with Europe and to promote European "strategic autonomy" from the United States in a bid to prevent the coalescence of a trans-Atlantic, anti-China bloc. Increasingly, US multinationals may find themselves on the back foot compared to their European rivals as Chinese companies and officials seek to cooperate with more "reliable" European companies at the expense of American ones.

China's star continues to rise in the developing world. While it is difficult to generalize about them as a bloc, it should be noted that attitudes toward China in developing countries tend to be much more positive than those in the US or Europe.

For many developing countries, China's vision of a multipolar world order that allows individual nations to pursue their own development paths and governance philosophies presents an attractive alternative to the US/Western-led model that has dominated global affairs since the end of the Cold War.

China has positioned itself as a champion of the interests of the developing world and has served as a benefactor via such initiatives as the Belt and Road, the Asian Infrastructure Investment Bank, and a bevy of comprehensive strategic partnerships. Apart from certain countries with their own bilateral disputes with China (e.g. India), many developing nations are happy to see the emergence of a powerful China as a counterweight to the US on the world stage.

For its part, China will continue to proactively pursue deepened economic ties with developing countries in 2023 and beyond.

The bottom line

MNCs, particularly from the US, face ever-increasing geopolitical, political, and reputational risks from increased tensions between China and the US. With US-China relations unlikely to improve, navigating these risks will be the number one concern for US companies operating in China for the foreseeable future.

The macro outlook

China's economic outlook remains highly uncertain in 2023. The turmoil that businesses and households have experienced over the past several years has dented confidence among both cohorts. As such, renewed investment and consumption as China continues its exit from recent COVID-related disruptions has been relatively slow to manifest. That said, it is a virtual certainty that China's economy will perform better in 2023 than it did in 2022, even as much policy work remains to be done to restore confidence to anywhere close to pre-COVID levels.

Discussion in the boardroom

While restoring consumer confidence is at the heart of Beijing's plans for 2023, the question remains as to how long it will take for such confidence to manifest. Additionally, it's unclear whether private sector confidence will follow in the wake of a potentially more upbeat consumer economy. Moreover, China isn't the market that it once was. Slowing growth, aging demographics, and shifting geopolitical considerations mean that the medium-term pace of topline growth will slow for most firms. Even if growth bounces back the way Beijing envisions, it will no longer be business-as-usual for foreign firms – and this has boardrooms taking a hard look at medium-term China strategies while the dust settles on the growth trajectory for 2023.

What you need to know

China's authorities are trying to do something this year they've never done before. Specifically, they are looking to consumption to drive wider economic growth. That's a radical shift in how Beijing has delivered on its growth targets in the past.

Beijing has traditionally regulated the economy with credit. Whenever it wanted to stimulate growth, it simply made credit cheaper and more readily available, and pushed state firms to borrow – and build.

However, from a policy perspective, supporting consumption is a totally different animal. Stimulating consumption requires boosting consumer confidence, which is far more difficult to control with top-down policymaking. It is exactly these complexities of delivering consumption-led growth that appear to have led central authorities to set the GDP growth target at a relatively conservative level of "around 5%" for 2023.

That said, we are beginning to see the outlines of Beijing's gameplan. China's authorities have put consumption front and center in their 2023 growth plans because two of the economy's traditional growth drivers – exports and property – aren't likely to contribute much this year.

- After growing strongly throughout the pandemic years, Chinese exports are already at a high level and are likely to slow significantly this year. Globally, inflation is eating into the consumer's ability to purchase Chinese-made goods. Moreover, the threat of recession in the US and elsewhere looms over Chinese export sales.
- What's more, over the past year, the property sector has become a major drag on economic growth – a stark change from the previous several decades. And while this year will be better for the sector, as official support finally starts to pay dividends, property's contribution to growth will be minimal at best. Demand for new housing is starting to recover, but it will take time before developers ramp up construction of new commercial and housing projects. As such, the best authorities can hope for is that real estate makes a small positive contribution to growth this year.

Meanwhile, consumption is due for a rebound. From 2020 to 2022 – the three years of the pandemic – sales of consumer goods grew by an annual average of 2.6%, a fraction of the 6.5% annual growth from 2017-2019.

With zero-COVID out of the way, the Chinese public are eagerly pursuing a return to normalcy. Retail spending bounced back in March as people travel, eat out, and do all the things they were unable to do in 2022.

However, consumer confidence hasn't fully recovered.

- A large percentage of households are financially worse off because of the pandemic, having lost out on bonuses and wage increases. Moreover, unemployment – and youth unemployment in particular – remains high.
- All of these dynamics mean that people continue to be uncertain of their personal economic outlooks. Consequently, households and private sector businesses have been conservative when making spending decisions even as the economy has exited zero-COVID.

In response, Beijing is trying to initially boost the economy quickly with infrastructure investment.

- Infrastructure FAI grew 8.8% in Q1 2023, maintaining the cracking pace set in H2 2022.
- However, the contribution of infrastructure to growth is set to diminish as the year progresses, with fewer "special purpose bonds" – which local governments use to fund public works – approved to be issued this year than last.

As infrastructure spending tapers off, officials hope consumption will step in further to fill the gap. And as consumption recovers further, Beijing expects firms – particularly small- and medium-sized private sector firms that were particularly hard-hit by the pandemic – will return to profitability and invest in new capacity.

But this sequence of future events is far from a slam dunk. Boosting consumption will partly include incentives to get people buying more NEVs, household appliances, and green construction materials – areas Beijing has singled out as priorities.

Officials have also promised to boost the incomes of low- and middle-income households so that they have the resources to spend more. And so far, Beijing has promised to increase wages and boost household income using social security, taxes, and direct transfers.

Ultimately, then, Beijing hopes this policy mix will lead China's economy to have undergone a full recovery by the end of 2023. However, success can't only be measured by whether or not it hits the 5% GDP growth target. How it hits the target is equally important.

The economy will have truly recovered only if consumer confidence has rebounded, private sector investment is healthy, and infrastructure investment has been allowed to slow.

The medium-term outlook

The heightened focus on consumption should be positive for the sustainability of the Chinese economy, but only if Beijing is able to redistribute more resources into the pockets of low- and medium-income households. Still, the outlook beyond 2023 is clouded by mounting pressures on local government finances, uncertainty about when the property sector will recover – and to what level – as well as the implications of both issues on the stability of the financial system. Ultimately, then, private sector businesses are likely to confront a very different structure for the Chinese economy in the years ahead.

China's 2023 policy priorities

Senior Chinese leaders have laid out an ambitious policy agenda as they seek to right the economic ship, and boost economic security, throughout 2023. Understanding officials' priorities this year will be key for ongoing business success – and risk management – in China.

Discussion in the boardroom

An increased focus on economic, resource, and data security among China's top policymakers is causing MNCs to reconsider how they fit into China's economy. So far this year, there have been mixed messages from senior officials – with Premier Li Qiang proclaiming "a year of FDI" while Xi Jinping has emphasized self-sufficiency. What's more, Xi Jingping's ongoing calls to better balance development with security appear to be manifesting in a marked increase of scrutiny over and intimidation of foreign due diligence firms.

These mixed messages are leaving foreign executives unsure of their play space in the China market going forward – even if companies align in support of stated policy goals. Additionally, boardrooms are increasingly taking into account potential reputational risks in their home markets that may emanate from being seen as overtly aligning with policy goals of the Chinese government. Meanwhile, the uncertainty around foreign due diligence firms' future in China, along with other trusted sources of information, has prompted companies to question whether they will be able to properly assess risk in China in the years ahead.

What you need to know

The 2023 Government Work Report – issued at the Two Sessions in March – and associated reports clearly identified the government's top three policy priorities in 2023. These are:

1. Increasing technological capabilities
2. Ensuring resource security
3. Boosting business confidence

These three priorities will guide the work of officials throughout the system over the year to come. MNCs operating in China need to understand these priorities well, as aligning with them will significantly contribute to business success. Companies that can demonstrate contributions to these priorities will also garner goodwill with government officials, which in turn can help to create a better operating environment.

Where these policy priorities entail risks for MNCs, it is important that executives identify those risks early to mitigate against them.

Beijing's number one policy priority this year has been clearly emphasized for several months now – and, simply stated, entails boosting the country's ability to produce core technologies domestically. Fostering innovation has been a top government priority for nearly 20 years, but it is now seen as mission-critical in the wake of efforts by the US and its allies to limit China's access to critical technologies such as semiconductors, artificial intelligence, quantum computing, and other cutting-edge advancements. If Beijing is not able to either source these technologies from abroad or develop them domestically, it will impede economic growth and undermine Xi Jinping's goal of turning China into a global superpower.

Given these exigencies, Beijing is now engaged in an all-out push to reform China's national innovation system from the ground up in order to support the development of advanced manufacturing and related scientific research domestically. That includes overhauling the Ministry of Science and Technology (MoST) in March to make it more focused on advancing technological strategy, plans, and resources to help China win the tech competition with the US. It also means giving the ministry more authority (via closer links to the Party) to implement sci-tech plans across other government departments.

The renewed drive for tech self-sufficiency is inherently

worrying for MNCs, as China's explicitly stated preference would be to eliminate dependence on foreign firms. That said, genuine technological self-sufficiency will be impossible for China to achieve in the short term, if ever, due to domestic firms' lack of capabilities in producing many key technologies. As such, Chinese officials are likely to remain pragmatic in engaging foreign companies in domestic research and development efforts in the near term.

Beijing is equally focused on ensuring supplies of key resources – particularly energy and food. Over the past five years, China's economy has been rocked by a series of shocks that caught the top leadership off guard, including the trade war with the US, the COVID-19 pandemic and associated supply chain disruptions, and the high energy prices and associated disruptions to global trade caused by the Russian invasion of Ukraine and its aftermath. This has made Beijing increasingly conscious of the risks, dependencies, and vulnerabilities of its globalized economy, and has caused the top leadership to put a premium on ensuring food, energy, and resource security.

In pursuit of energy security and economic growth, regulators have put environmental and climate goals on the backburner in 2023. Keeping the lights on and keeping businesses running will be prioritized over faster inclusion of renewable energy onto power grids, or strict enforcement of energy-use reduction targets. Expanded domestic coal mining has already filled reserves to help hedge against a repeat of last year's drought and heatwave-induced power shortages throughout this coming summer.

- Beijing is also firming up key energy trade relationships in the Middle East and Russia in order to ensure sources of key energy inputs.
- Meanwhile, at home, efforts to boost domestic production of key commodities – from growing more soybeans, to mining more coal, to exploring for more iron ore – are right at the top of the government's agenda, and are being advanced by related SOEs, even where they don't make a great deal of economic sense.
- Beijing has also demonstrated an increasing willingness to intervene in key commodities markets through the use of state reserves and even direct price controls.

Beijing has promised a pro-business agenda in 2023. After three years of economic disruption, business confidence is low, and Beijing knows that supporting businesses will be key to a robust recovery.

Policymakers understand that confidence is low due to business disruptions from COVID policies, previous crackdowns on certain sectors of the economy, and the ongoing tensions with the US and the west more broadly.

- As such, officials have indicated that it is high time to rebuild relations with Chinese private business and foreign businesses – especially now that travel and in-person meetings have largely normalized.
- Senior economic policymakers have therefore rolled back many initiatives that put a damper on business confidence over the past twelve months, including the zero-COVID policy, as well as the tech sector and property crackdowns, and pledged support for foreign and private businesses.

The big question

Will Beijing match its business-friendly talk with business-friendly walk? On the ground, foreign companies report a genuinely more welcoming and productive stance from local-level officials – but so far, executives at most external MNC headquarters remain skeptical of the China market. A wide range of significant new investment opportunities in China have been placed on hold for the time being, as many companies look to see how the dust settles after the recent economic turmoil, assess the impact of heightened geopolitical risks for new investments, and send corporate-level executives back to China to re-engage with local teams and gauge the situation on the ground.

5

What China's new government means for MNCs

At the 20th Party Congress in October 2022, Xi Jinping ran the table – installing his allies in key Party positions at the apex of political power in China. In March, the official government positions of Xi's allies were announced, seeing close Xi confidantes put in charge of critical economic and business portfolios. The challenge for businesses is that many of these officials have little experience in national-level economic policy, creating uncertainty around how capably the new cohort will govern.

Discussion in the boardroom

Business leaders at MNCs are looking to assess the new leadership's approach to economic management. While some of the new cohort, such as Premier Li Qiang, are considered to be very open to working with foreign companies, questions remain as to how much latitude they will have to craft the economic agenda, given Xi Jinping's centralization of power. Equally important for business leaders is the reality that policymaking has now become more insular – making various policies that will impact MNCs in China more difficult to predict, let alone to influence.

What you need to know

The new government reflects Xi Jinping's political power. Any remaining questions as to Xi Jinping's grip on power in China have been laid to rest since the 20th Party Congress in October 2022. At the Congress, Xi was able to push non-allied officials, like former Premier Li Keqiang, to retire while elevating four key allies to the seven-man Politburo Standing Committee (PBSC). Now, the entire PBSC, China's most powerful political body, is fully aligned behind Xi's political program. These and other Xi allies are also helming the most important government positions, overseeing economic policy and the business environment. The most important of these officials are:

- Premier Li Qiang, who served as Xi's chief of staff from 2004-2007 when Xi ran Zhejiang province.
- Executive Vice Premier Ding Xuexiang, who served as Xi's chief of staff in Shanghai in 2007 and again during Xi's second term as president (2017-2022). Ding will be overseeing efforts to develop core technologies.
- Vice Premier He Lifeng, a close friend of Xi's since 1985. He will oversee the financial system, as well as commercial relations with the US.

For more information on these and other top officials, please see Appendix V.

The new government leadership owe their rise to Xi Jinping, increasing the risk that they will simply be "yes men." As power is increasingly concentrated in the person of Xi Jinping, there is increasing risk that officials are unable or afraid to provide accurate information around the impacts of policy decisions, especially when those impacts are negative. Such a power dynamic would leave Xi Jinping's statist impulses unchecked and boost the likelihood of poor decision-making and drastic policy turns.

Alternatively, the close-knit nature of the group – and Xi's long-held trust in each individual – could potentially open space for a more robust policy debate within this inner circle. There is some early evidence of this dynamic, with reports indicating that Premier Li Qiang was instrumental in convincing Xi to drop the zero-CVOID policy in December, against the latter's misgivings. Moreover, at the Two Sessions in March, Xi's relatively frequent informal sidebars with the new PBSC members seemed to broadcast a personal comfort level within the group that both cut against the normally stilted nature of such events and was clearly absent from the previous PBSC.

While it's too early to tell which scenario will play out, businesses should pay close attention to the new dynamics at the top of China's political system. Any evidence of an increasingly insular Xi Jinping who is receiving poor information from a coterie of yes men could create disastrous policy consequences. In contrast, the potential for more robust policy debate among a group of close allies at the top of the Party would allow the group to more readily course correct when policy mistakes are made.

Premier Li Qiang and other top government officials have promised a pro-business agenda. Li has spent his entire career in China's dynamic eastern provinces of Zhejiang, Jiangsu, and Shanghai, all of which are known for their thriving private sectors. Li has advocated for a better business environment throughout his career and has been keen to stress his pro-business credentials since becoming premier. In the months since being appointed, other top economic officials have also been at pains to stress that they will support the private sector.

The new government leadership is inexperienced and will need time to find their feet. Both Premier Li Qiang and Executive Vice Premier Ding Xuexiang have zero experience in the central government. While both men are seen as highly capable, it will nonetheless take time for them to fully understand how to best manage China's central government bureaucracy. This means that there is likely to be a period of policy confusion as they and other newly appointed officials get comfortable in their new positions.

Xi kept several old hands at the till, which should minimize policy disruptions. Finance minister Liu Kun, central bank governor Yi Gang, and science and technology minister Wang Zhigang retained their jobs despite having reached retirement age. The reappointment of Liu and Yi, in particular, should ensure the continuity of fiscal and monetary policy as the new government leadership settles in.

The bottom line

China's new government leadership has promised to be pro-business. The big unknown is whether or not their closeness to Xi Jinping will allow them to push through their agenda, or instead tailor it to Xi's more statist inclinations.

What China's government reorganization means for MNCs

At the Two Sessions in March, the Chinese bureaucracy underwent its regular five-yearly reorganization. The wide extent of the changes to the government and Party organizational structures were unexpected, given they followed equally drastic adjustments in 2018. This year, though, the reorg was squarely aimed at two key regulatory ecosystems: finance and sci-tech.

Discussion in the boardroom

Senior MNC executives continue to be concerned by the ongoing intrusion of the Party into the private sector – including the establishment of Party cells in foreign businesses. The most recent Party-state reorganization will advance this trend further, with new Party bodies overseeing economy-wide financial and sci-tech strategies. More broadly, the ultimate impacts of the recent restructure will require renewed efforts at government engagement in China, particularly at the Ministry of Science and Technology, where most businesses had few touchpoints. The big question weighing on boards' minds is whether foreign companies will be allowed to further engage in onshore innovation in the mainland – and whether they should, given enhanced home-market pressure to preserve cutting-edge technologies outside of China.

What you need to know

China's rejiggered government and Party institutions are meant to address China's most pressing problems. Following the end of the Two Sessions, the Party Central Committee and the State Council released the full institutional reform plan for Party and government organs.

A new sci-tech commission will aim to address technological vulnerabilities. A new Party commission – the Central Commission for Science and Technology (CCST) – was created to oversee top-level sci-tech policy decision-making. The creation of the CCST signals that the Party is taking significant strategic decision-making power away from the government regarding policies to address China's vulnerabilities in core tech sectors and achieve technological self-sufficiency. The Ministry of Science and Technology (MoST) was streamlined, and will manage the day-to-day affairs of the CCST.

A new financial commission will aim to address financial instability. Another major new Party commission – the Central Financial Commission (CFC) – was created to oversee top-level design, coordination, and supervision of financial stability and development – alongside financial policy planning and financial regulation. The CFC will effectively become the Party's top decision-making body on financial policy and will replace the Financial Stability and Development Committee (FSDC) – a body that was previously under the State Council, with the remit to coordinate financial policy across various regulators. Moving this key function from government authority to a Party commission will shift control over China's financial regulatory apparatus more officially under the Party's remit – allowing it to take a firmer hand in addressing mounting financial risks, including property and local government debt on the domestic side, and foreign sanctions on the international side.

A new data bureau will aim to boost the digital economy. A new National Data Bureau (NDB) was created under the purview of the NDRC, reflecting policymakers' desire to foster data as an economic resource and make China the world leader in developing the data economy. Data policy and regulation will now be effectively split between the NDB and the Cyberspace Administration of China (CAC). The former will focus on promoting the data economy, while the latter will focus on data security. This bifurcation of roles reflects Xi Jinping's broader guidance for officials to focus simultaneously on both development and security.

A new work department aims to further align society and business with Party goals. The Party will establish a powerful new department, the Central Social Work Department (CSWD), meant to increase Party contact with – and influence over – civil society and businesses. The CSWD's remit includes guiding the State Council in handling public complaints and soliciting public opinion, as well as driving Party-building efforts in chambers of commerce, industry associations, and private and foreign businesses.

Each of the new entities outlined above will have major implications for governance and regulation in China in the years ahead – especially as pertains to the sci-tech and financial ecosystems, as well as the Party's interaction with society and businesses. They will also greatly impact the operating environment for foreign businesses in China.

On the sci-tech front, the Ministry of Science and Technology – traditionally a weak ministry – will be empowered to coordinate innovation strategies across agencies, via its role in running the day-to-day operations of the new Central Commission for Science and Technology. What's more, the State Council's rationale for the reorganization could not have been clearer:

- *"As [China] is under severe international tech competition and external suppression, [we] must further rationalize the sci-tech leadership and management system."*

This indicates the CCST and MoST will also play a role in designing the strategy behind China's broad response to US export bans and other tech restrictions. Given that most MNCs in China previously had little interaction or reason to engage with MoST, it will be highly important for most companies to begin cultivating relationships with senior officials within the ministry.

The major impact of the new Central Financial Commission on business will come in the form of efforts to increasingly funnel China's broad financial resources toward achieving industrial policy and innovation goals. This may constrain funding opportunities for private companies – both foreign and domestic – in non-strategic sectors. Meanwhile, the CFC's remit to address and defuse financial risks in China should broadly be positive for the economy – and provide more effective coordination between financial policymakers and other "real economy" regulators.

As for the Central Social Work Department, its creation is an indication that the broadening of the Party's reach into business, social, and economic affairs that has taken place over the past several years will only continue to deepen going forward. Challenges that foreign businesses have faced in managing and interacting with internal Party cells, for example, may become more intractable. That said, such bodies can at times act as an effective tool for better understanding and aligning with Party-state priorities to potentially unlock business opportunities.

The bottom line

The Party will continue to take a more proactive role in managing the economy – with a specific focus over the next five years on sci-tech strategy, financial coordination, and ensuring private sector alignment with Party goals.

appendix I

Party restructuring

On March 16, the Communist Party of China (CPC) Central Committee and the State Council released the full institutional reform plan for Party and government organs, announcing the establishment of five new Party bodies:

1. The Central Financial Commission
2. The Central Financial Work Committee
3. The Central Science and Technology Commission
4. The Central Social Work Department
5. The Hong Kong and Macao Work Office

The creation of these five new Party organs indicates the growing importance of Party leadership on financial sector de-risking, technological self-sufficiency, and Party control at the grassroots level.

Party body Affiliated Org New No change

PARTY FUNCTIONAL DEPARTMENTS

Central Social Work Department

Organization Department

Propaganda Department

United Front Work Department

International Liaison Department

Central Political and Legal Affairs Commission

PARTY OFFICES SUPPORTING POLITBURO POLICYMAKING IN SPECIFIC AREAS

General Office of the Central Financial Commission

General Office of the Central Commission for Science and Technology

Hong Kong and Macao Work Office

Central Financial Work Committee

Central Policy Research Office

General Office of the Central National Security Commission

General Office of the Central Cyberspace Affairs Commission

General Office of the Central Military-Civil Fusion Development Commission

Taiwan Work Office

General Office of the Central Financial and Economic Affairs Commission

General Office of the Central Foreign Affairs Commission

General Office of the Central Institutional Organization Commission

Work Committee of the Central Government Departments

General Office of the Central Commission for Comprehensive Law-Based Governance of the Country

General Office of the Central Audit Commission

appendix II
Government restructuring

The State Council announced its latest five-yearly restructuring on March 7, 2023. Key changes this year are:

- The Ministry of Science and Technology (MoST) will get smaller – but more powerful. It will handle the day-to-day operations of a newly created Party science and technology (S&T) commission that will oversee the coordination of science and technology planning, policy, and funding. Meanwhile, MoST will hand off oversight of specific S&T tasks (like overseeing agricultural technology development and attracting foreign scientific talent) to seven different ministries.
- A new National Financial Regulation Administration will be formed. It will be a beefed-up version of the China Banking and Insurance Regulatory Commission (which will be dissolved) and will oversee all aspects of the financial sector except for the securities industry.
- The China Securities Regulatory Commission was upgraded – it will now sit directly under the State Council, enhancing its authority. In addition, it has also taken over responsibility for approving enterprise bonds from the National Development and Reform Commission (NDRC).
- A new National Data Bureau will be created under the auspices of the NDRC. It will be tasked with developing the data economy.

Ministerial-level body

Sub-ministerial body

Restructured

New

No change

Lost power

Gained power

ECONOMICS AND FINANCE BODIES

- National Development and Reform Commission
- People's Bank of China
- China National Intellectual Property Administration
- National Data Bureau
- Ministry of Agriculture & Rural Affairs
- China Securities Regulatory Commission
- State Administration for Market Regulation
- National Financial Regulatory Administration
- National Audit Office
- Ministry of Commerce
- Ministry of Finance

ENVIRONMENT & RESOURCES

- Ministry of Ecological Environment
- Ministry of Natural Resources
- Ministry of Commerce

SOCIETY

- Ministry of Civil Affairs
- Ministry of Human Resources and Social Security
- Ministry of Culture and Tourism
- National Health Commission
- National Public Complaints and Proposals Admin.
- Ministry of Transport
- Ministry of Education
- Ministry of Emergency Management
- Ministry of Housing and Urban-Rural Development
- Ministry of Veteran's Affairs
- State Ethnic Affairs Commission

TECHNOLOGY & INNOVATION

- Ministry of Science and Technology
- Ministry of Industry and Information Technology

SECURITY & FOREIGN AFFAIRS

- Ministry of Foreign Affairs
- Ministry of National Defence
- Ministry of State Security

LAW & ORDER

- Ministry of Justice
- Ministry of Public Security

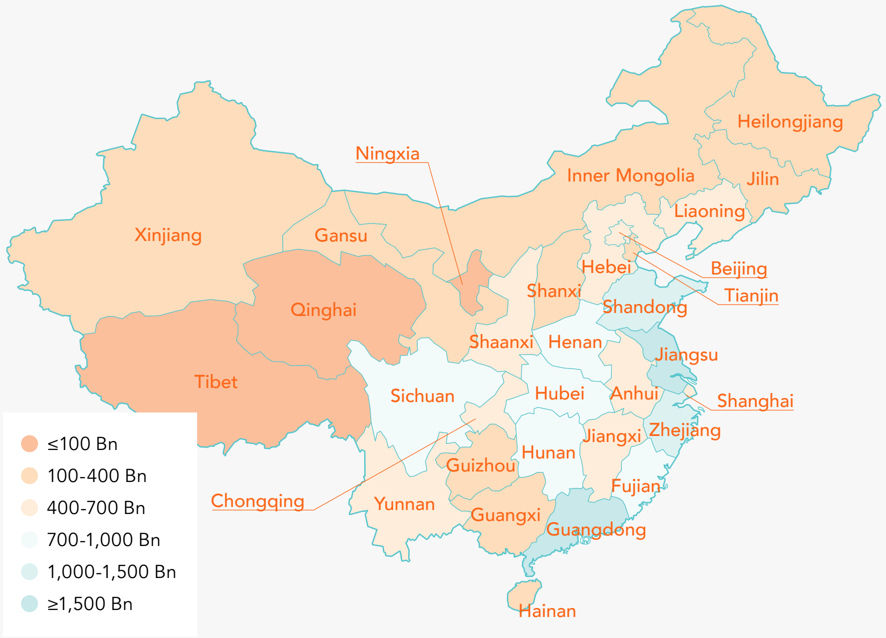
appendix III

2022 mainland China provincial GDP

China is a continent-sized country that varies considerably by region. Mainland China is comprised of 31 provincial-level jurisdictions (22 provinces, five autonomous regions, and four municipalities), many of which have economies as large as a medium-sized country. For example, China's largest province by GDP – Guangdong – would have been the 12th largest GDP in the world in 2022 had it been its own country, ranking right ahead of South Korea and just behind Russia.

Thus, for multinationals, it is often not enough to have a "China strategy." Instead, foreign businesses should view China as multiple markets and design strategies for each of them. The map and table at the right show the size of each province's GDP, as well as the country to which their GDP is roughly equivalent.

2022 MAINLAND CHINA PROVINCIAL GDP (USD BILLION)



2022 GDP EQUIVALENTS OF CHINA PROVINCES

China Provinces	GDP in USD billion	Equivalent Countries
Guangdong	1,919.67	Russia
Jiangsu	1,826.85	South Korea
Shandong	1,299.94	Indonesia
Zhejiang	1,115.42	Netherlands
Henan	912.05	Switzerland
Sichuan	843.73	Switzerland
Hubei	798.90	Poland
Fujian	789.61	Poland
Hunan	723.61	Poland
Anhui	669.71	Argentina
Shanghai	663.87	Argentina
Hebei	629.94	Belgium
Beijing	618.65	Belgium
Shaanxi	487.25	UAE
Jiangxi	476.87	UAE
Chongqing	433.08	Philippines

China Provinces	GDP in USD billion	Equivalent Countries
Liaoning	430.79	Philippines
Yunnan	430.48	Bangladesh
Guangxi	391.03	South Africa
Shanxi	381.24	Egypt
Inner Mongolia	344.32	Romania
Guizhou	299.80	Finland
Xinjiang	263.77	Portugal
Tianjin	242.51	Kazakhstan
Heilongjiang	236.41	Greece
Jilin	194.32	Hungary
Gansu	166.54	Kuwait
Hainan	101.52	Bulgaria
Ningxia	75.37	Sri Lanka
Qinghai	53.67	Jordan
Tibet	31.71	Papua New Guinea

appendix IV

Government targets for 2023

In March, the Chinese government set key economic targets for 2023. These are listed at right.

Target	2023 Target	2022 Target	2022 Actual
GDP growth	~5%	~5.5%	3%
CPI growth	~3%	~3%	2%
Fiscal deficit	3%	~2.8%	2.8%
Local government Special-purpose Bond (SPB) quota	RMB 3.8 trillion	RMB 4.15 trillion (RMB 3.65 trillion initial quota + RMB 0.5 trillion additional quota in August)	RMB 4.04 trillion issued in total
Sci-tech spending	RMB 328 billion (2% y/y growth)	RMB 319 billion (0% y/y growth)	RMB 322 billion (0.9% y/y growth)
Military spending	RMB 1.55 trillion (7.2% y/y growth)	RMB 1.45 trillion (7.1% y/y growth)	RMB 1.45 trillion (7.1% y/y growth)
Energy intensity	~2% y/y reduction in energy consumption per unit of GDP	None	0.1% decrease
Total energy supply	4.75 billion tons of standard coal equivalent (1.9% y/y growth)	4.41 billion tons of standard coal equivalent (1.9% y/y growth)	4.66 billion tons of standard coal equivalent (7.6% y/y growth)
Power generation capacity	2,790 GW (7.3% y/y growth)	2,600 GW (9.2% y/y growth)	2,564 GW (7.7% y/y growth)
Power generation output	9,360 TWh	9,070 TWh	Between 8,400 and 8,620 TWh
Renewable energy growth	160 GW of combined new wind and solar capacity	None	125 GW of combined new wind and solar capacity
Wind and solar energy as % of power generation	15.3%	12.2%	13.7%
Renewable energy (incl. hydropower) as % of installed power generation capacity	51.9%	None	49.6%
Non-fossil energy as % of total energy consumption	18.3%	None	17.5%
New urban jobs	~12 million	Over 11 million	12.06 million
Grain production	Above 650 billion kg	Above 650 billion kg	686.53 billion kg
Farmland area	Above 1.8 billion *mu* (120 million hectares)	1.8 billion *mu* (120 million hectares)	1.865 billion *mu* (124 million hectares
New "high-standard farmland"	45 million *mu*	~100 million *mu*	No data

appendix V

The new government leadership

On March 11 and 12, China's legislature elected the top leadership of the State Council, including the premier, four vice premiers, and five state councilors, as well as the heads of 26 government ministries. We include the names of each and brief profiles of the top officials at right.

Li Qiang - 李强
Li is now China's top economic official. The premiership was largely stripped of authority under his predecessor Li Keqiang, but Li is a close confidant of Xi Jinping and is expected to restore the premiership to its traditional role of being the driving force on economic policy. Li has spent his entire career in China's dynamic coastal provinces and has long been viewed as reform-minded and pro-business.

Ding Xuexiang - 丁薛祥
Ding does not have any experience governing a municipality or a province, or any prior experience in the central government. He is, however, a close confidant of Xi Jinping, having served as Xi's chief of staff for the past five years, and earlier when Xi was Shanghai Party secretary (2007). An engineer by training, Ding spent the first two decades of his career focused on science and technology; he will be the top official overseeing China's efforts to become more self-sufficient in core technologies.

He Lifeng - 何立峰
He could end up being the most important economic official in China. He will oversee a wide portfolio including the financial sector, foreign investment, and trade. He will also run point on US-China economic relations. He has known Xi Jinping for nearly 40 years and is one of his closest associates. Early in his career, He worked in the coastal city of Xiamen, where he promoted pro-market policies. However, as head of the macro planner (NDRC) in recent years, He has promoted a more state-centric approach to economic management.

Zhang Guoqing - 张国清
Zhang is a technocrat with an engineering background. He will oversee industrial policy, market regulation, and state-owned enterprises. Zhang spent the majority of his career at state-owned defense manufacturer Norinco, serving as president of the company from 2008 to 2013. Over the past decade, Zhang has served in local government roles in Chongqing, Tianjin, and Liaoning province.

Liu Guozhong - 刘国中
Liu will oversee the agriculture and healthcare portfolios. An engineer by training, Liu spent the first 31 years of his career in his home province of Heilongjiang before being elevated to provincial leadership positions in Sichuan, Jilin, and Shaanxi. Liu also served as deputy head of the All-China Federation of Trade Unions from 2013 to 2016. Liu has been described as pragmatic, but his policy preferences are not well known.

Li Shangfu - 李尚福
As Minister of Defense, Li is China's fourth-ranked military official. Li will play a key role in liaising with militaries from other countries and representing China's military on the world stage. In 2018, Li was sanctioned by the US for his role in acquiring military equipment from Russia, which could complicate Li's ability to work with his US counterparts. Li was trained as an aerospace engineer and has spent the majority of his career developing the army's space capabilities.

Wang Xiaohong - 王小洪
Wang is in charge of public security, making him China's top cop. Wang is a career law enforcement official who has spent most of his life in his home province of Fujian. More recently, he served as Henan's vice governor and Beijing's vice mayor. Wang is a long-time associate of Xi Jinping. When Xi worked in Fujian, Wang ran the Public Security Bureau (PSB) in the province's capital, Fuzhou. Xi would reportedly leave his daughter in Wang's care when he traveled.

Wu Zhenglong - 吴政隆
As State Council secretary-general, Wu will serve as Premier Li Qiang's chief of staff. Wu spent over 20 years in provincial leadership positions in Chongqing, Shanxi, and Jiangsu provinces. In Jiangsu, he worked directly under then-provincial Party secretary Li Qiang for a year. Wu also has significant central government experience, having worked in the Ministry of Machine Industry and the State Development and Planning Commission.

Shen Yiqin - 谌贻琴
Shen is now China's highest-ranked female official. As state councilor she will oversee civil affairs, labor and social welfare, and veteran affairs. Shen is a member of the Bai ethnic minority and has spent her entire career in her native Guizhou, serving over the years as the province's head of propaganda, vice governor, and governor. Shen was appointed Guizhou Party chief in 2020 – becoming only the third female provincial Party secretary since 1978.

Qin Gang - 秦刚
Qin is now China's top foreign affairs government official, and second-ranked foreign affairs official (after Politburo member Wang Yi). He has been a staunch defender of China's interests, but with the ability to turn on the charm as required. He was promoted to foreign minister in December and has previously served as ambassador to the US and foreign ministry spokesperson. Qin's meteoric rise is due to his closeness to Xi Jinping, who he worked with closely from 2014 to 2018 as head of the foreign ministry's protocol department.

LEADERS OF THE 26 MINISTERIAL-LEVEL CENTRAL GOVERNMENT AGENCIES

Zheng Shanjie
Head of the National Development and Reform Commission

Yi Gang
Governor of the People's Bank of China

Tang Renjian
Minister of Agriculture and Rural Affairs

Wang Wentao
Minister of Commerce

Liu Kun
Minister of Finance

Hou Kai
Auditor-general of the National Audit Office

Tang Dengjie
Minister of Civil Affairs

Wang Xiaoping
Minister of Human Resources and Social Security

Ma Xiaowei
Head of the National Health Commission

Hu Heping
Minister of Culture and Tourism

Huai Jinpeng
Minister of Education

Wang Xiangxi
Minister of Emergency Management

Li Xiaopeng
Minister of Transport

Pei Jinjia
Minister of Veterans Affairs

Pan Yue
Head of the National Ethnic Affairs Commission

Ni Hong
Minister of Housing and Urban-rural Development

He Rong
Minister of Justice

Wang Xiaohong
Minister of Public Security

Huang Runqiu
Minister of Ecology and Environment

Wang Guanghua
Minister of Natural Resources

Li Guoying
Minister of Water Resources

Qin Gang
Minister of Foreign Affairs

Li Shangfu
Minister of National Defence

Chen Yixin
Minister of State Security

Wang Zhigang
Minister of Science and Technology

Jin Zhuanglong
Minister of Industry and Information Technology

About Trivium

Email us

hq@triviumchina.com

Follow us

Twitter:
@triviumchina
Facebook:
/triviumchina
LinkedIn:
/company/trivium-china/

In China, government policy determines market outcomes. A robust and systematic ability to understand and track policy direction, development, and implementation is critical to navigating the business landscape. Trivium supports clients to understand the political and regulatory context shaping their sector through tailored deliverables and focused research.

We help MNCs and investors make critical decisions about China strategy. We also counsel public sector entities – including foreign embassies in Beijing, major central banks, ministries of finance, and foreign ministries – as they seek to track and react to domestic Chinese policy developments. Our work is rooted in comprehensive monitoring and analysis of government policy and personnel.